



October 9, 2007

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INVESTMENT LETTER
[IDEXX Laboratories, Inc. \(NASDAQ: IDXX\)](#)

Aspen, Colorado
Wednesday, August 29, 2007

A seventeen yard long wooden pedestrian bridge, spanning the clear turbulent waters of Castle Creek in Aspen, connects Music School Road with the campus of the [Aspen Country Day School in Aspen, Colorado](#).

It was a beautiful, clear morning, with the temperature in the low eighties, a refreshing contrast to the sweltering heat of Tulsa, Oklahoma. Meredith Bohot, Stephen Shepherd, and I were walking slowly around the school's campus, enjoying ourselves and headed toward Castle Creek Bridge, when I looked up and I saw a well-groomed dog, a cream colored poodle, carefully positioned on the balcony of the Music School Associates office, looking straight ahead, surveying the school's campus, and giving us a quick look and a fast appraisal. The dog is pictured below.

[Matisse on a Coffee Break](#)



The dog did not bark, nor did he move his tail. He gazed at us in a neutral, analytically composed manner, neither overwhelmingly friendly but certainly not hostile. He was mildly interested in us but not excited by our presence. I almost had the feeling that he knew that we were visitors, that he had not seen us before, that we posed no threat. His quick intuition told him that we were friendly, but that whatever our purpose was on the school's campus, it really did not overly concern him.

We were in Aspen to address the [Aspen Country Day School](#) teachers on a dry subject: systematic investing for retirement, and the strikingly significant financial payoff that a disciplined retirement program can produce.

The dog displayed composure and tranquility and a relaxed alertness as he decided we were worth a glance or two, but probably not much more.

The purpose of our stroll was not important enough to be of significant interest to the dog. We had little effect on the dog and indeed I wondered whether anything or anyone could affect him; he seemed to be at peace with the world, and certainly with himself.

It so happened that morning that stock prices were unusually volatile. The dog probably was not aware of this fact, but if he had been aware of it, it would have done little, I guess, to have disturbed his composure, his peace of mind. If long term investors possess composure and indifference to gusty but short lived winds and other types of tempest, he was surely a long term investor and had probably owned [Stericycle \(NASDAQ: SRCL\)](#) even before I had purchased the common stock for myself and for my clients. (We had purchased [Stericycle](#) in August 2004 at an average weighted cost of [\\$22.38](#) after I had wondered what the plastic containers in the locker room of my health club at the St. John Medical Center in Tulsa held.) It turned out that these containers held used blades and razors and other products of medical waste and that [Stericycle](#) had been hired by the health system to remove and destroy the waste.

I became interested in the company, called the chief executive officer, did some other research, and we bought the common shares. As of the market close on October 8, 2007 the price was [\\$56.58](#) giving our clients a return of [144.46 per cent](#) in about thirty six months.

The dog was highly intelligent, it seemed, and possessed the emotional efficiency that all good executives enjoy, being able to spend the correct amount of energy commensurate with the importance of the task.

Right now that task was quickly sizing up the strangers who were walking below him. And judging by the once-over the dog gave us, he did not think he had a big task in front of him.

I was fascinated by the dog's presence or his persona. In fact, if you believe, as I do, that animals and humans are similar in many ways, particularly in the range and in the intensity of personalities, levels of intelligence, and in the interest or the disinterest in certain activities, then it is reasonable to believe that a dog could have a [dogsona](#) or a [dogsonality](#) that was distinctive, as this dog seemed to have.

Meredith and Stephen too, found the dog's [dogsona](#) of great interest. We agreed that we ought to capture the dog's presence, his mood, his affect.



Meredith Bohot, Fred Russell, and Stephen Shepherd on the campus of the [Aspen Country Day School](#) on Wednesday, August 29, 2007

Meredith retrieved her camera from her purse and took the dog's picture as he stood sentinel, looking at the [Aspen Country Day School](#) campus.

It was a productive day in Aspen. The teachers were friendly, listening to us detail the payoff that disciplined retirement planning can produce. Many of the teachers are less than forty years old and probably retirement is the furthest thing on their minds. I knew it would be tough to reach them but I was inspired to speak to them, to arouse their interest in being rich, and comfortable, and only working when you want to work.

[Tom Reagan](#), Head of the Board of Trustees for the school, who is energetically leading the school's campaign to raise funds for the school's new campus in Aspen, and [John Suitor](#), the school's Headmaster, have worked hard to develop a retirement program that generously matches the pretax contributions that the teachers make to their program.

John and I went to [Deerfield Academy](#) in [Deerfield, Massachusetts](#) and graduated together in 1961. He practices a particularly effective version of the Theory Y style of management, a style which advances this concept: if you are, as manager, kind and supportive and praise much more than you criticize you will get much more productivity from your colleagues or employees. In Oklahoma, or in Texas, where Meredith is from, they follow the spirit of Theory Y as follows: you catch more flies with honey than with vinegar.

I turned my thoughts from retirement to animals as I watched Matisse sigh, and wondered whether he thought today's extreme market volatility presented a good buying opportunity.

Often people believe that companion animals ought to have the same privileges that any other family member might have. One privilege is access to healthcare, and includes the tests that [IDEXX Laboratories](#) provides to the veterinarian.

Investment Thesis: [IDEXX Laboratories \(NASDAQ: IDXX\)](#)

I am not alone, far from alone, in my belief that dogs and cats are far more intelligent than we often believe, and that their behavior, their psychology is far more complicated than we might expect.

However intelligent or complicated they may be, one thing is sure: pets can give us great pleasure.

Who does not enjoy the company of a dog or cat? Animals are non-critical easygoing companions and often vigilant guards of our homes and families, playing indispensable emotional roles in our lives. As people view pets as family members and less as creatures that merely live in the back yard or in the front yard, Americans are feeling comfortable with their commitment to expensive medical and diagnostic tests for their companion pets.

[IDEXX](#) produces many tests for companion animals, tests that are affordable and widely available at any neighborhood veterinary clinic. Veterinarians use an Idexx test to detect Lyme disease along with other common animal related ailments such as heartworm and canine anaplasmosis, a tick-borne disease caused by a bacterium characterized most often by anemia and jaundice.

At the [Strathe Veterinary Clinic](#) in [Owasso, Oklahoma](#), Meredith, Stephen and I watched as [Robert Howland, DVM](#) took a blood sample of a cat and ran it through an [IDEXX](#) system. Just a few minutes later he had a report that covered virtually the same dimensions or properties of blood as the blood test that Pathology Associates of Tulsa (a professional group that runs the [Regional Medical Laboratory](#) for the [Sisters of Sorrowful Mercy](#) and the [St. John Health System](#) in Tulsa) had taken for me a week before.

[IDEXX](#) is a company with above average growth prospects, little or no debt, dominant market position and attractive valuations, and we believe that [IDEXX](#) is well positioned to give us satisfactory returns for several years. We believe that investing in companies that do just a few things, but do them well, manufacturing what they market, is a good use of common sense and ought to be rewarding for our clients. (I invest my money in the exact same common stocks that I invest in for our clients and I do not invest in any other common stocks.)

The situation in the domestic veterinarian profession is similar to that of dentistry. Just as fewer dentists, as a percentage of the population, are graduating every year from dentistry schools, just as demand for dentistry services is rising, so there are fewer veterinarians getting diplomas every year. At the same time, people with or without children are increasingly viewing animals as family members or close companions, spending more money annually on healthcare for their pets. These forces produce an excellent outlook for [IDEXX](#), as well as for [Dentsply International \(NASDAQ: XRAY\)](#).

Meredith took a good picture, but she still wanted to know the name of the dog, so we decided to do some digging. We are not talking about any work with shovels, but research.

If you ever have the opportunity to visit the campus of the [Aspen Country Day School](#) you will be sure to meet [Caterina Gibson](#). Married to [Brad Gibson](#), a detective on the Aspen Police force, [Caterina](#) presides over the reception area of the school's administrative building, which houses the office of the headmaster, [John Sutor](#), and the office of the school's Director of Admissions, [Caroline Hines](#).

After our walk I went into the school's office and spoke with [Caterina](#). I asked her about the stately poodle that we had seen on the balcony of the [Music School Associates](#) office. She said she would do some checking and call me back.

A few days later, after we had returned to Tulsa, [Caterina](#) called and told us that the name of the dog is Matisse. Matisse is a name that fits in well in Aspen. Matisse belongs to [Linda Meister](#), or as some owners say, Linda belongs to Matisse.

We called [Linda](#) at [Music Associates](#). [Linda](#) told us that Matisse is almost eight years old, and, as we thought, highly intelligent. [Linda](#) spoke of him as if he were a family member, and almost as if he were her child.

[IDEXX Laboratories, Inc. \(NASDAQ:IDXX\)](#) Business Summary

[IDEXX Laboratories, Inc.](#) develops, manufactures and distributes products and provides services primarily for the veterinary and the food and water testing markets. [IDEXX](#) also sells a line of portable electrolytes and blood gas analyzers for the human point-of-care medical diagnostics market. [IDEXX's](#) primary products and services are:

- Point-of-care veterinary diagnostic products, comprising rapid assays and instruments and consumables;
- Laboratory and consulting services used by veterinarians;
- Veterinary pharmaceutical products;
- Information products and services and digital radiography systems for veterinarians;
- Diagnostic and health-monitoring products for production animals;

Veterinarians use the VetTest® Chemistry Analyzer to measure levels of certain enzymes and other substances in blood or urine so that they may draw conclusions about what the Idexx disposable tests, run through the Analyzer, shows.

The veterinarian can run twenty-six tests on the VetTest® Chemistry Analyzer, including blood tests to measure glucose, alkaline phosphatase, ALT (alanineaminotransferase), creatinine, blood urea nitrogen ("BUN") and total protein.

The VetTest® Chemistry Analyzer also runs tests for the urine protein/urine creatinine ratio, a test which helps the veterinarian detect early renal disease. Idexx sells tests individually and in prepackaged panels, such as the General Health Profile, the Equine Panel, and the Diagnostic Health Panel.

The VetLyte® analyzer measures three electrolytes—sodium, potassium and chloride—to analyze acid-base and electrolyte balances and to analyze plasma hydration.

Back in Tulsa, inspired by the friendly dogs that I saw in Aspen, I decided to write some poetry about people and animals. So here it is.

Why A Trip to Starbucks Means No Pet Left Behind

No Child Left behind, Bush Declared
But More Likely, It is in Reality
No Pet Left Behind
About our pets we always think.
And to spend more money on them,
Is an easy decision, that does not
Force us to think or blink.

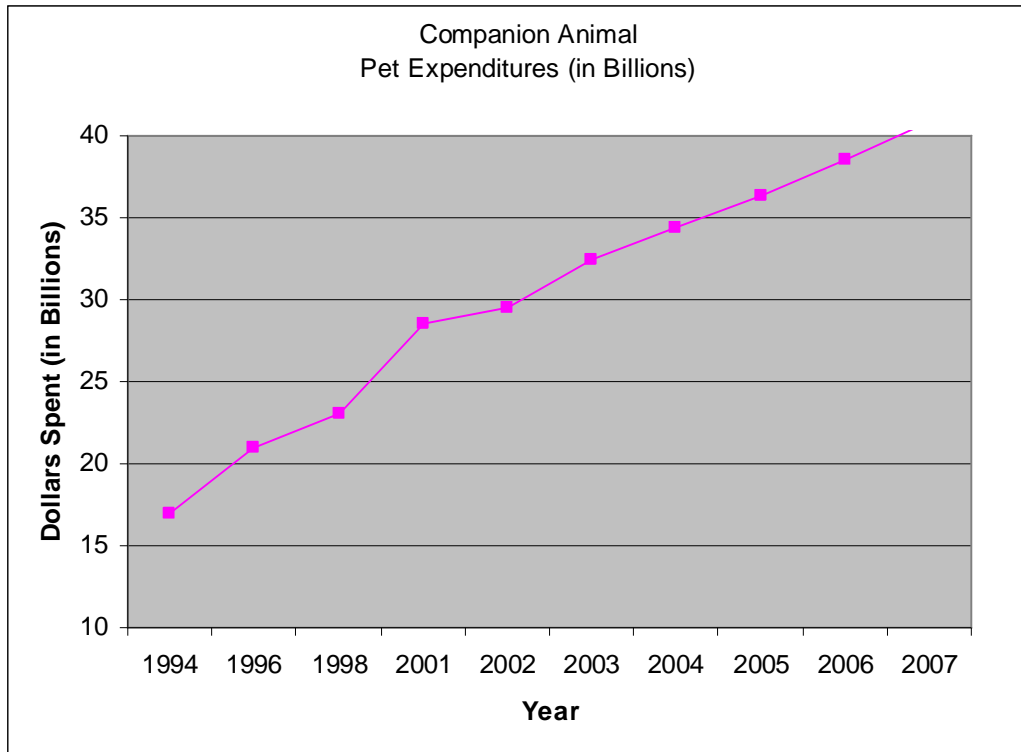
Because, believe it or not, dogs and cats
Used to sleep in the servants' quarters
Where the cats and dogs parked their hindquarters.
But now dogs and cats have moved up, in every
Sense of the word. Often they sleep with their masters on the top floor,
and when honored guests come, they help, with their friendliness in the showing off
of the domicile, a custom that we politely call the house tour.

Cats and dogs are now emotionally much closer
To their masters, their owners, so much so
That instead of having with their masters
A bone to pick
It is they (the companion animals) who may plan the family menu
So that they might have, with respect to the kind of meat to
Be served on any given weekday or weekend,
the choicest pick.

Dogs and cats are usually quite easy to manage, and their expectations
Realistic. Give them a good meal, fifteen to twenty minutes of attention a day.
And they certainly will not go ballistic.

Walter the Chihuahua Having A Portfolio Review with Fred Russell





Note: the expenditures above are for the United States only

End of Part I

Clients, officers, shareholders, and employees of the Fredric E. Russell Investment Management Co. have a position in [IDEXX Laboratories, Inc.](#), a position which consists of 25,650 shares, whose market value, as of the close of trading on October 5, 2007 is \$2,883,060.

Thanks to [Caterina Gibson](#), [Robert Howland, DVM](#), [Linda Meister](#), the Investor Relations Department of [IDEXX Laboratories](#), and [Senih Geray](#), whose excellent management of the [St. Regis Resort in Aspen](#) permitted me to have the energy to speak with vigor on a dry subject to the teachers at the [Aspen Country Day School](#).

The writer of this report, [Fredric E. Russell](#), lists his academic and professional background as follows: B.A., Swarthmore College, Swarthmore, Pa.; M.B.A, and M.A., Washington University, St. Louis, Mo. He also holds the CPA certificate, and has taught accounting at the university level. He believes his love for writing and his usually correct grammar come from spending four years learning the English language at [Deerfield Academy in Deerfield, Mass.](#), and from reading everything well written he can find.

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