IDEXX LABORATORIES INC /DE
Form DEF 14A
March 29, 2007

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

IDEXX Laboratories, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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1) Amount previously paid:

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2) Form, Schedule or Registration Statement No.:

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3) Filing Party:

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4) Date Filed:

One IDEXX Drive

Westbrook, Maine 04092

March 29, 2007

Dear Stockholder:

We invite you to attend our annual meeting of stockholders on Wednesday, May 9, 2007, beginning at 10:00 a.m., at the Portland Marriott Hotel in South Portland, Maine 04106. At the annual meeting, we will conduct the business described in the attached notice and proxy statement. In addition, we will report on our business and introduce you to our directors and executive officers.

Whether you own few or many shares of stock, it is important that your shares be represented and voted at the annual meeting. Stockholders can vote their shares by telephone or via the Internet. Instructions for using these convenient services are provided in the proxy statement. You also can vote your shares by completing, signing, dating and returning the enclosed proxy card in the enclosed postage-paid envelope. However, if you previously have consented to vote and receive the notice and proxy statement via the Internet, you will not receive a paper proxy card. If you decide to attend the annual meeting, you will be able to vote in person, even if you previously have voted by another means.

If you are unable to attend the annual meeting, you can listen to a live Webcast of the meeting on the Internet. You can access the Webcast from the home page of our Web site, idexx.com. However, since you cannot vote your shares via the Webcast, it is important that you timely vote your shares in advance, using one of the procedures mentioned above and as more fully described in the enclosed proxy statement.

We look forward to your participation in the annual meeting.

Sincerely,

Jonathan W. Ayers

President, Chief Executive Officer and

Chairman of the Board of Directors

One IDEXX Drive

Westbrook, Maine 04092

NOTICE OF 2007 ANNUAL MEETING OF STOCKHOLDERS

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of IDEXX Laboratories, Inc., will be held on Wednesday, May 9, 2007, at 10:00 a.m. at the Portland Marriott Hotel, 200 Sable Oaks Drive, South Portland, Maine 04106, for the following purposes:

1. *Election of Directors*. To elect two Class III directors for three-year terms (Proposal One);

2. *Amendment to IDEXX Laboratories, Inc. 2003 Stock Incentive Plan*. To approve and adopt a proposed amendment to our 2003 Stock Incentive Plan to increase the number of shares authorized for issuance under the plan from 1,850,000 shares to 3,150,000 shares (Proposal Two);

3. *Ratification of Appointment of Independent Registered Public Accounting Firm*. To ratify the selection by the audit committee of the board of directors of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the current fiscal year (Proposal Three); and

4. *Other Business*. To conduct such other business as may properly come before the annual meeting.

Pursuant to the company s amended and restated bylaws, the board of directors has fixed the close of business on March 16, 2007 as the record date for the determination of stockholders entitled to notice of and to vote at the annual meeting. A copy of our 2006 annual report is enclosed with this notice and proxy statement.

If you would like to attend the annual meeting and your shares are held by a broker, bank or other nominee, you must bring to the annual meeting a letter from the nominee confirming your beneficial ownership of such shares. You must also bring a form or personal identification.

By order of the board of directors,

Conan R. Deady, *Secretary*

Westbrook, Maine

March 29, 2007

It is important that your shares be represented and voted at the annual meeting. You can submit a proxy by telephone, Internet or mail as described in the proxy statement.

PROXY STATEMENT FOR 2007 ANNUAL MEETING OF STOCKHOLDERS

May 9, 2007

This proxy statement and the accompanying materials are being delivered to you in connection with the solicitation by the board of directors of IDEXX Laboratories, Inc. of proxies to be voted at our 2007 annual meeting of stockholders and at any adjournment or postponement thereof. References in this proxy statement to we , us , the company or IDEXX refer to IDEXX Laboratories, Inc. and its consolidated subsidiaries.

We are a Delaware corporation and were incorporated in 1983. Our principal executive offices are located at One IDEXX Drive, Westbrook, Maine 04092. References to our Web site in this notice and proxy statement are inactive textual references only and the contents of our Web site should not be deemed incorporated by reference into this notice or proxy statement for any purpose.

Our Annual Report on Form 10-K for the year ended December 31, 2006, or 2006 annual report, is being mailed to our stockholders with this proxy statement on or about April 4, 2007.

GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

How Proxies Work

IDEXX s board of directors is asking for your proxy. Giving us your proxy means that you authorize us to vote your shares at the annual meeting in the manner that you direct, or if you do not direct us, in the manner as recommended by the board of directors in this proxy statement. You can vote for the director nominees or withhold your vote for one or all nominees. You also can vote for or against the other proposals or abstain from voting. If you sign and return your proxy card, but do not give voting instructions, the shares represented by that proxy will be voted as recommended by the board of directors.

Who Can Vote

Holders of IDEXX common stock at the close of business on March 16, 2007 are entitled to receive notice of and to vote their shares at the annual meeting. As of March 16, 2007, there were 31,075,669 shares of common stock outstanding. Each share of common stock is entitled to one vote on each matter properly brought before the annual meeting.

How to Vote

You can vote in person at the annual meeting or by proxy. We recommend that you vote by proxy even if you plan to attend the annual meeting. You can change your vote at the annual meeting in one of the ways described below. All shares represented by proxies that have been properly voted and not revoked will be voted at the annual meeting.

Vote by the Internet

If your shares are registered in your name, go to the Web site indicated on your proxy card. **Internet voting is available 24 hours a day and will be accessible until 11:59 p.m. ET on May 8, 2007.** Our Internet voting procedures are designed to authenticate the identity of stockholders, allow stockholders to vote their shares and confirm that their voting instructions have been properly recorded. **If you vote on the Internet, you do not need to return your proxy card.**

If your shares are held of record by a bank, broker or other holder of record, please refer to the Internet voting instructions contained in the voting instruction form that has been provided to you by the holder of record together with these proxy materials.

Vote by Telephone

If your shares are registered in your name, you can vote by calling the toll-free telephone number noted on your proxy card. **Telephone voting is available 24 hours a day and will be accessible until 11:59 p.m. ET on May 8, 2007.** As with Internet voting, you can confirm that your instructions have been recorded properly. **If you vote by telephone, you do not need to return your proxy card.**

If your shares are held of record by a bank, broker or other holder of record (i.e., in street name), please refer to the telephone voting instructions contained in the voting instruction form that has been provided to you by the holder of record together with these proxy materials.

Vote by Mail

If you choose to vote by mail, simply mark your proxy, date and sign it, and return it in the enclosed postage-paid envelope. If your shares are held by a bank, broker or other holder of record, please refer to the vote-by-mail instructions contained in the voting instruction form that has been provided to you by the holder of record together with these proxy materials.

Vote at the Annual Meeting

If you attend the annual meeting, you will be able to vote your shares, even if you already voted by Internet, telephone or mail. If your shares are held of record in the name of a bank, broker or other holder of record, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the annual meeting.

Revoking a Proxy

You can revoke your proxy, whether it was given by Internet, telephone or mail, before it is voted by:

Providing written notice to the corporate secretary of IDEXX before or at the annual meeting prior to the voting on any proposal;

Submitting a new proxy with a later date, including a proxy given via the Internet or by telephone; or

Voting by ballot at the annual meeting.

The last vote you submit chronologically (by any means) will supersede your prior vote(s). Your attendance at the annual meeting will not, by itself, revoke your proxy.

Quorum

In order to transact business at the annual meeting, we must have a quorum. This means that at least a majority of the outstanding shares eligible to vote must be represented at the annual meeting, either by proxy or in person. Abstentions and broker nonvotes are counted as present and entitled to vote for purposes of determining a quorum. Broker nonvotes occur when a broker returns a proxy, but indicates that it does not have authority to vote on a particular proposal. Treasury shares, which are shares owned by IDEXX itself, are not voted and do not count towards establishing a quorum.

Votes Needed

The director nominees who receive the most votes at the meeting will be elected to fill the seats on the board. Approval of the other proposals requires the favorable vote of a majority of the votes cast. Only votes for or against a proposal count as votes cast. Abstentions and broker nonvotes are not counted as votes cast and, therefore, will have no effect on the outcome of the matters to be voted on at the annual meeting.

Conduct of the Annual Meeting

Rules for the conduct of the annual meeting will be available at the annual meeting. Under our amended and restated bylaws, the chairman may adopt rules and procedures that he believes are appropriate to ensure that the annual meeting is conducted properly.

Webcast of Annual Meeting

Our annual meeting will be Webcast live on the Internet at 10:00 a.m. ET on May 9, 2007. The Webcast will include consideration of the proposals and our chief executive officer s presentation regarding our business, and will provide audio and the accompanying graphic presentation, but will not include the question-and-answer session that follows the presentation. People accessing the Webcast will not be able to ask questions or otherwise participate during the meeting. You can access the Webcast from the home page of our Web site, idexx.com. Since you cannot vote your shares via the Webcast, it is important that you vote your shares in advance of the annual meeting, using one of the procedures described above.

Voting on Other Matters

If other matters are properly presented at the annual meeting for consideration, the persons named in the proxy will have the discretion to vote on those matters for you. At the date that this proxy statement went to press, we did not know of any other matters to be raised at the annual meeting and, pursuant to our amended and restated bylaws, the date by which other matters must have been submitted by our stockholders has passed.

Solicitation of Proxies

IDEXX will pay the expenses of the board of directors solicitation of proxies. Proxies can be solicited on our behalf by directors, officers or employees, without additional remuneration, in person or by telephone, by mail, electronic transmission and facsimile transmission. We have hired MacKenzie Partners, Inc., to distribute and solicit proxies. We will pay MacKenzie Partners, Inc. a fee of approximately $5,000, plus reasonable out-of-pocket expenses, for its services.

Brokers, custodians and fiduciaries will be requested to forward proxy-soliciting material to the owners of common stock held in their names and, as required by law, IDEXX will reimburse them for their reasonable out-of-pocket expenses for this service.

CORPORATE GOVERNANCE

Board of Directors

Our board of directors, which we refer to as the board of directors or the board, consists of eight members. The board meets throughout the year on a set schedule, and also holds special meetings and acts by written consent from time to time as appropriate. The board has delegated various responsibilities and authority to different board committees as described below under the heading Committees of the Board.

The board of directors is responsible for monitoring the overall performance of IDEXX. Among other things, the board of directors, directly and through its committees, establishes corporate policies, oversees compliance and ethics, reviews the performance of the chief executive officer, reviews and approves the annual budget, reviews and approves certain transactions, and reviews the company s long-term strategic plans. You can access a description of the board s involvement in IDEXX s strategic planning process on the Internet at idexx.com/aboutidexx/governance/directors/strategic.jsp, or by contacting our corporate secretary at the company s headquarters address.

In accordance with general corporate legal principles applicable to corporations organized under the laws of Delaware, the board of directors does not control the day-to-day management of IDEXX. Members of the board of directors keep informed about IDEXX s business by participating in board and committee meetings, by reviewing analyses and reports regularly sent to them by management, and through discussions with the chief executive officer and other officers.

Directors are responsible for attending board meetings and meetings of committees on which they serve, and for devoting the time needed and meeting as frequently as necessary to discharge their responsibilities properly.

The board of directors held seven meetings, and board committees held 20 meetings in 2006. Each of our directors attended 75 percent or more of the meetings of the board and board committees on which he or she served in 2006. It is our policy to schedule board and committee meetings to coincide with the annual meeting of stockholders, and directors are expected to attend the annual meeting. Last year, all of the individuals then serving as directors attended our annual meeting.

Director Independence

Under our corporate governance guidelines, a substantial majority of our directors must be independent as defined by the rules of the NASDAQ Global Market. Under the charters of each of the committees of our board, each of the members of those committees is required to be independent as defined by those rules. In addition, under the audit committee charter, each member of the audit committee is required to satisfy the independence criteria set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended, or the 1934 Act. Our nominating and governance committee annually determines the independence of each director. In February 2007, the nominating and governance committee determined that each director other than Mr. Ayers was independent under the rules of the NASDAQ Global Market and that each member of the audit committee satisfied the independence criteria of Rule 10A-3(b)(1) under the 1934 Act.

Related Party Transactions

Our board has adopted a written related person transaction policy under which the audit committee is required to review and approve any transaction that the company proposes to enter into that would be required to be disclosed under item 404(a) of Regulation S-K. The audit committee may approve any such transaction only if it determines that, under all of the circumstances, the transaction is not inconsistent with the best interests of the company.

Item 404(a) of Regulation S-K requires the company to disclose in its proxy statement any transaction involving more than $120,000 in which the company is a participant and in which any related person has or will have a direct or indirect material interest. A related person is any executive officer, director, nominee for director, or holder of 5% or more of the company s common stock, or an immediate family member of any of those persons.

Since January 1, 2006, the company has not been a participant in any transaction with a related person.

Committees of the Board

The board of directors has established audit, compensation, nominating and governance, and finance committees, each of which is described briefly below. Each of these committees acts pursuant to a written charter that is approved by the board and reviewed annually by the applicable committee and the nominating and governance committee. Current copies of each committee s charter can be accessed on the Internet at idexx.com/aboutidexx/governance/charters/, or by contacting the corporate secretary at the company s headquarters address.

Audit Committee

The audit committee is a separately designated standing audit committee established in accordance with section 3(a)(58)(A) of the 1934 Act, and is responsible for overseeing the accounting, internal control, financial reporting and audit processes of the company, including the selection and retention of IDEXX s independent auditors. The audit committee oversees the company s risk management policies and also reviews on an ongoing basis all related party transactions (defined as transactions required to be disclosed pursuant to Item 404(a) of Regulation S-K), and all such transaction must be approved by the audit committee. The audit committee meets from time to time with IDEXX s financial personnel, other members of management, internal audit staff and independent auditors regarding these matters. The audit committee met nine times in 2006. The committee has adopted procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by employees of any concerns regarding questionable accounting or auditing matters. The audit committee may retain independent counsel, accountants, or others to assist it in the conduct of any investigation, and the company will provide appropriate funding for payment of such services, as determined by the audit committee. The current audit committee members are Messrs. McKeon (chairman) and End and Dr. De Souza, each of whom has been determined by our board of directors to satisfy the heightened criteria for independence and other requirements applicable to members of audit committees under the rules of the NASDAQ Global Market and the independence

rules contemplated by Rule 10A-3 under the 1934 Act. The nominating and governance committee of the board has determined that Messrs. McKeon and End and Dr. De Souza are audit committee financial experts as defined by the Securities and Exchange Commission, or SEC. The responsibilities and activities of the audit committee are described in greater detail under the heading Report of the Audit Committee of the Board of Directors on page 36.

Compensation Committee

Committee Responsibilities. The compensation committee oversees the management compensation philosophy and practices of IDEXX, evaluates the performance of the chief executive officer, determines the compensation of the chief executive officer and approves the compensation of the other executive officers, reviews succession plans for executive officers and management s overall leadership development plan, oversees the company s equity compensation and benefit plans, reviews compliance by executive officers with the company s stock ownership and retention guidelines, and reviews the Compensation Discussion and Analysis required to be included in the annual proxy statement. The compensation committee charter does not provide for any delegation of these compensation committee duties except to a sub-committee or individual members of the committee as it may determine. During 2006, the committee delegated to the chairman of the compensation committee the authority to grant equity awards to new officers of the company between scheduled meetings of the committee following consultation with the chief executive officer. Effective in February 2007, the compensation committee assumed responsibility for reviewing director compensation. This responsibility previously was held by the nominating and governance committee.

Committee Procedures. Compensation committee meetings are scheduled and agendas determined through consultation among the chief executive officer, the general counsel, the vice president of human resources, and the committee chair. In February of each year, the committee meets to award the chief executive officer s bonus, and to review and approve the chief executive officer s recommended bonuses for other executive officers, for the year just concluded. At this meeting, the committee also determines the annual equity award and current year base salary for the chief executive officer and reviews and approves the chief executive officer s recommendations for equity awards and current year base salaries for the other executive officers, making such changes to the chief executive officer s recommendations as it deems appropriate. The committee meets at other times during the year as needed to review executive compensation and otherwise to perform the duties described in its charter. During 2006, the committee met three times and the committee also met in February 2007 to determine 2006 bonus awards, 2006 equity awards and 2007 base salary for executive officers.

Use of Compensation Consultants. The compensation committee has authority to engage advisers to support its work at the company s expense. The committee has engaged Frederic W. Cook & Associates, or FW Cook, to serve as consultant to the committee, with the following duties:

- providing the committee with analysis pertaining to executive compensation program design, including explanation of trends, best practices, and regulatory changes;
- recommending a relevant group of peer companies against which to assess competitiveness and appropriateness of IDEXX s executive compensation;
- analyzing peer companies annual executive compensation to assist the committee in determining the appropriateness of IDEXX s executive compensation;
- reviewing any proposed changes to executive compensation program design; and
- providing specific analysis periodically as requested by the committee.

During 2006, the committee engaged FW Cook to review competitiveness and appropriateness of the total compensation of the company s executive officers relative to the peer group; to review the existing change in control agreements between the company and its executive officers; to review development of compensation disclosure materials; and to update the committee on general trends in executive compensation with respect to total compensation, forms of compensation and stock compensation.

FW Cook is engaged by the compensation committee and provides consulting support to the compensation committee. The chair of the compensation committee reviews and approves all invoices pertaining to services provided by FW Cook. Members of management work with FW Cook to the extent necessary to provide FW Cook with information necessary for its consulting work and to prepare materials for committee

and board review. Management engages a second compensation consulting firm to develop overall compensation programs for the company.

Role of Company Executives. As provided by the compensation committee charter, IDEXX s chief executive officer is responsible for recommending to the compensation committee annual compensation for the rest of the executive officers, all of whom report to him. The compensation committee approves compensation for these executive officers and may make such changes to the compensation recommended by the chief executive officer as it deems appropriate.

In addition to the chief executive officer, the company s vice president of human resources, general counsel and vice president of finance also work with the committee chair to set committee agendas, prepare materials for committee meetings, and generally attend meetings and prepare meeting minutes. However, members of management, including the chief executive officer, are not present in committee meetings when matters related to their individual compensation are under discussion. No other executive officer is involved in supporting compensation committee activities or executive compensation recommendations.

Compensation Committee Interlocks and Insider Participation

During our 2006 fiscal year, the compensation committee was comprised of Messrs. Murray (chairman), Craig and End, and Dr. De Souza. None of the members of the compensation committee has ever been an officer or employee of the company or any of its subsidiaries, nor have they had any relationship requiring disclosure under Item 404 of Regulation S-K. None of the executive officers of the company served as a member of the compensation committee or board of directors of any other company in 2006.

Nominating and Governance Committee

The nominating and governance committee advises and makes recommendations to the board of directors with respect to corporate governance practices, including board organization, function, membership, performance and compensation. The nominating and governance committee may retain, at the company s expense, independent counsel or other advisors as it deems necessary. The current nominating and governance committee members are Messrs. End (chairman) and Craig, and Dr. Henderson, each of whom is an independent director as defined by the rules of the NASDAQ Global Market. The nominating and governance committee met five times in 2006.

In performing its nominating function, the committee identifies, evaluates, recruits and nominates candidates to fill vacancies on the board, using criteria set forth in the company s corporate governance guidelines as discussed below. The process followed by the nominating and governance committee to identify and evaluate candidates includes receiving recommendations from our directors, management and stockholders, holding meetings to evaluate biographical information and background material relating to potential candidates, and interviewing selected candidates.

In addition to receiving recommendations from our directors, management and stockholders, the nominating and governance committee, in some instances, will engage an executive search firm to assist in recruiting director candidates. In such cases, the search firm assists the nominating and governance committee in identifying potential candidates that fit the board s search criteria; obtaining candidate resumes and other biographic information; conducting initial interviews to assess candidates qualifications, fit and interest in serving on the board; scheduling interviews with the nominating and governance committee, other members of the board, and management; performing reference checks; and assisting in finalizing arrangements with candidates who receive an offer to join the board.

Stockholders who want to recommend a nominee for director should submit the name of such nominee to the corporate secretary of IDEXX at the company s headquarters address, together with biographical information and background material sufficient for the committee to evaluate the nominee based on its selection criteria, and a statement as to whether the stockholder or group of stockholders making the recommendation has beneficially owned more than 5% of the company s common stock for at least a year as of the date such recommendation is made. Assuming that appropriate biographical and background material has been provided on a timely basis, the nominating and governance committee will apply the same criteria, and follow substantially the same process, in considering stockholder nominations that comply with these procedures as it does in considering other nominations. Stockholders also have the right under the company s amended and restated bylaws to nominate director candidates directly, without any action or recommendation on the part of the nominating and governance committee or the board, by following the procedures set forth under Requirements, including Deadlines, for Submission of Proxy Proposals, Nomination of Directors and Other Business of Stockholders on page 37 of this proxy statement. If the board determines to nominate a stockholder-recommended candidate and recommends his or her election, then his or her name will be included on the company s proxy card for the next annual meeting. Candidates nominated by

stockholders in accordance with the procedures set forth in the amended and restated bylaws will not be included on the company s proxy card for the next annual meeting, but may be included on proxies the nominating stockholders may seek independently.

The nominating and governance committee is responsible for annually reviewing with the board the requisite skills and criteria for new board members, as well as the composition of the board as a whole. The nominating and governance committee also annually reviews the performance of the board, its committees and each of the directors.

The nominating and governance committee annually reviews director compensation, and may retain compensation consultants to assist in this review. During 2006, the committee did not retain compensation consultants to assist in its review of director compensation. The chief executive officer generally will make recommendations to the committee regarding director compensation, however, all decisions regarding director compensation are made solely by the committee. The general counsel and vice president of human resources assist the committee in its review of director compensation by providing information and preparing meeting materials. No other executive officers of the company are involved in the committee s review and determination of director compensation. In February 2007, the compensation committee assumed responsibility for reviewing director compensation.

Finance Committee

The finance committee advises the board of directors with respect to financial matters, including capital structure and strategies, financing strategies, investment practices, major financial commitments, financial risk management, acquisitions and divestitures, and stock repurchase activities. In addition, the finance committee reviews and approves proposed acquisitions and divestitures having values up to $20 million. The current finance committee members are Messrs. Craig (chairman) and McKeon and Drs. Henderson and Johnson. The finance committee met three times during 2006.

Corporate Governance Guidelines and Code of Ethics

The board has adopted corporate governance guidelines, which you can access on the Internet at idexx.com/aboutidexx/governance/guidelines/. The board also has adopted a code of ethics that applies to all of our employees, officers and directors, which you can access on the Internet at idexx.com/aboutidexx/governance/ethics/. You can also receive copies of the guidelines or the code by contacting the corporate secretary at the company s headquarters address. In addition, we intend to post on our Web site, idexx.com, all disclosures that are required by law or the NASDAQ Global Market listing standards concerning any amendments to, or waivers from, any provision of the code of ethics.

Among other matters, the guidelines provide as follows:

A substantial majority of the members of the board are independent directors, as defined by NASDAQ rules.

The audit, nominating and governance, compensation, and finance committees consist entirely of independent directors.

The nominating and governance committee recommends to the board for nomination all nominees for election to the board, except where the company is legally required by contract, by law or otherwise to provide third parties with the right to nominate directors.

The nominating and governance committee s annual review of the requisite skills and criteria for board members, as well as the composition of the board as a whole, includes appropriate consideration of demonstrated experience, judgment, integrity, commitment and skills that are relevant to the company and its operations, including familiarity with science and technology, finance and accounting, marketing, product development, strategy, government regulation and affairs, and corporate governance.

The nominating and governance committee is responsible for annually assessing the performance of the board, its committees and each individual director.

When the chairman of the board is not an independent director, the independent directors elect a lead director from among the independent directors. The lead director, among other responsibilities, chairs

meetings of the independent directors and consults with the chairman of the board regarding meeting agendas. The lead director is currently Mr. End.

Independent directors meet on a regular basis, but not less than twice annually, apart from management board members and other management representatives.

At least annually, the board reviews the company s corporate strategy.

The board approves the chief executive officer s goals annually.

At least annually, the compensation committee, in consultation with all independent directors, evaluates the performance of the chief executive officer.

The chief executive officer reports to the board at least annually on succession planning and management development.

Board members have complete access to management and are encouraged to make regular contact.

The board will give appropriate attention to written communications that are submitted to the board by our stockholders. The process for submitting such communications to the board is described below under the heading Communications from Stockholders.

Individual directors whose professional responsibilities outside of their involvement with the company change from those held when they were last elected to the board (except for promotions) should volunteer to resign from the board, giving the board an opportunity to review the appropriateness of their continued board membership under the changed circumstances.

Any director who turns age 73 while serving as a director is expected to retire from the board effective at the next annual meeting of stockholders following the date on which he or she turns 73.

Directors cannot serve on more than four other public company boards, audit committee members cannot serve on more than two other public company audit committees, and directors who are chief executive officers of other companies cannot serve on more than two other public company boards (including the board of their employer).

Directors must inform the chairman of the board and the chairman of the nominating and governance committee of any public company directorship they have been offered before accepting such offer to ensure that acceptance of such directorship would not create a conflict with the director s duties as a director of the company.

Communications from Stockholders

Written communications to the board can be submitted by electronic mail on our Web site at idexx.com/aboutidexx/governance/contactdirectors/, or by writing to our general counsel at the company s headquarters address. Under procedures approved by a majority of the independent directors, the general counsel will review such communications and will forward them to the lead director or the other members of the board if they relate to important substantive matters and include suggestions or comments considered to be important for the directors to know. In general, the general counsel will forward communications to the lead director if they are relevant to IDEXX s governance, ethics and policies.

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Director Compensation

The following describes compensation earned by our nonemployee directors during 2006. Directors who are employees receive no additional compensation for serving on the board.

Director Compensation

The table below sets forth compensation of the company s nonemployee directors for 2006.

Name	Fees Earned Or Paid In Cash	Stock Awards $ (6)	Option Awards $ (7)	All Other Compensation	Total Compensation
Thomas Craig	$ 42,000(1)	$ 65,739	$ 18,684	$	$ 126,423
Errol B. De Souza, PhD	42,000(2)	65,739	18,684		126,423
William T. End	57,000	65,739	18,684		141,423
Rebecca M Henderson, PhD	37,000(3)	65,739	18,684		121,423
Barry C. Johnson, PhD	37,000	59,499			96,499
Brian P. McKeon	47,000(4)	65,739	18,684		131,423
Robert J. Murray	42,000(5)	65,739	18,684		126,423

(1) Includes compensation in the amount of $37,000 deferred and issued as 436 deferred stock units, or DSUs, pursuant to the director deferred compensation plan, or Director Plan.

(2) Includes compensation in the amount of $37,000 deferred and issued as 436 DSUs pursuant to the Director Plan.

(3) Includes compensation in the amount of $37,000 deferred and issued as 436 DSUs pursuant to the Director Plan.

(4) Includes compensation in the amount of $37,000 deferred and issued as 436 DSUs pursuant to the Director Plan.

(5) Includes compensation in the amount of $37,000 deferred and issued as 436 DSUs pursuant to the Director Plan.

(6) Issued as DSUs pursuant to the Director Plan. Reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006 in accordance with FAS 123(R). See Note 4 in the notes to consolidated financial statements included in the 2006 annual report for the relevant assumptions used to determine the valuation of our stock awards. The grant date fair value of each stock award is $74,983 for all nonemployee directors, except for Dr. Johnson who received a prorated award based on his election to the board in March 2006. Dr. Johnson s stock award grant date fair value is $68,732. As of December 31, 2006, the following are the aggregate number of DSUs accumulated in each nonemployee director s deferral account for all years of service as a director: Mr. Craig, 2,100; Dr. De Souza, 3,318; Mr. End, 1,774; Dr. Henderson, 3,113; Dr. Johnson, 827; Mr. McKeon, 3,438; Mr. Murray, 1,783.

(7) Reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006 in accordance with FAS 123(R), and thus includes amounts from awards granted prior to 2006. No options were awarded to nonemployee directors in 2006. See Note 4 in the notes to consolidated financial statements included in the 2006 annual report for the relevant assumptions used to determine the valuation of our stock options. As of December 31, 2006, each nonemployee director had the following number of stock options outstanding: Mr. Craig, 28,400; Dr. De Souza, 10,525; Mr. End, 21,900; Dr. Henderson, 8,233; Dr. Johnson, 0; Mr. McKeon, 8,233; Mr. Murray, 3,100.

Cash Compensation

During 2006, each of our directors who was not an officer or employee of IDEXX received an annual fee of $37,000. Each director may elect to defer all, but not less than all, of this annual fee in the form of deferred stock units, or DSUs, under our director deferred compensation plan, or Director Plan. In addition, nonemployee directors received the following annual committee fees: $10,000 for the audit committee chairman, $5,000 for other audit committee members, and $5,000 for the chairmen of other committees. The lead director received an additional $10,000 fee.

Equity Compensation

During 2006, each of our nonemployee directors received an annual grant of DSUs with a value of approximately $75,000 (calculated by rounding to the nearest share on the date of deferral). The number of DSUs is determined by dividing such amount by the price of the company s common stock on the date of grant of the award, which generally is in February of each year. New nonemployee directors joining the board after the February grants are granted a pro rata number of DSUs based on the number of months remaining until the next year s annual grant. The DSUs vest one year from the date of grant. Any director who meets the stock ownership guidelines described below at the time of the annual equity award grant may elect, in lieu of receiving DSUs, to receive a grant of restricted shares of the company s common stock valued at $75,000, which shares would vest one year from the date of grant.

Director Deferred Compensation Plan

DSUs are subject to the terms of the Director Plan. The payment of fees in the form of DSUs is considered deferred compensation for federal income tax purposes. Any compensation deferred by a director is credited to an account established in the director s name that is denominated as a number of DSUs having an aggregate value equal to the compensation deferred into such account divided by the price of a share of IDEXX common stock on the date of the applicable deferral. DSUs granted as described in the preceding paragraph also are credited to this account. Director Plan account balances are not subject to any interest or other investment returns, other than returns produced by fluctuations in the price of a share of IDEXX common stock affecting the value of the DSUs in the account. One year after a director ceases to serve on the board for any reason, he or she will receive shares of common stock equal to the number of DSUs in his or her account. In addition, if the plan administrator of the Director Plan determines that a director has suffered an unforeseeable emergency (as defined in the Director Plan), the plan administrator may authorize the distribution of all or a portion of the director s DSUs. Upon a change in control of the company (as defined in the Director Plan), any applicable deferral limitations or other restrictions on each director s account will lapse, and the shares of IDEXX common stock distributed from such account will be deemed to have been outstanding immediately prior to the change in control.

Other Compensation

All directors are reimbursed for reasonable travel expenses incurred in connection with board and committee meetings. The company does not provide any other benefits including retirement benefits or perquisites to its directors. Except as described in this Director Compensation section, the company does not have any other arrangements for compensation or consulting agreements with its directors, other than compensation in consideration of employment paid to directors who are officers or employees of the company.

Director Stock Ownership Guidelines

Upon recommendation of the nominating and governance committee, the board has adopted stock ownership guidelines for directors. Under the guidelines, nonemployee directors are expected to own a number of shares of the company s common stock having a value of $500,000 by the later of December 31, 2010 or seven years after joining the board. Directors compliance with these guidelines is measured annually on September 30. As of the first such measurement date on which a director holds shares with a value of at least $500,000, he or she shall be deemed to have satisfied the stock ownership guidelines in all future periods, provided that he or she continues to own at least the number of shares owned as of such measurement date. DSUs credited to a director s deferred compensation investment account, as described above, are included in calculating stock ownership pursuant to these guidelines.

Section 16(a) Beneficial Ownership Reporting Requirements

Under Section 16(a) of the 1934 Act, IDEXX s directors, executive officers and any persons holding more than ten percent of our outstanding common stock are required to report their initial ownership of common stock and any subsequent changes in their ownership to the SEC. The SEC has established specific due dates and IDEXX is required to disclose in this proxy statement any failure to file by those dates.

Based solely on our review of (i) copies of Section 16(a) reports that IDEXX received from such persons for their transactions during IDEXX s 2006 fiscal year and (ii) written representations received from one or more of such persons that no annual Form 5 reports were required to be filed by them for IDEXX s 2006 fiscal year, IDEXX believes that none of such persons failed to file on a timely basis reports required by Section 16(a).

OWNERSHIP OF COMMON STOCK BY DIRECTORS AND OFFICERS

The table below shows the number of shares of our common stock beneficially owned as of March 16, 2007 by (a) each of our directors; (b) each of our executive officers named in the Summary Compensation Table shown on page 29, whom we refer to as the named executive officers, and (c) directors and executive officers of IDEXX as a group. Unless otherwise indicated, each person listed below has sole voting and investment power with respect to the shares listed.

Beneficial Owner	Number of Shares Owned (1)	Options Exercisable (2)	Total Number of Shares Beneficially Owned (3)	Percentage of Common Stock Outstanding (4)
Jonathan W. Ayers	39,188	549,160	588,348	1.86%
Thomas Craig	1,460	28,400	29,860	*
Errol B. De Souza, PhD		10,525	10,525	*
William T. End	8,985	21,900	30,885	*
Rebecca M. Henderson, PhD	1,000	8,233	9,233	*
Barry C. Johnson, PhD				*
Brian P. McKeon	2,500	8,233	10,733	*
Robert J. Murray	13,000	3,100	16,100	*
William C. Wallen, PhD	8,986	56,143	65,129	*
Merilee Raines	41,777	129,880	171,657	*
Robert S. Hulsy (5)	26,232		26,232	*
Conan R. Deady	9,114	62,929	72,043	*
All current directors and executive officers as a group (19 persons)	194,064	1,051,364	1,245,428	3.88%

* Less than 1%

(1) Does not include DSUs. See Director Compensation on pages 9-10 for a description of DSUs issued to our nonemployee directors under the Director Plan as annual equity grants and voluntary deferrals of annual fees. See Executive Deferred Compensation Plan on page 33 for a description of DSUs issued to our officers upon an officer s voluntary deferral of his annual bonus. The individuals holding fully vested DSUs are at risk as to the price of IDEXX common stock in their investment accounts. DSUs carry no voting rights, but are included in calculating stock ownership required by the company pursuant to its guidelines for directors and executive officers. The following directors and executive officers and the following group hold the indicated number of fully vested DSUs, resulting in the following total number of shares owned including DSUs:

	DSUs	Total Number of Shares Owned Including DSUs
Jonathan W. Ayers	14,791	53,979
Thomas Craig	2,210	3,670
Errol B. De Souza, PhD	3,428	3,428
William T. End	1,774	10,759
Rebecca M. Henderson, PhD	3,223	4,223
Barry C. Johnson, PhD	827	827
Brian P. McKeon	3,548	6,048
Robert J. Murray	1,893	14,893
William C. Wallen, PhD		8,986
Merilee Raines		41,777
Robert S. Hulsy (5)		26,232
Conan R. Deady		9,114
All current directors and executive officers as a group (19 persons)	35,645	229,709

(2) Consists of options to purchase common stock exercisable on or within 60 days of March 16, 2007.

(3) The number of shares beneficially owned by each person or group as of March 16, 2007 includes shares of common stock that such person or group had the right to acquire on or within 60 days after March 16, 2007, including but not limited to, upon the exercise of stock options, but does not include DSUs.

(4) For each individual and group included in the table, percentage of ownership is calculated by dividing the number of shares beneficially owned by such person or group as described above by the sum of the 31,075,669 shares of common stock outstanding on March 16, 2007 and the number of shares of common stock that such person or group had the right to acquire on or within 60 days after March 16, 2007, including but not limited to, upon the exercise of stock options.

(5) Mr. Hulsy will retire from IDEXX effective March 30, 2007. Mr. Hulsy s exercisable options will remain exercisable for ninety days following his retirement. Thereafter, any unexercisable or unexercised option will terminate.

OWNERSHIP OF MORE THAN FIVE PERCENT

OF OUR COMMON STOCK

The table below shows the number of shares of our common stock beneficially owned as of December 31, 2006 by each person or group known by us to own beneficially more than 5% of the outstanding shares of IDEXX common stock.

Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Common Stock Outstanding (1)
Ruane Cunniff & Goldfarb Inc. (2) 767 Fifth Avenue, Suite 4701 New York, New York 10153-4798	4,688,996	15.09%
Neuberger Berman, Inc. (3) 605 Third Avenue New York, New York 10158-3698	2,528,984	8.14%
Capital Research and Management Company (4) 333 South Hope Street Los Angeles, California 90071	1,570,000	5.05%

(1) For each group included in the table, percentage ownership is calculated by dividing the number of shares beneficially owned by such group by the 31,075,669 shares of common stock outstanding on March 16, 2007.

(2) Based solely upon information derived from a Schedule 13G/A filed by Ruane Cunniff & Goldfarb, Inc., or Ruane Cunniff, pursuant to Section 13 of the Exchange Act and the rules promulgated thereunder reporting its beneficial ownership of shares as of December 31, 2006. According to the Schedule 13G/A, Ruane Cunniff has the sole power to vote 2,523,019 shares and sole power to dispose of 4,688,996 shares.

(3) Based solely upon information derived from a Schedule 13G/A filed by Neuberger Berman, Inc., or Neuberger Berman, pursuant to Section 13 of the Exchange Act and the rules promulgated thereunder reporting its beneficial ownership of shares as of December 31, 2006. According to the Schedule 13G/A, Neuberger Berman has the sole power to vote 97,868 shares, shared power to vote 2,003,233 shares and shared power to dispose of 2,528,984 shares. Of the 2,003,233 shares over which Neuberger Berman has shared voting power, Neuberger Berman, LLC and Neuberger Berman Management Inc. (which are each 100% owned by Neurberg Berman) are deemed to be beneficial owners of these shares since they both have shared power to dispose of these shares. Of the 2,003,233 shares over which Neuberger Berman has shared voting power, 1,982,281 shares are beneficially owned by Neuberger Berman Equity Funds. Neuberger Berman, LLC and Neuberger Berman Management Inc. serve as sub-advisor and investment manager, respectively, of Neuberger Berman s various Mutual Funds. The holdings of Lehman Brothers Asset Management LLC, an affiliate of Neuberger Berman, LLC are also aggregated to comprise the holdings referenced herein. The 525,751 share difference in voting and investment power is a result of client accounts over which Neuberger Berman has shared power to dispose of, but not vote, the shares.

(4) Based solely upon information derived from a Schedule 13G/A filed by Capital Research and Management Company, or CRMC, pursuant to Section 13 of the Exchange Act and the rules promulgated thereunder reporting its beneficial ownership of shares as of December 31, 2006. According to the Schedule 13G/A, CRMC has the sole power to vote 1,570,000 shares and sole power to dispose of 1,570,000. Of the 1,570,000 shares that CRMC has sole power to dispose of, all of such shares are beneficially owned by investment companies to which CRMC provides investment advisory services. CRMC has sole power to dispose of such shares and therefore is deemed to beneficially

own such shares under Section 13 of the Exchange Act. CRMC disclaims beneficial ownership of such shares.

ELECTION OF DIRECTORS

(PROPOSAL ONE ON THE PROXY CARD)

The board of directors is divided into three classes, designated as Class I directors, Class II directors and Class III directors. Members of each class hold office for three-year terms. Class III consists of two directors whose terms expire at the 2007 annual meeting of stockholders, Class I consists of three directors whose terms expire at the 2009 annual meeting of stockholders, and Class II consists of three directors whose terms expire at the 2008 annual meeting of stockholders.

The board, upon recommendation of the nominating and governance committee, has nominated Jonathan W. Ayers and Robert J. Murray to serve as Class III directors with a term expiring at the 2010 annual meeting of stockholders. Messrs. Ayers and Murray are currently Class III directors and have indicated a willingness to serve, if elected. If any of the director nominees is unable to serve, proxies can be voted for a substitute nominee, unless the board chooses to reduce the number of directors on the board.

There are no family relationships among the executive officers or directors of IDEXX.

Nominees for Class III Directors Whose Terms Would Expire in 2010

Jonathan W. Ayers, age 51, has been Chairman of the Board, Chief Executive Officer and President of IDEXX since January 2002. Prior to joining IDEXX, from 1999 to 2001, Mr. Ayers was President of Carrier Corporation, the then-largest business unit of United Technologies Corporation, and from 1997 to 1999, he was President of Carrier Asia Pacific Operations. From 1995 to 1997, Mr. Ayers was Vice President, Strategic Planning at United Technologies. Before joining United Technologies, from 1986 to 1995, Mr. Ayers held various positions at Morgan Stanley & Co. in mergers and acquisitions and corporate finance. Prior to Morgan Stanley, Mr. Ayers worked as a strategy consultant for Bain & Company from 1983 to 1986 and was in the field sales organization of IBM s Data Processing Division from 1978 to 1981. Mr. Ayers holds an undergraduate degree in molecular biophysics and biochemistry from Yale University and graduated from Harvard Business School in 1983.

Robert J. Murray, age 65, has been a director of IDEXX since February 2005. Mr. Murray was Chairman of the Board and Chief Executive Officer of New England Business Service, Inc., a business-to-business direct marketing company, from 1995 until his retirement in 2004. Prior to that, from 1961 to 1995, Mr. Murray held various executive positions at The Gillette Company, including as Executive Vice President, North Atlantic Group from 1991 to 1995, and as Chairman of the Board of Management of Braun AG, a subsidiary of Gillette headquartered in Germany, from 1985 to 1990. Mr. Murray is also a director of The Hanover Insurance Group, Inc., LoJack Corporation, Tupperware Corporation and Delhaize Group.

Class I Directors Whose Terms Expire in 2009

William T. End, age 59, has been a director of IDEXX since July 2000. Mr. End was the Executive Chairman of the Board of Cornerstone Brands, Inc., a catalog retailer, from March 2001 until his retirement in June 2002, and served as Chairman and Chief Executive Officer of Cornerstone Brands, Inc. from 1995 until March 2001. From 1991 to 1995, Mr. End was employed by Land s End, Inc., including as President and Chief Executive Officer, and from 1975 to 1991 he was employed by L.L. Bean, Inc., including as Executive Vice President. Mr. End is a director of Eddie Bauer Holdings, Inc.

Barry C. Johnson, PhD, age 63, has been a director of IDEXX since March 2006. Dr. Johnson was Dean, College of Engineering, Villanova University from August 2002 until April 2006. He served as Chief Technology Officer of Honeywell International Inc., a diversified technology and manufacturing company, from July 2000 to April 2002. Prior to that, Dr. Johnson served as Corporate Vice President of Motorola, Inc., a global communications company, and Chief Technology Officer for that company s Semiconductor Product Sector. Dr. Johnson also serves as a director of Rockwell Automation, Inc. and Cytec Industries, Inc.

Brian P. McKeon, age 45, has been a director of IDEXX since July 2003. Mr. McKeon has been Executive Vice President and Chief Financial Officer of The Timberland Company, a provider of premium outdoor footwear, apparel and accessories, since March 2000. Effective May 2007, Mr. McKeon will be resigning from Timberland Company and become the Chief Financial Officer of Iron Mountain, a provider of information protection and storage services. Prior to joining Timberland, from 1991 to 2000, Mr. McKeon held several finance and strategic planning positions with PepsiCo, Inc., serving most recently as Vice President Finance of Pepsi-Cola, North America. Prior to joining PepsiCo, Mr. McKeon worked as a strategy consultant with the Alliance Consulting Group and as an auditor with Coopers & Lybrand.

Class II Directors Whose Terms Expire in 2008

Thomas Craig, age 52, has been a director of IDEXX since December 1999. Mr. Craig is a Partner and co-founder of Monitor Group, a strategic consulting and business services company, where he has served as a director since 1983. Mr. Craig is also a director of Jackson Laboratories, an independent genetics research organization, and Grace Kennedy, a public Jamaican company that provides products and services to the global Caribbean community.

Errol B. De Souza, PhD, age 53, has been a director of IDEXX since February 2003. Dr. De Souza is President, Chief Executive Officer and a director of Archemix Corp., a private biopharmaceutical company developing aptamer therapeutics. Dr. De Souza was President and Chief Executive Officer of Synaptic Pharmaceutical Corporation, a GPCR-based drug discovery and development company, from 2002 until the completion of its merger with Lundbeck (a Danish Pharmaceutical Company) in 2003. From 1998 to 2002, Dr. De Souza was Senior Vice President and Site Head, U.S. Drug Innovation and Approval (R&D) of Aventis Pharmaceuticals, Inc., and its predecessor company Hoechst Marion Roussel, a global pharmaceutical company. While at Aventis, Dr. De Souza was Chairman of the Technology Committee of Merial Ltd., an animal health joint venture between Merck and Aventis. Prior to that, from 1992 to 1998, Dr. De Souza was a co-founder, Executive Vice President of R&D and a director of Neurocrine Biosciences, Inc., a biopharmaceutical company. Dr. De Souza is also a director of Palatin Technologies, Inc. and Targacept, Inc.

Rebecca M. Henderson, PhD, age 46, has been a director of IDEXX since July 2003. Dr. Henderson has served as the Eastman Kodak Professor of Management at the Sloan School of the Massachusetts Institute of Technology since 1988, where she specializes in technology strategy and the broader strategic problems faced by firms in high technology industries. Dr. Henderson has also been a research fellow at the National Bureau of Economic Research since 1995. Dr. Henderson is a director of the Whitehead Institute for Biomedical Research at MIT and Ember Corporation. Dr. Henderson also sits on the editorial boards of *Management Science*, *Administrative Science Quarterly*, *Research Policy*, *The Economics of Innovation and New Technology*, and the *Strategy Management Journal*.

Recommendation of the Board of Directors

The board of directors recommends that you vote **FOR** the election of the two Class III Director nominees listed above.

AMENDMENT TO 2003 STOCK INCENTIVE PLAN

(PROPOSAL TWO ON THE PROXY CARD)

On February 14, 2007, our board of directors approved, subject to stockholder approval, an amendment to the 2003 Stock Incentive Plan, or the 2003 Plan, to increase the number of shares of common stock authorized for issuance under the 2003 Plan from 1,850,000 to 3,150,000 shares.

The purpose of the 2003 Plan is to allow the company to design and grant stock-based awards that will provide long-term incentives to key members of management and directors, while aligning the interests of award recipients with those of the company s stockholders. Under the 2003 Plan, we are currently authorized to grant equity awards up to an aggregate of 1,850,000 shares of common stock. As of March 16, 2007, 1,435,990 shares had been issued, or are reserved for issuance, pursuant to awards under the 2003 Plan. The board believes that the additional 1,300,000 shares available for issuance under the 2003 Plan are necessary to permit the company to continue to provide the type of long-term, performance-based compensation necessary to allow the company to attract, retain and motivate employees and directors.

The following is a brief description of the 2003 Plan. This summary is qualified in its entirety by reference to the 2003 Plan, a copy of which is attached to this proxy statement as Appendix A . You may also obtain a copy of the 2003 Plan by accessing this proxy statement as filed with the SEC on the Internet at sec.gov, by accessing the

Investor Relations section of the company s Web site, idexx.com/aboutidexx/investorrelations/sec/, or by contacting the corporate secretary of the company.

Administration

The 2003 Plan is administered by the board of directors and the compensation committee and the granting of awards is discretionary. The board has the authority to adopt, amend and repeal the administrative rules, guidelines and practices relating to the 2003 Plan and to interpret the provisions of the 2003 Plan. The board may delegate any or all of its authority to administer the 2003 Plan as it deems appropriate to one or more committees of the board, at least one of which shall be the compensation committee of the board and, as permitted by law, to executive officers of the company.

Eligibility

All employees and directors of IDEXX and its corporate subsidiaries are eligible to receive awards under the 2003 Plan. Under present law, however, incentive stock options may be granted only to employees. As of March 16, 2007 approximately 520 persons were eligible to receive awards under the 2003 Plan, including the company s 12 executive officers and seven non-employee directors.

Awards

The 2003 Plan provides for the grant of incentive stock options that qualify under Section 422 of the Internal Revenue Code of 1986, as amended (the Code), nonstatutory options, stock appreciation rights, restricted stock awards, and other stock unit awards, as such terms are defined in the 2003 Plan.

Shares Subject to the 2003 Plan

If the amendment is approved by the stockholders, the 2003 Plan will authorize the issuance of up to 3,150,000 shares of common stock. Any shares that are subject to awards of options or stock appreciation rights will be counted against the share limit as one share for every share granted. Any shares that are subject to other awards, such as restricted stock, will be counted against the share limit as 2.1 shares for every share granted. Prior to this amendment, shares subject to any award, regardless of the type, counted against the share limit as one share for every share granted. No more than 3,150,000 shares will be available for the grant of incentive stock options. To satisfy the requirements of Section 162(m) of the Code, the 2003 Plan provides that the maximum number of shares upon which awards may be granted to a participant may not exceed 600,000 shares in any year. When the 2003 Plan was approved by the stockholders in 2003, the company s 1991 Stock Option Plan (the 1991 Plan), the 1998 Stock Incentive Plan (the 1998 Plan) and the 2000 Director Plan (the 1991 Plan, 1998 Plan and 2000 Director Plan are collectively referred to as the Prior Plans) terminated, except that any outstanding options granted under such plans as of the termination date remained outstanding and in effect.

If any awards under the 2003 Plan, or any awards outstanding under the Prior Plans, are forfeited, settled for cash or expire, those shares will again be available for grant under the 2003 Plan. Shares tendered by a participant or withheld by the company in payment of the purchase price of an option or to satisfy any tax withholding obligation with respect to an award, and shares subject to a stock appreciation right that are not issued in connection with the stock settlement of the stock appreciation right or exercise of such right, shall not again be available for issuance under the 2003 Plan. Any shares that again become available for grant shall be added back as one share if such shares were subject to options or stock appreciation rights, and as 2.1 shares if such shares were subject to other awards.

The 2003 Plan also permits awards to be granted and shares to be issued through the assumption or substitution of outstanding grants from an acquired or merged company. These assumed or substituted awards do not count toward the total share limit. In addition, any shares available for grant under any pre-existing plans of a company acquired by IDEXX or with which IDEXX combines may be used for awards under the 2003 Plan (as adjusted using the exchange ratio or other adjustment formula used in such acquisition or combination to determine the consideration payable to each parties stockholders) without counting toward the total share limit under the 2003 Plan. Awards issued using such available shares from pre-existing plans shall be made only to individuals who were not employees or directors of IDEXX prior to the acquisition or combination, and may not be made after the date awards could have been made under the terms of the pre-existing plan.

The shares issued under the 2003 Plan may consist, in whole or in part, of authorized but unissued shares or treasury shares.

Adjustments

In the event of a merger, reorganization, consolidation, recapitalization, stock dividend, extraordinary cash dividend, stock split, reverse stock split, spin-off or similar transaction or other change in corporate structure affecting IDEXX common stock, the board shall make appropriate and equitable adjustments and other substitutions to the 2003 Plan, and to awards under the 2003 Plan. Such adjustments may include adjustments in the maximum number of shares subject to the 2003 Plan and in the number and price of securities subject to awards granted under the 2003 Plan.

Options

Options to purchase shares of common stock may be granted under the 2003 Plan, either alone or in addition to other awards. A stock option may be granted in the form of an incentive stock option or a non-qualified stock option.

The price at which a share may be purchased under an option may not be less than the fair market value of a share on the date the option is granted, except for options granted through the assumption or substitution of options from an acquired or merged company. Unless the board establishes another method, fair market value means the last reported sale price for common stock reported on the NASDAQ Global Market on the relevant date. The 2003 Plan permits the board to establish the term of each option, but no option will be exercisable after 10 years from the grant date of the option. Options will be exercisable at such time or times as determined by the board at or subsequent to grant. The exercise price is generally payable in cash or delivery of other consideration having a fair market value on the exercise date equal to the total option price or, to the extent permitted by the board, by delivery of certain unconditional undertakings by or instructions to a creditworthy broker to deliver the exercise price.

In order to maintain status as an incentive stock option, the fair market value of shares subject to incentive stock options vesting in a particular year cannot exceed $100,000 per participant (or if greater, the maximum amount permitted under Section 422 of the Code), determined using the aggregate fair market value of the shares of common stock subject to such options on the date of grant.

Stock Appreciation Rights

Stock appreciation rights entitle a participant to receive upon exercise an amount equal to the number of shares subject to the award multiplied by the excess of the fair market value of a share at the time of exercise over the grant price of such share. Stock appreciation rights may be granted to participants either alone (freestanding) or in addition to other awards and may, but need not, relate to a specific option. Any freestanding stock appreciation right shall not have an exercise price less than the fair market value on the date of grant or a term of more than 10 years. Any stock appreciation rights related to an option other than an incentive stock option may be granted at the same time the option is granted. Any stock appreciation rights related to an incentive stock option must be granted at the same time the option is granted.

A stock appreciation right related to an option, or the applicable portion thereof, will terminate and no longer be exercisable upon the termination or exercise of the related option, except that any stock appreciation right granted with respect to less than the full number of shares covered by a related option will not be reduced until the exercise or termination of the related option exceeds the number of shares not covered by the stock appreciation right. Any option related to a stock appreciation right that is exercised will cease to be exercisable to the extent the related stock appreciation right has been exercised.

Restricted Stock

Restricted stock awards are stock awards that are generally subject to repurchase and/or forfeiture in favor of IDEXX, as may be determined by the board, during a period specified by the board. Restricted stock awards may be issued to participants, for no cash consideration or for such minimum consideration as may be required by applicable law, either alone or in addition to other awards granted under the 2003 Plan. Except as otherwise determined by the board, upon termination of employment for any reason during the restriction period, any portion

of a restricted stock award still subject to restriction will be forfeited by the participant and reacquired or repurchased by IDEXX.

Other Stock Unit Awards

Other awards of common stock and other awards that are valued in whole or in part by reference to, or are otherwise based on, common stock or other property may be granted to participants, either alone or in addition to other awards. Other stock unit awards may be paid in shares of common stock or cash as the board may determine.

Shares (including securities convertible into shares) granted as other stock unit awards may be issued for no cash consideration or for such minimum consideration as may be required by applicable law. Shares (including securities convertible into shares) purchased pursuant to a purchase right granted as an other stock unit award will be purchased for such consideration as the board may determine, which will not be less than the fair market value of such shares or other securities as of the date such purchase right is awarded.

Other stock unit awards include deferred stock units issued to the company s directors under the Director Plan and to its executive officers under the Executive Plan (see Director Deferred Compensation Plan on page 10 and Executive Deferred Compensation Plan on page 33).

Change in Control

The 2003 Plan provides that upon a change in control (as defined below) (i) 25% of the unvested shares subject to outstanding options and stock appreciation rights shall become exercisable and vested; (ii) the restrictions and deferral limitations applicable to 25% of the outstanding restricted stock shall lapse; and (iii) the restrictions, deferral limitations and other conditions applicable to 25% of the outstanding other stock unit awards or any other awards shall lapse. In addition, if the employment or directorship of any participant is terminated by the successor company without cause within two years, then each award held by such participant shall become fully vested, exercisable in full and free of restrictions.

Awards granted under the 2003 Plan shall not accelerate as described in the preceding paragraph upon a merger, reorganization or consolidation or a disposition of all or substantially all of IDEXX s assets (each a corporate transaction), in which the successor company does not assume or substitute such awards. In such circumstances, awards granted under the 2003 Plan shall become fully vested, exercisable in full and free of restrictions.

The 2003 Plan also provides that, in the event of a change in control, the board may provide that each option or stock appreciation right shall be cancelled in exchange for payment of the amount by which the fair market value per share of common stock prior to the change in control change exceeds the purchase price for such option or stock appreciation right multiplied by the number of shares granted under the option or stock appreciation right.

A change in control means, with certain exceptions: (i) an acquisition of beneficial ownership of 30% or more of either (A) the outstanding common stock of IDEXX or (B) the combined voting power of the outstanding voting securities of IDEXX entitled to vote in the election of directors; (ii) a change in the composition of the board such that the individuals who, as of the effective date of the 2003 Plan, constitute the board, together with other individuals selected by such incumbent directors, cease to constitute a majority of the board; (iii) a corporate transaction (as defined above); or (iv) the approval by our stockholders of a complete liquidation or dissolution of IDEXX.

Awards to Covered Employees

If the compensation committee determines at the time of grant of a restricted stock award or other stock unit award that the participant is, or may be as of the end of the tax year in which IDEXX would claim a tax deduction in connection with such award, a covered employee within the meaning of Section 162(m) of the Code, then the compensation committee may make the lapsing of restrictions and the payment of the award subject to IDEXX having achieved one or more specified performance goals established by the compensation committee. Performance goals will be based on the attainment of specified levels of one or more of the following: earnings before interest, taxes, depreciation and amortization (EBITDA), net cash provided by operating activities, free cash flow, earnings per share, earnings per share from continuing operations, operating income, revenues, operating margins, return on operating assets, return on equity, economic value added, stock price appreciation, total stockholder return, cost control, strategic initiatives, market share, before- or after-tax income, or return on invested

capital of the company or a subsidiary or division of the company for or within which the participant is primarily employed. The compensation committee also will have the discretion to reduce (but not increase) the final amount of any such award. The performance goals also may be based on the achievement of performance levels achieved by the company relative to the performance of other companies. The performance goals may be applied excluding the impact of changes for restructurings, discontinued operations, extraordinary items and other unusual or nonrecurring items, and the cumulative effects of accounting changes, as determined under generally accepted accounting principles. The performance goals are required to be set by the compensation committee in a manner that satisfies the requirements of Section 162(m) of the Code.

Effective Date, Term, Amendment and Termination

The 2003 Plan became effective upon approval by our stockholders on May 21, 2003 and will remain in effect until May 21, 2013, except that the board may at any time amend, alter, suspend or terminate the 2003 Plan. However, no such amendment may be made without stockholder approval if such approval is required to qualify for or comply with tax or regulatory requirements which the board deems desirable or necessary, or if such amendment is material, including material increases in the benefits to participants, material increases in the number of shares available under the 2003 Plan (except increases permitted upon the occurrence of an event described in Adjustments above), material modifications to the requirements for eligibility to participate in the plan, and expansion of the types of awards issuable under the plan. In addition, no amendment may be made without the consent of an affected participant if such action would impair his or her rights under an outstanding award. Except in certain circumstances, the board may amend the terms of any award, prospectively or retroactively, including to provide that any award shall become immediately exercisable or free of restrictions, in full or in part. However, the 2003 Plan prohibits the board from amending the 2003 Plan or any options or stock appreciation rights without stockholder approval to reduce the exercise price, or canceling or amending any options or stock appreciation rights, without stockholder approval, for the purpose of repricing, replacing or regranting such awards with an exercise price that is less than the exercise price of the original award, or in exchange for cash or another award under the 2003 Plan.

General Provisions

The 2003 Plan provides that, except under certain circumstances in connection with a participant s hire or termination or in the event of a change in control, no award issued to an employee of IDEXX shall vest less than one year from the date of grant, unless such award is issued in lieu of compensation to which the participant is otherwise entitled.

The board is authorized to make adjustments in performance award criteria or in the terms and conditions of other awards in recognition of unusual or nonrecurring events affecting us or our financial statements or changes in applicable laws, regulations or accounting principles. The board may also establish procedures for participants to direct the company to retain shares of common stock in satisfaction of withholding tax obligations.

The 2003 Plan provides that any award providing for deferral of compensation shall comply with Section 409A of the Code, unless the board, at the time of grant, specifically provides that the award is not intended to comply with Section 409A of the Code. Subject to the provisions of the 2003 Plan and any award agreement, the recipient of an award (including, without limitation, any deferred award) may, if so determined by the board, be entitled to receive, currently or on a deferred basis, cash dividends, or cash payments in amounts equivalent to cash dividends, with respect to the number of shares of common stock covered by the award, and the board may provide that such amounts (if any) will be deemed to have been reinvested in additional shares of common stock or otherwise reinvested.

Federal Income Tax Consequences

The following generally summarizes the United States federal income tax consequences that generally will arise with respect to awards granted under the 2003 Plan. This summary is based on the tax laws in effect as of the date of this Proxy Statement. This summary assumes that all awards are exempt from, or comply with, Section 409A if the Code relating to nonqualified deferred compensation. Changes to these laws could alter the tax consequences described below.

Incentive Stock Options

A participant will not have income upon the grant of an incentive stock option. Also, except as described below, a participant will not have income upon exercise of an incentive stock option if the participant has been employed by the Company or its corporate parent or 50% or more-owned corporate subsidiary at all times beginning with the option grant date and ending three months before the date the participant exercises the option. If the participant has not been so employed during that time, then the participant will be taxed as described below under Nonstatutory Stock Options. The exercise of an incentive stock option may subject the participant to the alternative minimum tax.

A participant will have income upon the sale of the shares acquired under an incentive stock option at a profit (if sales proceeds exceed the exercise price). The type of income will depend on when the participant sells the shares. If a participant sells the shares more than two years after the option was granted and more than one year after the option was exercised, then all of the profit will be long-term capital gain. If a participant sells the shares prior to satisfying these waiting periods, then the participant will have engaged in a disqualifying disposition and a portion of the profit will be ordinary income and a portion may be capital gain. This capital gain will be long-term if the participant has held the shares for more than one year and otherwise will be short-term. If a participant sells the shares at a loss (sales proceeds are less than the exercise price), then the loss will be a capital loss. This capital loss will be long-term if the participant held the shares for more than one year and otherwise will be short-term.

Nonstatutory Stock Options

A participant will not have income upon the grant of a nonstatutory stock option. A participant will have compensation income upon the exercise of a nonstatutory shares option equal to the value of the shares on the day the participant exercised the option less the exercise price. Upon sale of the shares, the participant will have capital gain or loss equal to the difference between the sales proceeds and the value of the shares on the day the option was exercised. This capital gain or loss will be long-term if the participant has held the shares for more than one year and otherwise will be short-term.

Stock Appreciation Rights

A participant will not have taxable income upon the grant of a stock appreciation right. A participant will have compensation income upon the exercise of a stock appreciation right equal to the amount of the cash and the fair market value of any stock received. If the participant receives shares upon exercise of a stock appreciation right, upon sale of the shares, the participant will have capital gain or loss equal to the difference between the sales proceeds and the value of the stock on the day the stock appreciation right was exercised. This capital gain or loss will be long-term if the participant held the stock for more than one year and otherwise will be short-term.

Restricted Stock

A participant will not have income upon the grant of restricted shares unless an election under Section 83(b) of the Code is made within 30 days of the date of grant. If a timely 83(b) election is made, then a participant will have compensation income equal to the value of the shares less the purchase price. When the shares are sold, the participant will have capital gain or loss equal to the difference between the sales proceeds and the value of the shares on the date of grant. If the participant does not make an 83(b) election, then when the shares vest the participant will have compensation income equal to the value of the shares on the vesting date less the purchase price. When the shares are sold, the participant will have capital gain or loss equal to the sales proceeds less the value of the shares on the vesting date. Any capital gain or loss will be long-term if the participant held the shares for more than one year and otherwise will be short-term.

Other Stock-Based Awards

The tax consequences associated with any other stock-based award granted under the plan will vary depending on the specific terms of such award. Among the relevant factors are whether or not the award has a readily ascertainable fair market value, whether or not the award is subject to forfeiture provisions or restrictions on transfer, the nature of the property to be received by the participant under the award, whether the award includes a deferral feature and the participant s holding period and tax basis for the award or underlying common stock.

Tax Consequences to Us

There will be no tax consequences to us except that we will be entitled to a deduction when a participant has compensation income. Any such deduction will be subject to the limitations of Section 162(m) of the Code.

Awards Granted to Certain Individuals and Groups

Awards under the 2003 Plan are made at the discretion of the compensation committee and therefore are not determinable in advance. On March 16, 2007, the closing price of the common stock on the NASDAQ Global Market was $85.98.

The following table sets forth as of March 16, 2007, the total number of shares of common stock subject to options, restricted stock units and deferred stock units granted to the listed persons and groups since the adoption of the 2003 Plan in May 2003.

Options, Restricted Stock and Deferred Stock Units Granted

Under 2003 Stock Incentive Plan

Name	Number of Options Granted	Average Per Share Exercise Price of Options	Number of Shares of Restricted Stock Granted	Number of DSUs Granted (1)
Jonathan W. Ayers	265,000	$ 77.288	5,500	14,791
William C. Wallen, PhD	136,669	47.426	1,163	
Merilee Raines	42,620	65.236	1,807	
Robert S. Hulsy (2)	38,149	63.052	1,286	
Conan R. Deady	38,140	65.583	1,684	
All current executive officers, as a group	652,388	66.153	22,985	17,008
All directors who are not executive officers, as a group	46,266	49.525	895	24,130
All employees who are not executive officers, as a group	929,457	60.905	161,308	8,788

(1) Represents DSUs granted upon the voluntary deferral of cash compensation by executive officers (see Executive Deferred Compensation Plan on page 33) and DSUs granted as annual equity grants and voluntary deferrals of annual fees by directors (see Director Compensation on pages 9-10).

(2) Mr. Hulsy will retire from IDEXX effective March 30, 2007.

Recommendation of the Board of Directors

The Board of Directors recommends that you vote **FOR** the proposal to approve the amended 2003 Plan.

RATIFICATION OF APPOINTMENT OF

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

(PROPOSAL THREE ON THE PROXY CARD)

The audit committee has appointed PricewaterhouseCoopers LLP to serve as our independent registered public accounting firm for 2007.

Although stockholder approval of the audit committee s selection of PricewaterhouseCoopers LLP is not required by law, the board of directors believes that it is advisable to give stockholders an opportunity to ratify this selection. Representatives of PricewaterhouseCoopers LLP will be present at the annual meeting, will have the opportunity to make a statement if they desire to do so and will be available to respond to

appropriate questions. If this proposal is not approved at the annual meeting, the audit committee will reconsider its selection of PricewaterhouseCoopers LLP. Even if the appointment is ratified, the audit committee, in its discretion, can direct the appointment of a different firm at any time during the year if the audit committee determines that such a change would be in the company s and the stockholders best interests.

Independent Auditors Fees

The following table summarizes the fees of PricewaterhouseCoopers LLP billed to us for each of the last two fiscal years for audit services and billed to us in each of the last two fiscal years for other services. For fiscal year 2006, audit fees also include an estimate of amounts not yet billed.

	Fiscal Years Ended December 31,	
	2006	2005
Audit fees	$ 1,393,944	$ 1,071,879
Audit-related fees	36,597	1,500
Tax fees	208,171	348,159
All other fees		
	$ 1,638,712	$ 1,421,538

Audit Fees. Consists of fees billed for professional services rendered for the audit of IDEXX s annual financial statements and review of the interim financial statements included in quarterly reports; audits of management s assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting; statutory audits or financial audits for subsidiaries or affiliates of IDEXX; services associated with periodic reports and other documents filed with the SEC; consultation concerning accounting or disclosure treatment of transactions or events and actual or potential impact of final or proposed rules, standards or interpretations by the SEC, the Financial Accounting Standards Board, or other regulatory or standard setting bodies; and assistance with and review of documents provided to the SEC in responding to SEC comments.

Audit-Related Fees. Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of IDEXX s financial statements and are not reported under Audit Fees. These services include due diligence services pertaining to potential acquisitions and access to the auditor s global accounting literature database.

Tax Fees. Consists of tax compliance ($72,112 and $61,160 in 2006 and 2005, respectively), and tax advice and tax planning ($136,059 and $286,999 in 2006 and 2005, respectively). These services included United States federal, state and local tax planning, advice and compliance; international tax planning, advice and compliance; and review of federal, state, local and international income, franchise and other tax returns.

Out-of-Pocket Expenses and Value Added Taxes. Included in the fee schedule above are amounts billed by the independent auditors for out of pocket expenses ($68,799 and $22,720 in 2006 and 2005, respectively), and value added taxes ($20,973 and $45,759 in 2006 and 2005, respectively).

Audit Committee Pre-Approval Policy

The audit committee has adopted a policy for the pre-approval of audit and nonaudit services performed by our independent auditor, and the fees paid by the company for such services, in order to assure that the provision of such services does not impair the auditor s independence. Under the policy, at the beginning of the fiscal year, the audit committee pre-approves the engagement terms and fees for the annual audit. Under the policy, certain types of other audit services, audit-related services and tax services have been pre-approved by the audit committee. Any services that have not been pre-approved by the audit committee as previously described, must be separately approved by the audit committee prior to the performance of such services.

Pre-approved fee levels for all pre-approved services are established periodically by the audit committee. The audit committee then periodically reviews actual and anticipated fees for the pre-approved services against the pre-approved fee levels. Any anticipated fees exceeding the pre-approved fee levels require further pre-approval by the audit committee.

With respect to each service for which separate pre-approval is proposed, the independent auditor will provide a detailed description of the services to permit the audit committee to assess the impact of the services on the independence of the independent auditor.

The audit committee may delegate pre-approval authority to one or more of its members and has delegated such authority to the chairman of the audit committee. The audit committee member to whom such authority is delegated must report any pre-approval decisions to the audit committee at the next scheduled meeting. The audit committee does not delegate its pre-approval responsibilities to management of the company.

During the last fiscal year, no services were provided by PricewaterhouseCoopers LLP that were approved by the audit committee pursuant to the *de minimis* exception to pre-approval contained in the SEC s rules.

Recommendation of the Board of Directors

The board of directors recommends that you vote **FOR** the ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2007.

COMPENSATION DISCUSSION AND ANALYSIS

The following discussion summarizes the company s compensation philosophy and programs generally, as well as their application and relationship to compensation awards and decisions made with respect to the year ended December 31, 2006. This discussion should be read in conjunction with the other compensation information contained in this proxy statement.

Compensation Administration

The company s executive compensation policies and programs are established and administered by the compensation committee, with advice and assistance from certain members of management and the committee s compensation consultants. A full description of the administration of the company s compensation programs is set forth under Compensation Committee on page 5 above.

Compensation Philosophy

Objectives. The fundamental objectives of IDEXX s executive compensation program are to:

(i) attract, motivate and retain exceptionally talented employees in a competitive employment environment;

(ii) align employee interests with shareholder interests by providing that a significant percentage of compensation is contingent on corporate performance;

(iii) maintain a simple, consistent, equitable and transparent framework that permits flexibility and room for judgment; and

(iv) use compensation judiciously, including equity plan compensation, to achieve business objectives without transfer of value from shareholders to employees beyond what is required by the market for executive, managerial and technical talent.

The various elements comprising the company s executive compensation program, and the relative value of each element, are determined by the compensation committee to achieve these objectives.

The company generally chooses to employ common compensation elements across the management team, differentiating primarily by size of award rather than by types of compensation or benefits. The company believes that this approach provides simplicity of administration, promotes fairness and transparency, and finally reinforces collaboration throughout the team. For these reasons the company also maintains a straightforward compensation structure, which consists almost entirely of salary, annual discretionary bonus, and annual equity award grants.

The company does not maintain post-retirement benefit plans for executives and, with limited exceptions described below, there are no compensation or other benefit plans available to executive officers that are not available on the same terms to other company employees. The company does not generally enter into employment agreements (other than change in control agreements) with executives other than the chief executive officer and chief scientific officer.

Mix of fixed and contingent compensation. Consistent with the company s objective of aligning executive interests with shareholder interests, the company believes at least 60% of total target compensation for executive officers should be contingent on corporate performance. Contingent compensation comprises annual discretionary bonuses, which are tied to the achievement of objectives determined at the beginning of each year, and equity awards, which yield value to the employee in direct relation to increases in the company s stock price. The company believes that these two forms of compensation are effective in aligning the interests of executive officers with shareholders for several reasons. Since bonus

award sizes are recommended by the CEO and approved by the

compensation committee (but in the case of the CEO, determined and approved by the compensation committee) based on its subjective evaluation of each executive s performance during the year, bonuses provide significant, relatively short-term incentives to executives. Equity awards provide incentives to executives to maximize longer term company performance because, due to vesting provisions and stock appreciation over time that results from long-term shareholder value creation, these awards will generally increase in value the longer they are held. The company believes that the combination of these short- and long-term performance-related elements, together with a market-competitive base salary, provides the optimal mix of incentives to executives.

The relationship of cash bonus opportunity to base salary and equity award value to cash compensation will vary somewhat based on the level of responsibilities of a company executive. The company s philosophy generally is that executive officers are in positions that have the most direct impact on corporate performance and should bear the higher risk, and have the higher potential reward, associated with corporate performance. Therefore, bonus opportunity is a higher percentage of base salary and equity award size is greater relative to cash compensation for executive officers than for other management employees. In the case of the CEO, the compensation committee believes that this position has the highest impact on shareholder value creation, and should thus have the greatest percentage at risk and consequent reward.

Cash compensation. The company s principal objective in setting base salary is to be competitive with the market. The company has found that it is difficult to attract talent unless the company can pay a base salary that is generally competitive with the salaries that executives can earn in comparable positions at similar companies. To determine market competitiveness, the company evaluates market data from general manufacturing companies, medical and biotechnology companies, and companies within the peer group described under Benchmarking below.

Equity compensation. The company s equity compensation comprises stock options and restricted stock unit awards, or RSUs. Prior to 2006 the company granted stock options exclusively. In 2005 the company reviewed its equity award practices, in part due to the anticipated implementation of FAS 123(R), which required the company to expense stock option grants beginning January 1, 2006, and in part to consider if the structure of equity compensation was optimizing its value to employees with its cost to shareholders. Following this review, the company shifted to a mix of stock options and RSUs. For the reasons described below, the company believes that this mixture better achieves its compensation objectives, while also using a smaller percentage of the company s shares outstanding for compensation purposes. In addition, the new equity award practices result in lower compensation expense under FAS 123(R) than the company would have incurred if it had not made the adjustments.

The mix of stock options and RSUs varies by management level. Mid-level technical and management employees receive only RSUs. More senior managers receive some part stock options, with a greater percentage of equity award value in the form of stock options as the level of the position increases. RSUs are regarded as a lower risk award, since they will always have value upon vesting, whereas vested stock options will have value only to the extent that the market price for the company s stock is higher than the exercise price of the option, which equals the fair market value on the grant date. Given the different risk/reward characteristics of the two types of awards, the committee believes that the grant to executive officers of equity awards comprising a greater proportion of stock options relative to RSUs is consistent with its philosophy that employees in positions that have the most direct impact on corporate performance should bear the highest risk, and have the highest potential reward, associated with corporate performance. In other words, stock options have the appropriate performance-based orientation for executive officers. On the other hand, RSUs are a more effective and desired incentive tool for mid-level management and technical talent. The committee also believes that RSUs are a more effective recruiting tool because the value of RSUs is perceived as more tangible by prospective hires.

Except generally for grants of RSU awards to newly hired employees, the company grants equity awards (including stock options) to employees, including executive officers, primarily at the committee s February meeting, which is generally scheduled well in advance. The exercise price of all stock options granted by the committee generally equals the closing sale price of the common stock on the date of grant and in any case will not be less than such price.

Benchmarking. The compensation committee has found that benchmarking data is useful in connection with the committee s design of a compensation program and determination of salaries and equity and bonus award targets for executive officers. Benchmarking data permits the committee to determine the competitiveness of the company s compensation packages relative to similar companies. However, the committee does not set compensation based solely on this information, but only considers it along with the other information described in this section.

The benchmarking data used by the committee is provided by FW Cook, which, with input from the committee, has selected a peer group of publicly-traded companies in the medical technology/medical device sector that are reasonably comparable to the company based on revenue, net income, total employees, market capitalization and business model. In February 2006, when the compensation committee set 2006 base salaries and made 2006 equity awards, the peer group comprised Beckman Coulter, Bio-Rad Laboratories, Biosite, Cambrex, CONMED, Cytyc, Dade Behring Holdings, Diagnostic Products Company, Edwards Lifesciences, LabOne, PerkinElmer, and VCA Antech.

Elements of Compensation

The compensation committee annually determines the base salary, cash bonus and equity awards for the executive officers. In setting 2006 base salary, awarding cash bonuses for 2006 and granting equity awards in 2006, the committee followed the principles and formulas described below.

Base salary. The company annually budgets total cash compensation to increase by roughly the amount reported by general US industry surveys on projected salary trends. This budgeted rate applies to all employees, including executives. The actual salary increase for any employee, including any executive, may be higher or lower than the budgeted increase as a result of performance or adjustments deemed to be necessary to remain market competitive. Generally, salary increases of more than one to three percentage points above the budgeted increase are made only to ensure that the employee s salary remains market competitive or in the event of a promotion.

Consistent with this approach, in 2006 the executive officers received an average base salary increase of 4.9%.

Annual cash bonus. The company pays an annual discretionary cash bonus to management employees, including executive officers. The company uses a target bonus framework under which each employee has a target bonus opportunity equal to a specified percentage of base salary. Among the executive officer group, the chief executive officer has a target bonus of 100% of base salary, the chief scientific officer has a target bonus of 70% of base salary, and the remaining corporate officers have a target bonus of 60% of base salary. The compensation committee believes that these specific target percentages are consistent with the cash compensation philosophy described above.

The amount of the target bonus actually paid, if any, to each executive officer depends equally on (i) overall corporate performance against goals and (ii) the officer s success in achieving individual annual performance goals.

Corporate and individual goals comprise annual financial objectives as well as non-financial goals that are intended to strengthen the business and support the company s capacity for sustained financial performance and shareholder return in future periods. Financial goals relate primarily to the achievement of targets for revenues, free cash flow and earnings per share. Non-financial goals relate to achievement in the areas of new product and technology development, sales and marketing, organizational development, operational excellence and systems capability, quality, business development and strategy formulation.

At the end of each year, the chief executive officer reviews corporate performance and individual executive officer performance, and recommends both corporate and individual performance factors to the compensation committee. The committee considers the recommendation of the chief executive officer and then determines the final corporate and individual performance factors. Generally, a factor of 100% would indicate that goals were achieved on the whole, a factor greater than 100% would indicate that goals were exceeded on the whole, and a factor of below 100% would indicate that goals were not met on the whole.

At its meeting in February 2007, the compensation committee reviewed the company s 2006 financial performance against objectives. The committee determined that the company s financial performance in 2006 was favorable to its budget. The committee also considered the company s total shareholder return in 2006 (measured as the increase in price of a share of common stock between closing on December 31, 2005 and December 30, 2006, divided by the closing price of a share of common stock on December 31, 2005), which was 10%. This increase compared to a 9% increase for the S&P Small Cap Health Care Index, and a 1% decline for the S&P Mid Cap Health Care Index, and followed the company s return of 32% in 2005. Finally, the committee considered the company s success in achieving non-financial, strengthening-the-business goals in the areas described above.

The committee did not rank or weight all of the financial and non-financial achievements, but instead made a subjective evaluation of the company s overall performance based upon all of these factors. On the basis of this evaluation, the committee approved a corporate performance factor of 105% of the target.

The committee then considered the chief executive officer s recommendations regarding each other executive officer s performance against his or her individual goals. Again, the compensation committee did not make any specific ranking or weighting of financial and non-financial goals for each executive officer, but instead made a subjective evaluation of each executive officer s performance. The committee believes that a purely formulaic determination of cash bonus cannot adequately capture the true performance of the company or an individual because many types of achievements cannot be measured quantitatively and formulas cannot adequately account for unanticipated developments over the course of a year, which may require a shift in individual or corporate focus. The committee believes that rigid adherence to a formulaic approach would skew the focus of executives toward short-term financial performance, which is more easily measured, at the expense of building the business and the organization for the long-term. Similarly, such an approach would provide a disincentive for management to change course or reallocate resources where necessary to respond to new issues or opportunities, because management would be reluctant to stop pursuing the established objectives on which their performance would be measured. For these reasons the committee believes the company s compensation objectives are best achieved if the committee has the ability to consider all relevant factors, including achievement of specific financial and other goals, in determining annual cash bonuses.

On the basis of the committee s assessment of overall corporate performance and individual executive officer performance, the compensation committee awarded bonuses to executive officers other than the chief executive officer that averaged 66% of base salary and 114% of target.

Equity Awards. In determining the size of equity awards to each executive officer, the committee begins with a target dollar award value. The target value is set based upon the responsibilities inherent in each executive officer s position and, relative to cash compensation, is intended to give effect to the company s philosophy that equity awards should have the potential to raise officers total compensation above the median of the peer group if the company performs better than its comparable companies, comprised of the S&P Small Cap Healthcare Index and the S&P Mid Cap Healthcare Index. Although target equity award sizes are set for each position, the actual size of annual dollar award value is a subjective determination based on the anticipated contribution of the executive officer to the long-term value of the company.

In 2006, target equity award values were $817,400 for the chief executive officer, $276,000 for the chief scientific officer, and $224,700 for all other executive officers. Executive officers received equity awards equal to 109% of the target on average.

Personal benefits and perquisites. As noted above, the provision of special perquisites and benefits to executives is inconsistent with the company s philosophy to maintain a simple, transparent compensation structure where distinctions are made in the amount, but not the type, of compensation. Accordingly, the only benefits available exclusively to executive officers are company-funded, elective supplemental disability coverage and annual executive physical exams, which have a combined value of under $10,000 per executive. In addition, executives and other non-executive members of management may voluntarily elect to defer some or all of their annual cash bonus into DSUs, under the executive deferred compensation plan, which is described under Executive Deferred Compensation Plan on page 33. The company does not provide cars, private air travel, family travel reimbursement or other special travel benefits to executive officers. The company does not maintain lodging for the benefit of executive officers or reimburse executive officers for lodging expenses except in connection with business travel. The company does not provide personal services to executive officers or reimburse executive officers for any such services except that it reimburses the chief executive officer for tax return preparation and planning services not to exceed $10,000 annually without compensation committee approval. The company does not provide club memberships or other personal social or entertainment benefits to executive officers, nor does it reimburse executive officers for any such costs. The company does not make loans or provide guarantees to executive officers.

Employment agreements. It is the company s policy not to enter into employment agreements (other than change in control agreements as discussed below) with executive officers except with its chief executive officer and chief scientific officer. Except for these two positions, the company does not believe that employment agreements, which can contractually obligate the company to provide certain levels of compensation and benefits including on a termination of the executive s employment for any reason, are necessary to attract and retain talented executives. Employment agreements may also lead to inequities among executives and between executives and other members of management. Because the company disfavors providing special types of compensation and benefits to executives,

it is the goal of the company, wherever possible, to treat executive officers as at-will employees who have no special entitlements with respect to salary increases, bonuses, equity awards, severance benefits or other terms of employment. The terms of Mr. Ayers s and Dr. Wallen s employment agreements are described under Employment Agreements on page 33.

Stock ownership guidelines. The company instituted stock ownership guidelines in 2003 to ensure that the interests of executives and directors are aligned with those of shareholders. Under these guidelines, the company s chief executive officer is expected to hold shares of common stock having an aggregate value equal to or greater than three times his or her annual base salary, and other executive officers are expected to hold shares having an aggregate value equal to or greater than one time their annual base salaries. The compensation committee believes that the higher multiple applicable to the chief executive officer is appropriate given the greater relative scope of responsibilities and greater compensation associated with this position.

An executive officer will be deemed to have satisfied the ownership guidelines if either the aggregate price paid by the executive for shares held equals or exceeds the applicable multiple of his or her current annual base salary or at any time the fair market value of such shares equals or exceeds such amount. Executives are expected to comply with these guidelines within five years after their date of hire or promotion. DSUs credited to an executive s deferred compensation investment account are included in calculating stock ownership pursuant to these guidelines. In addition, the guidelines include retention requirements for stock option exercises under which executives must retain certain shares of common stock acquired upon exercise of a stock option. Executive officers who do not yet satisfy the ownership guidelines must retain at least 50% of the shares remaining from an option exercise after payment of the exercise price and taxes, and executive officers who already satisfy the guidelines must retain at least 25% of such shares. The committee annually reviews the compliance of each executive officer with the guidelines. As of March 16, 2007 the chief executive officer held stock and DSUs with a value of approximately seven times his annual salary and all of the other named executive officers were also in compliance with guidelines.

Change in Control Agreements. The committee believes that executive officers have a greater risk of job loss or modification as a result of a change in control transaction than other employees. The compensation committee therefore believes that it is in the best interests of the company and its shareholders for the company to have change in control agreements with its executive officers, under which the executives will receive certain benefits and compensation if their employment is terminated for certain reasons or modified materially following a change in control of the company. The principal purpose of these agreements is to provide executives with appropriate incentive to remain with the company before, during and after any change in control transaction by providing them with security in the event their employment is terminated or materially changed following a change in control. By eliminating or reducing the risk of job loss or reduction in job responsibilities to the executive, the agreement helps ensure that the executives support any potential change in control transaction that may be in the best interests of the company s shareholders, even while the transaction may create uncertainty in the executive s personal employment situation. The committee believes these agreements therefore are consistent with the company s objective of motivating and retaining talented employees, and since these agreements are part of the typical employment arrangements for executives within the company s peer group and within industry generally, they are necessary to ensure that the company s total employment package for executives remains market competitive.

In 2006, the committee engaged FW Cook to review the company s standard change in control agreements, which had been approved originally in 2001, and to advise the committee regarding current best practices for these types of agreements. As a result of this review, as of January 1, 2007, the company entered into new change in control agreements with all of its executive officers.

The new agreements reflect certain changes from the old agreements, which include the following:

- The committee adopted a double-trigger for the payment of compensation and benefits under the agreements for all executives, which means that the executive is entitled to the compensation and benefits under the agreement only after (i) a change in control occurs and (ii) the executive s employment is terminated by the company other than for cause or by the executive for good reason. Under the previous agreements, the chief executive officer and the chief scientific officer were automatically entitled to certain benefits, including the immediate 100% vesting of outstanding stock options, upon the change in control, and each of them had the ability to trigger all remaining benefits in their sole discretion during a 30-day window one year after the change in control.

The original agreement term, renewal terms, and notice periods were shortened so that the company has more flexibility to terminate the agreements in its discretion.

The definition of change in control was modified in several respects to ensure that transactions that are not necessarily likely to lead to an effective change in control of the company from the existing management do not inadvertently trigger the payment of compensation and benefits under the agreements.

The definition of good reason was modified to ensure that executives cannot unilaterally trigger the payment of compensation and benefits under the agreements after a change in control unless the terms of their employment have been materially adversely altered.

The circumstances under which the company is obligated to gross up the executive to reimburse him or her for excise taxes payable on excess parachute payments under section 280G of the Code were narrowed.

Executives will be required to enter into new non-compete agreements as a condition to receiving compensation and benefits under the agreements.

All of these changes, as well as certain others, were intended to ensure that the agreements are triggered only in appropriate circumstances and that the amounts payable by the company to the executives are reasonable and not excessive. The new agreements are described more fully under Change in Control Agreements on page 34.

Chief Executive Officer compensation. In February 2006, the compensation committee increased Mr. Ayers s base salary 3.4% to $600,000, and in February 2007 the committee awarded Mr. Ayers a bonus of $650,000 for performance during 2006. Mr. Ayers s bonus was 108% of his annual target bonus. In determining Mr. Ayers s bonus, the compensation committee considered the company s achievement of all of the corporate financial and non-financial factors described above. In February 2006, the committee awarded Mr. Ayers stock options to purchase 30,000 shares and 2,500 RSUs, which have an aggregate value of 139% of the target equity award value for the chief executive officer. The stock options vest in equal annual installments over a five-year period, have a seven-year life, and otherwise are subject to the terms described on page 16. The RSUs vest in equal annual installments over five years.

In February 2007, the compensation committee increased Mr. Ayers s base salary 8% to $650,000. The committee awarded Mr. Ayers stock options to purchase 30,000 shares and 3,000 RSUs, which have an aggregate value of 137% of the target equity award value for the chief executive officer. These stock options vest in equal annual installments over a five-year period, have a seven-year life, and otherwise are subject to the terms described on page 16. These RSUs vest in equal annual installments over five years.

In February 2007, the compensation committee also made an extraordinary grant to Mr. Ayers of stock options to purchase 100,000 shares of common stock. These options have an exercise price of $100 per share, which is approximately 119% of the fair market value of the common stock on the date of grant. Otherwise, these options have the same terms and conditions as the annual grant to Mr. Ayers. The compensation committee believed that this extraordinary grant was appropriate to maintain the competitiveness of Mr. Ayers s total compensation package. As a result of the full vesting in January 2007 of Mr. Ayers s hiring grant of 450,000 shares, annual vesting of that grant ceased to add value to Mr. Ayers s total compensation. To replace this value, and maintain the competitiveness of his compensation, the committee made the extraordinary grant. This grant was priced at a premium above the market price for the company s shares to ensure that it would create value only to the extent that Mr. Ayers was successful in creating shareholder value as reflected in an increase in share price of more than 19%.

Section 162(m) considerations. Section 162(m) of the Code disallows a tax deduction to public companies for certain compensation in excess of $1,000,000 paid to the corporation s chief executive officer and four other most highly compensated executive officers. Certain performance-based compensation approved by the company s stockholders, including option grants under the company s 2003 Plan, generally is not subject to the deduction limit. Generally, section 162(m) has not been relevant to the compensation of any of the executive officers other than the chief executive officer. In awarding the chief executive officer s bonus for 2006, the compensation committee considered the impact of Section 162(m), which would disallow a deduction for a portion of the chief executive officer s compensation. However, the committee believed this impact was minimal and therefore did not weigh heavily the Section 162(m) limitation in determining the size of the award.

COMPENSATION COMMITTEE REPORT

The compensation committee has reviewed and discussed with management the Compensation Discussion and Analysis for the year ended December 31, 2006. Based on this review and discussion, the compensation committee recommended to the board, and the board has approved, that the Compensation Discussion and Analysis be included in the proxy statement for the year ended December 31, 2006.

By the compensation committee of the board of directors,

Robert J. Murray, Chairman
Thomas Craig
Errol B. De Souza, PhD
William T. End

EXECUTIVE COMPENSATION AND RELATED INFORMATION

Summary Compensation Table

The following table sets forth the compensation earned during 2006 by IDEXX s chief executive officer, chief financial officer and the three other highest-paid executive officers for IDEXX s 2006 fiscal year.

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	Option Awards (1)	All Other Compensation	Total Compensation
Jonathan W. Ayers (2)	2006	$ 600,000	$ 650,000	$ 33,609	$ 1,155,216	$ 16,295(3)	$ 2,455,120
President and Chief Executive Officer							
William C. Wallen, PhD	2006	350,000	255,000	6,655	506,815	11,887(4)	1,130,357
Senior Vice President & Chief Scientific Officer							
Merilee Raines	2006	260,000	200,000	8,268	231,837	2,021(5)	702,126
Corporate Vice President and Chief Financial Officer							
Robert S. Hulsy (6)	2006	260,000	200,000	8,268	235,844		704,112
Corporate Vice President IDEXX Reference Laboratories and Digital							
Conan R. Deady	2006	230,000	175,000	6,655	198,797	8,596(7)	619,048
Corporate Vice President, General Counsel & Secretary							

(1) Reflects the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006 in accordance with FAS 123(R). See Note 4 in the notes to consolidated financial statements included in the 2006 annual report for the relevant assumptions used to determine the valuation of our stock awards and stock options.

(2) Reflects compensation Mr. Ayers received as an employee. Mr. Ayers received no additional compensation for his service as a director.

(3) Consists of IDEXX s matching contribution under the IDEXX retirement and incentive savings plan in the amount of $6,600, supplemental disability insurance premiums paid by IDEXX in the amount of $1,933 and reimbursement for tax preparation services in the amount of $7,763.

(4) Consists of IDEXX s matching contribution under the IDEXX retirement and incentive savings plan in the amount of $6,600, supplemental disability insurance premiums paid by IDEXX in the amount of $3,737 and an executive physical paid by IDEXX in the amount of $1,550.

(5) Consists of supplemental disability insurance premiums paid by IDEXX.

(6) Mr. Hulsy will retire from IDEXX effective March 30, 2007.

(7) Consists of IDEXX s matching contribution under the IDEXX retirement and incentive savings plan in the amount of $6,600 and supplemental disability insurance premiums paid by IDEXX in the amount of $1,996.

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Grants of Plan-Based Awards

The following table sets forth each grant of an award made to the named executive officers during IDEXX s 2006 fiscal year. All awards were made under the 2003 Stock Incentive Plan.

Name	Grant Date	Action Date (1)	All Other Stock Awards # of Shares of Stock/ Units (2)(4)	All Other Option Awards: # of Securities Underlying Options (3)(4)	Exercise/ Base Price of Option Awards (5)	Grant Date Fair Value of Stock Option Awards (6)
Jonathan W. Ayers (7)	2/14/2006	2/08/2006	2,500			$ 191,675
Jonathan W. Ayers	2/14/2006	2/08/2006		30,000	$ 76.67	803,502
William C. Wallen, PhD	2/14/2006	2/08/2006	492			37,722
William C. Wallen, PhD	2/14/2006	2/08/2006		5,920	76.67	158,558
Merilee Raines	2/14/2006	2/08/2006	615			47,152
Merilee Raines	2/14/2006	2/08/2006		7,400	76.67	198,197
Robert S. Hulsy (8)	2/14/2006	2/08/2006	615			47,152
Robert S. Hulsy	2/14/2006	2/08/2006		7,400	76.67	198,197
Conan R. Deady	2/14/2006	2/08/2006	492			37,722
Conan R. Deady	2/14/2006	2/08/2006		5,920	76.67	158,558

(1) On February 8, 2006, the compensation committee approved the grant of the above stock options and restricted stock at the closing sale price of the common stock on the NASDAQ Global Market on February 14, 2006.

(2) Granted as restricted stock units that vest in equal annual installments over a five-year period commencing on the first anniversary of the date of grant.

(3) Options become exercisable in equal annual installments over a five-year period commencing on the first anniversary of the date of grant.

(4) Pursuant to the 2003 Plan, upon a change in control of IDEXX, each outstanding stock option or restricted stock award held by all employees of IDEXX, including executive officers, shall become exercisable and vested and free from restrictions as to 25% of the number of shares as to which such award would otherwise be subject to vesting or restrictions, unless the successor company in a corporate transaction (as defined in the 2003 Plan) does not assume or substitute such awards, in which case all awards granted under the 2003 Plan become fully vested and exercisable and free from restrictions. Under the change in control agreements between the company and each of its executive officers, vesting of options and restricted stock held by each executive officer may accelerate in full in the event of a change in control of the company followed by a qualifying termination of the executive officer s employment. See Change in Control Agreements on page 34.

(5) The exercise price per share of each option is equal to the closing sale price of the common stock on the NASDAQ Global Market on the date of grant.

(6) See Note 4 in the notes to consolidated financial statements included in the 2006 annual report for the relevant assumptions used to determine the valuation of our stock options.

(7)

In the event of termination of Mr. Ayers s employment by the company other than for cause, his stock options and RSUs will continue to vest in accordance with their terms for two years (see Employment Agreements on page 33).

(8) Mr. Hulsy will retire from IDEXX effective March 30, 2007. Mr. Hulsy s exercisable options will remain exercisable for ninety days following his retirement. Thereafter, any unexercisable or unexercised options will terminate.

In addition to the footnotes to the Summary Compensation Table and Grants of Plan-Based Awards table above, the following sections of this proxy statement further describe other material factors of the compensation and awards described in those tables. For a description of the material terms of Mr. Ayers s and Dr. Wallen s employment agreements and the change in control agreements for each of the executive officers, see Employment Agreements on page 33 and Change in Control Agreements on page 34; for an explanation of the amount of salary and bonus in proportion to total compensation, and a description of the criteria applied in determining grants of plan-based awards, see the Compensation Discussion and Analysis beginning on page 22.

Outstanding Equity Awards at Fiscal Year End

The table below sets forth information with respect to unexercised options and stock that has not vested for each of the named executive officers as of the end of IDEXX s 2006 fiscal year.

	Option Awards				Stock Awards	
	# of Securities Underlying Unexercised Options Exercisable (1)	# of Securities Underlying Unexercised Options Unexercisable (1)	Option Exercise Price	Option Expiration Date	# of Shares/ Units of Stock Not Vested (2)	Market Value of Shares or Units of Stock that have Not Vested (3)
Jonathan W. Ayers	344,128	90,000	$ 25.2000	1/28/2012	2,500	$ 198,250
	45,000	30,000	34.2700	2/06/2013		
		30,000	76.6700	2/13/2013		
	22,000	33,000	50.9000	2/04/2014		
	10,000	40,000	57.3100	2/02/2015		
William C. Wallen, PhD		5,920	76.6700	2/13/2013	492	39,016
	48,959	44,000	42.6000	9/08/2013		
	3,000	12,000	57.3100	2/02/2015		
Merilee Raines	5,600		17.3500	2/04/2007	615	48,770
	20,000		13.6875	1/31/2008		
	20,000		24.5000	2/03/2009		
	20,000		17.6875	2/04/2010		
	20,000		22.6875	2/07/2011		
	16,000	4,000	26.6300	2/12/2012		
	12,000	8,000	34.2700	2/06/2013		
		7,400	76.6700	2/13/2013		
	4,800	7,200	50.9000	2/04/2014		
	2,600	10,400	57.3100	2/02/2015		
Robert S. Hulsy (4)	1,460		24.5000	2/03/2009	615	48,770
	17,131		27.3750	5/19/2009		
	6,000		17.6875	2/04/2010		
	21,762		22.6875	2/07/2011		
	20,000	5,000	26.6300	2/12/2012		
	12,000	8,000	34.2700	2/06/2013		
		7,400	76.6700	2/13/2013		
	4,800	7,200	50.9000	2/04/2014		
	2,600	10,400	57.3100	2/02/2015		
Conan R. Deady	8,375		24.5000	2/03/2009	492	39,016
	11,849		22.6875	2/07/2011		
	16,000	4,000	26.6300	2/12/2012		
	9,600	6,400	34.2700	2/06/2013		
		5,920	76.6700	2/13/2013		
	4,400	6,600	50.9000	2/04/2014		
	2,200	8,800	57.3100	2/02/2015		

(1) Options become exercisable in equal installments over a five-year period commencing on the first anniversary of the date of grant.

(2) Restricted stock units vest in equal installments over a five-year period commencing on the first anniversary of the date of grant.

(3) Market value is determined by multiplying the number of shares by the closing sale price of the company s common stock at December 31, 2006.

(4) Mr. Hulsy will retire from IDEXX effective March 30, 2007. Mr. Hulsy s exercisable options will remain exercisable for ninety days following his retirement. Thereafter, any unexercisable or unexercised options will terminate.

Option Exercises and Stock Vested

The table below sets forth information with respect to exercises of stock options and vesting of restricted stock for the named executive officers during the 2006 fiscal year.

	# Shares Acquired on Exercise	Value Realized Upon Exercise	# Shares Acquired Upon Vesting(1)	Value Realized Upon Vesting
Jonathan W. Ayers	3,968	$ 200,701		$
William C. Wallen, PhD	17,041	838,022		
Merilee Raines	22,400	1,475,075		
Robert S. Hulsy	9,999	615,163		
Conan R. Deady	9,000	509,910		

(1) Restricted stock units were first granted by the company on February 14, 2006 and the first vesting date occurred on February 14, 2007. Therefore, no value was realized on vesting for 2006.

Nonqualified Deferred Compensation

The table below sets forth information with respect to voluntary contributions, earnings and distributions for the named executive officers under our executive deferred compensation plan, or Executive Plan. Cash compensation voluntarily deferred by the executive under the Executive Plan is invested in IDEXX common stock. For a description of the other material features of the Executive Plan, see Executive Deferred Compensation Plan on page 33.

	Executive Contribution in 2006	Registrant Contributions in 2006	Aggregate Earnings in 2006	Aggregate Withdrawals/ Distributions	Aggregate Balance at December 31, 2006
Jonathan W. Ayers	$ 325,000(1)	$	$ 88,391	$	$ 1,172,949
William C. Wallen, PhD					
Merilee Raines					
Robert S. Hulsy					
Conan R. Deady					

(1) This amount represents the portion of Mr. Ayers s 2005 bonus that he elected to defer under the executive deferred compensation plan. The bonus was paid in February 2006, but represented 2005 compensation, and as such this amount was reported in the 2005 Summary Compensation Table, rather than on the 2006 Summary Compensation Table on page 29.

Equity Compensation Plan Information

	December 31, 2006		
Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	3,254,849(1)	$ 35.175	898,900(2)
Equity compensation plans not approved by security holder			

(1) Consists of shares of common stock subject to outstanding options, restricted stock units and DSUs under the following compensation plans: 1991 stock option plan (721,522 shares), 1998 stock incentive plan (1,173,236 shares), 2000 director option plan (34,125 shares)

and 2003 Plan (1,325,966 shares). Excludes 101,957 shares issuable under the 1997 employee stock purchase plan in connection with the current and future offering periods.

(2) Includes 796,943 shares available for issuance under our 2003 Plan. The 2003 Plan provides for the issuance of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock unit awards and other stock unit awards. Also includes 101,957 shares issuable under our 1997 employee stock purchase plan in connection with the current and future offering periods. No new grants may be made under the other plans listed in footnote (1) except for the 2003 Plan.

In addition, as of December 31, 2006, the company had 3,138,000 options outstanding with a weighted average exercise price of $38.02 and a weighted average term of 5.7 years, and 117,050 full value shares outstanding and granted under equity compensation plans (79,422 restricted stock units granted to employees, 21,271 deferred stock units issued to employees, and 16,357 deferred stock units issued to directors). As of December 31, 2006, there were 796,943 shares remaining under the 2003 Plan, with no future grants to be made under any plan other than the 1997 employee stock purchase plan. If the amendment to the 2003 Plan is approved by the stockholders to authorize the issuance of up to 3,150,000 shares of common stock, the share counting of one share for every share granted under options or stock appreciation rights and 2.1 shares for every share granted under any other award will be applied retroactively to January 1, 2007.

Executive Deferred Compensation Plan

Under the company s Executive Plan, officers of the company can elect to defer up to 100% of their annual bonus into an account deemed to be invested in a particular hypothetical investment. As of this date, the only hypothetical investment available under the Executive Plan is IDEXX common stock. Therefore, each participating officer s investment account is denominated as a number of DSUs, equal to the compensation deferred into such account divided by the closing sale price of a share of our common stock on the date of the applicable deferral. Investment accounts are not subject to any interest or other investment returns, other than returns produced by fluctuations in the price of a share of IDEXX common stock affecting the value of the DSUs in the account. The DSUs are fully vested and nonforfeitable, since they represent compensation already earned and voluntarily deferred. Upon distribution, an officer receives a number of shares of IDEXX common stock equal to the number of DSUs in his or her account. DSUs are issued under the stockholder-approved 2003 Plan. DSUs count toward the executive s stock ownership in determining compliance with the executive stock ownership guidelines.

An officer can elect to receive his or her distribution in either a lump sum amount or in a fixed schedule. However, except upon a change in control or in the event of an unforeseeable emergency (as defined in the Executive Plan), an officer cannot receive shares of IDEXX common stock equal to the number of DSUs in his or her account sooner than one year following termination of his or her employment with the company for any reason.

Upon a change in control of the company (as defined in the Executive Plan), any applicable deferral limitations or other restrictions on each officer s investment account will lapse and the shares of IDEXX common stock distributed from such accounts will be deemed to have been outstanding immediately prior to the change in control.

Employment Agreements

In connection with the hiring of Mr. Ayers as president, chief executive officer and chairman of IDEXX, the company granted Mr. Ayers options to purchase 450,000 shares of IDEXX common stock and entered into an agreement with Mr. Ayers that provided for a target bonus equal to 100% of his base salary, with actual bonus dependent on the achievement of personal and corporate goals. Mr. Ayers s base salary for 2007 is $650,000. Under this agreement, if Mr. Ayers s employment is terminated at any time by the company other than for cause (except within two years following a change in control), the company will pay Mr. Ayers his base salary and continue to provide him with benefits (medical, dental and life insurance) for two years following such termination. In addition, his stock options and RSUs will continue to vest in accordance with their terms during such two-year period. If Mr. Ayers s employment is terminated by the company other than for cause or by Mr. Ayers for good reason within two years following a change in control, he will receive the payments and benefits described under Change in Control Agreements on page 34.

William C. Wallen, PhD, joined the company in September 2003 as senior vice president and chief scientific officer. In connection with his hiring, the company granted Dr. Wallen options to purchase 110,000 shares of common stock and entered into an agreement that provided for a target bonus equal to 70% of his base salary, with actual bonus dependent on the achievement of personal and corporate goals. Dr. Wallen s base salary for 2007 is $365,000. Under this agreement, if Dr. Wallen s employment is terminated at any time by the company other than for cause (except within two years following a change in control), the company will pay Dr. Wallen his base salary and continue to provide him with benefits (medical, dental and life insurance) for two years following such termination. If Dr. Wallen s employment is terminated by the company other than for cause or by Dr. Wallen for good reason within two years following a change in control, he will receive the payments and benefits described under Change in Control Agreements on page 34.

Except for the change in control agreements described below, the company does not have any agreements with any other executive officers providing for the payment of severance benefits to such officers upon a termination of employment with the company for any reason.

The following table describes potential payments to Mr. Ayers and Dr. Wallen under the employment agreements described above, assuming each of them was terminated without cause on December 31, 2006. The actual amounts to be paid out can only be determined in the event of and at the time of such executive s actual termination.

Potential Termination Payments

	Salary (1)	Benefits (1)	Accelerated Vesting of Equity Awards(2)	Total
Jonathan W. Ayers	$ 1,200,000	$ 30,312	$ 7,316,060	$ 8,546,372
William C. Wallen, PhD	700,000	30,509		730,509

(1) The executive s salary and benefits will be paid by the company. Salary and benefits are calculated by multiplying by two the salary and benefits in effect on December 31, 2006.

(2) Mr. Ayers s stock options and RSUs would continue to vest in accordance with their terms for two years following termination. Represents the intrinsic value of accelerated equity awards (stock options and RSUs) that would vest in the event of a termination without cause.

Change in Control Agreements

As of January 1, 2007, the Company entered into new executive employment agreements (the change in control agreements) with its 12 current executive officers providing for the company to make certain payments and provide certain benefits to the executive officers upon a qualifying termination of employment that follows a change in control of the company, as described further below. The change in control agreements supersede similar agreements previously entered into by the company and its executive officers. The change in control agreements for all of the executive officers are identical except as described below. For a further discussion of the company s reasons for having change in control agreements, as well as a description of how the new agreements differ from the prior agreements, refer to the discussion of change in control agreements in the Compensation Discussion and Analysis on page 26.

The change in control agreements become effective upon a change in control of the company, which will occur generally upon (a) the acquisition by any person of 30% or more of the shares of common stock or combined voting power of the company s outstanding securities, (b) a change in the composition of the company s board of directors over a 24-month period such that a majority of the board no longer consists of incumbent directors or directors nominated or elected by incumbent directors, (c) a reorganization, merger, consolidation, or sale or other disposition of all or substantially all of the assets of the company where the shareholders of the company immediately prior to such transaction cease to own a majority of the outstanding shares of common stock and the combined voting power of the company s outstanding voting securities in substantially the same proportion as their ownership immediately prior to the transaction, or (d) approval by the shareholders of a complete liquidation or dissolution of the company or sale of substantially all of the assets of the company.

Following a change in control, the company may not generally reduce an executive officer s base salary or target bonus, or the aggregate benefits to which the executive officer is entitled under incentive plans and welfare benefit plans, below the level to which the executive officer was entitled prior to the change in control.

For a period of two years following a change in control, if the employment of an executive officer is terminated by the company without cause, as defined below, or by the executive officer for good reason, as defined below, then the company shall provide the following payments and benefits to the executive officer: (1) a prorated payment of the executive officer s target bonus for the portion of the year of termination prior to the date of termination, (2) an amount equal to two times (three times in the case of Mr. Ayers) the sum of the executive officer s base salary plus the average bonus received by the executive officer for the three full fiscal years preceding the change in control, and (3) the continuation of life insurance, disability insurance, medical and dental coverage, and other benefits for a period of two years (three years in the case of Mr. Ayers) following the date of termination.

Upon a change in control, each outstanding stock option, restricted stock unit, or other equity award, each of which is referred to as an equity award, held by an executive officer shall become immediately exercisable or vested as to 25% of the number of shares as to which such equity award otherwise would not then be exercisable or vested. Following a termination of the executive officer s employment by the company within two years following a change in control other than for cause or by the executive officer for good reason, all equity awards held by the executive officer shall become fully exercisable and vested.

Under the change in control agreements, cause is defined as the willful failure of the executive to substantially perform the executive s duties with the company, or the willful engaging by the executive in illegal conduct or gross misconduct which is materially and demonstrably injurious to the company. Under the change in control agreements, good reason is defined as (a) any material diminution in the executive officer s duties or responsibilities, (b) any reduction in the executive officer s base salary or target bonus, or the aggregate benefits to which the executive officer is entitled under incentive plans and welfare benefit plans, below the level to which the executive officer was entitled prior to the change in control, (c) a reduction in vacation benefits, (d) relocation or a requirement of substantially greater travel, or (e) certain breaches by the company of the change in control agreement. Under the change in control agreements with Messrs. Ayers, Wallen and Deady and Ms. Raines, if any of such executive officers does not hold the same position with the entity surviving any change in control, then good reason shall be deemed to exist.

If payments to an executive officer under their change in control agreement cause the executive officer to be subject to an excise tax under Section 4999 of the Code, the company will pay the officer an additional amount that would, net of any taxes or penalties (including excise taxes) on such additional amount, allow the executive officer to retain the amount he or she would have received had he or she not been subject to the excise tax under Section 4999. However, if the payments to the executive officer are no more than 110% of the maximum amount of payments that the executive officer could receive under the change in control agreement without becoming subject to the excise tax, then no gross-up payment will be made and the payments to the executive officer shall be reduced to such maximum amount.

The change in control agreements have an initial term expiring on September 30, 2008. Commencing on October 1, 2008 and on each anniversary of such date (each of such dates is referred to as a renewal date), each of the change in control agreements shall automatically renew for a period of one year, unless the company shall have provided notice to the executive officer within 120 days prior to the renewal date indicating that the change in control agreement will not be extended.

The change in control agreements do not supersede the standard non-compete agreements and invention and non-disclosure agreements between each executive and the company. The non-compete agreements provide that for a period of two years after voluntary termination by the executive or termination by the company with or without cause, the executive may not engage in any business enterprise which competes with the company or recruit, solicit or induce any employee of the company to terminate their employment with the company. The invention and non-disclosure agreements include standard provisions that all developments made or conceived by the executive during his or her employment by the company shall be the sole property of the company and that the executive will not disclose or use for his or her own benefit or the benefit of others the company s proprietary information.

The following table describes potential payments to each of our named executive officers under the change in control agreements described above. The table assumes a change in control occurred and the officer s employment was terminated by the company without cause or by the officer for good reason on December 31, 2006. The actual amounts to be paid out can only be determined in the event of and at the time of such executive s termination.

Potential Change in Control Payments

	Salary(1)	Multiple of Average Bonus (1)	Pro-rated Bonus (1)	Benefits (1)	Outplace-ment	Accelerated Vesting of Equity Awards(3)	Excise Tax Gross-Up	Total
Jonathan W. Ayers (2)	$ 1,800,000	$ 1,773,500	$ 600,000	$ 45,468	$ 25,000	$ 8,313,850	$ 2,241,139	$ 14,798,957
William C. Wallen, PhD	700,000	432,000	245,000	30,509	25,000	1,933,265		3,365,774
Merilee Raines	520,000	324,667	156,000	9,927	25,000	1,072,328		2,107,922
Robert S. Hulsy (4)	520,000	331,333	156,000	23,035	25,000	1,124,998		2,180,366
Conan R. Deady	460,000	285,333	138,000	30,439	25,000	934,409		1,873,181

(1) Salary and bonus payments shall be paid in a lump sum within 30 days of the date of termination. Benefits shall be paid by the company over the period stated in note (2).

(2) Amounts for Mr. Ayers are three times his salary, three times his average annual bonus for the prior three years, and payment of benefits for three years. The amounts for all other executive officers represent two years of such payments and benefits.

(3) Represents the intrinsic value of accelerated equity awards (stock options and RSUs).

(4) Mr. Hulsy will retire from IDEXX effective March 30, 2007.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The audit committee oversees the company s financial reporting process, internal controls, and audit functions on behalf of the board of directors and operates under a written charter adopted by the board. The members of the audit committee are independent directors, as defined by its charter and the rules of the NASDAQ Global Market.

Management is responsible for the financial statements and the reporting process, including the system of internal controls. PricewaterhouseCoopers LLP, or PwC, the company s independent registered public accounting firm, is responsible for expressing an opinion as to whether these financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America and on management s assessment of the effectiveness of the company s internal controls over financial reporting. In addition, PwC will express its own opinion on the effectiveness of the company s internal control over financial reporting.

In performing its oversight responsibilities, the audit committee reviewed and discussed with management and PwC the audited consolidated financial statements of the company as of and for the year ended December 31, 2006, management s assessment of the effectiveness of the company s internal control over financial reporting, and PwC s evaluation of the company s internal control over financial reporting. The audit committee also discussed with PwC their judgment as to the quality, not just the acceptability, of the company s accounting principles and such other matters as are required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, *Communication with Audit Committees*.

In addition, the audit committee has discussed with the independent auditors the auditors independence from management and the company, including the matters in the written disclosures and letter from the independent auditors to the audit committee required by Independence Standard Board Standard No. 1, as amended, *Independent Discussions with Audit Committees*. The audit committee also has considered whether the provision of nonaudit related services by the independent auditors is compatible with maintaining the independent auditors independence.

Based on the reviews, discussions and representations from management referred to above, the audit committee recommended to the board of directors (and the board has approved) that the audited financial statements be included in the company s Annual Report on Form 10-K for the year ended December 31, 2006 for filing with the Securities and Exchange Commission.

By the audit committee of the board of directors,

Brian P. McKeon, Chairman
Errol B. De Souza, PhD
William T. End

REQUIREMENTS, INCLUDING DEADLINES, FOR SUBMISSION OF PROXY

PROPOSALS, NOMINATION OF DIRECTORS AND OTHER BUSINESS OF STOCKHOLDERS

Stockholder proposals submitted pursuant to Rule 14a-8 under the SEC rules for inclusion in our proxy materials for our 2008 annual meeting of stockholders must be received by our corporate secretary at the address written in the next paragraph, by December 15, 2007. The deadline to submit a proposal for inclusion in our proxy materials for the 2007 annual meeting has passed.

Our amended and restated bylaws also establish an advance notice procedure that a stockholder must follow to nominate persons for election as directors or to introduce an item of business at an annual meeting of stockholders outside of the process under Rule 14a-8 described above. These procedures provide that nominations for director and/or an item of business to be introduced at an annual meeting of stockholders must be submitted in writing to the corporate secretary of IDEXX at One IDEXX Drive, Westbrook, Maine 04092. Our amended and restated bylaws provide that stockholder proposals must include certain information regarding the nominee for director and/or the item of business. We must receive the notice of your intention to introduce a nomination or proposed item of business, and all supporting information, at our 2008 annual meeting no later than March 5, 2008 or 60 days before the 2008 annual meeting of stockholders, whichever is later. If you fail to provide timely notice of a proposal to be presented at the 2008 annual meeting, the proxies designated by the board of directors will have discretionary authority to vote on any such proposal that may come before the meeting.

OTHER MATTERS

The board of directors knows of no other matters to be presented for stockholder action at the annual meeting. If, however, other matters do properly come before the annual meeting or any adjournments or postponements thereof, the board intends that the persons named in the proxies will vote upon such matters in accordance with their best judgment.

Householding of Annual Meeting Materials

Some banks, brokers and other nominee record holders may be participating in the practice of householding proxy statements and annual reports. This means that only one copy of our proxy statement or annual report may have been sent to multiple stockholders in your household. We will promptly deliver a separate copy of either document to you if you call or write us at the following address or telephone number: Investor Relations, IDEXX Laboratories, Inc., One IDEXX Drive, Westbrook, Maine, 04092, Telephone: 207-556-8155. If you want to receive separate copies of the annual report and proxy statement in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker or other nominee record holder, or you may contact us at the above address and telephone number.

The board of directors hopes that you will attend the annual meeting. Whether or not you plan to attend the annual meeting, you are urged to complete, date, sign and return the enclosed proxy in the accompanying envelope, or vote via the Internet or by telephone at your earliest convenience. If you attend the annual meeting, you can still vote your stock personally even though you may have already sent in your proxy.

By order of the board of directors,

Conan R. Deady, *Secretary*

March 29, 2007

Appendix A

IDEXX LABORATORIES, INC.

2003 STOCK INCENTIVE PLAN

SECTION 1. PURPOSE. The purposes of the 2003 Stock Incentive Plan (the Plan) are to encourage selected employees and Directors of IDEXX Laboratories, Inc., a Delaware corporation (the Company), and its Affiliates to acquire a vested interest in the growth and performance of the Company, to generate an increased incentive to contribute to the Company s future success and prosperity, thus enhancing the value of the Company for the benefit of stockholders, and to enhance the ability of the Company and its Affiliates to attract and retain individuals of exceptional talent upon whom, in large measure, the sustained progress, growth and profitability of the Company depends.

SECTION 2. DEFINITIONS. As used in the Plan, the following terms shall have the meanings set forth below:

(a) Affiliate shall mean (i) any Person that directly, or through one or more intermediaries, controls, or is controlled by, or is under common control with, the Company or (ii) any entity in which the Company has a significant equity interest, as determined by the Board.

(b) Award shall mean any Option, Stock Appreciation Right, Restricted Stock Award, dividend equivalent, Other Stock Unit Award or any other right, interest or option relating to Shares or other property granted pursuant to the provisions of the Plan.

(c) Award Agreement shall mean any agreement, contract or other instrument or document evidencing any Award granted by the Board hereunder, in such form (written, electronic or otherwise) as the Board shall determine, which may, but need not, be executed or acknowledged by both the Company and the Participant.

(d) Board shall mean the Board of Directors of the Company.

(e) Change in Control shall mean the occurrence of any of the following events:

(i) an acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (an Entity) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (A) the then outstanding Shares (the Outstanding Company Common Stock) or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the Outstanding Company Voting Securities); excluding, however, the following: (1) any acquisition directly from the Company, other than an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was itself acquired directly from the Company, (2) any acquisition by the Company, (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (4) any acquisition by any corporation pursuant to a transaction that complies with clauses (A), (B) and (C) of Section 2(e)(iii);

(ii) a change in the composition of the Board on the Plan s effective date such that the individuals who, as of the effective date, constitute the Board (such Board shall be hereinafter referred to as the Incumbent Board) cease for any reason to constitute at least a majority of the Board; provided, however, that for purposes of this definition, any individual who becomes a member of the Board subsequent to the effective date, whose election, or nomination for election, by the Company s stockholders was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; and provided further, however, that any such individual whose initial assumption of office occurs as a result of or in connection with either an actual or threatened solicitation with respect to the election of directors (as such terms are used in Rule 14a-12(c) of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of an Entity other than the Board shall not be so considered as a member of the Incumbent Board;

(iii) the consummation of a merger, reorganization or consolidation or sale or other disposition of all or substantially all of the assets of the Company (each, a Corporate Transaction), excluding however, any Corporate Transaction pursuant to which (A) all or substantially all of the individuals and entities who are the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Corporate Transaction will beneficially own, directly or indirectly, more than 60% of, respectively, the outstanding shares of common stock, and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Corporate Transaction (including, without limitation, a corporation or other Person that as a result of such transaction owns the Company or all or substantially all of the Company s assets either directly or through one or more subsidiaries (a Parent Company)) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Entity (other than the Company, any employee benefit plan (or related trust) of the Company, such corporation resulting from such Corporate Transaction or, if reference was made to equity ownership of any Parent Company for purposes of determining whether clause (A) above is satisfied in connection with the applicable Corporate Transaction, such Parent Company) will beneficially own, directly or indirectly, 30% or more of, respectively, the outstanding shares of common stock of the corporation resulting from such Corporate Transaction or the combined voting power of the outstanding voting securities of such corporation entitled to vote generally in the election of directors unless such ownership resulted solely from ownership of securities of the Company prior to the Corporate Transaction, and (C) individuals who were members of the Incumbent Board will immediately after the consummation of the Corporate Transaction constitute at least half of the members of the board of directors of the corporation resulting from such Corporate Transaction (or, if reference was made to equity ownership of any Parent Company for purposes of determining whether clause (A) above is satisfied in connection with the applicable Corporate Transaction, of the Parent Company); or

(iv) the approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

(f) Code shall mean the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.

(g) Compensation Committee shall mean the Compensation Committee of the Board, or any successor to such committee, composed of no fewer than two directors, each of whom is a non-employee Director within the meaning of Rule 16b-3(b)(3) of the Exchange Act, an outside director within the meaning of Section 162(m) of the Code, or any successor provision thereto, and independent under the rules of the NASDAQ Global Market.

(h) Company shall mean IDEXX Laboratories, Inc., a Delaware corporation.

(i) Covered Employee shall mean a covered employee within the meaning of Section 162(m)(3) of the Code, or any successor provision thereto.

(j) Director shall mean a member of the Board who is not an Employee.

(k) Employee shall mean any employee of the Company or any Affiliate.

(l) Exchange Act shall mean the Securities Exchange Act of 1934, as amended.

(m) Fair Market Value shall mean, with respect to any property other than Shares, the market value of such property determined by such methods or procedures as shall be established from time to time by the Board. Unless otherwise determined by the Board, the Fair Market Value of Shares as of any date shall be the last reported sales price for the Shares as reported on the NASDAQ Global Market (or on any national securities exchange on the Shares are then listed) for that date or, if no such price is reported for that date, the last reported sales price on the next preceding date for which such price was reported.

(n) Incentive Stock Option shall mean an Option granted under Section 6 that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

(o) Nonstatutory Stock Option shall mean an Option granted under Section 6 that is not intended to be an Incentive Stock Option.

(p) Option shall mean any right granted to a Participant under the Plan allowing such Participant to purchase Shares at such price or prices and during such period or periods as the Board shall determine.

(q) Other Stock Unit Award shall mean any right granted to a Participant by the Board pursuant to Section 9.

(r) Participant shall mean an Employee or Director who is selected by the Board to receive an Award under the Plan.

(s) Person shall mean any individual, corporation, partnership, association, limited liability company, joint-stock company, trust, unincorporated organization or government or political subdivision thereof.

(t) Prior Plans shall mean the Company s 1991 Stock Option Plan, 1998 Stock Incentive Plan and the 2000 Director Option Plan.

(u) Restricted Stock shall mean any Share issued with the restriction that the holder may not sell, transfer, pledge or assign such Share and with such other restrictions as the Board, in its sole discretion, may impose (including, without limitation, any restriction on the right to vote such Share, and the right to receive any cash dividends), which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Board may deem appropriate.

(v) Restricted Stock Award shall mean an award of Restricted Stock under Section 8.

(w) Shares shall mean the shares of common stock of the Company, par value $.10 per share.

(x) Stock Appreciation Right shall mean any right granted to a Participant pursuant to Section 7 to receive, upon exercise by the Participant, the excess of (i) the Fair Market Value of one Share on the date of exercise over (ii) the grant price of the right on the date of grant, as specified by the Board in its sole discretion, which, except in the case of Substitute Awards or in connection with an adjustment provided in Section 4(c), shall not be less than the Fair Market Value of one Share on such date of grant of the right. Any payment by the Company in respect of such right may be made in cash, Shares, other property, or any combination thereof, as the Board, in its sole discretion, shall determine.

(y) Subsidiary shall mean any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of the granting of the Award, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

(z) Substitute Awards shall mean Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, by a company acquired by the Company or with which the Company combines.

SECTION 3. ADMINISTRATION.

(a) The Plan will be administered by the Board. The Board shall have authority to grant Awards and to adopt, amend and repeal such administrative rules, guidelines and practices relating to the Plan as it shall deem advisable. The Board may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem expedient to carry the Plan into effect and it shall be the sole and final judge of such expediency. All decisions by the Board shall be made in the Board s sole discretion and shall be final and binding on all persons having or claiming any interest in the Plan or in any Award. No director or person acting pursuant to the authority delegated by the Board shall be liable for any action or determination relating to or under the Plan made in good faith.

(b) To the extent permitted by applicable law, the Board may delegate any or all of its powers under the Plan to one or more committees or subcommittees of the Board (a Committee), at least one of which shall be the Compensation Committee. All references in the Plan to the Board shall mean the Board or a Committee of the Board or the executive officers referred to in Section 3(c) to the extent that the Board s powers or authority under the Plan have been delegated to such Committee or executive officers.

(c) To the extent permitted by applicable law, the Board may delegate to one or more executive officers of the Company the power to grant Awards to employees or officers of the Company or any of its present or future subsidiary corporations and to exercise such other powers under the Plan as the Board may determine, provided that the Board shall fix the terms of the Awards to be granted by such executive officers (including the exercise price of such Awards, which may include a formula by which the exercise price will be determined) and the maximum number of shares subject to Awards that the executive officers may grant; provided further, however, that no executive officer shall be authorized to grant Awards to any executive officer of the Company (as defined by Rule 3b-7 under the Exchange Act) or to any officer of the Company (as defined by Rule 16a-1 under the Exchange Act).

SECTION 4. SHARES SUBJECT TO THE PLAN.

(a) Subject to adjustment as provided in Section 4(c), a total of 3,150,000 Shares shall be authorized for issuance under the Plan. Any Shares that are subject to Awards of Options or Stock Appreciation Rights shall be counted against this limit as one (1) Share for every one (1) Share granted. Any Shares that are subject to Awards other than Options or Stock Appreciation Rights shall be counted against this limit as 2.1 Shares for every one (1) Share granted. If any Shares subject to an Award or to an award under the Prior Plans are forfeited or if any Award or award under the Prior Plans based on Shares is settled for cash or expires, the Shares subject to such Award shall, to the extent of such forfeiture, cash settlement or expiration, again be available for Awards under the Plan. Notwithstanding anything to the contrary contained herein, the following Shares shall not be added to the Shares authorized for grant under paragraph (a) of this Section: (i) Shares tendered by the Participant or withheld by the Company in payment of the purchase price of an Option, (ii) Shares tendered by the Participant or withheld by the Company to satisfy any tax withholding obligation with respect to an Award, and (iii) Shares subject to a Stock Appreciation Right that are not issued in connection with the stock settlement of the Stock Appreciation Right on exercise thereof. Substitute Awards shall not reduce the Shares authorized for issuance under the Plan or authorized for grant to a Participant in any calendar year under Section 11(e). In the event that a company acquired by the Company or with which the Company combines has shares available under a pre-existing plan not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards (other than Incentive Stock Options) under the Plan and shall not reduce the Shares authorized for issuance under the Plan; provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees or Directors of the Company or an Affiliate prior to such acquisition or combination. Any Shares that again become available for grant pursuant to this Section shall be added back as (i) one (1) Share if such Shares were subject to Options or Stock Appreciation Rights granted under the Plan or options or stock appreciation rights granted under the Prior Plans, and (ii) as 2.1 Shares if such Shares were subject to Awards other than Options or Stock Appreciation Rights granted under the Plan or the Prior Plans.

(b) Any Shares issued hereunder may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares purchased in the open market or otherwise.

(c) In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, extraordinary cash dividend, stock split, reverse stock split, spin-off or similar transaction or other change in corporate structure affecting the Shares, the Board shall make appropriate and equitable adjustments and other substitutions to the Plan and to Awards, including, without limitation, such adjustments in the aggregate number, class and kind of securities that may be delivered under the Plan, in the aggregate or to any one Participant, in the number, class, kind and option or exercise price of securities subject to outstanding Options, Stock Appreciation Rights or other Awards granted under the Plan, and in the number, class and kind of securities subject to Awards granted under the Plan (including, if the Board deems appropriate, the substitution of similar options to purchase the

shares of, or other awards denominated in the shares of, another company) as the Board may determine in its sole discretion; provided, however, that the number of Shares subject to any Award shall always be a whole number.

SECTION 5. ELIGIBILITY. Any Employee or Director shall be eligible to be selected as a Participant; provided, however, that Incentive Stock Options shall only be awarded to Employees of the Company or a Subsidiary of the Company.

SECTION 6. STOCK OPTIONS. Options may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan. Any Option granted under the Plan shall be evidenced by an Award Agreement in such form as the Board may from time to time approve. Any such Option shall be subject to the following terms and conditions and to such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Board shall deem desirable:

(a) OPTION PRICE. The purchase price per Share purchasable under an Option shall not be less than the Fair Market Value of the Share on the date of the grant, except in the case of Substitute Awards or in connection with an adjustment provided for in Section 4(c).

(b) OPTION PERIOD. The term of each Option shall be fixed by the Board in its sole discretion; provided that no Option shall be exercisable after the expiration of ten years from the date the Option is granted.

(c) EXERCISABILITY. Options shall be exercisable at such time or times as determined by the Board at or subsequent to grant.

(d) METHOD OF EXERCISE. Subject to the other provisions of the Plan, any Option may be exercised by the Participant in whole or in part at such time or times, and the Participant may make payment of the option price in such form or forms, including, without limitation: (i) payment by delivery of cash; (ii) delivery of other consideration (including, where permitted by law and the Board, Awards) having a Fair Market Value on the exercise date equal to the total option price; (iii) to the extent permitted by the Board, in its sole discretion, by delivery of an irrevocable and unconditional undertaking by a creditworthy broker to deliver promptly to the Company sufficient funds to pay the exercise price and any required tax withholding, or delivery by the Participant to the Company of a copy of irrevocable and unconditional instructions to a creditworthy broker to deliver promptly to the Company cash or a check sufficient to pay the exercise price and any required tax withholding; or (iv) by any combination of cash and other consideration as the Board may specify in the applicable Award Agreement.

(e) INCENTIVE STOCK OPTIONS. In accordance with rules and procedures established by the Board, and except as otherwise provided in Section 10 or any other provision of the Plan permitting or providing for acceleration of options, the aggregate Fair Market Value (determined as of the time of grant) of the Shares with respect to which Incentive Stock Options held by any Participant which are exercisable for the first time by such Participant during any calendar year under the Plan (and under any other employee benefit plans of the Company or any Subsidiary) shall not exceed $100,000 or, if different, the maximum limitation in effect at the time of grant under Section 422 of the Code, or any successor provision, and any regulations promulgated thereunder. Incentive Stock Options shall be granted only to Participants who are Employees of the Company or a Subsidiary of the Company. The terms of any Incentive Stock Option granted hereunder shall comply in all respects with the provisions of Section 422 of the Code or any successor provision, and any regulations promulgated thereunder; provided, however that the Company shall have no liability to a Participant or to any other person in the event that an option that is intended to be an Incentive Stock Option is not an Incentive Stock Option. Subject to adjustment as provided in Section 4(c), the aggregate number of Shares with respect to which Incentive Stock Options may be issued under the Plan shall not exceed 3,150,000.

SECTION 7. STOCK APPRECIATION RIGHTS. Stock Appreciation Rights may be granted hereunder to Participants either alone (freestanding) or in addition to other Awards granted under the Plan and may, but need not, relate to a specific Option granted under Section 6. The provisions of Stock Appreciation Rights need not be the same with respect to each recipient. Any Stock Appreciation Right related to a Nonstatutory Stock Option may be granted at the same time such Option is granted. Any Stock Appreciation Right related to an Incentive Stock Option must be granted at the same time such Option is granted. In the case of any Stock Appreciation Right related to any Option, the Stock Appreciation Right or applicable portion thereof shall terminate and no longer be exercisable upon the termination or exercise of the related Option, except that a Stock Appreciation Right granted

with respect to less than the full number of Shares covered by a related Option shall not be reduced until the exercise or termination of the related Option exceeds the number of Shares not covered by the Stock Appreciation Right. Any Option related to any Stock Appreciation Right shall no longer be exercisable to the extent the related Stock Appreciation Right has been exercised. The Board may impose such conditions or restrictions on the exercise of any Stock Appreciation Right, as it shall deem appropriate; provided that a freestanding Stock Appreciation Right shall not have an exercise price less than Fair Market Value on the date of grant or a term of greater than ten years.

SECTION 8. RESTRICTED STOCK.

(a) ISSUANCE. A Restricted Stock Award shall be subject to restrictions imposed by the Board during a period of time specified by the Board (the Restriction Period). Restricted Stock Awards may be issued hereunder to Participants, for no cash consideration or for such minimum consideration as may be required by applicable law, either alone or in addition to other Awards granted under the Plan. The provisions of Restricted Stock Awards need not be the same with respect to each recipient.

(b) REGISTRATION. Any Restricted Stock issued hereunder may be evidenced in such manner, as the Board, in its sole discretion, shall deem appropriate, including, without limitation, book entry registration or issuance of a stock certificate or certificates. In the event any stock certificates are issued in respect of Shares of Restricted Stock awarded under the Plan, such certificates shall be registered in the name of the Participant and shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Award. Unless otherwise determined by the Board, such certificates shall be deposited by the Participant, together with a stock power endorsed in blank, with the Company or its designee.

(c) FORFEITURE. Except as otherwise determined by the Board at the time of grant or thereafter, upon termination of employment for any reason during the Restriction Period, all Shares of Restricted Stock still subject to restriction shall be forfeited by the Participant (or repurchased by the Company at their issue price) and reacquired by the Company. Unrestricted Shares, evidenced in such manner as the Board shall deem appropriate, shall be issued to the grantee promptly after expiration of the period of forfeiture, as determined or modified by the Board.

SECTION 9. OTHER STOCK UNIT AWARDS.

(a) STOCK AND ADMINISTRATION. Other Awards of Shares and other Awards that are valued in whole or in part by reference to, or are otherwise based on, Shares or other property (Other Stock Unit Awards) may be granted hereunder to Participants, either alone or in addition to other Awards granted under the Plan. Such Other Stock Unit Awards shall also be available as a form of payment in the settlement of other Awards granted under the Plan or as payment in lieu of compensation to which such recipient otherwise is entitled. Other Stock Unit Awards may be paid in Shares or cash, as the Board shall determine, in its sole discretion. Subject to the provisions of the Plan, the Board shall have sole and complete authority to determine the Employees of the Company and its Affiliates and Directors to whom and the time or times at which such Awards shall be made, the number of Shares to be granted pursuant to such Awards, and all other conditions of the Awards. The provisions of Other Stock Unit Awards need not be the same with respect to each recipient.

(b) TERMS AND CONDITIONS. Subject to the provisions of the Plan and any applicable Award Agreement, Awards and Shares subject to Awards made under this Section 9 may not be sold, assigned, transferred, pledged or otherwise encumbered prior to the date on which the Shares are issued, or, if later, the date on which any applicable restriction, performance or deferral period lapses. Shares (including securities convertible into Shares) subject to Awards granted under this Section 9 may be issued for no cash consideration or for such minimum consideration as may be required by applicable law. Shares (including securities convertible into Shares) purchased pursuant to a purchase right awarded under this Section 9 shall be purchased for such consideration as the Board shall determine in its sole discretion, which, except in the case of Substitute Awards, shall not be less than the Fair Market Value of such Shares or other securities as of the date such purchase right is awarded.

SECTION 10. CHANGE IN CONTROL PROVISIONS.

(a) IMPACT OF EVENT. Subject to Section 10(a)(v) and notwithstanding any other provision of the Plan to the contrary, unless the Board shall determine otherwise at the time of grant with respect to a particular Award, in the event of a Change in Control:

(i) any Options and Stock Appreciation Rights outstanding as of the date such Change in Control is determined to have occurred, and which are not then exercisable and vested, shall become immediately exercisable and vested as to 25% of the number of shares to which such Options and Stock Appreciation Rights would otherwise not then be exercisable, and the number of shares as to which such Options and Stock Appreciation Rights shall become exercisable and vested on each vesting date set forth in the applicable agreement shall be reduced by 25%;

(ii) the restrictions and deferral limitations applicable to any Restricted Stock Award shall immediately lapse as to 25% of the remaining number of shares subject to such Award as to which such restrictions and deferral limitations are then in effect, and the number of shares subject to such Restricted Stock Award as to which such restrictions and deferral limitations terminate on each subsequent vesting date shall be reduced by 25%;

(iii) the restrictions, deferral limitations and other conditions applicable to any Other Stock Unit Awards or any other Awards shall immediately lapse as to 25% of the remaining number of shares subject to Other Stock Unit Awards or other Awards as to which such restrictions, deferral limitations and other conditions are then in effect, and the number of shares subject to such Other Stock Unit Awards or other Awards as to which such restrictions, deferral limitations and other conditions terminate on each subsequent vesting date shall be reduced by 25%; and

(iv) in the event of an involuntary termination of a Participant s employment or directorship by the successor company without Cause (as defined below) during the 24-month period following such Change in Control, then each Award held by such Participant at the time of the Change in Control shall immediately become fully exercisable and vested to the full extent of the original grant and all restrictions and deferral limitation shall lapse. Cause shall mean: (A) the failure of the Participant to perform substantially the Participant s duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness), which failure is not cured within 30 days after a written demand for substantial performance is delivered to the Participant by the Participant s manager or the Board which specifically identifies the manner in which such manager or the Board, as applicable, believes that the Participant has not substantially performed the Participant s duties, (B) or the engaging by the Participant in illegal conduct or gross misconduct which is injurious to the Company.

(v) Notwithstanding the foregoing, if in the event of a Corporate Transaction the successor company does not assume or substitute for an Option, Stock Appreciation Right, Share of Restricted Stock or Other Stock Unit Award not granted pursuant to Section 11, then each outstanding Option, Stock Appreciation Right, Share of Restricted Stock or Other Stock Unit Award shall not be accelerated as described in Sections 10(a)(i), (ii) and (iii), but rather shall be accelerated with respect to 100% of such Awards. For the purposes of this Section 10(a)(v), an Option, Stock Appreciation Right, Share of Restricted Stock or Other Stock Unit Award shall be considered assumed or substituted for if following the Corporate Transaction the award confers the right to purchase or receive, for each Share subject to the Option, Stock Appreciation Right, Restricted Stock Award or Other Stock Unit Award immediately prior to the Corporate Transaction, the consideration (whether stock, cash or other securities or property) received in the Corporate Transaction by holders of Shares for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares); provided, however, that if such consideration received in the Corporate Transaction is not solely common stock of the successor company, the Board may, with the consent of the successor company, provide that the consideration to be received upon the exercise or vesting of an Option, Stock Appreciation Right, Restricted Stock Award or Other Stock Unit Award, for each Share subject thereto, will be solely common stock of the successor company substantially equal in fair market value to the per share consideration received by holders of Shares in the Corporate Transaction. The determination of such substantial equality of value of consideration shall be made by the Board in its sole discretion and its determination shall be conclusive and binding.

(b) CHANGE IN CONTROL CASH-OUT. Notwithstanding any other provision of the Plan, in the event of a Change in Control the Board may, in its discretion, provide that each Option or Stock Appreciation Right shall, upon the occurrence of a Change in Control, be cancelled in exchange for a payment in an amount equal to the

amount by which the fair market value per Share immediately prior to the Change in Control exceeds the purchase price per Share under the Option or Stock Appreciation Right (the spread) multiplied by the number of Shares granted under the Option or Stock Appreciation Right.

SECTION 11. CODE SECTION 162(m) PROVISIONS.

(a) Notwithstanding any other provision of the Plan, if the Compensation Committee determines at the time Restricted Stock or an Other Stock Unit Award is granted to a Participant who is then an officer, that such Participant is, or is likely to be as of the end of the tax year in which the Company would claim a tax deduction in connection with such Award, a Covered Employee, then the Compensation Committee may provide that this Section 11 is applicable to such Award.

(b) If Restricted Stock or an Other Stock Unit Award is subject to this Section 11, then the lapsing of restrictions thereon and the distribution of cash or Shares pursuant thereto, as applicable, shall be subject to the achievement of one or more objective performance goals established by the Compensation Committee, which shall be based on the attainment of specified levels of one or any combination of the following: earnings before interest, taxes, depreciation and amortization (EBITDA), net cash provided by operating activities, free cash flow, earnings per share, earnings per share from continuing operations, operating income, revenues, operating margins, return on operating assets, return on equity, economic value added, stock price appreciation, total stockholder return, cost control, strategic initiatives, market share, before- or after-tax income, or return on invested capital of the Company or the Affiliate or division of the Company for or within which the Participant is primarily employed. Such performance goals also may be based on the achievement of specified levels of Company performance (or performance of an applicable Affiliate or division of the Company) under one or more of the measures described above relative to the performance of other corporations. Such performance goals may be applied by excluding the impact of charges for restructurings, discontinued operations, extraordinary items, and other unusual or non-recurring items, and the cumulative effects of accounting changes, each as defined by generally accepted accounting principles. Such performance goals shall be set by the Compensation Committee within the time period prescribed by, and shall otherwise comply with the requirements of, Section 162(m) of the Code, or any successor provision thereto, and the regulations thereunder.

(c) Notwithstanding any provision of the Plan other than Section 10, with respect to any Restricted Stock or Other Stock Unit Award that is subject to this Section 11, the Compensation Committee may adjust downwards, but not upwards, the amount payable pursuant to such Award, and the Compensation Committee may not waive the achievement of the applicable performance goals except, in its sole discretion, in the case of the death or disability of the Participant

(d) The Compensation Committee shall have the power to impose such other restrictions on Awards subject to this Section 11 as it may deem necessary or appropriate to ensure that such Awards satisfy all requirements for performance-based compensation within the meaning of Section 162(m)(4)(C) of the Code, or any successor provision thereto.

(e) Notwithstanding any provision of the Plan other than Section 4(c), no Participant may be granted Awards during any year with respect to more than 600,000 Shares. For purposes of the foregoing limit, the combination of an Option in tandem with a Stock Appreciation Right shall be treated as a single Award. The per Participant limit described in this Section 11(e) shall be construed and applied consistently with Section 162(m) of the Code or any successor provision thereto, and the regulations thereunder (Section 162(m)).

SECTION 12. AMENDMENTS AND TERMINATION. The Board may amend, alter, suspend, discontinue or terminate the Plan or any portion thereof at any time; provided, however, that no amendment or alteration, shall be made without (a) stockholder approval if such approval is necessary to qualify for or comply with any tax or regulatory requirement for which or with which the Board deems it necessary or desirable to qualify or comply, (b) the consent of the affected Participant, if such action would impair the rights of such Participant under any outstanding Award, or (c) stockholder approval if such amendment or alteration is material, including, without limitation, any amendment or alteration that (i) would reduce the exercise price of outstanding Options or Stock Appreciation Rights or cancel or amend outstanding Options or Stock Appreciation Rights for the purpose of repricing, replacing or regranting such Options or Stock Appreciation Rights with an exercise price that is less than the exercise price of the original Options or Stock Appreciation Rights, or in exchange for cash or another Award,

(ii) materially increases the benefits accruing to Participants, (iii) materially increases the number of Shares that may be issued under the Plan, except for any increase permitted under Section 4(a) or 4(c) of the Plan, (iv) materially modifies the requirements for eligibility to participate in the Plan, or (v) expands the types of Awards issuable under the Plan. Notwithstanding anything to the contrary herein, the Board may amend the Plan in such manner as may be necessary so as to have the Plan conform to local rules and regulations in any jurisdiction outside the United States. The Board may amend the terms of any Award theretofore granted, prospectively or retroactively, including to provide that any Award shall become immediately exercisable in full or in part, free of some or all restrictions or conditions, or otherwise realizable in full or in part, as the case may be; provided, however, that no such amendment shall (a) impair the rights of any Participant without his or her consent, (b) except for adjustments made pursuant to Section 4(c) or in connection with Substitute Awards, reduce the exercise price of outstanding Options or Stock Appreciation Rights or cancel or amend outstanding Options or Stock Appreciation Rights for the purpose of repricing, replacing or regranting such Options or Stock Appreciation Rights with an exercise price that is less than the exercise price of the original Options or Stock Appreciation Rights, or in exchange for cash or another Award, without stockholder approval, or (c) require the exchange of Options or Stock Appreciation Rights for cash Notwithstanding the foregoing, any adjustments made pursuant to Section 4(c) shall not be subject to these restrictions.

SECTION 13. GENERAL PROVISIONS.

(a) Notwithstanding any other provision of the Plan, except under certain circumstances in connection with a Participant s hire or termination or in the event of a Change in Control, no Award issued to an Employee (except in lieu of compensation to which such Employee is otherwise entitled) shall vest less than one year from the date of grant.

(b) Awards shall not be sold, assigned, transferred, pledged or otherwise encumbered by the person to whom they are granted, either voluntarily or by operation of law, except by will or the laws of descent and distribution, and, during the life of the Participant, shall be exercisable only by the Participant; provided, however, that, if so determined by the Board, a Participant may, in the manner established by the Board, designate a beneficiary to exercise the rights of the Participant with respect to any Award upon the death of the Participant; and provided, further, that an Award so assigned or transferred shall be subject to all the terms and conditions of the Plan and the instrument evidencing the Award. Each Award shall be exercisable, during the Participant s lifetime, only by the Participant or, if permissible under applicable law, by the Participant s guardian or legal representative. References to a Participant, to the extent relevant in the context, shall include references to authorized transferees.

(c) No Employee or Participant shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Employees or Participants under the Plan.

(d) The prospective recipient of any Award under the Plan shall not, with respect to such Award, be deemed to have become a Participant, or to have any rights with respect to such Award, until and unless such recipient shall have received an agreement or other instrument (written, electronic or otherwise) evidencing the Award, which may, but need not, be executed or acknowledged by both the Company and the Participant, and delivered a copy thereof to the Company, and otherwise complied with the then applicable terms and conditions.

(e) Nothing in the Plan or any Award granted under the Plan shall be deemed to constitute an employment or service contract or confer or be deemed to confer on any Participant any right to continue in the employ or service of, or to continue any other relationship with, the Company or any Affiliate or limit in any way the right of the Company or any Affiliate to terminate a Participant s employment or service or other relationship at any time, with or without cause.

(f) Except as provided in Section 11, the Board shall be authorized to make adjustments in performance award criteria or in the terms and conditions of other Awards in recognition of unusual or nonrecurring events affecting the Company or its financial statements or changes in applicable laws, regulations or accounting principles. The Board may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry it into effect. In the event that the Company shall assume outstanding employee benefit awards or the right or obligation to make future such awards in connection with the acquisition of or combination with another corporation or business entity, the Board may, in its discretion, make such adjustments in the terms of Awards under the Plan as it shall deem appropriate.

(g) The Board shall have full power and authority to determine whether, to what extent and under what circumstances any Award shall be canceled or suspended.

(h) All certificates for Shares delivered under the Plan pursuant to any Award shall be subject to such stock-transfer orders and other restrictions as the Board may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Shares are then listed, and any applicable federal or state securities law, and the Board may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(i) No Award granted hereunder shall be construed as an offer to sell securities of the Company, and no such offer shall be outstanding, unless and until the Board in its sole discretion has determined that any such offer, if made, would comply with all applicable requirements of the U.S. federal securities laws and any other laws to which such offer, if made, would be subject.

(j) No Award shall provide for deferral of compensation that does not comply with Section 409A of the Code, unless the Board, at the time of grant, specifically provides that the Award is not intended to comply with Section 409A of the Code. The Company shall have no liability to a Participant, or any other party, if an Award that is intended to be exempt from, or compliant with, Section 409A is not so exempt or compliant or for any action taken by the Board. Subject to the provisions of the Plan and any Award Agreement, the recipient of an Award (including, without limitation, any deferred Award) may, if so determined by the Board, be entitled to receive, currently or on a deferred basis, cash dividends, or cash payments in amounts equivalent to cash dividends on Shares (dividend equivalents) with respect to the number of Shares covered by the Award, as determined by the Board, in its sole discretion, and the Board may provide that such amounts (if any) shall be deemed to have been reinvested in additional Shares or otherwise reinvested.

(k) Except as otherwise required in any applicable Award Agreement or by the terms of the Plan, recipients of Awards under the Plan shall not be required to make any payment or provide consideration other than the rendering of services.

(l) The Company shall be authorized to withhold from any Award granted or payment due under the Plan the amount of withholding taxes due in connection with an Award or payment hereunder and to take such other action as may be necessary in the opinion of the Company to satisfy all Company obligations for the payment of such taxes. The Board shall be authorized to establish procedures for election by Participants to satisfy such obligation for the payment of such taxes by directing the Company to retain Shares (not exceeding the minimum required tax withholding obligations if such a limitation is necessary to avoid a charge to the Company for financial reporting purposes) otherwise deliverable in connection with the Award.

(m) Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

(n) The validity, construction and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Delaware and applicable federal law, without regard to applicable conflicts of laws.

(o) If any provision of the Plan is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Award under any law deemed applicable by the Board, such provision shall be construed or deemed amended to conform to applicable laws or if it cannot be construed or deemed amended without, in the determination of the Board, materially altering the intent of the Plan, it shall be stricken and the remainder of the Plan shall remain in full force and effect.

(q) Awards may be granted to Participants who are foreign nationals or employed outside the United States, or both, on such terms and conditions different from those applicable to Awards to Employees employed in the United States as may, in the judgment of the Board, be necessary or desirable in order to recognize differences in local law or tax policy. The Board also may impose conditions on the exercise or vesting of Awards in order to minimize the Company s obligation with respect to tax equalization for Employees on assignments outside their home country.

SECTION 14. EFFECTIVE DATE OF PLAN. The Plan shall be effective as of May 21, 2003.

SECTION 15. TERM OF PLAN. The Plan shall terminate on the tenth anniversary of the effective date, unless sooner terminated by the Board pursuant to Section 12, but Awards previously granted may extend beyond that date; provided, however, that no Incentive Stock Options may be granted more than ten years after the later of (i) the adoption of the Plan by the Board and (ii) the adoption by the Board of any amendment to the Plan that constitutes the adoption of a new plan for purposes of Section 422 of the Code.

Adopted by the Board of Directors on February 25, 2003, subject to stockholder approval.

Approved by the stockholders on May 21, 2003.

Amended by the Board of Directors on July 16, 2003.

Amended by the Board of Directors on October 12, 2005.

Amended by the Board of Directors on February 14, 2007, subject to stockholder approval.

ANNUAL MEETING OF STOCKHOLDERS OF

IDEXX LABORATORIES, INC.

May 9, 2007

Please date, sign and mail your

proxy card in the envelope

provided as soon as possible.

ê Please detach along perforated line and mail in the envelope provided ê

IDEXX LABORATORIES, INC.

Proxy for Annual Meeting of Stockholders

To Be Held on May 9, 2007

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

OF THE COMPANY

The undersigned, revoking all prior proxies, hereby appoint(s) Jonathan W. Ayers, William T. End and Conan R. Deady, and each of them, with full power of substitution, as proxies to represent and vote, as designated herein, all shares of Common Stock of IDEXX Laboratories, Inc. (the Company) which the undersigned would be entitled to vote if personally present at the Annual Meeting of Stockholders of the Company to be held at the Portland Marriott Hotel, 200 Sable Oaks Drive, South Portland, Maine, on Wednesday, May 9, 2007 at 10:00 a.m., local time, and at any adjournment thereof.

In their discretion, the proxies are authorized to vote upon such other matters as

may properly come before the meeting or any adjournment thereof.

(Continued and to be signed on the reverse side)

ANNUAL MEETING OF STOCKHOLDERS OF

IDEXX LABORATORIES, INC.

May 9, 2007

PROXY VOTING INSTRUCTIONS

MAIL - Date, sign and mail your proxy card in the envelope provided as soon as possible. **COMPANY NUMBER**

-OR-

TELEPHONE - Call toll-free 1-800-PROXIES (1-800-776-9437) from any touch-tone telephone and follow the instructions. Have your proxy card available when you call. **ACCOUNT NUMBER**

-OR-

INTERNET - Access www.voteproxy.com and follow the on-screen instructions. Have your proxy card available when you access the web page.

You may enter your voting instructions at 1-800-PROXIES (1-800-776-9437) or www.voteproxy.com up until 11:59 PM Eastern Time the day before the cut-off or meeting date.

↓ Please detach along perforated line and mail in the envelope provided IF you are not voting via telephone or the Internet. ↓

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER(S).

IF NO DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED FOR PROPOSALS 1, 2 AND 3.

PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE x

1. Election of Directors. To elect two Class III directors for three-year terms (Proposal One);

NOMINEES:

o Jonathan W. Ayers

o Robert J. Murray

¨ **FOR ALL NOMINEES**

¨ WITHHOLD AUTHORITY FOR ALL NOMINEES

¨ FOR ALL EXCEPT

(See instructions below)

	FOR	**AGAINST**	**ABSTAIN**
2. Amendment to IDEXX Laboratories, Inc. 2003 Stock Incentive Plan. To approve and adopt a proposed amendment to our 2003 Stock Incentive Plan to increase the number of shares authorized for issuance under the plan from 1,850,000 to 3,150,000 shares (Proposal Two);	¨	¨	¨
3. Ratification of Appointment of Independent Registered Public Accounting Firm. To ratify the selection by the audit committee of the board of directors of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm for the current fiscal year (Proposal Three); and	¨	¨	¨

4. Other Business. To conduct such other business as may properly come before the Annual Meeting.

INSTRUCTION: To withhold authority to vote for any individual nominee(s), mark FOR ALL EXCEPT and fill in the circle next to each nominee you wish to withhold, as shown here: l

To change the address on your account, please check the box at right and indicate your new address in the address space above. Please note that changes to the registered name(s) on the account may not be submitted via this method. ..

SIGNATURE OF STOCKHOLDER DATE SIGNATURE OF STOCKHOLDER DATE

Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

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Other current assets

$

1,983

$

(634

)

$

1,349

Non-current portion of deferred cost of license revenue

1,638

(1,638

)

—

Total Assets

$

1,197,969

$

(2,272

)

$

1,195,697

Liabilities

Current portion of deferred license revenue

$

9,057

$

(9,057

)

$

—

Non-current portion of deferred license revenue

23,398

(23,398

)

—

Deferred tax liability

22,459

2,600

25,059

Accumulated deficit

(455,108

)

27,583

(427,525

)

Total liabilities and stockholders' equity

$

1,197,969

$

(2,272

)

$

1,195,697

The impact of the adoption of ASC 606 on the Company’s consolidated balance sheet as of March 31, 2018 was as follows:

(In thousands)	Balance as of March 31, 2018 Prior to Adoption of ASC 606	Net Adjustments	Balance as of March 31, 2018 as Reported Under ASC 606
Assets			
Other current assets	$2,088	$ (634)	$1,454
Non-current portion of deferred cost of license revenue	1,479	(1,479)	—
Total Assets	$1,189,186	$ (2,113)	$1,187,073
Liabilities			
Current portion of deferred license revenue	$9,057	$ (9,057)	$—
Non-current portion of deferred license revenue	21,134	(21,134)	—
Deferred tax liability	22,336	2,600	24,936
Accumulated deficit	(461,203)	25,478	(435,725)
Total liabilities and stockholders' equity	$1,189,186	$ (2,113)	$1,187,073

The impact of the adoption of ASC 606 on the Company’s consolidated statement of operations for the three-month period ended March 31, 2018 was as follows:

(In thousands)	Three-Month Period Ended	Effect of Change	Three-Month Period

	March 31, 2018 Balance Prior to Adoption of ASC 606	Ended March 31, 2018 Balance as Reported Under ASC 606
License revenue	$ 2,264	$ (2,264)	$ —
Cost of license revenue	159	(159)	—
Operating income	$ 2,559	$ (2,105)	$ 454
Net loss	$ (6,094)	$ (2,105)	$ (8,199)
Net loss per share (basic and diluted)	$ (0.13)	$ (0.05)	$ (0.18)

ASC 606 did not have an aggregate impact on the Company’s net cash provided by operating activities.

ASC 606 outlines a five-step process for recognizing revenue from contracts with customers: i) identify the contract with the customer, ii) identify the performance obligations in the contract, (iii) determine the transaction price, iv) allocate the transaction price to the separate performance obligations in the contract, and (v) recognize revenue associated with the performance obligations as they are satisfied.

The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. Once a contract is determined to be within the scope of ASC 606, the Company determines the performance obligations that are distinct. The Company recognizes as revenues the amount of the transaction price that is allocated to each respective performance obligation when the performance obligation is satisfied or as it is satisfied. Generally, the Company's performance obligations are transferred to customers at a point in time, typically upon receipt of the product by the customer.

Product Revenue, Net

Net revenue from product sales is recognized at the transaction price when the customer obtains control of the Company’s product, which occurs at a point in time, typically upon receipt of the product by the customer. The Company’s products are sold to a network of specialty providers which are contractually obligated to hold no more than an agreed upon number of days inventory. The Company’s payment terms are between 30 to 34 days.

The Company’s net revenues represent total revenues adjusted for discounts and allowances, including estimated price discounts, rebates and chargebacks. These adjustments represent variable consideration under ASC 606 and are recorded for cash consideration given by the Company to a customer that is presumed to be a reduction of the transaction price of the Company’s products and, therefore, are characterized as a reduction of revenue. These adjustments are established by management as its best estimate based on available information and will be adjusted to reflect known changes in the factors that impact such allowances. Adjustments for variable consideration are determined based on the contractual terms with customers, historical trends, communications with customers and the levels of inventory remaining in the distribution channel, as well as expectations about the market for the product and anticipated introduction of competitive products.

Discounts and Allowances

Revenue from product sales are recorded at the transaction price, which includes estimates for discounts and allowances for which reserves are established and includes cash discounts, chargebacks, rebates, returns, copay assistance, data fees and wholesaler fees for services. Discounts and allowances are recorded following shipment of product and the appropriate reserves are credited. These reserves are classified as reductions of accounts receivable (if the amount is payable to the Customer and right of offset exists) or a current liability (if the amount is payable to a party other than a Customer). These allowances are established by management as its best estimate based on historical experience and data points available and are adjusted to reflect known changes in the factors that impact such reserves. Allowances for customer credits, chargebacks, rebates, data fees and wholesaler fees for services, returns, and discounts are established based on contractual terms with customers and analyses of historical usage of these items. Actual amounts of consideration ultimately received may differ from the Company’s estimates. If actual results in the future vary from the Company’s estimates, the Company will adjust these estimates, which would affect net product revenue and earnings in the period such variances become known. The nature of our allowances and accruals requiring critical estimates, and the specific considerations it uses in estimating their amounts are as follows:

Government Chargebacks and Rebates: We contract for Medicaid and other U.S. Federal government programs to allow for our products to remain eligible for reimbursement under these programs. For Medicare, the Company also estimates the number of patients in the prescription drug coverage gap for whom the Company will owe an additional liability under the Medicare Part D program. Based upon our contracts and the most recent experience with respect to sales through each of these channels, we provide an allowance for chargebacks and rebates. We monitor the sales trends and adjust the chargeback and rebate percentages on a regular basis to reflect the most recent chargebacks and rebate experience. The Company's liability for these rebates consists of invoices received for claims from prior quarters that have not been paid or for which an invoice has not yet been received, estimates of claims for the current

quarter, and estimated future claims that will be made for product that has been recognized as revenue, but remains in the distribution channel inventories at the end of each reporting period.

Managed Care Contract Rebates: We contract with various managed care organizations including health insurance companies and pharmacy benefit managers. These contracts stipulate that rebates and, in some cases, administrative fees, are paid to these organizations provided our product is placed on a specific tier on the organization's drug formulary. Based upon our contracts and the most recent experience with respect to sales through managed care channels, we provide an allowance for managed care contract rebates. We monitor the sales trends and adjust the allowance on a regular basis to reflect the most recent rebate experience. The Company's liability for these rebates consists of invoices received for claims from prior quarters that have not been paid or for which an invoice has not yet been received, estimates of claims for the current quarter, and estimated future claims that will be made for product that has been recognized as revenue, but remains in the distribution channel inventories at the end of each reporting period.

Copay Mitigation Rebates: We offer copay mitigation to commercially insured patients who have coverage for our products (in accordance with applicable law) and are responsible for a cost share. Based upon our contracts and the most recent experience with respect to actual copay assistance provided, we provide an allowance for copay mitigation rebates. We monitor the sales trends and adjust the rebate percentages on a regular basis to reflect the most recent rebate experience.

Cash Discounts: We sell directly to our network of specialty pharmacies, Kaiser and the specialty distributor to the U.S. Department of Veterans Affairs. We generally provide invoice discounts for prompt payment for our products. We estimate our cash discounts based on the terms offered to our customers. Discounts are estimated based on rates that are explicitly stated in the Company's contracts as it is expected they will take the discount and are recorded as a reduction of revenue at the time of product shipment when product revenue is recognized. We adjust estimates based on actual activity as necessary.

Product Returns: We either offer customers no return except for products damaged in shipping or consistent with industry practice, a limited right of return based on the product's expiration date. The Company estimates the amount of its product sales that may be returned by its customers and records this estimate as a reduction of revenue in the period the related product revenue is recognized. The company currently estimates product return liabilities using historical sales information and inventory remaining in the distribution channel.

Data Fees and Fees for Service Payable to Specialty Pharmacies: We have contracted with certain specialty pharmacies to obtain transactional data related to our products in order to develop a better understanding of our selling channel as well as patient activity and utilization by the Medicaid program and other government agencies and managed care organizations. We pay a variable fee to the specialty pharmacies to provide us the data. We also pay the specialty pharmacies a flat fee in exchange for providing distribution and inventory management services, including the provision of inventory management data to the Company. We estimate our fee for service accruals and allowances based on sales to each specialty pharmacy and the applicable contracted rate.

Royalty Revenue

Royalty revenue recorded by the Company relates exclusively to the Company's License and Collaboration agreement with Biogen which provides for ongoing royalties based on sales of Fampyra outside of the U.S. The Company recognizes revenue for royalties under ASC 606, which provides revenue recognition constraints by requiring the recognition of revenue at the later of the following: 1) sale or usage of the products or 2) satisfaction of the performance obligations. The Company has satisfied its performance obligations and therefore recognizes royalty revenue when the sales to which the royalties relate are completed.

Milestone Revenue

Milestone revenue relates to the License and Collaboration agreement with Biogen which provides for milestone payments for the achievement of certain regulatory and sales milestones during the term of the agreement. Regulatory milestones are contingent upon the approval of Fampyra for new indications outside of the U.S. Sales milestones are contingent upon the achievement of certain net sales targets for Fampyra sales outside of the U.S. The Company recognizes milestone revenue under ASC 606, which provides constraints for entities to recognize milestone revenue which is deemed to be variable by requiring the Company to estimate the amount of consideration to which it is entitled in exchange for transferring the promised goods or services to a customer. The Company recognizes an estimate of revenue to the extent that

it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the milestone is achieved. For regulatory milestones, the Company evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the Company's control or the licensee's control, such as regulatory approvals, are generally not considered probable of being achieved until those approvals are received. For sales-based milestones, the Company has satisfied its performance obligations and, therefore, recognizes revenue upon the achievement of the specific sale milestones.

The following table disaggregates our revenue by major source (in thousands):

	Three-month period ended March 31, 2018	Three-month period ended March 31, 2017
Revenues:		
Net product revenues	$ 103,003	$ 112,593
Royalty revenues	3,162	4,528
License revenue	—	2,265
Total net revenues	$ 106,165	$ 119,386

Foreign Currency Translation

The functional currency of operations outside the United States of America is deemed to be the currency of the local country, unless otherwise determined that the United States dollar would serve as a more appropriate functional currency given the economic operations of the entity. Accordingly, the assets and liabilities of the Company's foreign subsidiary, Biotie, are translated into United States dollars using the period-end exchange rate; income and expense items are translated using the average exchange rate during the period; and equity transactions are translated at historical rates. Cumulative translation adjustments are reflected as a separate component of equity. Foreign currency transaction gains and losses are recognized in the period incurred and are reported as other income (expense) in the statement of operations.

Segment and Geographic Information

The Company is managed and operated as one business which is focused on developing therapies that restore function and improve the lives of people with neurological disorders. The entire business is managed by a single management team that reports to the Chief Executive Officer. The Company does not operate separate lines of business with respect to any of its products or product candidates and the Company does not prepare discrete financial information with respect to separate products or product candidates or by location. Accordingly, the Company views its business as one reportable operating segment. Net product revenues reported to date are derived from the sales of Ampyra and Qutenza in the U.S.

Subsequent Events

Subsequent events are defined as those events or transactions that occur after the balance sheet date, but before the financial statements are filed with the Securities and Exchange Commission. The Company completed an evaluation of the impact of any subsequent events through the date these financial statements were issued, and determined there

were no subsequent events requiring disclosure in these financial statements.

Accounting Pronouncements Adopted

As noted above, in May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2014-09, “Revenue from Contracts with Customers” (Topic 606) (ASU 2014-09). This new standard replaced all previous U.S. GAAP guidance on this topic and eliminated all industry-specific guidance. The new standard requires the application of a five-step model to determine the amount and timing of revenue to be recognized. The underlying principle is that revenue is to be recognized for the transfer of goods or services to customers that reflects the amount of consideration that the Company expects to be entitled to in exchange for those goods or services. The Company adopted the new standard effective January 1, 2018 using the modified retrospective transition method. See discussion of the adoption above in Revenue Recognition.

In January 2016, the FASB issued Accounting Standards Update 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” The main objective of this update is to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The new guidance addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The Company adopted this guidance effective January 1, 2018. The adoption of this guidance did not have an impact on the Company’s consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update ASU 2016-15 “Statement of Cash Flows” (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15), which specifies how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This ASU requires retrospective application to all periods presented. The Company adopted this guidance effective January 1, 2018. The adoption of this guidance did not have an impact on the Company’s consolidated financial statements.

In November 2016, the FASB issued Accounting Standards Update ASU 2016-18 “Statement of Cash Flows” (Topic 230); Restricted Cash (ASU 2016-18), which defines new requirements for the presentation of restricted cash and restricted cash equivalents in the statement of cash flows. The amendments in this ASU require retrospective application to each period presented. The Company adopted this guidance effective January 1, 2018 retrospectively. This ASU requires the entities to present statement of cash flows in a manner such that it reconciles beginning and ending totals of cash, cash equivalents, restricted cash or restricted cash equivalents. Also, when cash, cash equivalents, restricted cash or restricted cash equivalents are presented in more than one line item within the statement of financial position, an entity should, for each period that a statement of financial position is presented, present on the face of the statement of cash flows or disclose in the notes to the financial statements, the line items and amounts of cash, cash equivalents, and restricted cash or restricted cash equivalents reported within the statement of financial position. The amounts, disaggregated by the line item in which they appear within the statement of financial position, shall sum to the total amount of cash, cash equivalents, and restricted cash or restricted cash equivalents at the end of the corresponding period shown in the statement of cash flows.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same amounts shown in the statement of cash flows:

	Three months ended March 31, 2018		Three months ended March 31, 2017	
(In thousands)	Beginning of period	End of period	Beginning of period	End of period
Cash and cash equivalents	$307,068	$226,276	$158,537	$133,619
Restricted cash	410	460	79	61
Restricted cash included in Other assets	561	312	255	255
Total Cash, cash equivalents and restricted cash per statement of cash flows	$308,039	$227,048	$158,871	$133,935

Amounts included in restricted cash represent those amounts required to be set aside to cover the Company’s self-funded employee health insurance. Restricted cash included in other assets on the statement of financial position relates to cash collateralized standby letters of credit in connection with obligations under facility leases, which is included with other assets in the consolidated balance sheet due to the long-term nature of the letters of credit.

In January 2017, the FASB issued Accounting Standards Update 2017-01, “Business Combinations” (Topic 805): Clarifying the Definition of a Business (ASU 2017-01), which provides additional clarification to aid in determining when a set of assets and activities is not a business. The amendments in this update require prospective applications. The Company adopted this guidance effective January 1, 2018. The adoption of this guidance did not have an impact on the Company’s consolidated financial statements.

In May 2017, the FASB issued Accounting Standards Update 2017-09, “Compensation – Stock Compensation” (Topic 718): Scope of Modification Accounting (ASU 2017-09). This new standard provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 allows for prospective application and is effective for fiscal years beginning after December 15, 2017, and interim periods therein with early adoption permitted for interim or annual periods. The Company adopted this guidance effective January 1, 2018. The adoption of this guidance did not have an impact on the Company’s consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued Accounting Standards Update 2016-02, “Leases” (Topic 842). The main objective of this update is to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact it may have on its consolidated financial statements.

In January 2017, the FASB issued Accounting Standards Update 2017-04, “Intangibles – Goodwill and Other” (Topic 350): Simplifying the Test for Goodwill Impairment (ASU 2017-04). This new standard simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. ASU 2017-04 allows for prospective application and is effective for fiscal years beginning after December 15, 2019, and interim periods therein with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating whether it will adopt this guidance early. The Company does not expect the adoption of this guidance to have a significant impact on the consolidated financial statements.

In February 2018, the FASB issued Accounting Standards Update 2018-02, ‘Income Statement—Reporting Comprehensive Income’ (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (ASU 2018-02). This new standard provides entities with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. ASC 740-10-35-4 requires that deferred tax assets and liabilities should be adjusted to account for any changes in tax laws or rates within the period that the enactment of these changes occurs and any adjustments to flow through income from continuing operations. Since the adjustments due to the Tax Cuts and Jobs Act are required to flow through income from continuing operations, the tax effects of items within accumulated other comprehensive income known now as “stranded tax effects,” do not reflect the appropriate tax rate. As such, FASB issued ASU 2018-02, in order to address these stranded income tax effects. The new standard requires entities to disclose the following:

- A description of the accounting policy for releasing income tax effects from AOCI;
- Whether they elect to reclassify the stranded income tax effects from the Tax Cuts and Jobs Act, and
- Information about the other income tax effects that are reclassified.

The ASU is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted. The Company is currently evaluating the impact it may have on its consolidated financial statements.

In March 2018, the FASB issued Accounting Standards Update 2018-05, “Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin (SAB) No. 118’. The ASU adds seven paragraphs to ASC 740, Income Taxes, that contain SEC guidance related to SAB 118 (codified as SEC SAB Topic 5.EE, “Income Tax Accounting Implications of the Tax Cuts and Jobs Act”), which provides guidance for companies that are not able to complete their accounting for the income tax effects of the Tax Cuts and Jobs Act in the period of enactment which is the period that includes December 22, 2017. The measurement period should not extend beyond one year from the enactment date. The Company is currently evaluating the impact the adoption of this guidance may have on its consolidated financial statements.

(3) Share-based Compensation

During the three month periods ended March 31, 2018 and 2017, the Company recognized share-based compensation expense of $5.9 million and $7.8 million, respectively. Activity in options and restricted stock during the three-month period ended March 31, 2018 and related balances outstanding as of that date are reflected below. The weighted average fair value per share of options granted to employees for the three-month periods ended March 31, 2018 and 2017 were approximately $12.37 and $13.02, respectively.

The following table summarizes share-based compensation expense included within the consolidated statements of operations:

	For the three-month period ended March 31,	
(In millions)	2018	2017
Research and development	$ 1.7	$ 2.5
Selling, general and administrative	4.2	5.3
Total	$ 5.9	$ 7.8

A summary of share-based compensation activity for the three-month period ended March 31, 2018 is presented below:

Stock Option Activity

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Intrinsic Value
	(In thousands)			(In thousands)
Balance at January 1, 2018	8,929	$ 29.46		
Granted	536	24.39		
Cancelled	(201)	23.89		
Exercised	(172)	19.61		
Balance at March 31, 2017	9,092	$ 29.47	6.0	$ 8,141
Vested and expected to vest at March 31, 2018	9,032	$ 29.50	6.0	$ 8,068
Vested and exercisable at March 31, 2018	6,728	$ 30.49	5.1	$ 4,605

Restricted Stock and Performance Stock Unit Activity

(In thousands)	
Restricted Stock and Performance Stock Units	Number of Shares
Nonvested at January 1, 2018	698
Granted	—
Vested	(111)
Forfeited	(71)
Nonvested at March 31, 2018	516

Unrecognized compensation cost for unvested stock options, restricted stock awards and performance stock units as of March 31, 2018 totaled $33.7 million and is expected to be recognized over a weighted average period of approximately 1.9 years.

During the three month period ended March 31, 2018, the Company repurchased 46,785 shares of common stock at an average price of $25.69 per share or approximately $1.2 million. The share repurchase consists of common stock withheld to cover the tax liability in connection with the settlement of vested restricted stock units and stock options that were exercised in the there-month period ended March 31, 2018.

(4) Loss Per Share

The following table sets forth the computation of basic and diluted loss per share for the three-month periods ended March 31, 2018 and 2017:

(In thousands, except per share data)	Three-month period ended March 31, 2018	Three-month period ended March 31, 2017
Basic and diluted		
Net loss	$ (8,199)	$ (18,904)
Weighted average common shares outstanding used in computing net loss per share—basic and diluted	46,529	45,808
Net loss per share—basic and diluted	$ (0.18)	$ (0.41)

Securities that could potentially be dilutive are excluded from the computation of diluted earnings per share when a loss from continuing operations exists or when the exercise price exceeds the average closing price of the Company's common stock during the period, because their inclusion would result in an anti-dilutive effect on per share amounts.

The following amounts were not included in the calculation of net loss per diluted share because their effects were anti-dilutive:

(In thousands)	Three-month period ended March 31, 2018	Three-month period ended March 31, 2017
Denominator		
Stock options and restricted common shares	7,504	8,258

Additionally, the impact of the convertible debt and the impact of the convertible capital loan assumed from Biotie were determined to be anti-dilutive and excluded from the calculation of net loss per diluted share for the three-month periods ended March 31, 2018 and 2017.

(5) Income Taxes

The Company's effective income tax rate differs from the U.S. statutory rate principally due to state taxes, Federal research and development tax credits, jurisdictions with pretax losses for which no tax benefit can be recognized, changes in the valuation allowance and the effects of share based compensation which are recorded discretely in the quarters in which they occur

For the three-month periods ended March 31, 2018 and 2017, the Company recorded a $(3.5) million provision and $0.9 million benefit for income taxes, respectively. The effective income tax rates for the Company for the

three-month periods ended March 31, 2018 and 2017 were (74%) and 5%, respectively. The variance in the effective tax rates for the three-month period ended March 31, 2018 as compared to the three-month period ended March 31, 2017 was due primarily to the decrease in the federal statutory tax rate as a result of tax reform, the valuation allowance recorded on deferred tax assets for which no tax benefit can be recognized, state taxes, and the reduction in the research & development tax credit.

The Company continues to evaluate the realizability of its deferred tax assets and liabilities on a quarterly basis and will adjust such amounts in light of changing facts and circumstances including, but not limited to, future projections of taxable income, tax legislation, rulings by relevant tax authorities, the progress of ongoing tax audits and the regulatory approval of products currently under development. Any changes to the valuation allowance or deferred tax assets and liabilities in the future would impact the Company's income taxes.

The Tax Cuts and Jobs Act of 2017 (the “Act”) was enacted on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35% to 21% effective for tax years beginning after December 31, 2017, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously deferred and includes a variety of other changes.

On December 22, 2017, Staff Accounting Bulletin No. 118 (“SAB 118”) was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. For the three months

ended March 31, 2018, the Company has not completed its accounting for the tax effects of the enactment of the Act; however, in certain cases, we have made a reasonable estimate of the effects on our existing deferred tax balances. In other cases, we have not been able to make a reasonable estimate and continue to account for those items based on our existing accounting under ASC 740, Income Taxes, and the provisions of the tax laws that were in effect immediately prior to the enactment. The Company has not obtained additional information affecting the provisional amounts initially recorded. The Company did not record a provision related to the one-time transition tax on mandatory repatriation of undistributed foreign earnings and profits per the Act, since a preliminary analysis has determined that there is no accumulated earnings and profits.

Additional work is still necessary for a more detailed analysis of the Company's deferred tax assets and liabilities and its historical foreign earnings as well as potential correlative adjustments. Any subsequent adjustment to these amounts will be recorded to current tax expense in the quarter of 2018 when the analysis is complete.

The Internal Revenue Service commenced an examination of the Company’s US income tax return for 2015 in the third quarter of 2017.

(6) Fair Value Measurements

The following table presents information about the Company’s assets and liabilities measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates, exchange rates and yield curves. Fair values determined by Level 3 inputs utilize unobservable data points for the asset or liability. The Company’s Level 1 assets consist of time deposits and investments in a Treasury money market fund. The Company’s level 2 assets consist of investments in corporate bonds and commercial paper which are categorized as cash equivalents for those investments with original maturities of three months or less and short-term investments for those investments with original maturities between three months and one year. The Company’s Level 3 liabilities represent acquired contingent consideration related to the acquisition of Civitas and are valued using a probability weighted discounted cash flow valuation approach. No changes in valuation techniques occurred during the three-month period ended March 31, 2018. The estimated fair values of all of our financial instruments approximate their carrying values at March 31, 2018, except for the fair value of the Company’s convertible senior notes, which was approximately $313.1 million as of March 31, 2018. The Company estimates the fair value of its notes utilizing market quotations for the debt (Level 2).

(In thousands)	Level 1	Level 2	Level 3
March 31, 2018			
Assets Carried at Fair Value:			
Cash equivalents	$19,621	$32,452	$—
Short-term investments	—	106,767	—
Liabilities Carried at Fair Value:			
Acquired contingent consideration	—	—	119,200
December 31, 2017			

Assets Carried at Fair Value:			
Cash equivalents	$9,163	$—	$—
Liabilities Carried at Fair Value:			
Acquired contingent consideration	—	—	113,000

The following table presents additional information about liabilities measured at fair value on a recurring basis and for which the Company utilizes Level 3 inputs to determine fair value.

Acquired contingent consideration

(In thousands)	Three-month period ended March 31, 2018	Three-month period ended March 31, 2017
Acquired contingent consideration:		
Balance, beginning of period	$ 113,000	$ 72,100
Fair value change to contingent consideration included in the statement of operations	6,200	10,800
Balance, end of period	$ 119,200	$ 82,900

The Company estimates the fair value of its acquired contingent consideration using a probability weighted discounted cash flow valuation approach based on estimated future sales expected from Inbrija (levodopa inhalation powder), a potential new drug candidate for the treatment of OFF periods of Parkinson's disease and CVT-427, a Phase I candidate. CVT-427 is an inhaled triptan intended for acute treatment of migraine using the ARCUS drug delivery technology. Using this approach, expected probability adjusted future cash flows are calculated over the expected life of the agreement and discounted to estimate the current value of the liability at the period end date. Some of the more significant assumptions made in the valuation include (i) the estimated Inbrija and CVT-427 revenue forecasts, (ii) probabilities of success, and (iii) discount periods and rate. The probability of achievement of revenue milestones ranged from 26.3% to 85.0% with milestone payment outcomes ranging from $0 to $69 million in the aggregate for Inbrija and CVT-427. The valuation is performed quarterly. Gains and losses are included in the statement of operations. For the three-month period ended March 31, 2018, changes in the fair value of the acquired contingent consideration were due to the re-calculation of cash flows for the passage of time.

The acquired contingent consideration is classified as a Level 3 liability as its valuation requires substantial judgment and estimation of factors that are not currently observable in the market. If different assumptions were used for the various inputs to the valuation approach, including but not limited to, assumptions involving probability adjusted sales estimates for Inbrija and CVT-427 and estimated discount rates, the estimated fair value could be significantly higher or lower than the fair value determined.

(7) Investments

The Company has determined that all of its investments are classified as available-for-sale. Available-for-sale debt securities are carried at fair value with interest on these investments included in interest income and are recorded based primarily on quoted market prices. Available-for-sale investments consisted of the following at March 31, 2018:

	Gross	Gross	Estimated

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Cash Equivalents	$ 32,457	$ 1	$ (6)	$ 32,452
Short Term Investments	106,854	6	(93)	106,767
Total	$ 139,311	$ 7	$ (99)	$ 139,219

Short-term investments with maturities of three months or less from date of purchase have been classified as cash equivalents, and amounted to approximately $32.5 million as of March 31, 2018. Short-term investments have original maturities of greater than 3 months but less than 1 year and amounted to approximately $106.8 million as of March 31, 2018. The Company held no short-term investments at December 31, 2017. Short-term investments at March 31, 2018 primarily consisted of high-grade commercial paper and corporate bonds. Long-term investments have original maturities of greater than 1 year. There were no investments classified as long-term at March 31, 2018 or December 31, 2017. The Company has determined that there were no other-than-temporary declines in the fair values of its investments as of March 31, 2018 as the Company does not intend to sell its investments and it is not more likely than not that the Company will be required to sell its investments prior to the recovery of its amortized cost basis.

Unrealized holding gains and losses, which relate to debt instruments, are reported within accumulated other comprehensive income (AOCI) in the statements of comprehensive income. The changes in AOCI associated with the unrealized holding gains on available-for-sale investments during the three-month period ended March 31, 2018, were as follows (in thousands):

(In thousands)	Net Unrealized Gains (Losses) on Marketable Securities
Balance at December 31, 2017	$ —
Other comprehensive loss before reclassifications	(92)
Amounts reclassified from accumulated other comprehensive income	—
Net current period other comprehensive loss	(92)
Balance at March 31, 2018	$ (92)

(8) Liability Related to Sale of Future Royalties

As of October 1, 2017, the Company completed a royalty purchase agreement with HealthCare Royalty Partners, or HCRP (“Royalty Agreement”). In exchange for the payment of $40 million to the Company, HCRP obtained the right to receive Fampyra royalties payable by Biogen under the License and Collaboration Agreement between the Company and Biogen, up to an agreed upon threshold of royalties. When this threshold is met, if ever, the Fampyra royalties will revert back to the Company and the Company will continue to receive the Fampyra royalties from Biogen until the revenue stream ends. The transaction does not include potential future milestones to be paid.

The Company maintained the rights under the license and collaboration agreement with Biogen, therefore, the Royalty Agreement has been accounted for as a liability that will be amortized using the effective interest method over the life of the arrangement, in accordance with the relevant accounting guidance. The Company recorded the receipt of the $40 million payment from HCRP and established a corresponding liability in the amount of $40 million, net of transaction costs of approximately $2.2 million. The net liability is classified between the current and non-current portion of liability related to sale of future royalties in the consolidated balance sheets based on the recognition of the interest and principal payments to be received by HCRP in the next 12 months from the financial statement reporting date. The total net royalties to be paid, less the net proceeds received will be recorded to interest expense using the effective interest method over the life of the Royalty Agreement. The Company will estimate the payments to be made to HCRP over the term of the Agreement based on forecasted royalties and will calculate the interest rate required to discount such payments back to the liability balance. Over the course of the Royalty Agreement, the actual interest rate will be affected by the amount and timing of net royalty revenue recognized and changes in forecasted revenue. On a quarterly basis, the Company will reassess the effective interest rate and adjust the rate prospectively as necessary.

The Company recognized non-cash royalty revenue of approximately $2.8 million, non-cash interest expense of approximately $1.2 million and debt discount amortization costs of approximately $0.2 million for the three-month period ended March 31, 2018. The interest and debt discount amortization expense is reflected as interest and amortization of debt discount expense in the Statement of Operations.

(In thousands)	Three-month period ended March 31, 2018
Liability related to sale of future royalties - beginning balance	$ 35,788
Deferred transaction costs recognized	202
Non-cash royalty revenue payable to HCRP	(2,781)
Non-cash interest expense recognized	1,186
Liability related to sale of future royalties - ending balance	$ 34,395

(9) Commitments and Contingencies

The Company is currently party to various legal proceedings which are principally patent litigation matters. The Company has assessed such legal proceedings and does not believe that it is probable that a liability has been incurred or that the amount of any potential liability or range of losses can be reasonably estimated. As a result, the Company did not record any loss contingencies for any of these matters. Litigation expenses are expensed as incurred.

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

The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q.

Background

We are a biopharmaceutical company focused on developing therapies that restore function and improve the lives of people with neurological disorders. We market two FDA-approved therapies, including Ampyra (dalfampridine) Extended Release Tablets, 10 mg, a treatment to improve walking in adult patients with multiple sclerosis, or MS, as demonstrated by an increase in walking speed. We have a pipeline of novel neurological therapies addressing a range of disorders, including Parkinson's disease and MS.

We currently derive substantially all our revenue from the sale of Ampyra. In March 2017, we announced a decision by the United States District Court for the District of Delaware in litigation with certain generic drug manufacturers upholding our Ampyra Orange Book-listed patent set to expire on July 30, 2018, but invalidating our four other Orange Book-listed patents pertaining to Ampyra that were set to expire between 2025 and 2027. Under this decision, we expect to maintain patent exclusivity with respect to Ampyra at least through July 30, 2018, depending on the outcome of appeal of the District Court's decision. The defendant generic drug manufacturers have appealed the District Court's decision upholding the patent that expires in July 2018, and we have appealed the ruling on the four invalidated patents. We expect the appeals process to take approximately 12 to 18 months from the filing of the appeal in May 2017. The appellate court has scheduled oral argument for June 7, 2018.

We expect to experience a rapid and significant decline in Ampyra sales beyond July 2018 due to competition from generic versions of Ampyra that may be marketed after the expiration of our remaining Ampyra patent, unless the District Court's decision on the four invalidated patents is overturned on appeal, which could include reversal or remand by the appeals court back to the District Court. If the appeals court does not overturn the District Court's decision by July 30, 2018, multiple ANDA filers may be able to launch generic versions of Ampyra absent injunctive relief.

Inbrija, our most advanced development program, is a self-administered, inhaled formulation of levodopa, or L-dopa, being investigated for the treatment of OFF periods in people with Parkinson's disease who are taking a carbidopa/levodopa regimen. Inbrija is based on our proprietary ARCUS platform, a dry-powder pulmonary drug delivery technology that we believe has potential applications in multiple disease areas. We announced positive Phase 3 efficacy and safety data for this program in 2017. On February 20, 2018, we announced that our New Drug Application, or NDA for Inbrija was accepted for filing by the FDA, and that under the Prescription Drug User Fee Act, or PDUFA, the FDA has set a target date of October 5, 2018, for issuing its decision on the NDA. Our commercial preparations for the launch of Inbrija continue. We are projecting that, if approved, annual peak net revenue of Inbrija in the U.S. alone could exceed $800 million. We are seeking approval to market Inbrija in the European Union, and accordingly we filed a Marketing Authorization Application, or MAA, with the European Medicines Agency in March 2018. We are in discussions with potential partners regarding Inbrija outside of the U.S.

As of March 31, 2018, we had cash, cash equivalents and short-term investments of approximately $333.0 million and we are projecting a 2018 year-end cash balance in excess of $300.0 million. We have $345 million of convertible senior notes due in 2021 with a conversion price of $42.56. We believe that operating expense reductions from a 2017 restructuring, as well as additional expense reductions due to the termination of the tozadenant development program in November 2017, will enable us to fund operations through the launch of Inbrija in the U.S., pending approval from the FDA. Importantly, we have kept our commercial team intact despite the restructuring. We believe we have built a

leading neuro-specialty sales and marketing team through our commercialization of Ampyra, and that our commercial launch of Inbrija in the U.S., if approved, will benefit from the experiences and capabilities of this team.

Ampyra

General

Ampyra was approved by the FDA in January 2010 to improve walking in adults with MS. To our knowledge, Ampyra is the first and only drug approved for this indication. Efficacy was shown in people with all four major types of MS

(relapsing remitting, secondary progressive, progressive relapsing and primary progressive). Ampyra was made commercially available in the United States in March 2010. Net revenue for Ampyra was $102.8 million for the three-month period ended March 31, 2018 and $112.0 million for the three-month period ended March 31, 2017.

Since the March 2010 launch of Ampyra, approximately 132,000 people with MS in the U.S. have tried Ampyra. We believe that Ampyra is increasingly considered by many physicians a standard of care to improve walking in adults with MS. Eight years after approval, Ampyra continues to grow, reflecting the continued unmet medical need among adults with MS for a treatment to improve walking. As of March 31, 2018, approximately 70% of all people with MS who were prescribed Ampyra received a first refill, and approximately 40% of all people with MS who were prescribed Ampyra have been dispensed at least six months of the medicine through refills, consistent with previously reported trends. These refill rates exclude patients who started Ampyra through our 60-day free trial program. Our 60-day free trial program which provides eligible patients with two months of Ampyra at no cost. During 2017, on average, approximately 80% of new Ampyra patients enrolled in 60-day free trial. The program is in its seventh year, and data show that 60-day free trial participants have higher compliance and persistency rates over time compared to patients not in the program. Approximately 50% of patients who initiate therapy with the 60-day free trial free trial program convert to paid prescriptions.

Ampyra is marketed in the U.S. through our own specialty sales force and commercial infrastructure. We currently have approximately 90 sales representatives in the field calling on a priority target list of approximately 7,000 physicians. We also have established teams of Medical Science Liaisons, Regional Reimbursement Directors, and Market Access Account Directors who provide information and assistance to payers and physicians on Ampyra; a National Trade Account Director who works with our limited network of specialty pharmacies; and Market Development Managers who work collaboratively with field teams and corporate personnel to assist in the execution of the Company’s strategic initiatives.

Ampyra is distributed in the U.S. exclusively through a limited network of specialty pharmacy providers that deliver the medication to patients by mail; Kaiser Permanente, which distributes Ampyra to patients through a closed network of on-site pharmacies; and ASD Specialty Healthcare, Inc. (an AmerisourceBergen affiliate), which distributes Ampyra to the U.S. Bureau of Prisons, the U.S. Department of Defense, the U.S. Department of Veterans Affairs, or VA, and other federal agencies. The specialty pharmacy providers that deliver Ampyra by mail, and Kaiser Permanente, are contractually obligated to hold no more than a specified maximum amount of inventory, the highest being 20 business days of inventory, and some have agreed to hold a minimum of 8 to 10 business days of inventory.

We have contracted with a third party organization with extensive experience in coordinating patient benefits to run Ampyra Patient Support Services, or APSS, a dedicated resource that coordinates the prescription process among healthcare providers, people with MS, and insurance carriers. Processing of most incoming requests for prescriptions by APSS begins within 24 hours of receipt. Patients will experience a range of times to receive their first shipment based on the processing time for insurance requirements. As with any prescription product, patients who are members of benefit plans that have restrictive prior authorizations may experience delays in receiving their prescription.

Three of the largest national health plans in the U.S. – Aetna, Cigna and United Healthcare – have listed Ampyra on their commercial formulary. Approximately 75% of insured individuals in the U.S. continue to have no or limited prior authorizations, or PA’s, for Ampyra. We define limited PAs as those that require only an MS diagnosis, documentation of no contraindications, and/or simple documentation that the patient has a walking impairment; such documentation may include a Timed 25-Foot Walk (T25W) test. The access figure is calculated based on the number of pharmacy lives reported by health plans.

License and Collaboration Agreement with Biogen

Ampyra is marketed as Fampyra outside the U.S. by Biogen International GmbH, or Biogen, under a license and collaboration agreement that we entered into in June 2009. Fampyra has been approved in a number of countries across Europe, Asia and the Americas. Under our agreement with Biogen, we are entitled to receive double-digit tiered royalties on sales of Fampyra and we are also entitled to receive additional payments based on achievement of certain regulatory and sales milestones. We received a $25 million milestone payment from Biogen in 2011, which was triggered by Biogen's receipt of conditional approval from the European Commission for Fampyra. The next expected milestone payment would be $15 million, due when ex-U.S. net sales exceed $100 million over four consecutive quarters. In November 2017, we announced a $40 million Fampyra royalty monetization transaction with HealthCare Royalty Partners, or HCRP. In return for the payment to us, HCRP obtained the right to receive these Fampyra royalties up to an agreed-upon threshold. Until this threshold is met, if ever, we will not receive Fampyra royalties although we have retained the right to receive any potential future milestone

payments, described above. The HCRP transaction is accounted for as a liability, as described in Note 8 to our Consolidated Financial Statements included in this report.

Ampyra Patent Update

We have six issued patents listed in the Orange Book for Ampyra. The five initial Orange Book-listed patents are the subject of litigation in U.S. District Court for the District of Delaware commenced in 2014 with certain generic drug manufacturers, as further described below in this report. The sixth Orange Book-listed patent, not involved in the litigation, was issued more recently and was listed in the Orange Book in April 2018.

The first of the five Orange Book-listed patents involved in the litigation is U.S. Patent No. 5,540,938, the claims of which relate to methods for treating a neurological disease, such as MS, and cover the use of a sustained release dalfampridine formulation, such as Ampyra (dalfampridine) Extended Release Tablets, 10 mg for improving walking in people with MS. In April 2013, this patent received a five year patent term extension under the patent restoration provisions of the Hatch-Waxman Act. With a five year patent term extension, this patent will expire on July 30, 2018. We have an exclusive license to this patent from Alkermes (originally with Elan, but transferred to Alkermes as part of its acquisition of Elan's Drug Technologies business). This patent was held valid by the District Court in the litigation, although in June 2017 the defendant generic drug manufacturers with whom we have not reached settlements appealed the District Court's decision upholding this patent.

The other four Orange Book-listed patents involved in the litigation were held invalid by the District Court in the litigation with generic drug manufacturers. These patents, which had been set to expire in 2025 through 2027, consist of U.S. Patent No. 8,007,826, with claims relating to methods to improve walking in patients with MS by administering 10 mg of sustained release 4-aminopyridine (dalfampridine) twice daily; U.S. Patent No. 8,354,437, which includes claims relating to methods to improve walking, increase walking speed, and treat walking disability in patients with MS by administering 10 mg of sustained release 4-aminopyridine (dalfampridine) twice daily; U.S. Patent No. 8,440,703, which includes claims directed to methods of improving lower extremity function and walking and increasing walking speed in patients with MS by administering less than 15 mg of sustained release 4-aminopyridine (dalfampridine) twice daily; and U.S. Patent No. 8,663,685 with claims relating to methods to improve walking in patients with MS by administering 10 mg of sustained release 4-aminopyridine (dalfampridine) twice daily.

The sixth Orange Book-listed patent is U.S. Patent No. 9,918,973, the claims of which relate to methods of increasing walking speed in patients with MS by administering 10 mg of sustained release 4-aminopyridine (dalfampridine) twice daily. This patent will expire in 2024. We note that this patent does not entitle us to any additional statutory stay of approval under the Hatch-Waxman Act against the generic drug manufacturers that are involved in the patent litigation referenced above.

The patent litigation relates to Paragraph IV Certification Notices received from ten generic drug manufacturers in 2014 and 2015, who submitted Abbreviated New Drug Applications, or ANDAs, with the FDA seeking marketing approval for generic versions of Ampyra (dalfampridine) Extended Release Tablets, 10mg. The ANDA filers challenged the validity of the five initial Orange Book-listed patents for Ampyra, and they also asserted that generic versions of their products do not infringe certain claims of these patents. In 2015 and 2016, we reached settlement agreements with six of the generic companies. A bench trial against the remaining four generic companies was completed in September 2016. In February 2017, we announced that we had reached a settlement agreement with one of those four generic companies. In March 2017, the U.S. District Court for the District of Delaware rendered a decision upholding our Orange Book-listed patent for Ampyra set to expire in July 2018, but invalidating the four other initial Orange Book-listed patents. In May 2017, we appealed the ruling on these four patents, and as described above, in June 2017 the other non-settling parties appealed the decision on the patent set to expire in July 2018. We

expect the appeals process to take approximately 12 to 18 months from the filing of the appeal in May 2017. Both the Biotechnology Innovation Organization (BIO) and Pharmaceutical Research and Manufacturers of America (PhRMA) filed amicus briefs in support of our appeal, raising important issues in conjunction with biopharmaceutical innovation. The appellate court has scheduled oral argument for June 7, 2018, and we are expecting a decision on the appeal in the second half of 2018. We expect to experience a rapid and significant decline in Ampyra sales beyond July 2018 due to competition from generic versions of Ampyra that may be marketed after the expiration of the Ampyra patent that expires in July 2018, unless the District Court's decision on the four invalidated patents is overturned on appeal, which could include reversal or remand by the appeals court back to the District Court. If the appeals court does not overturn the District Court's decision by July 30, 2018, multiple ANDA filers may be able to launch generic versions of Ampyra absent injunctive relief.

In April 2017, we received a Paragraph IV Certification Notice from an additional generic drug manufacturer, Micro Labs Ltd. (“Micro”), advising that it had submitted an ANDA to the FDA seeking marketing approval for a generic version of Ampyra (dalfampridine) Extended Release Tablets, 10mg. In response to the filing of the ANDA, in May 2017 we filed a lawsuit against Micro in the U.S. District Court for the District of New Jersey. In January 2018, we reached a settlement agreement with Micro.

In 2011, the European Patent Office, or EPO, granted EP 1732548, with claims relating to, among other things, use of a sustained release aminopyridine composition, such as dalfampridine (known under the trade name Fampyra in the European Union), to increase walking speed. In March 2012, Synthon B.V. and neuraxpharm Arzneimittel GmBH filed oppositions with the EPO challenging the EP 1732548 patent. We defended the patent, and in December 2013, we announced that the EPO Opposition Division upheld amended claims in this patent covering a sustained release formulation of dalfampridine for increasing walking in patients with MS through twice daily dosing at 10 mg. Both Synthon B.V. and neuraxpharm Arzneimittel GmBH have appealed the decision. In December 2013, Synthon B.V., neuraxpharm Arzneimittel GmBH and Actavis Group PTC EHF filed oppositions with the EPO challenging our EP 2377536 patent, which is a divisional of the EP 1732548 patent. In February 2016, the EPO Opposition Division rendered a decision that revoked the EP 2377536 patent. We believe the claims of this patent are valid and we have appealed the decision. Both European patents, if upheld as valid, are set to expire in 2025, absent any additional exclusivity granted based on regulatory review timelines. Fampyra also has 10 years of market exclusivity in the European Union that is set to expire in 2021.

We will vigorously defend our intellectual property rights.

Legal proceedings relating to our Ampyra patents are described in further detail in Part II, Item 1 of this report.

Qutenza

Qutenza is a dermal patch containing 8% prescription strength capsaicin the effects of which can last up to three months and is approved by the FDA for the management of neuropathic pain associated with post-herpetic neuralgia, also known as post-shingles pain. We acquired commercialization rights to Qutenza in July 2013 from NeurogesX, Inc. These rights include the U.S., Canada, Latin America and certain other territories. Grunenthal GmbH (as the assignee of Astellas Pharma Europe Ltd.) has exclusive commercialization rights for Qutenza in the European Economic Area (EEA) including the 28 countries of the European Union, Iceland, Norway, and Liechtenstein as well as Switzerland, certain countries in Eastern Europe, the Middle East and Africa.

Research & Development Programs

We have a pipeline of novel neurological therapies addressing a range of disorders, including Parkinson’s disease and MS. Inbrija (levodopa inhalation powder) is our most advanced development program and our highest priority. These programs and the other programs in our pipeline are described below.

Inbrija (levodopa inhalation powder)/Parkinson’s Disease

Inbrija is a self-administered, inhaled formulation of levodopa, or L-dopa, for the treatment of OFF periods in people with Parkinson’s disease who are taking a carbidopa/levodopa regimen. Parkinson’s disease is a progressive neurodegenerative disorder resulting from the gradual loss of certain neurons in the brain responsible for producing dopamine. The disease causes a range of symptoms such as impaired ability to move, muscle stiffness and tremor. The standard of care for the treatment of Parkinson’s disease is oral carbidopa/levodopa, but oral medication can be associated with wide variability in the timing and amount of absorption and there are significant challenges in creating a regimen that consistently maintains therapeutic effects as Parkinson’s disease progresses. The re-emergence of

symptoms is referred to as an OFF period, and despite optimized regimens with current therapeutic options and strategies, OFF periods remain one of the most challenging aspects of the disease.

Inbrija delivers a precise dose of dry-powder formulation of L-dopa to the lung using a breath-actuated proprietary inhaler. Oral medication can be associated with slow and variable onset of action, as the medicine is absorbed through the gastrointestinal (digestive) tract before reaching the brain. Inhaled treatments enter the body through the lungs and reach the brain shortly thereafter, bypassing the digestive system. Inbrija is based on our proprietary ARCUS platform, a dry-powder pulmonary drug delivery technology that we believe has potential applications in multiple disease areas. A key feature of our ARCUS technology is the large porous particles that allow for consistent and precise delivery of significantly larger doses of

medication than are possible with conventional dry powder pulmonary systems. This in turn provides the potential for pulmonary delivery of a much wider variety of pharmaceutical agents. We have worldwide rights to our ARCUS drug delivery technology, which is protected by extensive know-how and trade secrets and various U.S. and foreign patents, including patents that protect the Inbrija dry powder capsules beyond 2030.

In 2016, we completed a Phase 3 efficacy and safety clinical trial of Inbrija for the treatment of OFF periods in Parkinson's disease. In February 2017, we announced efficacy and safety data from this clinical trial, showing a statistically significant improvement in motor function in people with Parkinson's experiencing OFF periods. The clinical trial had three arms: Inbrija 84 mg and 60 mg doses (equivalent to 50 mg and 35 mg fine particle doses, respectively), and placebo. The trial met its primary outcome measure of improvement in motor function as measured by the Unified Parkinson's Disease Rating Scale-Part 3 (UPDRS Part III) in people with Parkinson's experiencing OFF periods. UPDRS III is a validated scale, which measures Parkinson's disease motor impairment. The primary endpoint was measured at 30 minutes post-treatment for the 84 mg dose at the 12-week visit. UPDRS Part III change was -9.83 compared to -5.91 for placebo with a p value of 0.009. The magnitude of Inbrija's benefit versus baseline was consistent with the data from the prior Phase 2b clinical trial, further described below, and represents a statistically significant, clinically meaningful improvement in motor function. The placebo-adjusted difference was lower in the Phase 3 clinical trial than the Phase 2b clinical trial but still represented a clinically important difference. In June 2017, we announced additional data from the Inbrija Phase 3 efficacy and safety trial at the International Congress of Parkinson's Disease and Movement Disorders (MDS). The secondary endpoints of achievement of an ON state with maintenance through 60 minutes (statistically significant), Patient Global Impression of Change (PGIC), and reduction in UPDRS III score at 10 minutes were supportive of the primary endpoint result.

The safety profile of Inbrija in the trial was consistent with that observed in a prior Phase 2b clinical trial:

- 84 mg, 60 mg and Placebo: Adverse events reported in any study arm at greater than 5% were cough, upper respiratory tract infection, throat irritation, nausea and sputum discoloration. Cough was the most common adverse event, reported by approximately 15% of subjects who received Inbrija. When reported, it was typically mild and reported once per participant during the course of treatment. Three of 227 participants receiving Inbrija discontinued the study due to cough. Reports of serious adverse events were: 3, or 2.7% in the placebo arm, 6, or 5.3% in the 60 mg arm, and 2, or 1.8% in the 84 mg arm. There was one death in the study, a suicide in the 60 mg group, judged by the investigator not to be related to drug.
- 84 mg: The most commonly reported adverse events in the Inbrija 84 mg group compared to the placebo group were: cough (14.9% vs. 1.8%, reported mostly once/subject), upper respiratory tract infection (6.1% vs. 2.7%), nausea (5.3% vs. 2.7%), sputum discoloration (5.3% vs. 0%) and dyskinesia (3.5% vs. 0.0%). When cough was reported, it was typically characterized as mild. Two of 114 participants receiving Inbrija 84 mg discontinued the study due to cough.

Results from a separate Phase 3 study to assess the long-term safety profile of Inbrija in people with Parkinson's showed no statistical difference in pulmonary function between the group receiving Inbrija and an observational control group. These results are consistent with the previously reported Phase 2b and Phase 3 clinical trials. In March 2017, we announced results from separate clinical studies that assessed the safety profile of Inbrija in people with asthma, smokers and early morning OFF.

On February 20, 2018, we announced that our Inbrija NDA was accepted for filing by the FDA, and that under the Prescription Drug User Fee Act, or PDUFA, the FDA has set a target date of October 5, 2018, for issuing its decision on the NDA. The NDA was submitted under section 505(b)(2) of the Food Drug and Cosmetic Act, referencing data from the branded L-dopa product Sinemet®. We believe the Phase 3 efficacy and safety clinical trial, combined with data from additional Phase 3 long-term safety studies and supported by existing Phase 2b data, are sufficient for the NDA filing. Our commercial preparations for the launch of Inbrija continue. We believe we have built a leading neuro-specialty sales and marketing team through our commercialization of Ampyra, and that our launch of Inbrija in

the U.S., if approved, will benefit from the experiences and capabilities of this team. We are projecting that, if approved, annual peak net revenue of Inbrija in the U.S. alone could exceed $800 million. We are seeking approval to market Inbrija in the European Union, and accordingly we filed a Marketing Authorization Application, or MAA, with the European Medicines Agency in March 2018. We are in discussions with potential partners regarding Inbrija outside of the U.S.

In April 2018, we presented new Inbrija data from four accepted abstracts during two oral platform presentations at the American Academy of Neurology Annual Meeting. These presentations included a safety assessment in early morning OFF

symptoms in patients with Parkinson's disease and long-term pulmonary safety and efficacy of inhaled levodopa in Parkinson's disease.

ARCUS Product Development

In addition to Inbrija (levodopa inhalation powder), discussed above, we are exploring opportunities for other proprietary products in which inhaled delivery using our ARCUS drug delivery technology can provide a significant therapeutic benefit to patients.

Disorders of the central nervous system, or CNS, in addition to Parkinson's disease, may be addressed by ARCUS products with the delivery of active agents to the CNS with rapid onset and reduced systemic exposure. For example, we are currently developing CVT-427, an inhaled triptan (zolmitriptan) intended for acute treatment of migraine by using the ARCUS drug delivery technology. Triptans are the class of drug most commonly prescribed for acute treatment of migraine. Oral triptans, which account for the majority of all triptan doses, can be associated with slow onset of action and gastrointestinal challenges. The slow onset of action, usually 30 minutes or longer, can result in poor response rates. Patients cite the need for rapid relief from migraine symptoms as their most desired medication attribute. Additionally, individuals with migraine may suffer from nausea and delayed gastric emptying which further impact the consistency and efficacy of the oral route of administration. Triptans delivered subcutaneously (injection) provide the most rapid onset of action, but are not convenient for patients. Many triptans are also available in nasally delivered formulations. However, based on available data, we believe that nasally delivered triptans generally have an onset of action similar to orally administered triptans.

In December 2015, we initiated and completed a Phase 1 safety/tolerability and pharmacokinetic clinical trial of CVT-427 for acute treatment of migraine. In June 2016, at the 58th Annual Scientific Meeting of the American Headache Society, we presented pharmacokinetic data from the Phase 1 trial which showed increased bioavailability and faster absorption compared to oral and nasal administration of the same active ingredient in healthy adults. In particular, the data showed that CVT-427 had a median Tmax of about 12 minutes for all dose levels compared to 1.5 hours for the oral tablet and 3.0 hours for the nasal spray. There were no serious adverse events, dose-limiting toxicities, evidence of bronchoconstriction or discontinuations due to adverse events reported in this study. The most commonly reported treatment-emergent adverse events were cough, chest discomfort, headache, and feeling hot. Apart from cough, single dose CVT-427 tolerability was generally consistent with the known safety profile of zolmitriptan. In December 2016, we completed a special population study to evaluate safe inhalation of CVT-427 in people with asthma and in smokers. Some subjects showed evidence of acute, reversible bronchoconstriction, post-inhalation. We plan to work on reformulating to move the program forward, once we have made more progress on the approval and launch of Inbrija.

In July 2015, the Bill & Melinda Gates Foundation awarded us a $1.4 million grant to support the development of a formulation and delivery system for a dry powder version of lung surfactant, a treatment for neonatal respiratory distress syndrome, or nRDS. In collaboration with the Massachusetts Institute of Technology, we developed a novel formulation and delivery device based on our proprietary ARCUS drug delivery technology. nRDS is a condition affecting prematurely born infants in which their lungs are underdeveloped and thus lack a sufficient amount of lung surfactant. It can be fatal, or lead to severe, chronic health issues caused by a lack of oxygen getting to the baby's brain and other organs. Delivering liquid surfactant to the lungs via intubation is the standard of care. We believe that our formulation and delivery system may present a more practical alternative for use in developing areas of the world, where intubation poses numerous problems. This program is not aimed at developing a commercial product, but our work on this program could potentially generate information that is useful for adapting the ARCUS drug delivery technology to commercial pediatric uses.

We are also beginning to formulate potential ARCUS products for two different rare lung diseases.

Other Research and Development Programs

Following is a description of our other research and development programs.

- SYN120: SYN120 is a potential treatment for Parkinson's-related dementia, which we acquired with Biotie Therapies. Data from a Phase 2 exploratory study that we completed in 2017 showed that several of the outcome measures trended in favor of drug versus placebo, particularly with respect to neuropsychiatric symptoms. However, neither the primary nor key secondary endpoints achieved statistical significance. We are continuing to review the data, which will be presented at an upcoming medical meeting.

- BTT1023: Through Biotie Therapies, we are also developing BTT1023 (timolumab), a product candidate for the orphan disease Primary Sclerosing Cholangitis, or PSC, a chronic and progressive liver disease. There are no approved drug therapies for PSC and liver transplant is the only treatment. Interim data from an ongoing Phase 2 proof-of-concept clinical trial of BTT1023 for PSC are expected in the second quarter of 2018.
- rHIgM22: We are developing rHIgM22, a remyelinating antibody, as a potential therapeutic for MS. We believe a therapy that could repair myelin sheaths has the potential to restore neurological function to those affected by demyelinating conditions. We have completed and analyzed data from a Phase 1 trial using one of two doses of rHIgM22 or placebo in 27 people with MS who experienced an acute relapse. In addition to assessing safety and tolerability during an acute relapse, the study included exploratory efficacy measures such as a timed walk, magnetization transfer ratio imaging of lesion myelination in the brain and various biomarkers. Data from the trial showed that a single dose of rHIgM22 was not associated with any safety signals. The trial's primary objectives were safety and tolerability of a single dose following a relapse. The study was not powered to show efficacy and exploratory measures showed no difference between the treatment groups. We are considering next steps for the program.
- Cimaglermin alfa: Cimaglermin alfa is a member of the neuregulin growth factor family, and has been shown to promote recovery after neurological injury, as well as enhance heart function in animal models of heart failure. In 2013, we commenced a Phase 1b single-infusion trial in people with heart failure, which assessed the tolerability of three dose levels of cimaglermin, and also included an assessment of drug-drug interactions and several exploratory measures of efficacy. In 2015 we announced that we had stopped enrollment in this trial based on the occurrence of a case of hepatotoxicity (liver injury) manifested by clinical symptoms and an elevation in liver chemistry tests meeting the FDA Drug-Induced Liver Injury Guidance (FDA 2009) stopping rules. We also received a notification of clinical hold from the FDA following submission of this information. The abnormal blood tests resolved within two to three weeks. We subsequently conducted additional analyses and non-clinical studies to further define the nature of the hepatoxicity, and met with the FDA to present these data as part of our request that the program be removed from the clinical hold. The FDA lifted the clinical hold in April 2017. We are seeking to partner or out-license this program.

NP-1998 is a Phase 3 ready, 20% prescription strength capsaicin topical solution that we were previously assessing for the treatment of neuropathic pain. In 2013, we acquired development and commercialization rights in the U.S., Canada, Latin America and certain other territories. We believe NP-1998 has the potential to treat multiple neuropathies, but we have not invested in further development of NP-1998 for several years and we are seeking to partner or out-license this program.

Financial Guidance for 2018

We are providing the following guidance with respect to our 2018 financial performance:

- We expect 2018 net revenue from the sale of Ampyra to range from $330 million to $350 million. This guidance is subject to change based on the decision of the United States Court of Appeals for the Federal Circuit in our appeal of a March 2017 District Court decision invalidating certain Ampyra patents, as further described above in this report.
- Research and development (R&D) expenses in 2018 are expected to range from $100 million to $110 million, excluding share-based compensation charges and including manufacturing expenses associated with Inbrija.
- Selling, general and administrative (SG&A) expenses in 2018 are expected to range from $170 million to $180 million, excluding share-based compensation charges.

We are projecting a 2018 year-end cash balance in excess of $300 million.

The projected range of R&D and SG&A expenses in 2018 are provided on a non-GAAP basis, as both excluding share-based compensation charges. Due to the forward looking nature of this information, the amount of compensation charges and benefits needed to reconcile these measures to the most directly comparable GAAP financial measures is dependent on future changes in the market price of our common stock and is not available at this

time. Non-GAAP financial measures are not an alternative for financial measures prepared in accordance with GAAP. However, we believe the presentation of these non-GAAP financial measures, when viewed in conjunction with actual GAAP results, provides investors with a more meaningful understanding of our projected operating performance because they exclude non-cash charges that are substantially

dependent on changes in the market price of our common stock. We believe these non-GAAP financial measures help indicate underlying trends in our business, and are important in comparing current results with prior period results and understanding expected operating performance. Also, our management uses these non-GAAP financial measures to establish budgets and operational goals, and to manage our business and to evaluate its performance.

Results of Operations

Three-Month Period Ended March 31, 2018 Compared to March 31, 2017

Net Product Revenues

Ampyra

We recognize product sales of Ampyra following receipt of product by our network of specialty pharmacy providers, Kaiser Permanente and ASD Specialty Healthcare, Inc. We recognized net revenue from the sale of Ampyra to these customers of $102.8 million and $112.0 million for the three-month periods ended March 31, 2018 and 2017, respectively, a decrease of $9.2 million, or 8.2%. The net revenue decrease comprised net price increases, net of discount and allowance adjustments of $71.8 million, offset by decreased net volume of $81.0 million. Effective January 1, 2018, we increased our list sale price to our customers by 9.5%.

Discounts and allowances which are included as an offset in net revenue consist of allowances for customer credits, including estimated chargebacks, rebates and discounts. Discounts and allowances are recorded following shipment of Ampyra tablets to our network of specialty pharmacy providers, Kaiser Permanente and ASD Specialty Healthcare, Inc. Adjustments are recorded for estimated chargebacks, rebates, and discounts. Discounts and allowances also consist of discounts provided to Medicare beneficiaries whose prescription drug costs cause them to be subject to the Medicare Part D coverage gap (i.e., the “donut hole”). Payment of coverage gap discounts is required under the Affordable Care Act, the health care reform legislation enacted in 2010. Discounts and allowances may increase as a percentage of sales as we enter into managed care contracts in the future.

The net revenue for the three-month period ended March 31, 2018 decreased from net revenue of $167.2 million for the three-month period ended December 31, 2017. We believe that the decrease in net revenue between the fourth quarter of 2017 and the first quarter of 2018 reflects certain recurring seasonal factors relating to the commencement of a new calendar year. These factors include patients switching insurance plans or pharmacy benefit providers at year-end. Consequently, many patients must re-establish eligibility during the first few months of the calendar year. Also, when deductibles and the Medicare donut hole reset at the beginning of the calendar year, it can affect timely refills for consumers with financial constraints. In addition, there was a modest expansion in customer inventories in the fourth quarter of 2017 which normalized by the end of the first quarter of 2018.

Other Net Product Revenues

We recognized net revenue from the sale of other products of $0.2 million for the three-month period ended March 31, 2018, as compared to $0.6 million for the three-month period ended March 31, 2017, a decrease of $0.4 million.

Discounts and allowances, which are included as an offset in net revenue, consist of allowances for customer credits, including estimated chargebacks, rebates, returns and discounts.

License Revenue

We recognized $2.3 million in license revenue for the three-month period ended March 31, 2017, related to the $110.0 million received from Biogen in 2009 as part of our collaboration agreement. As of January 1, 2018, we adopted ASC 606 “Revenue from Contracts with Customers” (“ASC 606). Under ASC 606, revenue related to the upfront payment is recognized at a point in time rather than over time. As a result of adopting ASC 606, we recognized the remaining deferred revenue as of January 1, 2018 as a cumulative effect adjustment to the accumulated deficit on the consolidated balance sheet as of January 1, 2018.

Royalty Revenue

We recognized $3.2 million and $2.5 million in royalty revenue for the three-month periods ended March 31, 2018 and 2017, respectively, related to ex-U.S. sales of Fampyra by Biogen.

We recognized $1.3 million in royalty revenue for the three-month period ended March 31, 2017, related to the authorized generic sale of Zanaflex Capsules and $0.7 million in royalty revenue for the three-month period ended March 31, 2017, related to sales of Selincro. The assets, Zanaflex and Selincro were monetized in fiscal 2017.

Cost of Sales

We recorded cost of sales of $21.3 million for the three-month period ended March 31, 2018 as compared to $25.2 million for the three-month period ended March 31, 2017. Cost of sales for the three-month period ended March 31, 2018 consisted primarily of $18.1 million in inventory costs related to recognized revenues, $2.4 million in royalty fees based on net product shipments, and $0.7 million for costs related to the amortization of intangible assets. Cost of sales for the three-month period ended March 31, 2017 consisted primarily of $20.2 million in inventory costs related to recognized revenues, $2.5 million in royalty fees based on net product shipments and costs related to Biotie of $2.2 million.

Cost of License Revenue

We recorded cost of license revenue of $0.2 million for the three-month period ended March 31, 2017. Cost of license revenue represented the recognition of a portion of the deferred $7.7 million paid to Alkermes in 2009 in connection with the $110.0 million received from Biogen as a result of our collaboration agreement. As of January 1, 2018, we adopted ASC 606 “Revenue from Contracts with Customers” (“ASC 606). As a result of adopting ASC 606, we recognized the remaining deferred cost of license revenue as of January 1, 2018 as a cumulative effect adjustment to the accumulated deficit on the consolidated balance sheet as of January 1, 2018.

Research and Development

Research and development expenses for the three-month period ended March 31, 2018 were $30.6 million as compared to $46.5 million for the three-month period ended March 31, 2017, a decrease of approximately $15.9 million, or 34.2%. The decrease was due primarily to reductions in spending of $4.4 million for Inbrija (levodopa inhalation powder) as the clinical trials for Inbrija have closed out and we are approaching the potential approval, $3.0 million for our Ampyra life cycle management program, $4.9 million for salaries and benefits related costs and $3.7 million for our discontinued programs, partially offset by certain other expenses.

Selling, General and Administrative

Sales and marketing expenses for the three-month period ended March 31, 2018 were $22.9 million compared to $25.1 million for the three-month period ended March 31, 2017, a decrease of approximately $2.2 million, or 8.8%. The decrease was attributable to a decrease in marketing, trade and sales related spending of $3.1 million, partially offset by an increase in overall salaries and benefits of $1.0 million.

General and administrative expenses for the three-month period ended March 31, 2018 were $24.7 million compared to $26.9 million for the three-month period ended March 31, 2017, a decrease of approximately $2.2 million, or 8.2%. This decrease was primarily due to a decrease in business development, legal, finance and other related expenses of $2.5 million and a decrease in Biotie spending of $0.8 million, partially offset by an increase in salaries and benefits related costs of $1.1 million.

Changes in Fair Value of Acquired Contingent Consideration

As a result of the original Civitas spin out of Alkermes, part of the consideration to Alkermes was a future royalty to be paid to Alkermes on Civitas products. Acorda acquired this contingent consideration as part of the Civitas acquisition. The fair value of that future royalty is assessed quarterly. We recorded an expense pertaining to changes in the fair-value of acquired contingent consideration of $6.2 million for the three-month period ended March 31, 2018 as compared to $10.8

million for the three-month period ended March 31, 2017. Changes in the fair-value of the acquired contingent consideration were due to the re-calculation of discounted cash flows for the passage of time.

Other Expense

Other expense was $5.2 million for the three-month period ended March 31, 2018 compared to other expense of $4.5 million for the three-month period ended March 31, 2017, an increase in expense of $0.7 million. The increase was due primarily to an increase in interest and amortization of debt discount expense of $1.4 million, partially offset by an increase in interest income of approximately $0.3 million and a decrease in realized losses on foreign currency exchange of approximately $0.4 million

(Provision) for Benefit from Income Taxes

For the three-month periods ended March 31, 2018 and 2017, the Company recorded a ($3.5) million provision for and $0.9 million benefit from income taxes, respectively. The effective income tax rates for the Company for the three-month periods ended March 31, 2018 and 2017 were (74%) and 5%, respectively. The variance in the effective tax rates for the three-month period ended March 31, 2018 as compared to the three-month period ended March 31, 2017 was due primarily to the decrease in the federal statutory tax rate as a result of tax reform, the valuation allowance recorded on deferred tax assets for which no tax benefit can be recognized, state taxes, and the reduction in the research and development tax credit.

The Company continues to evaluate the realizability of its deferred tax assets and liabilities on a quarterly basis and will adjust such amounts in light of changing facts and circumstances including, but not limited to, future projections of taxable income, tax legislation, rulings by relevant tax authorities, the progress of ongoing tax audits and the regulatory approval of products currently under development. Any changes to the valuation allowance or deferred tax assets and liabilities in the future would impact the Company's income taxes.

Liquidity and Capital Resources

Since our inception, we have financed our operations primarily through private placements and public offerings of our common stock and preferred stock, a convertible debt offering, payments received under our collaboration and licensing agreements, sales of Ampyra, and Qutenza, and, to a lesser extent, from loans, government and non-government grants and other financing arrangements.

At March 31, 2018, we had $333.0 million of cash, cash equivalents and short-term investments, compared to $307.1 million at December 31, 2017. We expect that our existing cash and cash flows from operations will be sufficient to fund our ongoing operations over the next 12 months from the financial statement filing date.

In April 2017, following a Federal District Court’s decision which invalidated certain of the Company’s patents relating to Ampyra, we implemented a corporate restructuring to reduce our cost structure and focus our resources on our most important and valuable initiatives, including our Inbrija development program and maximizing Ampyra value. As part of this restructuring, we reduced headcount by approximately 20%. The majority of the reduction was completed in April 2017. We believe that the operating expense reductions from the restructuring, as well as additional expense reductions due to the termination of our tozadenant development program in November 2017, will enable us to fund operations through the launch of Inbrija, pending approval from the FDA. However, there can be no guarantee that we will have sufficient funding to do so. We may need to seek additional equity or debt financing or strategic collaborations to complete our product development activities, and could require substantial funding to commercialize

any products that we successfully develop. We may not be able to raise additional capital on favorable terms, or at all.

Our future capital requirements will depend on a number of factors, including the amount of revenue generated from sales of Ampyra, the time of approval (if ever) and launch of Inbrija, the continued progress of our research and development activities, the amount and timing of milestone or other payments payable under collaboration, license and acquisition agreements, the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims and other intellectual property rights, and capital required or used for future acquisitions or to in-license new products and compounds including the development costs relating to those products or compounds. To the extent our capital resources are insufficient to meet future operating requirements we will need to raise additional capital, reduce planned expenditures, or incur indebtedness to fund our operations. If we require additional financing in the future, we cannot assure you that it will be available to us on favorable terms, or at all.

Financing Arrangements

Convertible Senior Notes

In June 2014, the Company entered into an underwriting agreement (the Underwriting Agreement) with J.P. Morgan Securities LLC (the Underwriter) relating to the issuance by the Company of $345 million aggregate principal amount of 1.75% Convertible Senior Notes due 2021 (the Notes) in an underwritten public offering pursuant to the Company's Registration Statement on Form S-3 (the Registration Statement) and a related preliminary and final prospectus supplement, filed with the Securities and Exchange Commission (the Offering). The net proceeds from the offering, after deducting the Underwriter's discount and the offering expenses paid by the Company, were approximately $337.5 million.

The Notes are governed by the terms of an indenture, dated as of June 23, 2014 (the Base Indenture) and the first supplemental indenture, dated as of June 23, 2014 (the Supplemental Indenture, and together with the Base Indenture, the Indenture), each between the Company and Wilmington Trust, National Association, as trustee (the Trustee). The Notes will be convertible into cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election, based on an initial conversion rate, subject to adjustment, of 23.4968 shares per $1,000 principal amount of Notes (which represents an initial conversion price of approximately $42.56 per share), only in the following circumstances and to the following extent: (1) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price per $1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; (2) during any calendar quarter commencing after the calendar quarter ending on September 30, 2014 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (3) if the Company calls any or all of the Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; (4) upon the occurrence of specified events described in the Indenture; and (5) at any time on or after December 15, 2020 through the second scheduled trading day immediately preceding the maturity date. As of March 31, 2018, the Notes did not meet the criteria to be convertible.

The Company may redeem for cash, all or part of the Notes, at the Company's option, on or after June 20, 2017 if the last reported sale price of the Company's common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending within five trading days prior to the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

The Company will pay 1.75% interest per annum on the principal amount of the Notes, payable semiannually in arrears in cash on June 15 and December 15 of each year.

If the Company undergoes a "fundamental change" (as defined in the Indenture), subject to certain conditions, holders may require the Company to repurchase for cash all or part of their Notes in principal amounts of $1,000 or an integral multiple thereof. The fundamental change repurchase price will be equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. If a make-whole fundamental change, as described in the Indenture, occurs and a holder elects to convert its Notes in connection with such make-whole fundamental change, such holder may be entitled to an increase in the conversion rate as described in the Indenture.

The Indenture contains customary terms and covenants and events of default. If an event of default (other than certain events of bankruptcy, insolvency or reorganization involving the Company) occurs and is continuing, the Trustee by notice to the Company, or the holders of at least 25% in principal amount of the outstanding Notes by notice to the Company and the Trustee, may declare 100% of the principal of and accrued and unpaid interest, if any, on all the Notes to be due and payable. Upon such a declaration of acceleration, such principal and accrued and unpaid interest, if any, will be due and payable immediately. Upon the occurrence of certain events of bankruptcy, insolvency or reorganization involving the Company, 100% of the principal and accrued and unpaid interest, if any, on all of the Notes will become due and payable automatically. Notwithstanding the foregoing, the Indenture provides that, to the extent the Company elects and for up to 270 days, the sole remedy for an event of default relating to certain failures by the Company to comply with certain reporting covenants in the Indenture consists exclusively of the right to receive additional interest on the Notes.

The Notes will be senior unsecured obligations and will rank equally with all of the Company's existing and future senior debt and senior to any of the Company's subordinated debt. The Notes will be structurally subordinated to all existing or future indebtedness and other liabilities (including trade payables) of the Company's subsidiaries and will be effectively subordinated to the Company's existing or future secured indebtedness to the extent of the value of the collateral. The Indenture does not limit the amount of debt that the Company or its subsidiaries may incur.

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the Notes as a whole. The excess of the principal amount of the liability component over its carrying amount, referred to as the debt discount, is amortized to interest expense over the seven-year term of the Notes using the effective interest method. The equity component is not re-measured as long as it continues to meet the conditions for equity classification.

Our outstanding note balances as of March 31, 2018 consisted of the following:

(In thousands)	March 31, 2018
Liability component:	
Principal	$345,000
Less: debt discount and debt issuance costs, net	(33,772)
Net carrying amount	$311,228
Equity component	$61,195

Non-Convertible Capital Loans

The Non-Convertible Capital Loans ("Tekes Loans") which were granted by Tekes, a Finnish Funding Agency for Technology and Innovation, had a fair value of $20.5 million (€18.2 million) at the date of acquisition. The Tekes loans have a carrying value of approximately $24.6 million as of March 31, 2018. The Tekes Loans consist of fourteen non-convertible loans that bear interest based on the greater of 3% or the base rate set by Finland's Ministry of Finance minus one (1) percentage point. The maturity dates for these loans range from eight to ten years from the date of issuance, however, according to certain terms and conditions of the loans, Biotie may repay the principal and accrued and unpaid interest of the loans only when the consolidated retained earnings of Biotie is sufficient to fully repay the loans.

Research and Development Loans

The Research and Development Loans ("R&D Loans") which were granted by Tekes had a fair value of $2.9 million (€2.6 million) at the date of acquisition. The R&D Loans have a carrying value of approximately $2.0 million as of March 31, 2018. The R&D Loans bear interest based on the greater of 1% or the base rate set by Finland's Ministry of Finance minus three (3) percentage points. The principal on these loans will be paid in five equal annual installments beginning in 2017 through 2021.

Investment Activities

At March 31, 2018, cash, cash equivalents and short-term investment were approximately $333.0 million, as compared to $307.1 million at December 31, 2017. Our cash equivalents consist of highly liquid investments with original maturities of three months or less at date of purchase and consist of time deposits and investments in money market funds, high-grade corporate debt securities and commercial paper. Our short term investments consist of high-grade corporate debt securities and commercial paper with original maturities of twelve months or less at date of purchase. Also, we maintain cash balances with financial institutions in excess of insured limits. We do not anticipate any losses with respect to such cash balances.

Net Cash Provided by Operations

Net cash provided by operations was $28.7 million for the three-month period ending March 31, 2018. Cash provided by operations for the three-month period ended March 31, 2018 was primarily due to a net loss of $8.2 million, a decrease in accounts payable and accrued expenses of $18.3 million, non-cash royalty revenue of $2.8 million and an increase in other

assets of $1.5 million. This was partially offset by a decrease in accounts receivable of $30.6 million, stock compensation expense of $5.9 million, depreciation and amortization of $3.3 million, a change in contingent consideration liability of $6.2 million, amortization of debt discount and debt issuance costs of $4.0 million, and a decrease in inventory of $9.8 million.

Net Cash Used in Investing

Net cash used in investing activities for the three-month period ended March 31, 2018 was $111.6 million, which was due primarily to purchases of short-term investments and property and equipment of $106.8 million and $4.8 million, respectively.

Net Cash Provided by Financing

Net cash provided by financing activities for the three-month period ended March 31, 2018 was $1.5 million, which was due to $3.4 million in net proceeds from the issuance of common stock and stock option exercises, partially offset by the repurchase of treasury stock of $1.2 million and repayment of loans payable of $0.7 million.

Contractual Obligations and Commitments

A summary of our minimum contractual obligations related to our material outstanding contractual commitments is included in Note 14 of our Annual report on Form 10-K, as amended by Amendment No. 1 on Form 10-K/A, for the year ended December 31, 2017. Our long-term contractual obligations include commitments and estimated purchase obligations entered into in the normal course of business.

Under certain agreements, we are required to pay royalties or license fees and milestones for the use of technologies and products in our R&D activities and in the commercialization of products. The amount and timing of any of the foregoing payments are not known due to the uncertainty surrounding the successful research, development and commercialization of the products. During the three-month period ended March 31, 2018, commitments related to the purchase of inventory increased as compared to December 31, 2017. As of March 31, 2018, we have inventory-related purchase commitments totaling approximately $24.5 million.

Critical Accounting Policies and Estimates

Our critical accounting policies are detailed in our Annual Report on Form 10-K, as amended by Amendment No. 1 on Form 10-K/A, for the year ended December 31, 2017. As of March 31, 2018, with the exception of the adoption of ASU 2014-09, “Revenue from Contracts with Customers” (Topic 606), ASU 2016-15 and ASU 2016-18 “Statement of Cash Flows” (Topic 230), ASU 2017-09, “Compensation – Stock Compensation” (Topic 718): Scope of Modification Accounting and ASU 2017-01, and “Business Combinations” (Topic 805): Clarifying the Definition of a Business, our critical accounting policies have not changed materially from December 31, 2017.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our financial instruments consist of cash equivalents, short-term investments, convertible senior notes, non-convertible capital loans, research and development loans and accounts payable. The estimated fair values of all of our financial instruments approximate their carrying values at March 31, 2018, except for the fair value of the Company’s convertible senior notes which was approximately $313 million as of March 31, 2018.

We have cash equivalents and short-term investments at March 31, 2018, which are exposed to the impact of interest rate changes and our interest income fluctuates as our interest rates change. Due to the nature of our investments in

money market funds, high-grade corporate bonds and commercial paper, the carrying value of our cash equivalents and short-term investments approximate their fair value at March 31, 2018. At March 31, 2018, we held $333 million in cash, cash equivalents and short-term investments which had an average interest rate of approximately 1.2%.

We maintain an investment portfolio in accordance with our investment policy. The primary objective of our investment policy is to preserve principal, maintain proper liquidity and to meet operating needs. Although our investments are subject to credit risk, our investment policy specifies credit quality standards for our investments and limits the amount of

credit exposure from any single issue, issuer or type of investment. Our investments are also subject to interest rate risk and will decrease in value if market interest rates increase. However, interest rate risk is mitigated due to the conservative nature and relatively short duration of our investments.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the Exchange Act) we carried out an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the first quarter of 2018, the period covered by this report. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief, Business Operations and Principal Accounting Officer. Based on that evaluation, these officers have concluded that, as of March 31, 2018, our disclosure controls and procedures were effective to achieve their stated purpose.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules, regulations, and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief, Business Operations and Principal Accounting Officer, as appropriate, to allow timely decisions regarding disclosure.

Change in internal control over financial reporting

In connection with the evaluation required by Exchange Act Rule 13a-15(d), our management, including our Chief Executive Officer and Chief, Business Operations and Principal Accounting Officer, concluded that there were no changes in our internal control over financial reporting during the quarter ended March 31, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Beginning January 1, 2018, we implemented ASC 606 - Revenue from Contracts with Customers. As a result of our implementation of ASC 606, we enhanced our control documentation related to revenue, although, with the exception of the adjustments to the recognition of our license revenue, the adoption of ASC 606 did not have a significant impact on our results of operations, cash flows, or financial position. The enhancements included revisions to our revenue recognition policy to apply the five-step model provided for in ASC 606 and other documentation enhancements to support ongoing monitoring activities in order to provide reasonable assurance regarding the fair presentation of our consolidated financial statements and related disclosures.

Limitations on the effectiveness of controls

Our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

Ampyra ANDA Litigation

Overview. As further described below, our five initial Orange Book-listed patents for Ampyra are the subject of lawsuits relating to Paragraph IV Certification Notices received from ten generic drug manufacturers in 2014 and 2015, who submitted Abbreviated New Drug Applications, or ANDAs, with the FDA seeking marketing approval for generic versions of Ampyra (dalfampridine) Extended Release Tablets, 10mg. In 2015 and 2016, we reached settlement agreements with six of the generic companies, and in February 2017, we announced that we had reached a settlement agreement with one additional generic company. As to the remaining three generic manufacturers, in March 2017, the U.S. District Court for the District of Delaware (the "District Court") rendered a decision from a bench trial held in September 2016. The District Court upheld our Orange Book-listed patent for Ampyra set to expire in July 2018, but invalidated the four other Orange Book-listed patents for Ampyra that are the subject of the litigation. We have appealed the decision on the four invalidated patents, and the non-settling generic drug manufacturers have appealed the decision upholding the patent set to expire in July 2018. As further described below, in April 2017 we received a Paragraph IV Certification Notice from an additional generic drug manufacturer, who submitted an ANDA with the FDA seeking marketing approval for a generic version of Ampyra (dalfampridine) Extended Release Tablets, 10mg., but we have reached a settlement with this generic drug manufacturer.

A sixth Ampyra patent was recently issued and listed in the Orange Book. We note that this patent does not entitle us to any additional statutory stay of approval under the Hatch-Waxman Act against the generic drug manufacturers that are involved in the patent litigation.

First ANDA Filers. In June and July of 2014, we received eight separate Paragraph IV Certification Notices from Accord Healthcare, Inc., Actavis Laboratories FL, Inc. ("Actavis"), Alkem Laboratories Ltd. and its affiliate Ascend Laboratories, LLC ("Alkem"), Apotex Inc., Aurobindo Pharma Ltd. ("Aurobindo"), Mylan Pharmaceuticals, Inc., Roxane Laboratories, Inc., and Teva Pharmaceuticals USA, Inc., advising that each of these companies had submitted an ANDA to the FDA seeking marketing approval for generic versions of Ampyra (dalfampridine) Extended Release Tablets, 10 mg. The ANDA filers challenged the validity of the five initial Orange Book-listed patents for Ampyra, and they also asserted that generic versions of their products do not infringe certain claims of these patents. In response to the filing of these ANDAs, in July 2014, we filed lawsuits against these generic pharmaceutical manufacturing companies and certain affiliates in the U.S. District Court for the District of Delaware asserting infringement of our U.S. Patent Nos. 5,540,938, 8,007,826, 8,354,437, 8,440,703, and 8,663,685. Requested judicial remedies included recovery of litigation costs and injunctive relief, including a request that the effective date of any FDA approval for these generic companies to make, use, offer for sale, sell, market, distribute, or import the proposed generic products be no earlier than the dates on which the Ampyra Orange Book-listed patents expire, or any later expiration of exclusivity to which we are or become entitled. These lawsuits with the ANDA filers were consolidated into a single case. A bench trial was completed in September 2016, and the District Court issued a decision in March 2017. The District Court upheld U.S. Patent No. 5,540,938 (the '938 patent), which is set to expire in July 2018. The claims of the '938 patent relate to methods for treating a neurological disease, such as MS, and cover the use of a sustained release dalfampridine formulation, such as Ampyra (dalfampridine) Extended Release Tablets, 10 mg for improving walking in people with MS. The District Court invalidated U.S. Patent Nos. 8,663,685, 8,007,826, 8,440,703, and 8,354,437 which pertain to Ampyra. In May 2017, we appealed the ruling on these patents. As a result of the District Court's ruling, no generic version of Ampyra will be marketed in the U.S. at least until July 31, 2018, although in June 2017 the non-settling ANDA filers appealed the District Court's decision upholding the '938 patent. Generic versions of Ampyra may be further delayed if the United States Court of Appeals for the Federal Circuit (the "Appellate Court") overturns the District Court's decision on the four invalidated patents, which could include reversal or

remand of the case back to the District Court. If the Appellate Court does not overturn the District Court's decision by July 30, 2018, multiple ANDA filers may be able to launch generic versions of Ampyra absent injunctive relief. We expect the appeals process to take approximately 12 to 18 months from the filing of the appeal in May 2017. Both the Biotechnology Innovation Organization (BIO) and Pharmaceutical Research and Manufacturers of America (PhRMA) filed amicus briefs in support of our appeal, raising important issues in conjunction with biopharmaceutical innovation. The appellate court has scheduled oral argument for June 7, 2018, and we are expecting a decision on the appeal in the second half of 2018.

In October and December 2015, we entered into settlement agreements with Actavis and Aurobindo to resolve the patent litigation that we brought against them in the U.S. District Court for the District of Delaware, described above. As a result of the settlement agreements, Actavis and Aurobindo will be permitted to market generic versions of Ampyra in the

U.S. at a specified date in 2027, or potentially earlier under certain circumstances. The District Court entered an order dismissing the case against Actavis without prejudice in October 2015. As a result of the settlement agreement with Aurobindo, and upon the request of the parties, the District Court entered a Consent Order, in which it dismissed our litigation against Aurobindo in December 2015. The parties have submitted the agreements to the Federal Trade Commission and the Department of Justice, as required by federal law.

In August 2016, we entered into a settlement agreement with Alkem to resolve the patent litigation that we brought against Alkem in the U.S. District Court for the District of Delaware, described above. As a result of the settlement agreement, Alkem will be permitted to market a generic version of Ampyra in the U.S. at a specified date in 2027, or potentially earlier under certain circumstances. As a result of the settlement agreement with Alkem, and upon the request of the parties, the District Court entered a Consent Order, in which it dismissed our litigation against Alkem in August of 2016. The parties have submitted the agreement to the Federal Trade Commission and the Department of Justice, as required by Federal law.

In August 2016, we entered into a settlement agreement with Accord Healthcare, Inc. and Intas Pharmaceuticals Limited (collectively "Accord") to resolve the patent litigation that we brought against Accord in the U.S. District Court for the District of Delaware, described above. As a result of the settlement agreement, Accord will be permitted to market a generic version of Ampyra in the U.S. at a specified date in 2027, or potentially earlier under certain circumstances. As a result of the settlement agreement with Accord, and upon the request of the parties, the District Court entered a Consent Order, in which it dismissed our litigation against Accord in August of 2016. The parties have submitted the agreement to the Federal Trade Commission and the Department of Justice, as required by state law. The settlements with Actavis, Aurobindo, Alkem and Accord do not resolve the patent litigation that we brought against the other ANDA filers, as described in this report.

In February 2017, we entered into a settlement agreement with Apotex Inc. and its subsidiary Apotex Corporation (collectively “Apotex”) to resolve the patent litigation that we brought against them in the U.S. District Court for the District of Delaware, described above. As a result of the settlement agreement, Apotex will be permitted to market a generic version of Ampyra in the U.S. at a specified date in 2025, or potentially earlier under certain circumstances. The District Court has entered a Consent Order, in which it has dismissed our litigation against Apotex referred to above. The parties have submitted the agreement to the Federal Trade Commission and the Department of Justice, as required by federal law. The settlement with Apotex does not resolve the patent litigation that we brought against other ANDA filers, as described in this report.

Second ANDA Filers. In May 2015, we received a Paragraph IV Certification Notice from Sun Pharmaceutical Industries Limited and Sun Pharmaceuticals Industries Inc. ("Sun") advising that they had submitted an ANDA to the FDA seeking marketing approval for a generic version of Ampyra (dalfampridine) Extended Release Tablets, 10 mg. Sun challenged the validity of four of the five initial Orange Book-listed patents for Ampyra, and did not file against our U.S. Patent No. 5,540,938, and also asserted that generic versions of its products may not infringe certain claims of these patents. In response to the filing of the ANDA, in May 2015 we filed a lawsuit against Sun in the U.S. District Court for the District of Delaware asserting infringement of our U.S. Patent Nos. 8,007,826, 8,354,437, 8,440,703, and 8,663,685. In October 2015, we entered into a settlement agreement with Sun to resolve this patent litigation. As a result of the settlement agreement, Sun will be permitted to market a generic version of Ampyra in the U.S. at a specified date in 2027, or potentially 181 days after a first ANDA filer has entered the market. As a result of the settlement agreement, and upon request of the parties, the District Court entered a Consent Order, in which it dismissed our litigation against Sun in October 2015. The parties have submitted the agreement to the Federal Trade Commission and the Department of Justice, as required by federal law. The settlement with Sun does not resolve the patent litigation that we brought against the other ANDA filers, described in this report.

In September 2015, we received a Paragraph IV Certification Notice from Par Pharmaceutical, Inc. ("Par") advising that it had submitted an ANDA to the FDA seeking marketing approval for a generic version of Ampyra (dalfampridine) Extended Release Tablets, 10 mg. Par challenged the validity of four of the five initial Orange Book-listed patents for Ampyra, and did not file against our U.S. Patent No. 5,540,938, and it also asserted that generic versions of its products may not infringe certain claims of these patents. In response to the filing of the ANDA, in September 2015 we filed a lawsuit against Par in the U.S. District Court for the District of Delaware asserting infringement of our U.S. Patent Nos. 8,007,826, 8,354,437, 8,440,703, and 8,663,685. In January 2016, we entered into a settlement agreement with Par to resolve this patent litigation. As a result of the settlement agreement, Par will be permitted to market a generic version of Ampyra in the U.S. at a specified date in 2027, or potentially 181 days after a first ANDA filer has entered the market. As a result of the settlement agreement, and upon the request of the parties, the District Court entered a Consent Order, in which it dismissed our litigation

against Par in January 2016. The parties have submitted the agreement to the Federal Trade Commission and the Department of Justice, as required by federal law. The settlement with Par does not resolve the patent litigation that we brought against the other ANDA filers, described in this report.

In April 2017, we received a Paragraph IV Certification Notice from Micro Labs Ltd. ("Micro") advising that it had submitted an ANDA to the FDA seeking marketing approval for a generic version of Ampyra (dalfampridine) Extended Release Tablets, 10mg. Micro challenged the validity of four of the five initial Orange Book-listed patents for Ampyra, and did not file against our U.S. Patent No. 5,540,938, and it also asserted that a generic version of its product does not infringe certain claims of these patents. In response to the filing of the ANDA, in May 2017 we filed a lawsuit against Micro in the U.S. District Court for the District of New Jersey, asserting infringement of our U.S. Patent Nos. 8,007,826, 8,354,437, 8,440,703, and 8,663,685. In January 2018, we entered into a settlement agreement with Micro to resolve this patent litigation. As a result of the settlement agreement, Micro will be permitted to market a generic version of Ampyra in the U.S. at a specified date in 2026, or potentially earlier under certain circumstances. As a result of the settlement agreement, and upon the request of the parties, the U.S. District Court for the District of New Jersey entered a Dismissal Order, in which it dismissed our litigation against Micro in January 2018. The parties have submitted the agreement to the Federal Trade Commission and the Department of Justice, as required by federal law. The settlement with Micro does not resolve the patent litigation that we brought against the other ANDA filers, described in this report.

We will vigorously defend our intellectual property rights.

Shareholder Litigation

On November 17, 2017, a purported class action lawsuit was filed against us and certain of our current and former officers in the United States District Court for the Southern District of New York, by Michael Hague on behalf of stockholders who purchased or otherwise acquired our common stock between April 18, 2016 through November 14, 2017, which we refer to as the purported class period. The complaint asserted claims under Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder, including allegations that our stock was artificially inflated during the class period because we and certain current and former officers allegedly made misrepresentations or did not make proper disclosures regarding tozadenant, a pharmaceutical product candidate we acquired with Biotie Therapies in 2016. Specifically, the lawsuit alleged that we failed to disclose, throughout the class period, tozadenant's safety risks and approval prospects, and also that we overstated the benefits of the Biotie Therapies acquisition. The complaint sought, among other relief, class certification of the lawsuit, unspecified damages, interest, attorneys' fees, expert fees and other costs. On March 13, 2018, the District Court granted the plaintiffs' motion to voluntarily dismiss the class action without prejudice. There is no settlement agreement between us and the plaintiff, and each party is responsible for its own costs and attorneys' fees.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A. Risk Factors, in our Annual Report on Form 10-K, as amended by Amendment No. 1 on Form 10-K/A for the year ended December 31, 2017, all of which could materially affect our business, financial condition or future results. These risks 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 and/or operating results. Following is the restated text of certain risk factors to report changes since our publication of risk factors in our 2017 Annual Report on Form 10-K, as amended by Amendment No. 1 on Form 10-K/A.

We rely on our Chelsea manufacturing facility for the manufacture of Inbrija (levodopa inhalation powder) and other ARCUS inhaled therapeutic product candidates, and our business could be harmed if we do not obtain required regulatory approval to manufacture commercial product at that facility, if there is an interruption in operations at the facility, or if the facility does not have manufacturing capacity needed to meet product demand.

We currently manufacture all clinical supply of Inbrija at our Chelsea, Massachusetts manufacturing facility that we occupy under a lease that expires in December 2025, which we may extend for up to ten years. We intend to manufacture all commercial supplies of Inbrija, if approved for commercial sale, as well as supplies of all additional ARCUS inhaled therapeutic candidates that we may develop, in this manufacturing facility. However, our Chelsea manufacturing facility has not been inspected by the FDA. Prior to commercialization of Inbrija, the FDA will likely conduct a pre-approval inspection. If, during this inspection, the FDA determines that the systems or facility do not meet FDA current good manufacturing practices, or cGMP, requirements, the FDA may not grant marketing approval for our product. If we obtain approval from the

FDA for Inbrija, we anticipate the need to expand our manufacturing operations at the Chelsea facility after product launch to meet demand depending on the timing and extent of sales growth. Our inability to expand the facility in a timely manner or unexpected demand for commercial quantities of Inbrija could cause a supply shortage that would harm our commercialization of Inbrija.

Furthermore, if we were to lose the use of our facility or equipment, our manufacturing facility and manufacturing equipment would be difficult to replace and could require substantial replacement lead time and substantial additional funds. Our facility may be affected by natural disasters, such as floods or fire, or we may lose the use of our facility due to manufacturing issues that arise at our facility, such as contamination or regulatory concerns following a regulatory inspection of our facility. We may also unexpectedly experience these types of manufacturing issues as the unintended result of the construction and other activities occurring at the facility needed for expansion. In the event of a loss of the use of all or a portion of our facility or equipment for the reasons stated above or any other reason, we would be unable to manufacture Inbrija or any other ARCUS inhaled therapeutic products or product candidates until such time as our facility could be repaired, rebuilt or we are able to address other manufacturing issues at our facility. Any such interruptions in our ability to manufacture these products or product candidates would harm our business. Even if we do not suffer a loss of the facility or equipment within the facility, manufacturing operations can experience intermittent interruptions due to the need for routine or unexpected maintenance, inspection and repairs of the facility or the equipment, and, depending on their frequency and duration, these intermittent interruptions could also harm our business.

We do not currently have back-up manufacturing capability at another facility and there are only limited third-party manufacturers that we believe would be capable of manufacturing Inbrija or other ARCUS inhaled therapeutic products or product candidates. If the need arises to obtain supply from a third party manufacturer, there can be no assurance that we could identify a third party that would be capable and willing to manufacture for us on reasonable terms, if at all, or that they could supply us in sufficient quantities on a timely basis to meet our needs. Engaging a third party manufacturer to supply ARCUS products or product candidates would likely be a lengthy process involving the transfer of a proprietary, specialized and regulated manufacturing processes and which would be subject to the FDA regulatory approval requirements described above. Also, this would require that we share proprietary trade secrets and know-how with the third party manufacturer relating to Inbrija and our ARCUS platform. When our business requires that we share that type of information, we seek to protect it, in part, with confidentiality agreements, but those agreements may not provide adequate protection or prevent the unauthorized use or disclosure of the information. The unauthorized use or disclosure of our proprietary information could harm its value by enabling others to copy or use our information for their own products, methods or technologies, and we may not have an adequate remedy for the harm caused. If we are successful in engaging a third party manufacturer, they may not perform their obligations to us and/or they may be unable or unwilling to establish or increase production capacity commensurate with our needs. Also, third party manufacturers and suppliers are subject to their own operational and financial risks that are outside of our control, including macro-economic conditions that may cause them to suffer liquidity or operational problems and that could interfere with their business operations.

Expanding our Chelsea manufacturing capacity will be costly and involves numerous risks, and if Inbrija receives FDA approval, our efforts to commercialize the product could be harmed if we cannot complete expansion of the facility in a timely manner.

If Inbrija receives FDA approval, we anticipate the need to expand our manufacturing capacity at the Chelsea facility after product launch to meet demand depending on the timing and extent of sales growth. The ARCUS dry powder aerosol particles are generated by applying our proprietary and multi-step spray drying process to active pharmaceutical ingredient. The application of spray drying in the pharmaceutical industry is highly specialized, and the process of manufacturing ARCUS particles requires significant expertise in dry powder manufacture and handling and capsule filling. Expanding our manufacturing capacity will require substantial additional expenditures and various

regulatory approvals and permits. Further, we may need to hire and train additional employees and managerial personnel to staff our expanding manufacturing operations. Manufacturing scale-up entails significant risks related to process development and manufacturing yields. In addition, we may face difficulties or delays in developing or acquiring the necessary production equipment and technology. Our expanded Chelsea facility will have to continue to comply with cGMP requirements, as described above in these risk factors, as well as other applicable environmental, safety, and other governmental permitting requirements. These challenges could delay or prevent us from successfully expanding our Chelsea manufacturing capacity. If we are delayed in or prevented from expanding our Chelsea facility, we may need to seek a third party to manufacturer additional Inbrija supply for us. As described above in these risk factors, there can be no assurance that we could identify a third party that would be capable and willing to manufacture for us on reasonable terms, if at all, or that they could supply us with product in sufficient quantities on a timely basis to meet our needs. If we cannot increase our supply of Inbrija by expanding our capacity in Chelsea or

engaging a third party manufacturer, we may not be able to meet demand for Inbrija and our ability to commercialize Inbrija could be harmed.

If we market products in a manner that violates healthcare fraud and abuse laws, or if we violate false claims laws or fail to comply with our reporting and payment obligations under the Medicaid drug rebate program or other governmental pricing programs, or other applicable legal requirements, we may be subject to civil or criminal penalties or additional reimbursement requirements and sanctions, which could harm our business, financial condition, results of operations and growth prospects.

The distribution, sale and promotion of drug and biological products are subject to regulation by various federal, state and local authorities in addition to the FDA, including the Centers for Medicare and Medicaid Services, the Federal Trade Commission, other divisions of the U.S. Department of Health and Human Services, the U.S. Department of Justice and individual U.S. Attorney offices within the Department of Justice, and state and local governments. For example, sales, marketing and scientific/educational grant programs must comply with the anti-kickback and fraud and abuse provisions of the Social Security Act, as amended, the False Claims Act, as amended, and are affected by the privacy regulations promulgated pursuant to the Health Insurance Portability and Accountability Act, as amended and similar state laws. Because of the breadth of these laws and the narrowness of safe harbors under these laws, it is possible that some of our business activities could be subject to challenge under one or more of these laws. All of these activities are also subject to federal and state consumer protection and unfair competition laws.

The federal healthcare program anti-kickback statute prohibits, among other things, knowingly and willfully offering, paying, soliciting or receiving remuneration to induce, or in return for, purchasing, leasing, ordering or arranging for the purchase, lease or order of any healthcare item or service reimbursable under Medicare, Medicaid or other federally financed healthcare programs. This statute has been interpreted to apply to arrangements between pharmaceutical manufacturers on the one hand and prescribers, purchasers and formulary managers on the other. Industry relationships with specialty pharmacies have also recently been scrutinized under these provisions. Although there are several statutory exemptions and regulatory safe harbors protecting certain common activities from prosecution, the exemptions and safe harbors are drawn narrowly, and practices that involve remuneration intended to induce or facilitate prescribing, purchasing or recommending may be subject to scrutiny if they do not qualify for an exemption or safe harbor. Our practices may not in all cases meet all of the criteria for safe harbor protection from anti-kickback liability.

Federal false claims laws prohibit any person from knowingly presenting, or causing to be presented, a false claim for payment to the federal government or knowingly making, or causing to be made, a false statement to get a false claim paid. By statute, a violation of the federal anti-kickback statute may serve as the basis for a false claim under the false claims act. Numerous pharmaceutical and other healthcare companies have been prosecuted under these laws for a variety of alleged promotional and marketing activities, such as: allegedly providing kickbacks, such as free trips, free goods, sham consulting fees and grants and other monetary benefits to prescribers; reporting to pricing services inflated average wholesale prices that were then used by federal programs to set reimbursement rates; and engaging in off-label promotion that caused claims to be submitted to Medicaid for non-covered, off-label uses. Most states also have statutes or regulations similar to the federal anti-kickback law and false claims laws, which apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payer.

Sanctions under these federal and state laws may include requirements to make payments to government-funded health plans to correct for insufficient rebates paid by us or overpayments made to us, civil monetary penalties, exclusion of our products from reimbursement under government programs, criminal fines and imprisonment. We may also be subject to a corporate integrity agreement, deferred prosecution agreement, or similar arrangement.

Under the federal Sunshine Act, pharmaceutical manufacturers are required to collect information on payments or other transfers of value made to “covered recipients,” which are defined as physicians and teaching hospitals. The collected information has to be disclosed in annual reports that are placed on a public database. Similarly, pharmaceutical manufacturers are also required to annually report samples of prescription drugs requested by and distributed to healthcare providers. The law does not state whether these disclosures regarding samples will be made publicly available, and the FDA has not provided any guidance. If we fail to provide these reports, or if the reports we provide are not accurate, we could be subject to significant penalties.

We participate in the federal Medicaid drug rebate program established by the Omnibus Budget Reconciliation Act of 1990, as well as several state supplemental rebate programs. Under the Medicaid drug rebate program, we pay a rebate to each state Medicaid program for our products that are reimbursed by those programs. Federal law requires that any company

that participates in the Medicaid drug rebate program extend comparable discounts to qualified purchasers under the Public Health Service Act pharmaceutical pricing program, which requires us to sell our products to certain customers at prices lower than we otherwise might be able to charge. The minimum basic Medicaid rebate for branded prescription drugs is 23.1%, and pharmaceutical manufacturers must pay states rebates on prescription drugs dispensed to Medicaid managed care enrollees. In addition, manufacturers must pay an additional Medicaid rebate on "line extensions" (such as extended release formulations) of solid oral dosage forms of branded products.

For products to be made available to authorized users of the Federal Supply Schedule, additional pricing laws and requirements apply, as do certain obligations imposed by the Federal Acquisition Regulations. Under the Veterans Health Care Act of 1992, as amended (VHCA), we are required to offer certain drugs at a reduced price to a number of federal agencies, including the Veterans Administration, the Department of Defense (DOD), the Public Health Service and certain private Public Health Service designated entities, in order to participate in other federal funding programs including Medicare and Medicaid. Also, legislative changes enacted in 2009 require that discounted prices be offered for certain DOD purchases for its TRICARE retail program via a rebate system. Participation under the VHCA requires submission of pricing data and calculation of discounts and rebates pursuant to complex statutory formulas, as well as the entry into government procurement contracts governed by the Federal Acquisition Regulations.

Pharmaceutical companies have been prosecuted under federal and state false claims laws for manipulating information submitted to the Medicaid drug rebate program or for knowingly submitting or using allegedly inaccurate pricing information in connection with federal pricing and discount programs.

Pricing and rebate calculations vary among products and programs. The laws and regulations governing the calculations are complex and are often subject to interpretation by us or our contractors, governmental or regulatory agencies and the courts. Our methodologies for calculating these prices could be challenged under false claims laws or other laws. We or our contractors could make a mistake in calculating reported prices and required discounts, revisions to those prices and discounts, or determining whether a revision is necessary, which could result in retroactive rebates (and interest and penalties, if any). Governmental agencies may also make changes in program interpretations, requirements or conditions of participation, some of which may have implications for amounts previously estimated or paid. If we make these mistakes or if governmental agencies make these changes, we could face, in addition to prosecution under federal and state false claims laws, substantial liability and civil monetary penalties, exclusion of our products from reimbursement under government programs, criminal fines or imprisonment or prosecutors may impose a Corporate Integrity Agreement, Deferred Prosecution Agreement, or similar arrangement.

Under the Affordable Care Act (ACA), drug manufacturers are required to provide a 50% discount (increasing to 70% in 2019) on prescriptions for branded products filled while the beneficiary is in the Medicare Part D coverage gap, also known as the "donut hole." In addition, the ACA imposes a significant annual fee on companies that manufacture or import branded prescription drug products. The fee (which is not deductible for federal income tax purposes) is based on the manufacturer's market share of sales of branded drugs and biologics (excluding orphan drugs) to, or pursuant to coverage under, specified U.S. government programs.

Also, Qutenza differs from Ampyra because it may be administered only by a healthcare professional. For this reason, it is treated as a "buy-and-bill" product by most payers, including Medicare, most Medicaid programs, and private payers. Buy-and-bill products must be purchased by healthcare providers before they can be administered to patients. Under the buy-and-bill model, healthcare providers subsequently bill the product to the patient's insurer, which may be a government healthcare program or private health plan. Purchasers of buy-and-bill products that are administered to Medicare patients are reimbursed under that program's Average Sales Price, or ASP, payment model. Because reimbursement for these patients is based on ASP and not the healthcare provider's actual purchase price for the

prescription drug, the reimbursement often differs somewhat from the actual price paid by the healthcare provider. Acorda does not sell Qutenza directly to healthcare providers, but rather, healthcare providers purchase this drug from a specialty distributor, who in turn acquires the product from us.

Historically, some pharmaceutical manufacturers have been accused by the government of “marketing the spread” between the healthcare provider’s purchase price and the reimbursement price, by allegedly promoting the potential to earn profit on each administration of the drug. Alternatively, other manufacturers have been alleged to have “manipulated” that spread by manipulating the determination of reimbursement rates by artificially inflating reported prices. We have adopted policies and training programs for our employees intended to prevent marketing or manipulating the spread between the price at which Qutenza is purchased and the price reimbursed by federal healthcare programs. However, if our actions are viewed by government regulators or qui tam relators as inappropriately marketing or manipulating that spread, we could be

investigated and, potentially, charged with violations of the anti-kickback and fraud and abuse provisions of the Social Security Act, as amended, the False Claims Act, as amended, the Medicaid drug rebate statute, and similar state laws.

In addition, if the actions we take by providing background educational material and other information to healthcare providers concerning billing for Qutenza are viewed as encouraging healthcare providers to misrepresent the professional services provided to beneficiaries of federal healthcare programs or to otherwise submit claims to federal healthcare programs that are designed to maximize reimbursement inappropriately, this could result in investigations, and possible charges of violating, these same laws.

Our existing or potential products may not be commercially viable if we fail to obtain or maintain an adequate level of reimbursement for these products by Medicaid, Medicare or other third-party payers.

Our ability to maintain and increase sales and profitability will depend in part on third-party payers, such as government or government-sponsored health administrative authorities, including Medicaid and Medicare Parts B and D, private health insurers and other such organizations, agreeing to reimburse patients for the cost of our products. Significant uncertainty exists as to the reimbursement status of newly approved drug products. Third-party payers are increasingly challenging the pricing of medical products and services and their reimbursement practices may affect the price levels for Ampyra or potential products such as Inbrija (levodopa inhalation powder) if it receives marketing approval. Our business could be materially harmed if the Medicaid program, Medicare program or other third-party payers were to deny reimbursement for our products or provide reimbursement only on unfavorable terms. Our business could also be harmed if the Medicaid program, Medicare program or other reimbursing bodies or payers limit the indications for which our products will be reimbursed to a smaller set of indications than we believe is appropriate or limit the circumstances under which our products will be reimbursed to a smaller set of circumstances than we believe is appropriate.

Third-party payers frequently require that drug companies negotiate agreements with them that provide discounts or rebates from list prices. We have agreed to provide such discounts and rebates to some third-party payers in relation to Ampyra. We expect increasing pressure to offer larger discounts and discounts to a greater number of third-party payers to maintain acceptable reimbursement levels and access for patients at copay levels that are reasonable. There is no guarantee that we would be able to negotiate agreements with third-party payers at price levels that are profitable to us, or at all. A number of third-party payers also implement utilization management techniques, such as prior authorization or quantity limits for Ampyra, or even refuse to provide reimbursement for Ampyra, and others may do so in the future. Patients who cannot meet the conditions of prior authorizations are often prevented from obtaining the prescribed medication, because they cannot afford to pay for the medication without reimbursement. If we are unsuccessful in maintaining reimbursement for our products at acceptable levels, or if reimbursement for our products by third-party payers is subject to overly restrictive utilization management, our business will be harmed. In addition, if our competitors reduce the prices of their products, or otherwise demonstrate that they are better or more cost effective than our products, this may result in a greater level of reimbursement for their products relative to our products, which would reduce our sales and harm our results of operations.

The Medicare Part D outpatient prescription drug benefit is provided primarily through private entities, which attempt to negotiate price concessions from pharmaceutical manufacturers. These negotiations increase pressure to lower prescription drug prices or increase rebate payments to offset price. While the law specifically prohibits the U.S. government from interfering in price negotiations between manufacturers and Medicare drug plan sponsors, some members of Congress support legislation that would permit the U.S. government to use its enormous purchasing power to demand discounts from pharmaceutical companies. In addition, the Affordable Care Act contains triggers for Congressional consideration of cost containment measures for Medicare in the event Medicare cost increases exceed a certain level. These cost containment measures could include limitations on prescription drug prices. The Affordable Care Act requires drug manufacturers to provide a 50% discount (increasing to 70% in 2019) on prescriptions for

branded products filled while the beneficiary is in the Medicare Part D coverage gap, also known as the “donut hole.” Legislative or regulatory revisions to the Medicare Part D outpatient prescription drug benefit, as well as additional healthcare legislation that may be enacted at a future date, could reduce our sales and harm our results of operations.

If our competitors develop and market products that are more effective, safer or more convenient than our approved products, or obtain marketing approval before we obtain approval of future products, our commercial opportunity will be reduced or eliminated.

Competition in the pharmaceutical and biotechnology industries is intense and is expected to increase. Many biotechnology and pharmaceutical companies, as well as academic laboratories, are involved in research and/or product development for various neurological conditions, including Parkinson's disease, or PD, and multiple sclerosis, or MS.

Our competitors may succeed in developing products that are more effective, safer or more convenient than our products or the ones we have under development or that render our approved or proposed products or technologies noncompetitive or obsolete. In addition, our competitors may achieve product commercialization before we do. If any of our competitors develops a product that is more effective, safer or more convenient for patients, or is able to obtain FDA approval for commercialization before we do, we may not be able to achieve market acceptance for our products, which would harm our ability to generate revenues and recover the substantial development costs we have incurred and will continue to incur.

Our products may be subject to competition from lower-priced versions of such products and competing products imported into the U.S. from Canada, Mexico and other countries where there are government price controls or other market dynamics that cause the products to be priced lower.

Ampyra. In addition to the potential introduction of generic versions of Ampyra after July 30, 2018, further described below, we are aware of other companies developing products that may compete with Ampyra. These include Adamas Pharmaceuticals, Inc., which is developing ADS-5102 (amantadine hydrochloride) for patients with MS who have walking impairment, and Catalyst Pharmaceuticals, Inc., which is developing a 3,4-diaminopyridine product, licensed from Biomarin. Furthermore, several companies are engaged in developing products that include novel immune system approaches and cell therapy approaches to remyelination for the treatment of people with MS. These programs are in early stages of development and may compete in the future with Ampyra or some of our product candidates. In addition, in certain circumstances, pharmacists are not prohibited from formulating certain drug compounds to fill prescriptions on an individual patient basis, which is referred to as compounding. We are aware that at present compounded dalfampridine is used by some people with MS and it is possible that some people will want to continue to use compounded formulations even though Ampyra is commercially available.

Ampyra could become subject to competition from generic drug manufacturers. In March 2017, we announced a decision by the United States District Court for the District of Delaware in litigation with certain generic drug manufacturers upholding our Ampyra Orange Book-listed patent set to expire on July 30, 2018, but invalidating our four other Orange Book-listed patents pertaining to Ampyra that were set to expire between 2025 and 2027. Under this decision, we expect to maintain patent exclusivity with respect to Ampyra at least through July 30, 2018, depending on the outcome of appeal of the District Court's decision. The defendant generic drug manufacturers have appealed the District Court's decision upholding the patent that expires in July 2018, and we have appealed the ruling on the four invalidated patents. We expect the appeals process to take approximately 12 to 18 months from the filing of the appeal in May 2017. We expect to experience a rapid and significant decline in Ampyra sales beyond July 2018 due to competition from generic versions of Ampyra that may be marketed after the expiration of our remaining Ampyra patent, unless the District Court's decision on the four invalidated patents is overturned on appeal, which could include reversal or remand by the appeals court back to the District Court. If the appeals court does not overturn the District Court's decision by July 30, 2018, multiple ANDA filers may be able to launch generic versions of Ampyra absent injunctive relief. Our litigation with these generic drug manufacturers is described in further detail in Part I, Item 3 of this report. We will need to continue devoting significant resources to this litigation, and we can provide no assurance concerning its duration or outcome.

Inbrija (levodopa inhalation powder). If approved for the treatment of OFF periods, (re-emergence of symptoms) Inbrija would compete against on-demand therapies that aim to specifically address Parkinson's disease symptoms. Apokyn, an injectable formulation of apomorphine, is approved for the treatment of OFF periods. Apokyn was approved for this use in the U.S. in 2004 and in Europe in 1993. Also, Sunovion Pharmaceuticals Inc. is developing a sublingual, or under the tongue, formulation of apomorphine. This program is in Phase 3 clinical development and could potentially be commercially launched ahead of Inbrija. In January 2018, Sunovion announced positive topline results from their pivotal Phase 3 study for this program, and in March 2018 they submitted a New Drug Application to the FDA.

The standard of care for the treatment of Parkinson's disease is oral carbidopa/levodopa, but oral medication can be associated with wide variability in the timing and the amount of absorption and there are significant challenges in creating a

regimen that consistently maintains therapeutic effects as Parkinson's disease progresses. Inbrija may face competition from therapies that can limit the occurrence of OFF periods. Approaches to achieve consistent levodopa plasma concentrations include new formulations of carbidopa/levodopa, such as extended-release and intestinal infusions, and therapies that prolong the effect of levodopa. Impax Laboratories has received FDA approval for RYTARY, an extended-release formulation of oral carbidopa/levodopa, and extended release formulations of oral and patch carbidopa/levodopa are being developed by others including Impax Depomed Inc., Intec Pharma and NeuroDerm Ltd. Also, Abbvie Inc. has developed a continuous administration of a gel-containing levodopa through a tube that is surgically implanted into the intestine. This therapy, known as Duopa, has been approved by the FDA and is approved in the EU.

One or more of our competitors may utilize their expertise in pulmonary delivery of drugs to develop and obtain approval for pulmonary delivery products that may compete with Inbrija and any other of our other ARCUS drug delivery technology product candidates. These competitors may include smaller companies such as Alexza Pharmaceuticals, Inc., MannKind Corporation, Pulmatrix, Inc. and Vectura Group plc and larger companies such as Allergan, Inc., GlaxoSmithKline plc and Novartis AG. If approved, our product candidates may face competition in the target commercial areas.

Our inability to attract and retain key management and other personnel, or maintain access to expert advisors, may hinder our ability to execute our business plan.

We are highly dependent on the services of Dr. Ron Cohen, our President and Chief Executive Officer, as well as the other principal members of our management and scientific, regulatory, manufacturing and commercial personnel. Our success depends in large part upon our ability to attract and retain highly qualified personnel with the knowledge and experience needed for these and other areas of our business. We face intense competition in our hiring efforts with other pharmaceutical and biotechnology companies, as well as universities and nonprofit research organizations, and we may have to pay higher salaries to attract and retain qualified personnel. In addition, the discontinuation of our tozadenant program, the United States District Court for the District of Delaware's decision to invalidate certain Ampyra patents and our 2017 reduction in force may impede our ability to attract and retain highly qualified personnel. We do not maintain "key man" life insurance policies on the lives of our officers, directors or employees. The loss of one or more of our key employees, or our inability to attract additional qualified personnel, could substantially impair our ability to implement our business plan, particularly our efforts to obtain regulatory approval for, and if approved, manufacture and successfully launch Inbrija.

We also have scientific, medical, clinical, marketing and other advisors who assist us in our research and development, clinical, and commercial strategies. These advisors are not our employees and may have commitments to, or consulting or advisory contracts with, other entities that may limit their availability to us. Similarly, they may have arrangements with other companies to assist in the development and commercialization of products that may compete with ours.

We depend on sophisticated information technology systems to operate our business and a cyber attack or other breach of these systems, or a system error, could have a material adverse effect on our business and results of operations.

We are increasingly dependent upon information technology systems and infrastructure to operate our business. In the ordinary course of our business, we collect, store, process and transmit sensitive data on our networks and systems, including our intellectual property and proprietary or confidential business information (such as research data and personal information) and confidential information with respect to our employees, customers, clinical trial patients and our business partners. In the ordinary course of our business, this type of data is also collected, stored, processed and transmitted on the networks and systems of our business partners and vendors from whom we purchase software

and/or technology-based services.

The size and complexity of our and any third party information technology systems and infrastructure, and their connection to the Internet, make such systems potentially vulnerable to service interruptions, system errors leading to data loss, data theft and/or cyber attacks. These incidents could result from inadvertent or intentional actions or omissions by our employees and consultants, or those of our business partners and vendors, or from the actions of third parties with malicious or criminal intent. To date, we have not experienced any material impact to our business or operations resulting from any of these occurrences affecting our or third party information technology systems; however, there is a growing risk of harm from these types of incidents because of rapid evolution of information technology systems, and because cyber attacks are increasing in frequency and in sophistication over time.

Data breaches or unauthorized data access or disclosure of our confidential information could compromise our intellectual property and expose sensitive business information. A data security breach could also lead to public exposure of

personal information of our clinical trial patients, employees and others. Any such event that leads to unauthorized access, use or disclosure of personal information, including personal information regarding our patients or employees, could harm our reputation and business, compel us to comply with federal and/or state breach notification laws and foreign law equivalents, subject us to mandatory corrective action, require us to verify the correctness of database contents and otherwise subject us to liability under laws and regulations that protect the privacy and security of personal information, which could disrupt our business, result in increased costs or loss of revenue, and/or result in significant legal and financial exposure. Data breaches or unauthorized data access could cause us to incur significant remediation costs, result in product development delays, disrupt key business operations and divert attention of management and key information technology resources. Data breaches or unauthorized data access could also result in liability to others, if these incidents involve the data of others that we have agreed, or are otherwise legally responsible, to keep confidential and protect.

Data breaches and unauthorized data access can be difficult to detect, and any delay in identifying any such incidents may lead to increased harm of the type described above. While we have implemented security measures to protect our information technology systems and infrastructure, and monitor such systems and infrastructure on an ongoing basis for any current or potential threats, there can be no assurance that these measures will prevent the type of incidents that could have a material adverse effect on our business and results of operations. Also, we rely on the security measures and monitoring activities of our business partners and vendors who may collect, store, process and transmit data on their networks and systems. In the event they experience a service issue or security incident: we may not receive timely notice from them of the issue or incident; they may not take adequate steps to remediate the issue or incident and protect against future occurrences; we may not have any remedy against them for losses and liabilities that we suffer, or if we have a remedy it may be inadequate, even though they are or may be at fault; and we may become subject to legal claims from others whose information has been compromised regardless of whether we are at fault.

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

This table provides information about our purchases of shares of Acorda stock during the three-month period ended March 31, 2018.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
January 1-31, 2018	-	-	-	-
February 1-28, 2018	-	-	-	-
March 1-31, 2018	46,785	$25.69	-	-
Total	46,785	$25.69	-	-

(1)

Share repurchases reported in this column consist of shares of Acorda's common stock withheld to cover tax liability in connection with the settlement of vested restricted stock units (11,825 shares) and shares of Acorda's common stock withheld to cover the exercise price of stock options that were exercised prior to their 2018 expiration date (34,960 shares).

Item 6. Exhibits

Exhibit No.	Description
10.1	Cooperation Agreement dated February 27, 2018, by and between Registrant and Scopia Capital Management LP. Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed February 28, 2018.
10.2	Amendment D, dated March 29, 2018, by and between North River Everett Ave, LLC and Civitas Therapeutics, Inc.
31.1	Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certification by the Principal Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1	Certification by the 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 by the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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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.

Acorda Therapeutics, Inc.

By: /s/ Ron Cohen
Ron Cohen, M.D.

Date: May 9, 2018 President, Chief Executive Officer and Director

By: /s/ David Lawrence
David Lawrence

Date: May 9, 2018 Chief, Business Operations and Principal Accounting Officer