IDEXX LABORATORIES INC /DE
Form 10-Q
October 28, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from _______________ to _______________.

COMMISSION FILE NUMBER: 000-19271

IDEXX LABORATORIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	01-0393723
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

ONE IDEXX DRIVE, WESTBROOK, MAINE	04092
(Address of principal executive offices)	(ZIP Code)

207-556-0300
(Registrant's telephone number, including area code)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. The number of shares outstanding of the registrant's Common Stock, $0.10 par value per share, was 90,963,542 on October 19, 2015.

IDEXX LABORATORIES, INC.

Quarterly Report on Form 10-Q

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PART I— FINANCIAL INFORMATION

Item 1. Financial Statements.

IDEXX LABORATORIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 141,150	$ 322,536
Marketable securities	208,399	-
Accounts receivable, net of reserves of $5,186 in 2015 and $4,306 in 2014	190,904	152,380
Inventories	192,405	160,342
Deferred income tax assets	36,767	37,689
Other current assets	63,771	86,451
Total current assets	833,396	759,398
Long-Term Assets:		
Property and equipment, net	320,337	303,587
Goodwill	180,392	184,450
Intangible assets, net	58,650	65,122
Other long-term assets	84,435	71,654
Total long-term assets	643,814	624,813
TOTAL ASSETS	$ 1,477,210	$ 1,384,211
LIABILITIES AND STOCKHOLDERS’ EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable	$ 53,614	$ 44,743
Accrued liabilities	203,738	195,351
Line of credit	542,500	549,000
Current portion of deferred revenue	24,914	31,812
Total current liabilities	824,766	820,906
Long-Term Liabilities:		
Deferred income tax liabilities	36,571	41,688
Long-term debt	599,556	350,000

Long-term deferred revenue, net of current portion	25,460	21,665
Other long-term liabilities	29,660	32,363
Total long-term liabilities	691,247	445,716
Total liabilities	1,516,013	1,266,622
Commitments and Contingencies (Note 15)		
Stockholders’ Equity (Deficit):		
Common stock, $0.10 par value: Authorized: 120,000 shares; Issued: 102,126 and 101,947 shares in 2015 and 2014, respectively; Outstanding: 91,200 and 47,373 shares in 2015 and 2014, respectively	10,213	10,195
Additional paid-in capital	931,808	888,293
Deferred stock units: Outstanding: 240 and 235 units in 2015 and 2014, respectively	5,387	5,066
Retained earnings	274,005	1,675,299
Accumulated other comprehensive loss	(37,493)	(8,071)
Treasury stock, at cost: 10,926 and 54,574 shares in 2015 and 2014, respectively	(1,222,812)	(2,453,266)
Total IDEXX Laboratories, Inc. stockholders’ equity (deficit)	(38,892)	117,516
Noncontrolling interest	89	73
Total stockholders’ equity (deficit)	(38,803)	117,589
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY (DEFICIT)	$ 1,477,210	$ 1,384,211

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

IDEXX LABORATORIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(Unaudited)

	For the Three Months Ended September 30, 2015	2014	For the Nine Months Ended September 30, 2015	2014
Revenue:				
Product revenue	$ 246,750	$ 233,666	$ 730,063	$ 690,573
Service revenue	159,637	149,857	472,144	443,275
Total revenue	406,387	383,523	1,202,207	1,133,848
Cost of Revenue:				
Cost of product revenue	92,185	84,784	266,758	249,782
Cost of service revenue	89,928	85,403	262,874	250,115
Total cost of revenue	182,113	170,187	529,632	499,897
Gross profit	224,274	213,336	672,575	633,951
Expenses:				
Sales and marketing	73,107	70,602	223,460	206,470
General and administrative	46,198	45,698	133,717	128,633
Research and development	24,862	24,847	74,185	73,394
Impairment charge	8,212	-	8,212	-
Income from operations	71,895	72,189	233,001	225,454
Interest expense	(7,750)	(4,294)	(21,313)	(10,033)
Interest income	684	313	1,668	1,272
Income before provision for income taxes	64,829	68,208	213,356	216,693
Provision for income taxes	20,600	16,045	65,611	60,693
Net income	44,229	52,163	147,745	156,000
Less: Net income attributable to noncontrolling interest	6	21	16	55
Net income attributable to IDEXX Laboratories, Inc. stockholders	$ 44,223	$ 52,142	$ 147,729	$ 155,945
Earnings per Share:				
Basic	$ 0.48	$ 0.52	$ 1.59	$ 1.53
Diluted	$ 0.48	$ 0.52	$ 1.57	$ 1.51
Weighted Average Shares Outstanding:				
Basic	91,944	99,489	93,194	101,642

Diluted	92,897	100,800	94,262	103,045

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

IDEXX LABORATORIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	For the Three Months Ended September 30, 2015	2014	For the Nine Months Ended September 30, 2015	2014
Net income	$ 44,229	52,163	147,745	156,000
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(13,859)	(19,003)	(26,793)	(15,524)
Unrealized gain (loss) on net investment hedge	(396)	-	340	-
Unrealized loss on investments, net of tax benefit of ($60) and ($29) in 2015 and ($23) and ($19) in 2014	(88)	(37)	(81)	(32)
Unrealized gain (loss) on derivative instruments:				
Unrealized gain, net of tax expense of $1,030 and $2,882 in 2015 and $2,809 and $1,796 in 2014	2,495	6,204	6,793	4,027
Less: reclassification adjustment for gains included in net income, net of tax benefit (expense) of ($1,374) and ($4,079) in 2015 and ($67) and $24 in 2014	(3,369)	(205)	(9,681)	(103)
Unrealized gain (loss) on derivative instruments	(874)	5,999	(2,888)	3,924
Other comprehensive loss, net of tax	(15,217)	(13,041)	(29,422)	(11,632)
Comprehensive income	29,012	39,122	118,323	144,368
Less: comprehensive income attributable to noncontrolling interest	6	21	16	55
Comprehensive income attributable to IDEXX Laboratories, Inc.	$ 29,006	$ 39,101	$ 118,307	$ 144,313

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

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IDEXX LABORATORIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	For the Nine Months Ended September 30,			
		2015		2014
Cash Flows from Operating Activities:				
Net income	$	147,745	$	156,000
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		51,227		43,610
Amortization on marketable securities, net		967		-
Impairment charge		8,212		-
Provision for uncollectible accounts		1,808		1,678
Benefit of deferred income taxes		(4,649)		(6,729)
Share-based compensation expense		14,760		13,463
Other		(305)		(79)
Tax benefit from share-based compensation arrangements		(10,044)		(9,581)
Changes in assets and liabilities:				
Accounts receivable		(51,024)		(8,464)
Inventories		(27,238)		(12,638)
Other assets		41,041		(3,375)
Accounts payable		(2,841)		6,876
Accrued liabilities		(24,503)		16,216

Deferred revenue	(2,688)	11,566
Net cash provided by operating activities	142,468	208,543
Cash Flows from Investing Activities:		
Purchases of property and equipment	(67,517)	(42,504)
Purchase of marketable securities	(231,387)	-
Proceeds from the sale and maturities of marketable securities	24,711	-
Proceeds from sale of equity investment	-	5,400
Acquisitions of a business, net of cash acquired	(8,200)	(7,516)
Acquisitions of intangible assets	-	(175)
Net cash used by investing activities	(282,393)	(44,795)
Cash Flows from Financing Activities:		
(Repayments) borrowings on revolving credit facilities, net	(6,500)	98,000
Debt issue costs	(199)	(1,357)
Issuance of long term debt	250,097	200,000
Payment of notes payable	-	(1,394)
Repurchases of common stock	(309,057)	(468,968)
Proceeds from exercises of stock options and employee stock purchase plans	19,221	18,361
Tax benefit from share-based compensation arrangements	10,044	9,581
Net cash used by financing activities	(36,394)	(145,777)
Net effect of changes in exchange rates on cash	(5,067)	(4,294)
Net (decrease) increase in cash and cash equivalents	(181,386)	13,677
	322,536	279,058

Cash and cash equivalents at beginning of period				
Cash and cash equivalents at end of period	$	141,150	$	292,735

The accompanying notes are an integral part of these condensed consolidated financial statements.
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IDEXX LABORATORIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. BASIS OF PRESENTATION AND PRINCIPLES OF CONSOLIDATION

The accompanying condensed consolidated financial statements of IDEXX Laboratories, Inc. and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the requirements of Regulation S-X, Rule 10-01 for financial statements required to be filed as a part of this Quarterly Report on Form 10-Q. Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to "IDEXX," the "Company," "we," "our" or "us" refer to IDEXX Laboratories, Inc. and its subsidiaries.

The accompanying condensed consolidated financial statements include the accounts of IDEXX Laboratories, Inc. and our wholly-owned and majority-owned subsidiaries. We do not have any variable interest entities for which we are the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

The accompanying condensed consolidated financial statements reflect, in the opinion of our management, all adjustments necessary for a fair statement of our financial position and results of operations. All such adjustments are of a recurring nature. The consolidated balance sheet data at December 31, 2014 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year or any future period. These condensed consolidated financial statements should be read in conjunction with this Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 and our Annual Report on Form 10-K for the year ended December 31, 2014 (the "2014 Annual Report") filed with the U.S. Securities and Exchange Commission ("SEC").

Stock Split

On May 6, 2015, we announced a two-for-one split of our outstanding shares of common stock which was effected through a stock dividend that was paid through the issuance of treasury shares. The stock split entitled each stockholder of record at the close of business on May 18, 2015 to receive one additional share of common stock for each outstanding share of common stock held. The additional shares of our common stock paid pursuant to the stock split were distributed by the Company's transfer agent on June 15, 2015. All share and per share amounts in the condensed consolidated balance sheets, condensed consolidated statement of operations and notes to the condensed consolidated financial statements retroactively reflect the effect of the stock split unless otherwise noted.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation. Such reclassifications had no material impact on previously reported results of operations, financial position or cash flows.

Note 2. ACCOUNTING POLICIES

The significant accounting policies used in preparation of these condensed consolidated financial statements for the three and nine months ended September 30, 2015 are consistent with those discussed in Note 2 to the consolidated financial statements in our 2014 Annual Report, except for our significant accounting policies related to marketable securities.

During the nine months ended September 30, 2015, we purchased marketable debt securities, which are classified as available-for-sale and carried at fair value in the accompanying condensed consolidated balance sheets on a trade date basis. We have classified our investments with maturities beyond one year as short-term, based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. Unrealized holding gains and losses are deferred within accumulated other comprehensive income ("AOCI"), net of applicable taxes, except for when an impairment is determined to be other-than-temporary or the security is divested prior to maturity. Within the accompanying condensed consolidated statements of operations, interest earned and amortization of premiums or discounts on marketable securities are included in interest income, realized gains and losses on the sale of our marketable securities are included in other income.

We perform ongoing reviews to evaluate whether an unrealized loss on an investment represents an other-than-temporary impairment. An unrealized loss exists when the fair value of an investment is less than its amortized cost. When determining whether an impairment is other-than-temporary, we consider the duration and extent to which the fair value of the investment has been below its cost, the financial condition and near-term prospects of the issuer as expressed by the security's credit rating and rating outlook, and whether a credit event has occurred, including the failure of the issuer to make scheduled interest or principal payments. Should we intend to sell or determine that we would more likely than not be required to sell the security before the expected recovery of the amortized cost basis, we would consider the loss to be other-than-temporary and charge income in the period such determination is made. For debt securities that we have no intent to sell and for which we believe that it is more likely than not that we will not be required to sell prior to recovery, only the credit loss component of the impairment is charged to income, while any remaining loss remains recognized in AOCI. The credit loss component is identified as the difference between the present value of expected cash flows expected to be collected and the amortized cost of the investment.

New Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued an amendment which will replace most of the existing revenue recognition guidance within U.S. GAAP. The core principle of this guidance is that an entity should recognize revenue for the transfer of goods or services to customers in an amount that it expects to be entitled to receive for those goods or services. In doing so, companies will be required to make certain judgments and estimates, including identifying contract performance obligations, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price among separate performance obligations. Additionally, the amendment requires disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, significant judgments reached in the application of the guidance and assets recognized from the costs to obtain or fulfill a contract. In July 2015, the FASB voted to defer the effective date of the amendment to apply to public business entities for annual and interim periods ending after December 15, 2017. The amendment allows for two methods of adoption: a full retrospective method or a modified retrospective approach with the cumulative effect recognized at the date of initial application. We are in the process of determining the method of adoption and the impact of this amendment on our consolidated financial statements.

In August 2014, the FASB issued an amendment that requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The amendments in this update provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for one year after the date that the financial statements are issued and to provide related footnote disclosures. In doing so, the amendments should reduce diversity in the timing and content of footnote disclosures. The amendments in this update apply to all entities and are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. This amendment is not expected to have a material impact on our financial statements.

In February 2015, the FASB issued amendments which change the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities, placing more emphasis on risk of loss when determining a controlling financial interest. The amendments in this update apply to all entities and are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. This amendment is not expected to have a material impact on our financial statements.

In April 2015, the FASB issued amendments that require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Under current guidance, our debt issuance costs are reflected as a deferred charge, within other current assets, net and other long-term assets, net on our condensed consolidated balance sheets. This update is effective for the annual reporting periods beginning after December 15, 2015. This amendment is not expected to have a material impact on our financial statements.

In April 2015, the FASB issued amendments that provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The new guidance does not change the accounting for a customer’s accounting for service contracts. The standard update is effective for fiscal years beginning after December 15, 2015 and interim periods within those years. Early adoption is permitted. The standard allows for adoption retrospectively or prospectively to all arrangements entered into or materially modified after the effective date. The amendment is not expected to have a material impact on our financial statements.

In May 2015, the FASB issued amendments which remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value as a practical expedient for fair value. Removing investments measured using the practical expedient from the fair value hierarchy is intended to eliminate the diversity in practice that currently exists with respect to the categorization of these investments. The new guidance requires reporting entities to continue to disclose information on investments for which fair value is measured at net asset value (or its equivalent) as a practical expedient to help users understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from net asset value. A reporting entity should apply the amendments retrospectively to all periods presented. This update is effective for public business entities during fiscal years beginning after December 15, 2015. Early adoption is permitted. This amendment is not expected to have a material impact on our financial statements.

In July 2015, the FASB issued amendments which simplify the existing guidance which requires entities to subsequently measure inventory at the lower of cost or market value. Under the amendments, an entity should measure inventory valued using a first-in, first-out or average cost method at the lower of cost and net realizable value, which is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This update is effective for public business entities during fiscal years beginning after December 15, 2016. Early adoption is permitted. This amendment is not expected to have a material impact on our financial statements.

In September 2015, the FASB issued amendments which eliminate the requirement for an acquirer in a business combination to retrospectively account for measurement-period adjustments. Under the amendments, an entity is required to record measurement-period adjustments during the period in which the amounts are determined, including changes in depreciation, amortization and any other income effects as if the accounting had been completed at the acquisition date. This update is effective for public business entities during fiscal years beginning after December 15, 2015. Early adoption is permitted. This amendment is not expected to have a material impact on our financial statements.

NOTE 3.ACQUISITIONS

We believe that our acquisitions enhance our existing businesses by either expanding our geographic range or customer base.

During the nine months ended September 30, 2015, we paid an aggregate of $7.5 million in cash and recorded contingent consideration of $3.2 million to acquire two reference laboratory diagnostic and consulting businesses, each accounted for as a separate business combination. As part of these business acquisitions, we recognized $5.2 million in customer list amortizable intangible assets, $5.0 million in goodwill, $1.1 million in working capital, $0.3 million in fixed assets and a deferred tax liability of $0.9 million. The customer lists were each assigned useful lives of 15 years. Goodwill is calculated as the consideration in excess of net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. The goodwill recorded from these business acquisitions is not deductible for income tax purposes. All assets acquired in connection with these business acquisitions were assigned to our CAG segment. The results of operations of these acquired businesses have been included since the acquisition date. Pro forma information has not been presented for these business acquisitions because such information is not material to the financial statements.

NOTE 4. SHARE-BASED COMPENSATION

The fair value of options, restricted stock units, deferred stock units and employee stock purchase rights awarded during the three and nine months ended September 30, 2015 totaled $0.6 million and $24.4 million, respectively, as compared to $1.0 million and $23.8 million for the three and nine months ended September 30, 2014, respectively. The total unrecognized compensation expense, net of estimated forfeitures, for unvested share-based compensation awards outstanding at September 30, 2015 was $42.7 million, which will be recognized over a weighted average period of approximately 1.8 years.

We determine the assumptions used in the valuation of option awards as of the date of grant. Differences in the expected stock price volatility, expected term or risk-free interest rate may necessitate distinct valuation assumptions at each grant date. As such, we may use different assumptions for options granted throughout the year. Option awards are granted with an exercise price equal to the closing market price of our common stock at the date of grant. We have never paid any cash dividends on our common stock, and we have no intention to pay such a dividend at this time; therefore, we assume that no dividends will be paid over the expected terms of option awards. The weighted averages of the valuation assumptions used to determine the fair value of each option award on the date of grant and the weighted average estimated fair values were as follows:

	For the Nine Months Ended September 30, 2015	2014
Expected stock price volatility	23 %	28 %
Expected term, in years	5.6	5.7
Risk-free interest rate	1.5 %	1.5 %
Weighted average fair value of options granted	$ 19.72	$ 18.07

Note 5. marketable securities

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

As of September 30, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate bonds	$ 171,949	$ 39	$ (150)	$ 171,838
Agency bonds	18,108	3	-	18,111
U.S. government bonds	10,174	6	-	10,180
Certificates of deposit	3,400	-	-	3,400
Commercial paper	1,999	-	-	1,999
International government bonds	1,467	-	(1)	1,466
Municipal bonds	1,400	5	-	1,405
Total marketable securities	$ 208,497	$ 53	$ (151)	$ 208,399

No marketable securities have been in a continuous unrealized loss position for more than twelve months. Our portfolio of marketable securities had an average A+ credit rating as of September 30, 2015. There were no marketable securities that we consider to be other-than-temporarily impaired as of September 30, 2015.

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

As of September 30, 2015	Amortized Cost	Fair Value
Due in one year or less	$ 144,120	$ 144,109
Due after one through two years	64,377	64,290
	$ 208,497	$ 208,399

Note 6. Inventories

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

	September 30, 2015	December 31, 2014
Raw materials	$ 32,785	$ 26,908
Work-in-process	18,469	16,859
Finished goods	141,151	116,575
Inventories	$ 192,405	$ 160,342

Note 7. Goodwill and Intangible Assets, NET

The decrease in goodwill during the nine months ended September 30, 2015 resulted from changes in foreign currency exchange rates, partly offset by goodwill recognized in connection with the acquisition of a business. The decrease in intangible assets other than goodwill during the nine months ended September 30, 2015 resulted primarily from the continued amortization of our intangible assets and changes in foreign currency exchange rates, partly offset by intangible assets recognized in connection with the acquisition of businesses. See Note 3 for information regarding goodwill and other intangible assets recognized in connection with the acquisition of businesses during the nine months ended September 30, 2015.

NOTE 8. Other current and long-term ASSETS

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

	September 30, 2015	December 31, 2014
Prepaid expenses	$ 30,615	$ 32,672
Taxes receivable	10,925	28,926
Customer acquisition costs	15,679	11,262
Other assets	6,552	13,591
Other current assets	$ 63,771	$ 86,451

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

	September 30, 2015	December 31, 2014
Investment in long-term product supply arrangements	$ 12,117	$ 10,765
Customer acquisition costs	41,130	28,165
Other assets	31,188	32,724
Other long-term assets	$ 84,435	$ 71,654

Note 9. Accrued liabilities

Accrued liabilities consisted of the following (in thousands):

	September 30, 2015	December 31, 2014
Accrued expenses	$ 60,213	$ 55,655
Accrued employee compensation and related expenses	72,618	75,232
Accrued taxes	25,058	28,439
Accrued customer programs	45,849	36,025
Accrued liabilities	$ 203,738	$ 195,351

Note 10. Debt

In June 2015, we entered into an Amended and Restated Multi-Currency Note Purchase and Private Shelf Agreement (the “Amended Agreement”), among the Company, Prudential Investment Management, Inc. (“Prudential”) and the accredited institutional purchasers named therein, which amends and restates the Note Purchase and Private Shelf Agreement dated July 21, 2014. Pursuant to the Amended Agreement, we issued and sold through a private placement a principal amount of €88.9 million (approximately $100 million) of 1.785% Series C Senior Notes due June 18, 2025 (the “2025 Notes”). We used the net proceeds from this issuance and sale of the 2025 Notes for general corporate purposes, including repaying amounts outstanding under our revolving credit facility.

The Amended Agreement also provides for an uncommitted shelf facility by which we may request that Prudential purchase, over the next three years, up to $75 million (or the foreign currency equivalent) of additional senior promissory notes of the Company at a fixed interest rate and with a maturity date not to exceed twelve years (the “Shelf Notes”). Prudential is under no obligation to purchase any of the Shelf Notes. The interest rate of any series of Shelf Notes will be determined at the time of purchase. The proceeds of any series of Shelf Notes will be used only for general corporate purposes.

In December 2014, we entered into a Multi-Currency Note Purchase and Private Shelf Agreement (the "MetLife Agreement") with accredited institutional purchasers named therein pursuant to which we agreed to issue and sell $75 million of 3.25% Series A Senior Notes having a seven-year term (the "2022 Notes") and $75 million of 3.72% Series B Senior Notes having a twelve-year term (the "2027 Notes"). In February 2015, we issued and sold the 2022 Notes and the 2027 Notes pursuant to the MetLife Agreement. We used the net proceeds from these issuance and sales for general corporate purposes, including repaying amounts outstanding under our revolving credit facility.

Since December 2013, we have issued and sold through private placements senior notes that have an aggregate principal amount of approximately $600 million pursuant to certain note purchase agreements (collectively, the "Senior Note Agreements"). The Senior Note Agreements contain affirmative, negative and financial covenants customary for agreements of this type. The negative covenants include restrictions on liens, indebtedness of our subsidiaries, priority indebtedness, fundamental changes, investments, transactions with affiliates, certain restrictive agreements and violations of laws and regulations. The financial covenant is a consolidated leverage ratio test that requires our ratio of debt to earnings before interest, taxes, depreciation, amortization and share-based compensation, as defined in the Senior Note Agreements, not to exceed 3.5-to-1. At September 30, 2015 we were in compliance with the covenants of the Senior Note Agreements. See Note 10 to the consolidated financial statements in our 2014 Annual Report for additional information regarding our senior notes.

Note 11. Repurchases of common STOCK

The following is a summary of our open market common stock repurchases, reported on a trade date basis, for the three and nine months ended September 30, 2015 and 2014 (in thousands, except per share amounts):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Shares repurchased1	1,213	4,393	4,345	7,492
Total cost of shares repurchased	$ 85,975	$ 272,342	$ 313,083	$ 468,968
Average cost per share1	$ 70.89	$ 61.99	$ 72.05	$ 62.59

(1) Shares repurchased and acquired through employee surrender for payment of minimum required withholding taxes on and before June 15, 2015 and the associated average cost per share have been adjusted to reflect the June 2015 two-for-one stock split. Actual shares repurchased were approximately 2,962,000 for the nine months ended

September 30, 2015, and approximately 2,197,000 and 3,746,000 for the three and nine months ended September 30, 2014, respectively.

We primarily acquire shares by means of repurchases in the open market. However, we also acquire shares that are surrendered by employees in payment for the minimum required withholding taxes due on the vesting of restricted stock units and the settlement of deferred stock units, otherwise referred to herein as employee surrenders. The number of shares acquired through employee surrenders during both the three months ended September 30, 2015 and 2014 was not material. We acquired approximately 66,000 shares having a total cost of $5.2 million in connection with such employee surrenders during the nine months ended September 30, 2015 as compared to approximately 85,000 shares having a total cost of $5.3 million during the nine months ended September 30, 2014.

In conjunction with a two-for-one split of our outstanding shares of common stock enacted on May 18, 2015, IDEXX paid the stock dividend on June 15, 2015 by issuing approximately 46.6 million shares of treasury stock having a total carrying value of approximately $1.5 billion.

We issue shares of treasury stock upon the vesting of certain restricted stock units and upon the exercise of certain stock options. The number of shares of treasury stock issued during both the nine months ended September 30, 2015 and 2014 was not material.

Note 12. Income Taxes

Our effective income tax rate was 31.8% and 30.8% for the three and nine months ended September 30, 2015, respectively, as compared to 23.5% and 28.0% for the three and nine months ended September 30, 2014, respectively.

The increase in our effective rate for both the three and nine months ended September 30, 2015, as compared to the same periods of the prior year, was related to lower relative earnings subject to international tax rates that are lower than domestic tax rates, including the impact of foreign currency exchange rates, as well as a non-recurring benefit during the period ended September 30, 2014 related to the deferral of inter-company profits that were included in prior year tax provisions in error, which was not material to the period ended September 30, 2014 or prior interim or annual periods.

Note 13. ACCUMULATED OTHER Comprehensive Income

The changes in AOCI, net of tax, for the nine months ended September 30, 2015 consisted of the following (in thousands):

For the Nine Months Ended September 30, 2015	Unrealized Gain (loss) on Investments, Net of Tax	Unrealized Gain on Derivative Instruments, Net of Tax	Unrealized Gain on Net Investment Hedge, Net of Tax	Cumulative Translation Adjustment	Total
Balance as of December 31, 2014	$ 1	$ 7,361	$ -	$ (15,433)	$ (8,071)
Other comprehensive (loss) income before reclassifications	(81)	6,793	340	(26,793)	(19,741)
Gains reclassified from accumulated other comprehensive income	-	(9,681)	-	-	(9,681)
Balance as of September 30, 2015	$ (80)	$ 4,473	$ 340	$ (42,226)	$ (37,493)

The following is a summary of reclassifications out of AOCI for the three and nine months ended September 30, 2015 and 2014 (in thousands):

Details about AOCI Components	Affected Line Item in the Statement of Operations	Amounts Reclassified from AOCI For the Three Months Ended September 30, 2015	2014
Gains (losses) on derivative instruments classified as cash flow hedges included in net income:			
Foreign currency exchange contracts	Cost of revenue	$ 5,003	$ 540
Interest rate swaps	Interest expense	(260)	(268)
	Total gains before tax	4,743	272
	Tax expense	1,374	67
	Gains, net of tax	$ 3,369	$ 205

Details about AOCI Components	Affected Line Item in the Statement of Operations	Amounts Reclassified from AOCI For the Nine Months Ended September 30, 2015	2014
Gains (losses) on derivative instruments classified as cash flow hedges included in net income:			
Foreign currency exchange contracts	Cost of revenue	$ 14,547	$ 874
Interest rate swaps	Interest expense	(787)	(795)
	Total gains before tax	13,760	79
	Tax expense (benefit)	4,079	(24)
	Gains, net of tax	$ 9,681	$ 103

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Note 14. Earnings per Share

Basic earnings per share is computed by dividing net income attributable to IDEXX Laboratories, Inc. stockholders by the weighted average number of shares of common stock and vested deferred stock units outstanding during the year. The computation of diluted earnings per share is similar to the computation of basic earnings per share, except that the denominator is increased for the assumed exercise of dilutive options and assumed issuance of unvested restricted stock units and unvested deferred stock units using the treasury stock method unless the effect is anti-dilutive. The treasury stock method assumes that proceeds, including cash received from the exercise of employee stock options, the total unrecognized compensation expense for unvested share-based compensation awards and the excess tax benefits resulting from share-based compensation tax deductions in excess of the related expense recognized for financial reporting purposes, would be used to purchase our common stock at the average market price during the period. Vested deferred stock units outstanding are included in shares outstanding for basic and diluted earnings per share because the associated shares of our common stock are issuable for no cash consideration, the number of shares of our common stock to be issued is fixed and issuance is not contingent. See Note 4 to the consolidated financial statements in our 2014 Annual Report for additional information regarding deferred stock units.

The following is a reconciliation of shares outstanding for basic and diluted earnings per share for the three and nine months ended September 30, 2015 and 2014 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Shares outstanding for basic earnings per share	91,944	99,489	93,194	101,642
Shares outstanding for diluted earnings per share:				
Shares outstanding for basic earnings per share	91,944	99,489	93,194	101,642
Dilutive effect of share-based payment awards	953	1,311	1,068	1,403
	92,897	100,800	94,262	103,045

Certain options to acquire shares and restricted stock units have been excluded from the calculation of shares outstanding for diluted earnings per share because they were anti-dilutive. The following table presents information concerning those anti-dilutive options and restricted stock units for the three and nine months ended September 30, 2015 and 2014 (in thousands):

	For the Three	For the Nine Months

	Months Ended September 30,		Ended September 30,	
	2015	2014	2015	2014
Weighted average number of shares underlying anti-dilutive options	752	729	720	623
Weighted average number of shares underlying anti-dilutive restricted stock units	-	-	2	-

Note 15. Commitments, Contingencies and Guarantees

Significant commitments, contingencies and guarantees at September 30, 2015 are consistent with those discussed in Note 13 to the consolidated financial statements in our 2014 Annual Report, with the exception of approximately $250 million of long-term debt issued during the nine months ended September 30, 2015. See Note 10 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Note 16. Segment Reporting

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

Prior to January 1, 2015, our CAG segment included certain livestock testing services processed within and managed by our CAG Reference Laboratories. We have transitioned the responsibility for these diagnostic services to our LPD segment to more effectively align our business with the nature and customers of these livestock services. Segment revenue and income from operations for the three and nine months ended September 30, 2014 has been retrospectively revised in this Quarterly Report on Form 10-Q to reflect this change in the composition of our reportable segments. Revenue related to these livestock testing services was $3.4 million and $10.8 million for the three and nine months ended September 30, 2014, respectively.

Items that are not allocated to our operating segments are as follows: a portion of corporate support function and personnel-related expenses; certain manufacturing costs; corporate research and development expenses that do not align with one of our existing business or service categories; the difference between estimated and actual share-based compensation expense; certain foreign currency exchange gains and losses; and certain unusual or infrequent items. These amounts are shown under the caption "Unallocated Amounts."

We estimate our share-based compensation expense, corporate support function expenses and certain personnel-related costs and allocate the estimated expenses to the operating segments. This allocation differs from actual expense and consequently yields a difference that is reported under the caption "Unallocated Amounts."

With respect to manufacturing costs, the costs reported in our operating segments include our standard cost for products sold and any variances from standard cost for products purchased or manufactured within the period. We capitalize these variances for inventory on hand at the end of the period to record inventory in accordance with U.S. GAAP. We then record these variances as cost of product revenue as that inventory is sold. The impact to cost of product revenue resulting from this variance capitalization and subsequent recognition is reported within the caption "Unallocated Amounts."

Additionally, in certain geographies where we maintain inventories in currencies other than the U.S. dollar, the product costs reported in our operating segments include our standard cost for products sold, which is stated at the budgeted currency exchange rate from the beginning of the fiscal year. In these geographies, the variances from standard cost for products sold related to changes in currency exchange rates are reported within the caption “Unallocated Amounts.”

We recorded an $8.2 million impairment charge related to internally-developed software not yet placed into service within Unallocated Amounts operating expenses during the three months ended September 30, 2015 as a result of a strategic shift to refocus our development efforts within our information management business.

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The following is a summary of segment performance for the three and nine months ended September 30, 2015 and 2014 (in thousands):

	For the Three Months Ended September 30,					
	CAG	Water	LPD	Other	Unallocated Amounts	Consolidated Total
2015						
Revenue	$ 344,081	$ 25,957	$ 30,448	$ 5,901	$ -	$ 406,387
Income (loss) from operations	$ 61,541	$ 12,408	$ 5,562	$ 635	$ (8,251)	$ 71,895
Interest expense, net						(7,066)
Income before provision for income taxes						64,829
Provision for income taxes						20,600
Net income						44,229
Less: Net income attributable to noncontrolling interest						6
Net income attributable to IDEXX Laboratories, Inc. stockholders						$ 44,223
2014						
Revenue	$ 317,309	$ 25,747	$ 33,063	$ 7,404	$ -	$ 383,523
Income (loss) from operations	$ 60,176	$ 11,367	$ 6,319	$ 794	$ (6,467)	$ 72,189
Interest expense, net						(3,981)
Income before provision for income taxes						68,208
Provision for income taxes						16,045
Net income						52,163
Less: Net income attributable to noncontrolling interest						21
Net income attributable to IDEXX Laboratories, Inc. stockholders						$ 52,142

	For the Nine Months Ended September30,					
	CAG	Water	LPD	Other	Unallocated Amounts	Consolidated Total
2015						
Revenue	$ 1,020,232	$ 72,706	$ 93,777	$ 15,492	$ -	$ 1,202,207
Income (loss) from operations	$ 181,845	$ 33,821	$ 17,408	$ 204	$ (277)	$ 233,001
Interest expense, net						(19,645)
Income before provision for income taxes						213,356
Provision for income taxes						65,611

Net income						147,745
Less: Net income attributable to noncontrolling interest						16
Net income attributable to IDEXX Laboratories, Inc. stockholders						$ 147,729
2014						
Revenue	$ 938,166	$ 71,655	$ 104,581	$ 19,446	$ -	$ 1,133,848
Income (loss) from operations	$ 181,104	$ 29,547	$ 25,385	$ 1,134	$ (11,716)	$ 225,454
Interest expense, net						(8,761)
Income before provision for income taxes						216,693
Provision for income taxes						60,693
Net income						156,000
Less: Net income attributable to noncontrolling interest						55
Net income attributable to IDEXX Laboratories, Inc. stockholders						$ 155,945

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The following is a summary of revenue by product and service category for the three and nine months ended September 30, 2015 and 2014 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
CAG segment revenue:				
CAG Diagnostics recurring revenue:	$ 290,502	$ 274,367	$ 869,413	$ 807,193
IDEXX VetLab® consumables	98,957	90,975	298,093	264,410
VetLab service and accessories	13,675	13,537	41,223	40,036
Rapid assay products	47,534	46,777	143,353	139,328
Reference laboratory diagnostic and consulting services	130,336	123,078	386,744	363,419
CAG Diagnostics capital - instruments	25,989	18,215	70,166	55,799
Customer information management and digital imaging systems	27,590	24,727	80,653	75,174
CAG segment revenue	344,081	317,309	1,020,232	938,166
Water segment revenue	25,957	25,747	72,706	71,655
LPD segment revenue	30,448	33,063	93,777	104,581
Other segment revenue	5,901	7,404	15,492	19,446
Total revenue	$ 406,387	$ 383,523	$ 1,202,207	$ 1,133,848

Note 17. FAIR VALUE MEASUREMENTS

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

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

Level 1	Quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. We did not have any transfers between Level 1 and Level 2 or transfers in or out of Level 3 of the fair value hierarchy during the nine months ended September 30, 2015.

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

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

The amount outstanding under our unsecured revolving credit facility (“Credit Facility”) and long-term debt are measured at carrying value in our accompanying condensed consolidated balance sheets though we disclose the fair value of these financial instruments. We determine the fair value of the amount outstanding under our Credit Facility and long-term debt using an income approach, utilizing a discounted cash flow analysis based on current market interest rates for debt issues with similar remaining years to maturity, adjusted for applicable credit risk. Our Credit Facility and long-term debt are valued using Level 2 inputs. The estimated fair value of our Credit Facility approximates its carrying value. The estimated fair value and carrying value of our long-term debt were $615.5 million and $599.6 million, respectively, as of September 30, 2015 and $367.3 million and $350.0 million, respectively, as of December 31, 2014.

The following tables set forth our assets and liabilities that were measured at fair value on a recurring basis at September 30, 2015 and at December 31, 2014 by level within the fair value hierarchy (in thousands):

As of September 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2015
Assets				
Money market funds(1)	$ 16,656	$ -	$ -	$ 16,656
Commercial paper(1)	-	7,599	-	7,599
Marketable Securities				
Corporate bonds	-	171,838	-	171,838
Agency bonds	-	18,111	-	18,111
U.S. government bonds	-	10,180	-	10,180
Certificates of deposit	-	3,400	-	3,400
Commercial paper	-	1,999	-	1,999
International government bonds	-	1,466	-	1,466
Municipal bonds	-	1,405	-	1,405
Total marketable securities	-	208,399	-	208,399

Equity mutual funds(2)	2,295	-	-	2,295
Foreign currency exchange contracts(3)	-	8,458	-	8,458
Liabilities				
Foreign currency exchange contracts(3)	-	1,836	-	1,836
Deferred compensation(4)	2,295	-	-	2,295
Interest rate swaps(5)	-	688	-	688

As of December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2014
Assets				
Money market funds(1)	$ 204,743	$ -	$ -	$ 204,743
Equity mutual funds(2)	2,654	-	-	2,654
Foreign currency exchange contracts(3)	-	12,226	-	12,226
Liabilities				
Foreign currency exchange contracts(3)	-	1,323	-	1,323
Deferred compensation(4)	2,654	-	-	2,654
Interest rate swaps(5)	-	1,117	-	1,117

(1) Money market funds and commercial paper with an original maturity of less than ninety days are included within cash and cash equivalents. The remaining balance of cash and cash equivalents as of September 30, 2015 and December 31, 2014 consisted of demand deposits. Commercial paper with an original maturity of over ninety days is included within marketable securities.
(2) Equity mutual funds relate to a deferred compensation plan that was assumed as part of a previous business combination. This amount is included within other long-term assets, net. See number (4) below for a discussion of the related deferred compensation liability.
(3) Foreign currency exchange contracts are included within other current assets, net; other long-term assets, net; accrued liabilities; or other long-term liabilities depending on the gain (loss) position and anticipated settlement date.
(4) A deferred compensation plan assumed as part of a previous business combination is included within accrued liabilities and other long-term liabilities. The fair value of our deferred compensation plan is indexed to the performance of the underlying equity mutual funds discussed in number (2) above.
(5) Interest rate swaps are included within accrued liabilities.

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

Note 18. HEDGING Instruments

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

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

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

We recognize all hedging instruments on the balance sheet at fair value at the balance sheet date. Instruments that do not qualify for hedge accounting treatment must be recorded at fair value through earnings. To qualify for hedge accounting treatment, cash flow and net investment hedges must be highly effective in offsetting changes to expected future cash flows or fair value on hedged transactions. If the instrument qualifies for hedge accounting, changes in the fair value of the hedging instrument from the effective portion of the hedge are deferred in AOCI, net of tax, and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. We immediately record in earnings the extent to which a hedging instrument is not effective in achieving offsetting changes in fair value. We de-designate hedging instruments from hedge accounting when the likelihood of the hedged transaction occurring becomes less than probable. For de-designated instruments, the gain or loss from the time of de-designation through maturity of the instrument is recognized in earnings. Any gain or loss in AOCI at the time of de-designation is reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. See Note 13 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q for further information regarding the effect of hedging instruments on the condensed consolidated statements of operations for the three and nine months ended September 30, 2015 and 2014.

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

Cash Flow Hedges

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

We did not de-designate any instruments from hedge accounting treatment during the three and nine months ended September 30, 2015 or 2014. Gains or losses related to hedge ineffectiveness recognized in earnings during the three and nine months ended September 30, 2015 and 2014 were not material. At September 30, 2015, the estimated amount of net gains, net of income tax expense, which are expected to be reclassified out of AOCI and into earnings within the next 12 months, is $4.3 million if exchange and interest rates do not fluctuate from the levels at September 30, 2015.

We enter into foreign currency exchange contracts for amounts that are less than the full value of forecasted intercompany inventory purchases and sales. Our hedging strategy related to intercompany inventory purchases and sales is to employ the full amount of our planned hedges for the succeeding year at the conclusion of our budgeting process for that year. We primarily utilize foreign currency exchange contracts with durations of less than 24 months. Quarterly, we enter into contracts to hedge incremental portions of anticipated foreign currency transactions for the current and following year. As a result, our risk with respect to foreign currency exchange rate fluctuations and the notional value of foreign currency exchange contracts may vary throughout the year. The U.S. dollar is the currency purchased or sold in all of our foreign currency exchange contracts. The notional amount of foreign currency exchange contracts to hedge forecasted intercompany inventory purchases and sales totaled $211.0 million and $186.7 million at September