



December 24, 2007

IDEXX Laboratories, Inc. (NASDAQ:IDXX)

Why We Are Dogmatic About the Excellent Future of IDEXX Laboratories

Our limited warranty: we warrantee that our investment letters will be free from **soporific jargon**. Also, we believe, the letters will entertain you. If they do not entertain you, you may complain to us and we will do our best to make the next letter more entertaining, but achieving this goal may depend on the strength of the coffee that the writer, Fredric E. Russell, consumes while writing his letters.

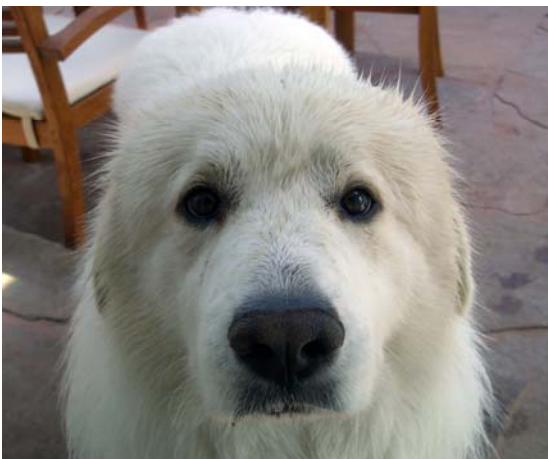
We will always write our letters with respect for your intelligence.

Our job is to make money for our clients and to outperform the Dow Jones Industrial Average, the Standard & Poor's 500, the NASDAQ Composite, the Russell 2000 or any other indexes that provide an intelligent and realistic score of our performance. For the one, five and ten year periods ended December 31, 2006, and through December 21, 2007 we have done much better than these indexes. **And we have achieved our results without using leverage.** (See chart two below on page seven.)

In August of 2006, looking to take a break from the blistering Tulsa heat, I arranged to fly to Denver, meet a client, and then drive from Denver to see clients in Aspen.

I always like to mention Aspen whenever I can because I am not invulnerable to judicious name dropping, and if you can drop a name, why not Aspen, a town that epitomizes beautiful artistry with its annual musical festival, and symbolizes sophisticated culinary style with its yearly food and wine festival. Aspen is a town with all kinds of wonderful places. For example if you love vegetarian food, and you want to buy a book and have good tofu, there's the [Explore Booksellers and Bistro](#). There are wonderful hotels such as the [Hotel Jerome](#) and the [St. Regis Aspen Resort](#). In fact there really is nothing that you cannot do in Aspen. (Aspen of course is also a great place for camping but my idea of roughing it is staying on the concierge floor at either the Jerome or at the St. Regis.)

Sulley the Great Pyrenees



There is great wealth in Aspen, and people---whether residents or visitors---sometimes like to make everyone aware that they are a part of this wealth. It is not, uncommon to see multimillionaires and multibillionaires strutting around town with well-groomed and well-dressed dogs, who appear to be more status conscious and to be wearing more expensive coats and jewelry than their owners.

The last time I was in Aspen was November 14. I was there to make a presentation to the Board of Trustees of the Aspen Country Day School, whose endowment fund we manage. After our

presentation to the Board at the Red Brick Center I took a walk through downtown Aspen. As I left Wagner Park I noticed a well-dressed middle-aged woman leading a beautifully manicured poodle (or was the poodle leading the woman) on Dean Street toward the Grand Hyatt. The dog was limping, and I asked the owner what was bothering the dog. The dog's veterinarian, the owner answered, had determined that the dog was suffering from a bone spur.

The operation, she said, would be two days from now. I told her that I was an Idexx shareholder and I asked her whether the vet would be using the [IDEXX VetLab Analyzer](#) for the preanesthesia screening.

I had yet to meet that poodle when, in August, I scheduled a flight to Denver. The United flight landed in Denver shortly after 11:00 A.M. After a good walk through the concourses I exited the terminal and waited for the Hertz bus to come and to take me to the Hertz parking lot. Before I got on the bus I gave the attendant my name and she confirmed my Gold Club status. The bus came and within a few minutes I was behind the wheel of a Camry headed for downtown Denver.

The Hertz car was clean but not as clean as it would have been had Hertz not been subject to a leveraged buyout by a hedge fund with the subsequent inevitable cutback on standards and service so that the hedge fund managers, swimming in a pool of debt, could service their interest and principal payments, repackage Hertz, and sell it back to the unsuspecting public. (On September 13, 2005 the private equity arm of Clayton, Dubilier, and Rice bought out Hertz, using a substantial amount of leverage. On November 16, 2006 the firm turned around, selling their entire interest to the public, and Hertz again became a public, New York Stock Exchange company.) Nevertheless, despite some disappointment when I found a cigarette butt on the floor, I marveled at the efficiency of a system that could remember my name and link it to a date and to a car that I had requested and have the car ready for me.

I got off at the exit suggested by [Mapquest](#) and I located my client's building. After searching for a parking meter---finding a parking spot in downtown Denver is far more difficult than doing so in Tulsa---I found a meter, inserted as many quarters as it would hold, and headed for my client's building. My client, Dan Reagan, who does a great job of restoring old buildings in downtown Denver, transforming turn of the century structures into swank, beautifully built condominiums, works in a restored building in downtown Denver at 1800 Fifteenth Street. (For an example of the Reagan Partnership's work see www.steelbridgelofts.com)

Once inside the building I walked up a flight of stairs and knocked on the door. I heard barking and the barking sounded as if my knocking had aroused the interest of at least one large powerful dog. (I shortly learned that it was two dogs who were doing the barking.)



Sierra enjoying the Denver snow

The owner of the dogs came to the door, opened it, smiled expansively and introduced himself, saying he was Dan Reagan, and warmly invited me into his office which he shares with three people who work with him, as well as with the two beautiful and friendly Great Pyreneeses. As soon as Dan opened the door and smiled at me, the Great Pyreneeses stopped barking and moved in a friendly and energetic way toward me.

The dogs were happy to meet me but they did not waste time on formalities. They made it clear from the start, from the beginning of our friendship, that they wanted me to pet them, and that

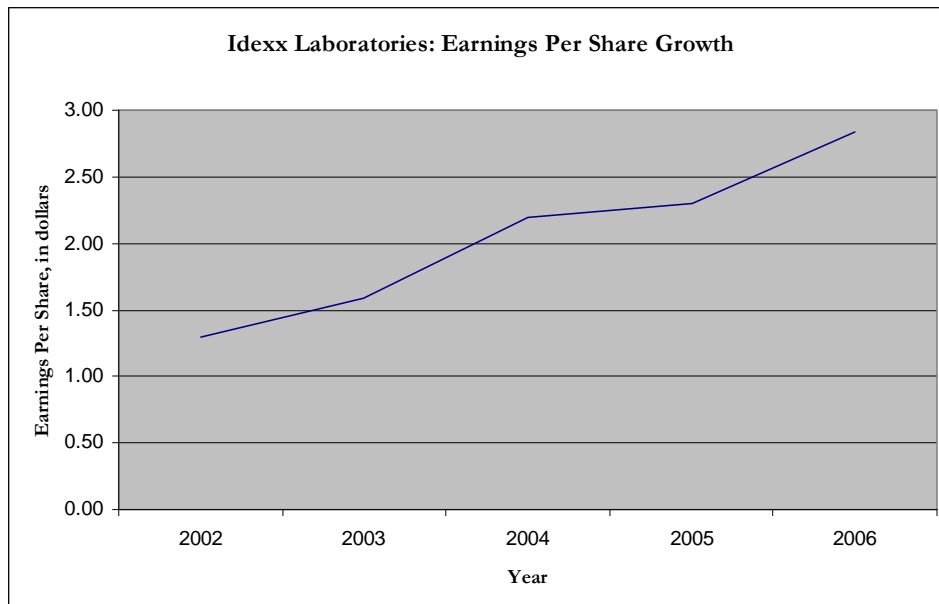
showing attention to them was my first job. Their agenda, their schedule, they wanted me to know, would be my schedule. I was to know that my job was to show attention to them, to be solicitous of their wishes to be petted. I liked the dogs from the start so it was easy to do what they wanted.

The dogs are Sierra (female) and Sulley (male). Sulley had lived on a sheep farm in Iowa before Dan adopted him, and Dan had adopted Sierra from PYRescue. Dan said that at first Sierra would resist getting into his SUV on Dan's commute from a Denver suburb to the offices of the Reagan Partnership in the city's downtown but as Sierra's trust of Dan grew Sierra relaxed and began to enjoy the trip. Sierra was intelligently wary of the Denver traffic, especially during the morning and afternoon commutes. She must have wondered why seemingly placid people suddenly flew into a rage and became violently angry, often pointing their fingers in unfriendly forms, gestures, and styles toward other drivers. She was witnessing road rage and her streetsmarts, roadsmarts, and dogsmarts may have told her that this---the commute in a large city---was something to avoid, or at least something of which to be wary.

Of course I do not know what Sierra was thinking, just as I do not know whether she and Sulley greeted me warmly because they thought I was a nice guy, or because I was wearing Gillette deodorant with a scent that they liked, or because they sensed that I was carrying two Hershey bars which they believed they could convince me to give them.

Guessing what animals think is a risky business but we like to do this guessing because it is tempting, when comparing animals to humans, to engage in anthropomorphic thinking or reasoning. We have an emotional need to play this game because deep down we are very close to the animals for whom we care, for whom we have responsibility. Animals sleep in our beds and, if they do not sit at the table, or at the head of the table, they are often very close to the table (Sometimes they take our favorite place at the table and even kick us out of our beds.)

We do increasingly consider companion animals as people, if for no other reason that we are having fewer children, we are spending a greater percentage of our lives without children, and with the breakup of the traditional family and the complexity of social family dynamics, pets have become an uncomplicated answer to loneliness, fulfilling our need for closeness and companionship.



(Stephen Shepherd prepared the chart above.)

Investment Thesis: IDEXX Laboratories (NASDAQ: IDXX)

We are dogmatic in our enthusiasm for IDEXX Laboratories.

IDEXX produces diagnostic tests for companion animals, tests that are affordable and are widely available at any veterinary clinic. The company links the tests with software that analyzes the tests and stores the test results in electronic patient records.

IDEXX's strategy of selling an expensive system and furnishing tests analyzed by the software is remarkably similar to the Gillette strategy of selling razors (software) and blades (the disposable diagnostic tests).

Veterinarians use the IDEXX SNAP 4Dx test to screen for heartworm and three tick-borne diseases at once, including Lyme disease and canine anaplasmosis, a tick-borne disease. Other tests include the Spec cPL test, a pet-side pancreatitis test used to diagnose or help rule out pancreatitis. There are more than ten IDEXX SNAP tests that are made for canines and felines.

All of these tests can be performed in the exam room for the convenience of the veterinarian and for the patient and the results are produced within moments or "in a snap". In fact, veterinarians using these tests have been known to snap to attention as they review the pet-side or bedside test results.

On June 20, 2007 Meredith Bohot Stephen Shepherd and I visited the Strathe Veterinary Clinic in Owasso, OK. We entered the clinic. In the lobby were several friendly dogs. We asked for Robert Howland, DVM who had promised to show us how he used the IDEXX system. We watched as he 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 used the week before when drawing blood from me for a cholesterol test.

IDEXX is also benefitting from increased specialization in veterinary medicine. If your cat complains of chest pains, you are able to take her to a specialist in cardiology. And if your pooch is restless and suffers from sleepless nights due to itching fur, he can see a dermatologist. Ophthalmology, neurology, and oncology veterinarian specialists also offer services to animals.

Now, is the time for some amateur poetry. (Our word processor suggests a question mark after the word poetry, as if the word processor run by Microsoft Office is warning us that the reader may be tiring of my fabulous poetry or may otherwise doubt the wisdom of this poetic digression.).

Why Pet Healthcare Expenditures Are Rising Rapidly

If you're smitten with your kitten and you like to strut your mutt,
When it comes to spending limits on your pets, there are no ifs, ands, or
buts.

On animals we spend more and more energy and money.
Of course to get a 20k vet bill for a coronary bypass is not funny.
It is not a laughing matter. But the skills of a cardiology vet
Taking care of our four legged love ones---whether cat, dog or horse,

We know are not easy to learn of course.
At a cocktail party when one friend brags that his cat has
Just had surgery to repair a broken leg,
Would another pet owner be comfortable in confessing
That he would not spend an equal amount of money for the final post
Surgery dressing?
After all, if you love your cat, what difference does it make if you pay five
versus ten thousand dollars to do what's right, to
Repair your cat's anatomy, the way you would want your cat to take care
of you, if what failed or had mild trouble was your own physiology?
After all, if a owner can compete in
The companion animal status health care derby, his cats will not only
have
Legs in fine repair, but the owner, on another owner, will be a
Leg up. (Meredith Bohot helped with this poem)

If thinking anthropomorphically may not be scientific or accurate, it is increasingly common, as common as spending fifteen thousand dollars on a kidney transplant for a cat, or seven thousand dollars to do knee surgery on a dog. Or spending three thousand dollars on a custom fitted coat for a dog so that he can walk the streets of downtown Aspen, assured that his clothing is as chic, hip, and trendy as the coat worn by the dog walking toward him coming from the opposite direction of town.

Patricia McDonnell, Ph.D., an animal behavior expert, has spent her career figuring out how animals think, observing their physical motions to deduce their emotions. She can not be sure what is going on with them, but she has a good idea. She tells a story in For the Love of a Dog about three labs that saved the life of their owner. It is a moving story and tells us that even if we cannot figure out why animals do what they do, we know we are powerfully fond of and attached to them.

In November 2003, Tammy Ogle's head was run over by the car she was driving. She was cruising down a country road, her three Labradors lolling in the back, when her SUV flipped in circles like a spinning ball, and threw her out the window and under the wheels of her own vehicle. When the dust settled, she lay unconscious with ten broken ribs and a smashed, scalped head. Tammy's three labs, Double, Lily, and Golly, escaped serious injury and scrambled out of the vehicle. (Tammy told me that she always crated her dogs in the car, and has no idea why on this particular morning she let them ride loose.) Double, a handsome black three-year-old, stayed with Tammy, while Lily and Golly ran half a mile to the nearest house, where they proceeded to bark and scratch at the door until someone came out. Golly grabbed the homeowner's sleeve to pull him toward the road, where he (the homeowner) was able to see Tammy's overturned vehicle.

For the Love of a Dog; Ballantine Books, page 14; 2007

The question is: did the dogs do what they did, because they thought like dogs, or because they thought as people do? Were the animals trying to help themselves, or their owner? Either interpretation is plausible. I believe that the animals were trying to help their owner and that they believed that the owner's safety and survival was their first interest. But I do not know whether the dogs were acting selflessly, altruistically, or whether they were acting in their best self interest. As smart as dogs are, as uncomplicated in their intelligence as they are, perhaps they thought that their first job, their first duty, their first mission, was to protect the people who feed them?

Reducing a complex problem to a simple answer, at least according to Warren Buffet, is the essence of intelligent thinking. If dogs can blend selflessness and selfishness into one action, crystallizing their emotional thinking, they must be pretty smart.

After McConnell tells the story, she suggests that it is possible, it is logical to argue that animals are just another version of people: they have the same emotions, the same range of emotions, and the same thinking that guides their emotions. She concedes, nevertheless, that it is equally plausible that the anthropomorphic view of animals is incorrect, that the dogs that helped Tammy Ogle raced up the road to the nearest house because the dogs were panicked, afraid, and wanted to call attention first to their own plight, now that they were apparently left without an owner or a leader.

I take the side of the anthromorphists, those who argue that animals and people are not only remarkably physically alike but that they share many emotions. And, in the case of Tammy Ogle, if the dogs were really acting in fearful self-interest, would this make this emotion, this behavior much different from what we would expect from people in this car accident?

Whether animals behave as people is of course not the point. The point is that we ---humans---are every day treating our animals more and more like people, spending more money on them per capita or per pet every year. In fact the vet bills are rising so fast, that when the nurse presents the vet bill to the owner---and most veterinarians operate on cash not credit billing---the owners often become **petulant**.

Meredith Bohot's cats, Lelu and Miley, waiting for their Christmas presents and wondering whether their owner is smart enough to know that they have not been naughty, but indeed that they have been nice. The cats also seem to be wondering whether Meredith will show the same powerful creativity as she did last Christmas in the selection of their treats or gifts.



Yet our human egocentricism still makes us believe that cats and dogs are thinking about us all the time. Just as we humans for centuries believed that the earth was the center of the universe, we believe that we are the epicenter of the animal psyche or animal awareness.

We may be in for a rude surprise. We may buy the groceries, pay the vet bills, and in cold climates buy the increasingly showy and expensive walk around garb that the more stylish dogs use for parade or show purposes, but we may want to consider---knowing of course that we will never get the answer---on whether we really occupy most of our companions' emotional energy. We may want to question a comfortable assumption: do they think about us as much as we believe, or do they even think about us as much as we think about them?

In fact, if I could imagine what a dog might be thinking, it might go just like this, especially when two dogs, working hard all day to show attention to their owners, have stopped at Starbucks in Utica Square in Tulsa to commiserate about the preoccupation of humans with their own concerns and their condescension toward the supposedly limited intelligence of dogs:

Just because man calls us his best friend, does not necessarily mean that we dogs think the same way. Humans are smart but they may be second to us in

understanding what is important in life. We—we animals--- know that good food, a kind owner, and good canine companions are what counts, but those confused people or humans, the people who think they own us, believe that a big house, with a big mortgage with an interest rate that goes higher and higher every time that guy Bernanke thinks that inflation is dangerous, is what counts. Humans have complicated their lives, but we dogs, with our genius for simplicity, know what is truly important. Furthermore, humans have to get real about some thing else: they have to know that just as Copernicus revolutionized our thinking about which planet was the center of the universe, people have to learn that it is not smart to believe they know what dogs are thinking, because we are not only different but we are a lot smarter than they think. We are of a different breed, in fact, to use the soporific jargon that the human senior executives in publicly held companies use, we are best of breed. In short, we dogs may be a heck of a lot smarter than the people who pay our vet bills. After all, they have to commute and put up wit h office politics while we stay home and watch television and take naps.

Fredric E. Russell Investment Management Co. Five-Year Performance vs. Indexes

	Our Portfolio	DJIA	SP500	NASDAQ
2002	-14.22	-16.76	-23.37	-31.53
2003	14.12	25.32	26.38	50.01
2004	8.11	3.15	8.99	8.59
2005	7.67	-0.61	3	1.37
2006	13.27	16.29	13.62	9.52
2007	26.37	7.29	4.43	10.17
	63.1	33.43	29.01	36.43

On December 13 an ice storm hit Oklahoma, creating the state’s worst recorded natural disaster. More than 750,000 people lost their power. Living in a tall building we were fortunate enough to have a generator for the common hallways, lobby, and other areas. But we lost power in our units, although only for thirty six hours. With my lights out and no heat I ventured west one morning into Utica Square where I found the **Wild Fork** open. I found a table and spoke with a friend and her daughter. Everyone wanted to socialize after the involuntary isolation that the storm had produced, and so we were talking. The girl, who was five and a half years old, seemed unusually calm and self-assured (not for her age but for any age) and, happening to be thinking about what I would say in this letter, I asked her and my question must have seemed to be out of the blue, without any introduction, any preface, any warm-up, “...whom do you think is more intelligent, adults or children.” She must have wondered what kind of a silly question I had asked; reinforcing her belief that adults just don’t understand what is important. She answered, “.... animals...” I did not tell her that I was an **Idexx** shareholder but her answer was great.

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 **45,000** shares, and whose market value, as of the close of trading on December 18, 2007 is **\$2,521,166**.

Sincerely,