VCA ANTECH INC
Form 10-Q
August 07, 2009

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2009

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

Commission File Number: 001-16783

VCA Antech, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**95-4097995**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

12401 West Olympic Boulevard
Los Angeles, California 90064-1022
(Address of principal executive offices)
(310) 571-6500
(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 þ No o.

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). (Not yet applicable to the registrant)
Yes o No o.

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. (Check one):

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: common stock, $0.001 par value, 84,919,028 shares as of August 3, 2009.

VCA Antech, Inc.
Form 10-Q
June 30, 2009
Table of Contents

		Page Number
Part I.	**Financial Information**	
Item 1.	Financial Statements (Unaudited)	
	Condensed, Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008	1
	Condensed, Consolidated Income Statements for the Three and Six Months Ended June 30, 2009 and 2008	2
	Condensed, Consolidated Statements of Equity for the Six Months Ended June 30, 2009 and 2008	3
	Condensed, Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2009 and 2008	4
	Notes to Condensed, Consolidated Financial Statements	5
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	34
Item 4.	Controls and Procedures	34
Part II.	**Other Information**	
Item 1.	Legal Proceedings	35
Item 1A.	Risk Factors	35
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 3.	Defaults Upon Senior Securities	35
Item 4.	Submission of Matters to a Vote of Security Holders	35
Item 5.	Other Information	35
Item 6.	Exhibits	35
	Signature	36

Exhibit Index 37

EX-31.1
EX-31.2
EX-32.1

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

VCA Antech, Inc. and Subsidiaries
Condensed, Consolidated Balance Sheets
(Unaudited)
(In thousands, except par value)

	June 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 138,895	$ 88,959
Trade accounts receivable, less allowance for uncollectible accounts of $11,725 and $11,025 at June 30, 2009 and December 31, 2008, respectively	49,169	43,453
Inventory	26,322	26,631
Prepaid expenses and other	19,689	18,800
Deferred income taxes	16,980	15,938
Prepaid income taxes	4,105	5,287
Total current assets	255,160	199,068
Property and equipment, less accumulated depreciation and amortization of $152,179 and $138,431 at June 30, 2009 and December 31, 2008, respectively	276,663	263,443
Goodwill	951,701	922,057
Other intangible assets, net	36,195	35,645
Notes receivable, net	4,660	12,893
Deferred financing costs, net	826	1,067
Other	17,699	14,865
Total assets	$ 1,542,904	$ 1,449,038
Liabilities and Equity		
Current liabilities:		
Current portion of long-term obligations	$ 8,178	$ 7,771
Accounts payable	28,967	26,087
Accrued payroll and related liabilities	43,150	42,840
Other accrued liabilities	42,237	46,424
Total current liabilities	122,532	123,122
Long-term obligations, less current portion	540,682	544,860
Deferred income taxes	61,295	47,331
Other liabilities	9,408	9,890
Total liabilities	733,917	725,203
Commitments and contingencies		
Preferred stock, par value $0.001, 11,000 shares authorized, none outstanding		

VCA Antech, Inc. stockholders equity:		
Common stock, par value $0.001, 175,000 shares authorized, 84,872 and 84,633 shares outstanding as of June 30, 2009 and December 31, 2008, respectively	85	85
Additional paid-in capital	316,772	308,674
Accumulated earnings	478,297	408,582
Accumulated other comprehensive loss	(3,094)	(6,352)
Total VCA Antech, Inc. stockholders equity	792,060	710,989
Noncontrolling interest	16,927	12,846
Total equity	808,987	723,835
Total liabilities and equity	$ 1,542,904	$ 1,449,038

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

1

Table of Contents

VCA Antech, Inc. and Subsidiaries

Condensed, Consolidated Income Statements
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenue	$ 344,876	$ 334,434	$ 660,726	$ 642,266
Direct costs	247,264	237,468	480,673	462,269
Gross profit	97,612	96,966	180,053	179,997
Selling, general and administrative expense	23,205	22,809	46,394	45,987
Write-off of internal-use software	5,271		5,271	
Loss (gain) on sale of assets	172	127	(76)	(57)
Operating income	68,964	74,030	128,464	134,067
Interest expense, net	5,726	7,045	11,844	14,660
Other income	(20)	(309)	(130)	(132)
Income before provision for income taxes	63,258	67,294	116,750	119,539
Provision for income taxes	24,290	25,893	44,901	45,979
Net income	38,968	41,401	71,849	73,560
Net income attributable to noncontrolling interests	1,223	1,084	2,134	2,041
Net income attributable to VCA Antech, Inc.	$ 37,745	$ 40,317	$ 69,715	$ 71,519
Basic earnings per share	$ 0.45	$ 0.48	$ 0.82	$ 0.85
Diluted earnings per share	$ 0.44	$ 0.47	$ 0.81	$ 0.83
Weighted-average shares outstanding for basic earnings per share	84,825	84,371	84,753	84,359
Weighted-average shares outstanding for diluted earnings per share	85,937	85,725	85,629	85,805

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

2

Table of Contents

VCA Antech, Inc. and Subsidiaries

Condensed, Consolidated Statements of Equity
(Unaudited)
(In thousands)

	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive Income	Noncontrolling	
	Shares	Amount	Capital	Earnings	(Loss)	Interest	Total
Balances, December 31, 2007	84,335	$ 84	$ 296,037	$ 275,598	$ (3,335)	$ 10,207	$ 578,591
Net income				71,519		2,041	73,560
Foreign currency translation adjustment					(18)		(18)
Unrealized loss on hedging instruments, net of tax					(1,086)		(1,086)
Losses on hedging instruments reclassified to income, net of tax					1,461		1,461
Formation of noncontrolling interest						1,769	1,769
Distribution to noncontrolling interest						(1,456)	(1,456)
Purchase of noncontrolling interest						(158)	(158)
Share-based compensation			3,322				3,322
Stock option activity and awards	62		892				892
Tax benefit from stock options and awards			355				355
Balances, June 30, 2008	84,397	$ 84	$ 300,606	$ 347,117	$ (2,978)	$ 12,403	$ 657,232
Balances, December 31, 2008	84,633	$ 85	$ 308,674	$ 408,582	$ (6,352)	$ 12,846	$ 723,835
Net income				69,715		2,134	71,849
					177		177

Foreign currency translation adjustment							
Unrealized gain on foreign currency, net of tax					96		96
Unrealized loss on hedging instruments, net of tax					(652)		(652)
Losses on hedging instruments reclassified to income, net of tax					3,637		3,637
Formation of noncontrolling interest						3,440	3,440
Distribution to noncontrolling interest						(1,493)	(1,493)
Restricted stock unit grant			1,941				1,941
Share-based compensation			3,920				3,920
Stock option activity and awards	239		2,895				2,895
Stock repurchases			(549)				(549)
Tax benefit from stock options and awards			154				154
Tax shortfall and other from stock options and awards			(263)				(263)
Balances, June 30, 2009	84,872	$ 85	$ 316,772	$ 478,297	$ (3,094)	$ 16,927	$ 808,987

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

Table of Contents

VCA Antech, Inc. and Subsidiaries

Condensed, Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2009	**2008**
Cash flows from operating activities:		
Net income	$ 71,849	$ 73,560
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,840	15,325
Amortization of debt issue costs	241	233
Provision for uncollectible accounts	2,936	2,008
Gain on sale of assets	(76)	(57)
Share-based compensation	3,920	3,322
Deferred income taxes	10,944	5,431
Excess tax benefit from exercise of stock options	(154)	(355)
Write-off of internal-use software	5,271	
Other	(218)	(246)
Changes in operating assets and liabilities:		
Accounts receivable	(7,989)	(8,004)
Inventory, prepaid expenses and other assets	(2,929)	(4,519)
Accounts payable and other accrued liabilities	4,357	2,307
Accrued payroll and related liabilities	2,134	1,465
Income taxes	1,073	10,979
Net cash provided by operating activities	110,199	101,449
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(28,144)	(80,367)
Real estate acquired in connection with business acquisitions	(3,828)	(13,098)
Property and equipment additions	(25,208)	(25,543)
Proceeds from sale of assets	108	1,753
Other	(281)	(14,987)
Net cash used in investing activities	(57,353)	(132,242)
Cash flows from financing activities:		
Repayment of long-term obligations	(3,899)	(3,925)
Distributions to noncontrolling interest partners	(1,493)	(1,456)
Proceeds from issuance of common stock under stock option plans	2,895	892
Excess tax benefit from exercise of stock options	154	355
Stock repurchases	(549)	
Net cash used in financing activities	(2,892)	(4,134)
Effect of currency exchange rate changes on cash and cash equivalents	(18)	(15)

Increase (decrease) in cash and cash equivalents	49,936	(34,942)
Cash and cash equivalents at beginning of period	88,959	110,866
Cash and cash equivalents at end of period	$ 138,895	$ 75,924
Supplemental disclosures of cash flow information:		
Interest paid.	$ 12,316	$ 14,288
Income taxes paid	$ 32,884	$ 29,569
Supplemental schedule of non-cash investing and financing activities:		
Detail of acquisitions:		
Fair value of assets acquired	$ 35,520	$ 82,235
Cash paid for acquisitions	(24,928)	(78,022)
Non-cash note conversion to equity interest in subsidiary	(5,700)	
Liabilities assumed	$ 4,892	$ 4,213

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

Table of Contents

VCA Antech, Inc. and Subsidiaries

Notes to Condensed, Consolidated Financial Statements
June 30, 2009
(Unaudited)

1. Nature of Operations

Our company, VCA Antech, Inc. (VCA) is a Delaware corporation formed in 1986 and is based in Los Angeles, California. We are an animal healthcare company with three strategic segments: animal hospitals (Animal Hospital), veterinary diagnostic laboratories (Laboratory) and veterinary medical technology (Medical Technology).

Our animal hospitals offer a full range of general medical and surgical services for companion animals. Our animal hospitals treat diseases and injuries, provide pharmaceutical products and perform a variety of pet-wellness programs, including health examinations, diagnostic testing, vaccinations, spaying, neutering and dental care. At June 30, 2009, we operated 480 animal hospitals throughout 40 states.

We operate a full-service veterinary diagnostic laboratory network serving all 50 states and certain areas in Canada. Our laboratory network provides sophisticated testing and consulting services used by veterinarians in the detection, diagnosis, evaluation, monitoring, treatment and prevention of diseases and other conditions affecting animals. At June 30, 2009, we operated 46 laboratories of various sizes located strategically throughout the United States and Canada.

Our Medical Technology segment sells digital radiography and ultrasound imaging equipment, provides education and training on the use of that equipment, and provides consulting and mobile imaging services.

2. Basis of Presentation

Our accompanying unaudited, condensed, consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States for interim financial information and in accordance with the rules and regulations of the United States Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and notes required by GAAP in the United States for annual financial statements as permitted under applicable rules and regulations. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. Certain reclassifications have been made herein to 2008 amounts to conform to the current year presentation. These include the adoption of Statement of Financial Accounting Standards (SFAS) No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletins (ARB) No. 51 (SFAS No. 160).* The results of operations for the three and six months ended June 30, 2009, are not necessarily indicative of the results to be expected for the full year ending December 31, 2009. For further information, refer to our consolidated financial statements and notes thereto included in our 2008 Annual Report on Form 10-K.

The preparation of our condensed, consolidated financial statements in accordance with GAAP in the United States requires management to make estimates and assumptions that affect the amounts reported in our condensed, consolidated financial statements and notes thereto. Actual results could differ from those estimates.

We evaluated the effects of all subsequent events through August 7, 2009, the date of this report, which is concurrent with the date we file this report with the SEC.

3. Goodwill and Other Intangible Assets

In April 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) Financial Accounting Standards (FAS) 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R), and other U.S. GAAP. We adopted FSP FAS 142-3 on January 1, 2009. The adoption of FSP FAS 142-3 did not have a material impact on our consolidated financial statements.

Table of Contents

VCA Antech, Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)

3. Goodwill and Other Intangible Assets, continued

Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred, the fair value of any non-controlling interest in the acquiree and for a business combination achieved in stages, the acquisition-date fair value of any previously held equity interest over the net of the fair value of identifiable assets acquired and liabilities assumed. The following table presents the changes in the carrying amount of our goodwill for the six months ended June 30, 2009 (in thousands):

	Animal Hospital	Laboratory	Medical Technology	Total
Balance as of December 31, 2008	$ 807,203	$ 95,694	$ 19,160	$ 922,057
Goodwill acquired	25,342	92		25,434
Goodwill related to noncontrolling interests	3,440			3,440
Other (1)	712	58		770
Balance as of June 30, 2009	$ 836,697	$ 95,844	$ 19,160	$ 951,701

(1) Other includes purchase price adjustments, buy-outs and currency translation adjustments.

Other Intangible Assets

In addition to goodwill, we have amortizable intangible assets at June 30, 2009 and December 31, 2008 as follows (in thousands):

	As of June 30, 2009			As of December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Non-contractual customer relationships	$ 29,878	$ (5,606)	$ 24,272	$ 26,412	$ (3,689)	$ 22,723
Covenants not-to-compete	14,301	(6,756)	7,545	16,195	(8,001)	8,194
Favorable lease asset	4,119	(293)	3,826	4,689	(629)	4,060
Technology	1,270	(1,203)	67	1,270	(1,076)	194
Trademarks	770	(298)	472	699	(251)	448
Client lists	73	(60)	13	84	(58)	26
Total	$ 50,411	$ (14,216)	$ 36,195	$ 49,349	$ (13,704)	$ 35,645

The following table summarizes our aggregate amortization expense related to other intangible assets (in thousands):

	Three Months Ended	Six Months Ended

	June 30,		June 30,	
	2009	**2008**	**2009**	**2008**
Aggregate amortization expense	$ 1,823	$ 1,743	$ 3,630	$ 2,947

6

Table of Contents

VCA Antech, Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)

3. Goodwill and Other Intangible Assets, continued

The estimated amortization expense related to intangible assets for the remainder of fiscal 2009 and each of the succeeding years thereafter as of June 30, 2009 is as follows (in thousands):

Remainder of 2009	$ 3,742
2010	6,990
2011	6,165
2012	5,276
2013	3,226
Thereafter	10,796
Total	$ 36,195

4. Noncontrolling Interests

Effective January 1, 2009, we adopted the provisions of SFAS No. 160 on a retrospective basis. SFAS No. 160 changes the accounting and reporting for minority interests which have been re-characterized as noncontrolling interests and are now classified as a component of equity in our Condensed, Consolidated Balance Sheets. The adoption of SFAS No. 160 also resulted in new presentation and disclosure requirements for noncontrolling interests within our Condensed, Consolidated Income Statements, Statements of Equity and Statements of Cash Flows.

5. Other Accrued Liabilities

Other accrued liabilities consisted of the following (in thousands):

	June 30, 2009	December 31, 2008
Accrued workers compensation insurance	$ 4,116	$ 4,436
Deferred revenue	7,344	7,303
Interest rate swap liability	3,926	8,899
Other	26,851	25,786
	$ 42,237	$ 46,424

6. Interest Rate Swap Agreements

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 changed the disclosure requirements for derivative instruments and hedging activities to enhance the current disclosure framework in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The additional disclosures require information about how our interest rate swap agreements and hedging activities affect our financial position, financial performance, and cash flows. We adopted SFAS No. 161 on January 1, 2009 and have included the applicable disclosures below and in Note 7.

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* all investments in derivatives are recorded at fair value. A derivative is typically defined as an instrument whose value is derived from an underlying instrument, index or rate, has a notional amount, requires little or no initial investment and can be net settled. Our derivatives are reported as current assets and liabilities or other non-current assets or liabilities as appropriate.

Table of Contents

VCA Antech, Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)

6. Interest Rate Swap Agreements, continued

We use interest rate swap agreements to mitigate our exposure to increasing interest rates as well as to maintain an appropriate mix of fixed-rate and variable-rate debt.

If we determine that contracts are effective at meeting our risk reduction and correlation criteria, we account for them using hedge accounting. Under hedge accounting, we recognize the effective portion of changes in the fair value of the contracts in other comprehensive income and the ineffective portion in earnings. If we determine that contracts do not, or no longer meet our risk reduction and correlation criteria, we account for them under a fair-value method recognizing changes in the fair value in earnings in the period of change. If we determine that a contract no longer meets our risk reduction and correlation criteria or if the derivative expires, we recognize in earnings any accumulated balance in other comprehensive income related to this contract in the period of determination. For interest rate swap agreements accounted for under hedge accounting, we assess the effectiveness based on changes in their intrinsic value with changes in the time value portion of the contract reflected in earnings. All cash payments made or received under the contracts are recognized in interest expense.

Credit exposure associated with non-performance by the counterparties to derivative instruments is generally limited to the uncollateralized fair value of the asset related to instruments recognized in the consolidated balance sheets. We attempt to mitigate the risk of non-performance by selecting counterparties with high credit ratings and monitoring their creditworthiness and by diversifying derivative amounts with multiple counterparties.

The contractual or notional amounts for derivatives are used to calculate the exchange of contractual payments under the agreements and are not representative of the potential for gain or loss on these instruments. Interest rates affect the fair value of derivatives. The fair values generally represent the estimated amounts that we would expect to receive or pay upon termination of the contracts at the reporting date. The fair values are based upon dealer quotes when available or an estimate using values obtained from independent pricing services, costs to settle or quoted market prices of comparable instruments.

We have entered into interest rate swap agreements whereby we pay to the counterparties amounts based on fixed interest rates and set notional principal amounts in exchange for the receipt of payments from counterparties based on current London Interbank Offer Rates (LIBOR) and the same set notional principal amounts. The purpose of these hedges is to offset the variability of cash flows due to our outstanding variable rate debt under our senior term notes. A summary of these agreements is as follows:

	Interest Rate Swap Agreements		
Fixed interest rate	5.51%	5.34%	2.64%
Notional amount (in millions)	$50.0	$100.0	$100.0
Effective date	6/20/2006	6/11/2007	2/12/2008
Expiration date	6/30/2009	12/31/2009	2/26/2010
Counterparty	Goldman Sachs	Goldman Sachs	Wells Fargo
Qualifies for hedge accounting	Yes	Yes	Yes

The following table summarizes cash received or cash paid and ineffectiveness reported in earnings as a result of our interest rate swap agreements (in thousands):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2009	**2008**	**2009**	**2008**
Cash paid (1)	$2,727	$1,703	$5,972	$2,391
Recognized gain from ineffectiveness (2)	$ (22)	$ (213)	$ (71)	$ (36)

8

VCA Antech, Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)

6. Interest Rate Swap Agreements, continued

(1) Our interest rate swap agreements effectively convert a certain amount of our variable-rate debt under our senior credit facility to fixed-rate debt for purposes of controlling cash paid for interest. The above table depicts both cash payments to and receipts from the counterparties on our swap agreements. These payments and receipts are offset by a corresponding decrease or increase in interest paid on our variable-rate debt under our senior credit facility.

(2) These recognized gains are included in other income in our Condensed, Consolidated Income Statements.

7. Fair Value Measurements

On January 1, 2008, we adopted the applicable provisions of SFAS No. 157, *Fair Value Measurement*s (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements related to financial instruments. On January 1, 2009 we adopted SFAS No. 157 for our non-financial assets and non-financial liabilities measured on a non-recurring basis. As of June 30, 2009, we do not have any applicable non-recurring measurements of non-financial assets and non-financial liabilities.

SFAS No. 157 includes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity s pricing based upon their own market assumptions. SFAS No. 157 establishes a three-tiered fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Fair Value of Financial Instrument

In April 2009, the FASB issued FSP 107-1, which amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends Accounting Principles Board Opinions (APB) No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. The FSP is effective for interim periods ending after June 15, 2009. We early adopted the provisions of this FSP and all other related guidance for the quarter ended March 31, 2009.

SFAS No. 107 requires disclosure of fair value information about financial instruments, whether or not recognized in the accompanying consolidated balance sheets. Fair value as defined by SFAS No. 157 is 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. The fair value estimates of financial instruments are not necessarily indicative of the amounts we might pay or receive in actual market transactions. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Table of Contents

VCA Antech, Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)

7. Fair Value Measurements, continued

Cash and Cash Equivalents. These balances include cash and cash equivalents with maturities of less than three months. The carrying amount approximates fair value due to the short-term maturities of these instruments.

Receivables, Less Allowance for Doubtful Accounts, Accounts Payable and Certain Other Accrued Liabilities. Due to their short-term nature, fair value approximates carrying value.

Long-Term Debt. We believe the carrying values of our variable-rate debt at June 30, 2009 are not reasonable estimates of fair value due to changes in the credit markets during 2008 and 2009. We have estimated the fair value of our variable-rate debt using discounted cash flow techniques utilizing current market rates, which incorporate VCA s credit risk.

The following table reflects the carrying value and fair values of our long-term debt (in thousands):

	As of June 30, 2009		As of December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Variable-rate long-term debt	$ 519,585	$ 508,926	$ 522,282	$ 499,025

Interest Rate Swap Agreements. We use the market approach to measure fair value for our interest rate swap agreements. The market approach uses prices and other relevant information generated by market transactions involving comparable assets or liabilities.

The following table reflects the fair value as defined by SFAS No. 157 of our interest rate swap agreements which is measured on a recurring basis (in thousands):

		Basis of Fair Value Measurement		
	Balance	Quoted Prices In Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At June 30, 2009				
Other accrued liabilities	$ (3,926)	$	$ (3,926)	$
At December 31, 2008				
Other accrued liabilities	$ (8,899)	$	$ (8,899)	$

8. Share-Based Compensation

Stock Option Activity

There were no stock options granted during the six months ended June 30, 2009. The aggregate intrinsic value of our stock options exercised during the three and six months ended June 30, 2009 was $1.1 million and $1.3 million, respectively, and the actual tax benefit realized on options exercised during these periods was $441,000 and $490,000, respectively.

At June 30, 2009 there was $5.0 million of total unrecognized compensation cost related to our stock options. This cost is expected to be recognized over a weighted-average period of 2.8 years.

Table of Contents

VCA Antech, Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)

8. Share-Based Compensation, continued

The compensation cost that has been charged against income for stock options for the three months ended June 30, 2009 and 2008 was $497,000 and $438,000, respectively. The corresponding income tax benefit recognized was $194,000 and $170,000 for the three months ended June 30, 2009 and 2008, respectively.

The compensation cost that has been charged against income for stock options for the six months ended June 30, 2009 and 2008 was $1.0 million and $875,000, respectively. The corresponding income tax benefit recognized was $393,000 and $341,000 for the six months ended June 30, 2009 and 2008, respectively.

Non-Vested Stock Activity

During the six months ended June 30, 2009 we granted 12,096 shares of non-vested common stock. These awards were granted to our non-employee directors and will vest in equal annual installments over three years from the grant date.

Total compensation cost charged against income related to non-vested stock awards was $1.4 million and $1.6 million for the three months ended June 30, 2009 and 2008, respectively. The corresponding income tax benefit recognized in the income statement was $566,000 and $613,000 for the three months ended June 30, 2009 and 2008, respectively.

Total compensation cost charged against income related to non-vested stock awards was $2.9 million and $2.4 million for the six months ended June 30, 2009 and 2008, respectively. The corresponding income tax benefit recognized in the income statement was $1.1 million and $952,000 for the six months ended June 30, 2009 and 2008, respectively.

At June 30, 2009, there was $11.6 million of unrecognized compensation cost related to these non-vested shares, which will be recognized over a weighted-average period of 2.3 years, assuming the performance conditions are met. A summary of our non-vested stock activity for the six months ended June 30, 2009 is as follows:

	Shares	Weighted-Average Fair Value Per Share
Outstanding at December 31, 2008	724,235	$ 31.52
Granted	12,096	$ 24.80
Vested	(89,005)	$ 32.77
Forfeited/Canceled	(10,875)	$ 34.12
Outstanding at June 30, 2009	636,451	$ 31.17

Restricted Stock Unit Activity

Pursuant to the terms of the 2006 Equity Incentive Plan, on April 17, 2009, we awarded 84,757 restricted stock units in lieu of cash bonuses to our four senior executive officers for services performed in fiscal year 2008. Restricted stock units differ from the non-vested stock awards mentioned above in that the restricted stock units were fully vested or earned by the employee on the grant date however are restricted such that the participant will not have any right, title, or interest in, or otherwise be considered the owner of, any of the shares of common stock covered by the restricted stock units until such shares of common stock are settled. The restricted stock units will be settled upon the first to occur of the following: May 1, 2012, the date of the senior executive s separation from service, death or disability, or the date of a change in control. The restricted stock units had a grant date fair value of $22.90 per share resulting in a total value of $1.9 million and the grant is considered a non-cash financing activity in the current period.

Table of Contents

VCA Antech, Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)

9. Calculation of Earnings per Share

Basic earnings per share is calculated by dividing net income by the weighted-average number of shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding, after giving effect to all dilutive potential common shares outstanding during the period. Basic and diluted earnings per share were calculated as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income attributable to VCA Antech, Inc.	$ 37,745	$ 40,317	$ 69,715	$ 71,519
Weighted-average common shares outstanding:				
Basic	84,825	84,371	84,753	84,359
Effect of dilutive potential common shares:				
Stock options	902	1,244	709	1,333
Non-vested shares	210	110	167	113
Diluted	85,937	85,725	85,629	85,805
Basic earnings per share	$ 0.45	$ 0.48	$ 0.82	$ 0.85
Diluted earnings per share	$ 0.44	$ 0.47	$ 0.81	$ 0.83

For the three months ended June 30, 2009 and 2008, potential common shares of 8,001 and 47,997, respectively, were excluded from the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

For the six months ended June 30, 2009 and 2008, potential common shares of 1,273,098 and 39,997, respectively, were excluded from the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

10. Comprehensive Income

Total comprehensive income consists of net income and the other comprehensive income during the three and six months ended June 30, 2009 and 2008. The following table provides a summary of comprehensive income (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income	$ 38,968	$ 41,401	$ 71,849	$ 73,560
Other comprehensive income:				
Foreign currency translation adjustments	355	(18)	177	(18)
Unrealized gain on foreign currency	252		157	
Tax expense	(98)		(61)	
Unrealized (loss) gain on hedging instruments	(456)	3,675	(1,070)	(1,765)
Tax benefit (expense)	178	(1,438)	418	679

Losses on hedging instruments reclassified to income	2,727	1,703	5,972	2,391
Tax benefit	(1,066)	(662)	(2,335)	(930)
Other comprehensive income	1,892	3,260	3,258	357
Total comprehensive income	40,860	44,661	75,107	73,917
Comprehensive income attributable to noncontrolling interests	1,223	1,084	2,134	2,041
Comprehensive income attributable to VCA Antech, Inc.	$ 39,637	$ 43,577	$ 72,973	$ 71,876

12

VCA Antech, Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)

11. Lines of Business

Our reportable segments are Animal Hospital, Laboratory and Medical Technology. These segments are strategic business units that have different services, products and/or functions. The segments are managed separately because each is a distinct and different business venture with unique challenges, risks and rewards. Our Animal Hospital segment provides veterinary services for companion animals and sells related retail and pharmaceutical products. Our Laboratory segment provides diagnostic laboratory testing services for veterinarians, both associated with our animal hospitals and those independent of us. Our Medical Technology segment sells digital radiography and ultrasound imaging equipment, related computer hardware, software and ancillary services to the veterinary market. We also operate a corporate office that provides general and administrative support services for our other segments.

The accounting policies of our segments are the same as those described in the summary of significant accounting policies included in our 2008 Annual Report on Form 10-K. We evaluate the performance of our segments based on gross profit and operating income. For purposes of reviewing the operating performance of our segments, all intercompany sales and purchases are accounted for as if they were transactions with independent third parties at current market prices.

The following is a summary of certain financial data for each of our segments (in thousands):

	Animal Hospital	Laboratory	Medical Technology	Corporate	Intercompany Eliminations	Total
Three Months Ended June 30, 2009						
External revenue	$ 261,287	$ 74,358	$ 9,231	$	$	$ 344,876
Intercompany revenue		8,453	1,397		(9,850)	
Total revenue	261,287	82,811	10,628		(9,850)	344,876
Direct costs	208,154	41,781	6,795		(9,466)	247,264
Gross profit	53,133	41,030	3,833		(384)	97,612
Selling, general and administrative expense	5,378	5,644	2,658	9,525		23,205
Write-off of internal-use software				5,271		5,271
Loss on sale of assets	129	25	5	13		172
Operating income (loss)	$ 47,626	$ 35,361	$ 1,170	$ (14,809)	$ (384)	$ 68,964
Depreciation and amortization	$ 6,560	$ 2,280	$ 380	$ 668	$ (200)	$ 9,688
Capital expenditures	$ 9,753	$ 1,989	$ 238	$ 1,793	$ (410)	$ 13,363
Three Months Ended June 30, 2008						
External revenue	$ 251,001	$ 73,591	$ 9,842	$	$	$ 334,434
Intercompany revenue		8,249	1,996		(10,245)	
Total revenue	251,001	81,840	11,838		(10,245)	334,434
Direct costs	198,381	40,966	7,616		(9,495)	237,468
Gross profit	52,620	40,874	4,222		(750)	96,966
Selling, general and administrative expense	5,694	5,185	2,948	8,982		22,809

Loss on sale of assets	104	11		12		127
Operating income (loss)	$ 46,822	$ 35,678	$ 1,274	$ (8,994)	$ (750)	$ 74,030
Depreciation and amortization	$ 5,535	$ 1,808	$ 404	$ 454	$ (139)	$ 8,062
Capital expenditures	$ 12,091	$ 3,637	$ 175	$ 617	$ (440)	$ 16,080

Table of Contents

VCA Antech, Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)

11. Lines of Business, continued

	Animal Hospital	Laboratory	Medical Technology	Corporate	Intercompany Eliminations	Total
Six Months Ended June 30, 2009						
External revenue	$ 499,645	$ 143,850	$ 17,231	$	$	$ 660,726
Intercompany revenue		16,450	2,555		(19,005)	
Total revenue	499,645	160,300	19,786		(19,005)	660,726
Direct costs	403,348	83,264	12,428		(18,367)	480,673
Gross profit	96,297	77,036	7,358		(638)	180,053
Selling, general and administrative expense	10,762	11,211	5,742	18,679		46,394
Write-off of internal-use software				5,271		5,271
(Gain) loss on sale of assets	(130)	27	6	21		(76)
Operating income (loss)	$ 85,665	$ 65,798	$ 1,610	$ (23,971)	$ (638)	$ 128,464
Depreciation and amortization	$ 12,859	$ 4,463	$ 749	$ 1,156	$ (387)	$ 18,840
Capital expenditures	$ 18,876	$ 4,118	$ 318	$ 2,678	$ (782)	$ 25,208
Six Months Ended June 30, 2008						
External revenue	$ 477,101	$ 142,649	$ 22,516	$	$	$ 642,266
Intercompany revenue		15,920	3,171		(19,091)	
Total revenue	477,101	158,569	25,687		(19,091)	642,266
Direct costs	383,344	80,353	16,552		(17,980)	462,269
Gross profit	93,757	78,216	9,135		(1,111)	179,997
Selling, general and administrative expense	11,172	10,136	6,382	18,297		45,987
(Gain) loss on sale of assets	(89)		20	12		(57)
Operating income (loss)	$ 82,674	$ 68,080	$ 2,733	$ (18,309)	$ (1,111)	$ 134,067
Depreciation and amortization	$ 10,418	$ 3,455	$ 801	$ 913	$ (262)	$ 15,325
Capital expenditures	$ 19,146	$ 5,415	$ 257	$ 1,442	$ (717)	$ 25,543

At June 30, 2009						
Total assets	$ 1,117,137	$ 203,309	$ 41,394	$ 190,720	$ (9,656)	$ 1,542,904
At December 31, 2008						
Total assets	$ 1,069,963	$ 194,164	$ 42,839	$ 150,891	$ (8,819)	$ 1,449,038

VCA Antech, Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)

12. Commitments and Contingencies

We have certain commitments, including operating leases and purchase agreements. These items are discussed in detail in our consolidated financial statements and notes thereto included in our 2008 Annual Report on Form 10-K. We also have contingencies as follows:

a. Earn-Out Payments

We have contractual arrangements in connection with certain acquisitions, whereby additional cash may be paid to former owners of acquired companies upon attainment of specified financial criteria as set forth in the respective agreements. The amount to be paid cannot be determined until the earn-out periods expire and the attainment of criteria is established. If the specified financial criteria are attained, at June 30, 2009, we will be obligated to pay an additional $1.5 million.

b. Officers Compensation

Each of our Chief Executive Officer (CEO), Chief Operating Officer (COO) and Chief Financial Officer (CFO) ha entered into an employment agreement with our company. The agreements provide for a base salary and annual bonuses set by our Compensation Committee of the Board of Directors. As of any given date, under their contracts, each officer has the following remaining term: five years for the CEO, three years for the COO and two years for the CFO. Our Senior Vice President (SVP) has entered into a letter agreement with the Company pursuant to which certain payments will be made to our SVP in the event his employment is terminated.

In the event any of these officers employment is terminated due to death or disability, each officer, or each officer s estate, is entitled to receive the remaining base salary during the remaining scheduled term of his employment agreement (and in the case of our SVP, for two years), the continued vesting of his non-vested stock, the acceleration of the vesting of his options that would have vested during the 24 months following the date of termination, which options shall remain exercisable for the full term, and the right to continue receiving specified benefits and perquisites.

In the event any of these officers terminate their employment agreements for cause (or, in the case of our SVP, he terminates his employment for good reason), we terminate any of their employment agreements (or, in the case of our SVP, we terminate his employment) without cause or a change of control occurs (in which case such employment agreements, and our SVP s employment with us, terminate automatically), each officer is entitled to receive the remaining base salary during the remaining scheduled term of his employment agreement (and in the case of our SVP, for two years), a bonus based on past bonuses, the continued vesting of his non-vested stock, the acceleration of the vesting of his options, which options shall remain exercisable for the full term, and the right to continue receiving specified benefits and perquisites. Notwithstanding the foregoing, if the CFO s employment agreement or our SVP s employment is terminated by us without cause, accelerated vesting of their respective options will be limited to those options that would have vested during the 24 months following the date of termination.

In the event of a change of control, the cash value of all benefits due under their employment contracts (or, in the case of our SVP, his letter agreement) as a result of the termination would be immediately payable to the officers. In addition, if any of the amounts payable to these officers under these provisions constitute excess parachute payments under the Internal Revenue Code, each officer is entitled to an additional payment to cover the tax consequences associated with the excess parachute payment.

c. Other Contingencies

We have certain contingent liabilities resulting from litigation and claims incident to the ordinary course of our business. We believe that the probable resolution of such contingencies will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

VCA Antech, Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)

13. Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141R retains the underlying concepts of SFAS No. 141, *Business Combinations* (SFAS No. 141) in that all business combinations continue to be accounted for at fair value under the acquisition method of accounting. SFAS No. 141R changes the application of the acquisition method in a number of significant respects. Acquisition costs will generally be expensed as incurred; non-controlling interests will be valued at fair value at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS No. 141R is effective on a prospective basis for all of our business combinations for which the acquisition date is on or after January 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS No. 141R amends SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109) such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS No. 141R would also apply the provisions of SFAS No. 141R.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 requires disclosures about fair value of financial instruments in interim and annual financial statements. FSP FAS 107-1 and APB 28-1 is effective for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We early adopted the provisions of this FSP and all other related guidance for the quarter ended March 31, 2009 and we have included the required disclosures in Note 7. The adoption did not have a material impact upon our consolidated financial statements.

In April 2009, the FASB issued FSP FAS 141R-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP FAS 141R-1). FSP FAS 141R-1 amends SFAS No. 141R regarding the initial recognition and measurement of contingencies acquired or assumed in a business combination. FSP FAS 141R-1 requires recognition at fair value of such contingencies if the acquisition-date fair value can be determined during the measurement period. FSP FAS 141R-1 became effective for us for contingent assets and liabilities arising from business combinations with acquisition dates on or after January 1, 2009. Our adoption of FSP FAS 141R-1 did not have a material impact on our consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS No. 165). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 requires disclosure of the date through which subsequent events have been evaluated and whether that date represents the date the financial statements were issued or were available to be issued. We adopted SFAS No. 165 for the quarter ended June 30, 2009. The adoption of SFAS No. 165 did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167). SFAS No. 167 amends FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (FIN 46(R)) to replace a quantitative analysis with a qualitative analysis of interests in variable interest entities for the purpose of determining the primary beneficiary of a variable interest entity. SFAS No. 167 also requires companies to more frequently assess whether they must consolidate a variable interest entity. The provisions of SFAS No. 167 will be effective for our company on January 1, 2010. We are currently evaluating the impact of SFAS No. 167 on our consolidated financial statements, however, we do not expect the adoption of this standard will have a material impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162* (SFAS No. 168). SFAS No. 168 replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162) and establishes *The FASB Accounting Standards Codification* as the source of authoritative GAAP recognized by the FASB. SFAS No. 168 will be effective for our quarter ending September 30, 2009. SFAS No. 168 does not change

GAAP and our adoption of SFAS No. 168 will not have a material impact on our consolidated financial statements.

Table of Contents

VCA Antech, Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)

14. Subsequent Events

On July 1, 2009, we acquired Eklin Medical Systems, Inc. (Eklin), a leading seller of digital radiography, ultrasound and practice management software systems in the veterinary market. We acquired Eklin for a purchase price of $13.5 million. During the three months ended June 30, 2009 we incurred $440,000 in transaction costs which were expensed in accordance with SFAS No. 141R. Eklin will be combined with Sound Technologies, Inc. and will be reported within our Medical Technology segment.

17

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

	Page Number
Introduction	19
Executive Overview	19
Critical Accounting Policies	21
Consolidated Results of Operations	21
Segment Results	23
Liquidity and Capital Resources	28
Recent Accounting Pronouncements	32

Table of Contents

Introduction

The following discussion should be read in conjunction with our condensed, consolidated financial statements provided under Part I, Item I of this Quarterly report on Form 10-Q. We have included herein statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We generally identify forward-looking statements in this report using words like believe, intend, expect, estimate, may plan, should plan, project, contemplate, anticipate, predict, potential, continue, or similar expressions. some of these statements below and elsewhere in this report. These forward-looking statements are not historical facts and are inherently uncertain and outside of our control. Any or all of our forward-looking statements in this report may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this report will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially. Factors that may cause our plans, expectations, future financial condition and results to change are described throughout this report and in our Annual Report on Form 10-K, particularly in Risk Factors, Part I, Item 1A of that report.

The forward-looking information set forth in this Quarterly report on Form 10-Q is as of August 7, 2009, and we undertake no duty to update this information. Shareholders and prospective investors can find information filed with the SEC after August 7, 2009 at our website at http://investor.vcaantech.com or at the SEC s website at www.sec.gov .

We are a leading national animal healthcare company. We provide veterinary services and diagnostic testing to support veterinary care and we sell diagnostic imaging equipment, other medical technology products and related services to veterinarians. Our reportable segments are as follows:

Our Animal Hospital segment operates the largest network of freestanding, full-service animal hospitals in the nation. Our animal hospitals offer a full range of general medical and surgical services for companion animals. We treat diseases and injuries, offer pharmaceutical and retail products and perform a variety of pet wellness programs, including health examinations, diagnostic testing, routine vaccinations, spaying, neutering and dental care. At June 30, 2009, our animal hospital network consisted of 480 animal hospitals in 40 states.

Our Laboratory segment operates the largest network of veterinary diagnostic laboratories in the nation. Our laboratories provide sophisticated testing and consulting services used by veterinarians in the detection, diagnosis, evaluation, monitoring, treatment and prevention of diseases and other conditions affecting animals. At June 30, 2009, our Laboratory network consisted of 46 laboratories serving all 50 states and certain areas in Canada.

Our Medical Technology segment sells digital radiography and ultrasound imaging equipment, related computer hardware, software and ancillary services.

The practice of veterinary medicine is subject to seasonal fluctuation. In particular, demand for veterinary services is significantly higher during the warmer months because pets spend a greater amount of time outdoors where they are more likely to be injured and are more susceptible to disease and parasites. In addition, use of veterinary services may be affected by levels of flea infestation, heartworm and ticks, and the number of daylight hours.

Executive Overview

During the three months ended June 30, 2009, we experienced continued success generating positive revenue growth. Although the sustained weak economic environment continued to hinder our ability to grow Animal Hospital same-store revenue, as we have done in the past, we focused our efforts on completing selective acquisitions and on controlling overall expenses. As a result of these efforts, we were able to effectively maintain our overall consolidated gross margin and increase earnings.

Table of Contents

Acquisitions and Facilities

Our growth strategy includes the acquisition of independent animal hospitals. We currently anticipate that we will acquire $60.0 million to $70.0 million of annualized Animal Hospital revenue in 2009. In addition, we also evaluate the acquisition of animal hospital chains, laboratories, or related businesses if favorable opportunities are presented. The following table summarizes the changes in the number of facilities operated by our Animal Hospital and Laboratory segments during the six months ended June 30, 2009:

Animal Hospitals:	
Beginning of period	471
Acquisitions	14
Acquisitions relocated into our existing animal hospitals	(3)
Closed	(2)
End of period	480
Laboratories:	
Beginning of period	44
Acquisitions (1)	
Created	2
End of period	46

(1) During the six months ended June 30, 2009 we acquired one pathology office, bringing the total number of pathology offices to four. Pathology offices are not included in our laboratory count.

The following table summarizes the preliminary purchase price paid by us for the 14 animal hospitals and one pathology office we acquired during the six months ended June 30, 2009, and the preliminary allocation of the purchase price (in thousands):

Preliminary Purchase Price:	
Cash (1)	$ 24,928
Non-cash note conversion to equity interest in subsidiary	5,700
Other liabilities assumed	4,892
Total	$ 35,520

Preliminary Allocation of the Purchase Price:	
Tangible assets	$ 5,754
Identifiable intangible assets	4,332
Goodwill (2)	25,434
Total	$ 35,520

(1) The $3.2 million difference between cash paid for acquisitions per this schedule and per the condensed, consolidated statement of cash flows is due to payments of earn-outs and holdbacks and acquisition adjustments related to previous acquisitions.

(2) We expect that $17.2 million of the goodwill recorded for these acquisitions as of June 30, 2009 will be fully deductible for income tax purposes.

In addition to the purchase price listed above we made cash payments for real estate acquired in connection with our purchase of animal hospitals totaling $3.8 million for the six months ended June 30, 2009.

Table of Contents

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States, which require management to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and on other factors that management believes to be reasonable. Actual results may differ from those estimates. Critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our consolidated financial statements. A discussion of such critical accounting policies, which include revenue recognition, valuation of goodwill and other intangible assets, income taxes, and self-insured liabilities can be found in our 2008 Annual Report on Form 10-K. There have been no material changes to those policies as of this Quarterly Report on Form 10-Q for the period ended June 30, 2009.

Valuation of Goodwill

In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), we are required to test our goodwill for impairment annually, or sooner if circumstances indicate an impairment may exist. During the quarter ended March 31, 2009, as a result of a decline in the sales volume at our Medical Technology reporting unit we evaluated the related goodwill for impairment. We calculated an estimate of the fair value of the Medical Technology reporting unit which indicated that there was no impairment. However, the fair value did not significantly exceed its respective book value. During the current quarter we experienced an increase in sales and accordingly once again concluded that no impairment existed. However, it is considered at least reasonably possible that our determination that goodwill is not impaired could change in the near term should the current economic condition worsen. We will continue to monitor the results of all of our business segments and perform additional valuations as necessary. Otherwise we will perform our regularly scheduled annual impairment analysis of all our reporting units in October 2009 which will include both discounted cash flow techniques and market comparables.

Consolidated Results of Operations

The following table sets forth components of our condensed, consolidated income statements expressed as a percentage of revenue:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2009	**2008**	**2009**	**2008**
Revenue:				
Animal Hospital	75.8%	75.1%	75.6%	74.3%
Laboratory	24.0	24.5	24.3	24.7
Medical Technology	3.1	3.5	3.0	4.0
Intercompany	(2.9)	(3.1)	(2.9)	(3.0)
Total revenue	100.0	100.0	100.0	100.0
Direct costs	71.7	71.0	72.7	72.0
Gross profit	28.3	29.0	27.3	28.0
Selling, general and administrative expense	6.7	6.8	7.0	7.2
Write-off of internal-use software	1.5		0.9	
Loss (gain) on sale of assets	0.1	0.1		(0.1)
Operating income	20.0	22.1	19.4	20.9
Interest expense, net	1.7	2.1	1.7	2.3
Other income		(0.1)		
Income before provision for income taxes	18.3	20.1	17.7	18.6

Provision for income taxes	7.0	7.7	6.8	7.2
Net income	11.3	12.4	10.9	11.4
Net income attributable to noncontrolling interests	0.4	0.3	0.3	0.3
Net income attributable to VCA Antech, Inc	10.9%	12.1%	10.6%	11.1%

Table of Contents

Revenue

The following table summarizes our revenue (in thousands, except percentages):

	Three Months Ended June 30,					Six Months Ended June 30,				
	2009		2008			2009		2008		
	$	% of Total	$	% of Total	% Change	$	% of Total	$	% of Total	% Change
Animal Hospital	$ 261,287	75.8%	$ 251,001	75.1%	4.1%	$ 499,645	75.6%	$ 477,101	74.3%	4.7%
Laboratory	82,811	24.0%	81,840	24.5%	1.2%	160,300	24.3%	158,569	24.7%	1.1%
Medical Technology	10,628	3.1%	11,838	3.5%	(10.2)%	19,786	3.0%	25,687	4.0%	(23.0)%
Intercompany	(9,850)	(2.9)%	(10,245)	(3.1)%	(3.9)%	(19,005)	(2.9)%	(19,091)	(3.0)%	(0.5)%
Total revenue	$ 344,876	100.0%	$ 334,434	100.0%	3.1%	$ 660,726	100.0%	$ 642,266	100.0%	2.9%

Consolidated revenue increased $10.4 million for the three months ended June 30, 2009 and $18.5 million for the six months ended June 30, 2009. The increase in consolidated revenue was attributable to revenue from acquired animal hospitals and, to a lesser extent, internal growth in our Laboratory segment. Our Laboratory internal revenue growth was 0.6% and 1.1% for the three and six months ended June 30, 2009. The increase was partially offset by declines in our Animal Hospital same-store revenue and Medical Technology revenue. Our Animal Hospital same-store revenue growth was negative 3.3% and negative 3.0% for the three and six months ended June 30, 2009. The decline in our revenue growth rates is due primarily to the aforementioned economic environment. The six month organic revenue results for both the Animal Hospital and Laboratory segments have been adjusted for differences in business days.

Gross Profit

The following table summarizes our gross profit in both dollars and as a percentage of applicable revenue, or gross margin (in thousands, except percentages):

	Three Months Ended June 30,					Six Months Ended June 30,				
	2009		2008			2009		2008		
	$	Gross Margin	$	Gross Margin	% Change	$	Gross Margin	$	Gross Margin	% Change
Animal Hospital	$ 53,133	20.3%	$ 52,620	21.0%	1.0%	$ 96,297	19.3%	$ 93,757	19.7%	2.7%
Laboratory	41,030	49.5%	40,874	49.9%	0.4%	77,036	48.1%	78,216	49.3%	(1.5)%
Medical Technology	3,833	36.1%	4,222	35.7%	(9.2)%	7,358	37.2%	9,135	35.6%	(19.5)%
Intercompany	(384)		(750)			(638)		(1,111)		
Total gross profit	$ 97,612	28.3%	$ 96,966	29.0%	0.7%	$ 180,053	27.3%	$ 179,997	28.0%	0.0%

Consolidated gross profit increased $646,000 for the three months ended June 30, 2009 and increased $56,000 for the six months ended June 30, 2009. The increase for the three and six months ended June 30, 2009 was primarily due to acquired animal hospitals and Laboratory internal growth as discussed above. The increase was largely offset by a decline in Medical Technology revenue and modest declines in Animal Hospital and Laboratory gross margins.

Table of Contents

Segment Results

Animal Hospital Segment

The following table summarizes revenue and gross profit for the Animal Hospital segment (in thousands, except percentages):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	% Change	2009	2008	% Change
Revenue	$261,287	$251,001	4.1%	$499,645	$477,101	4.7%
Gross profit	$ 53,133	$ 52,620	1.0%	$ 96,297	$ 93,757	2.7%
Gross margin	20.3%	21.0%		19.3%	19.7%	

Animal Hospital revenue increased $10.3 million for the three months ended June 30, 2009 and $22.5 million for the six months ended June 30, 2009 as compared to the same periods in the prior year. The components of the increase are summarized in the following table (in thousands, except percentages and average price per order):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	% Change	2009	2008	% Change
Same-store facilities:						
Orders (1)(2)	1,560	1,660	(6.1)%	2,867	3,059	(6.3)%
Average revenue per order (3)	$ 152.21	$ 147.94	2.9%	$ 151.93	$ 146.79	3.5%
Same-store revenue (1)	$ 237,376	$ 245,573	(3.3)%	$ 435,615	$ 448,992	(3.0)%
Business day adjustment (4)					2,806	
Net acquired revenue (5)	23,911	5,428		64,030	25,303	
Total	$ 261,287	$ 251,001	4.1%	$ 499,645	$ 477,101	4.7%

(1) Same-store revenue and orders were calculated using Animal Hospital operating results, adjusted to exclude the operating results for newly acquired animal hospitals that we did not own as of the beginning of the comparable period in the prior period and

adjusted for the impact resulting from any differences in the number of business days in the comparable period. Same-store revenue also includes revenue generated by customers referred from our relocated or combined animal hospitals, including those merged upon acquisition.

(2) The change in orders may not calculate exactly due to rounding.

(3) Computed by dividing same-store revenue by same-store orders. The average revenue per order may not calculate exactly due to rounding.

(4) The business day adjustment reflects the impact of one fewer business day in the six months ended June 30, 2009 as compared to the six months ended June 30,

2008.

(5) Net acquired revenue represents the revenue from those animal hospitals acquired, net of revenue from those animal hospitals sold or closed, on or after the beginning of the comparable period, which was April 1, 2008 for the three month analysis and January 1, 2008 for the six month analysis. Fluctuations in net acquired revenue occur due to the volume, size, and timing of acquisitions and dispositions during the periods from this date through the end of the applicable period.

During the three and six months ended June 30, 2009, our volume of same-store orders declined primarily as a result of current economic conditions and to a lesser extent, changes in our overall business environment.

Over the last few years, some pet-related products traditionally sold in our animal hospitals are now widely available in retail stores and other distribution channels such as the Internet. There has also been a decline in the number of vaccinations as some recent professional literature and research has suggested that vaccinations can be given to pets less frequently.

Our average revenue per order increased however during the three and six months ended June 30, 2009. Our business strategy is to place a greater emphasis on comprehensive wellness visits and advanced medical procedures, which typically generate higher-priced orders. The migration of lower-priced orders from our animal hospitals to other distribution channels mentioned above and our emphasis on comprehensive wellness visits has resulted in a decrease in lower-priced orders and an increase in higher-priced orders. However, as mentioned above during the three and six months ended June 30, 2009 we experienced a decrease in both lower and higher priced orders.

Price increases also contributed to the increase in the average revenue per order. Prices at each of our animal hospitals are reviewed regularly and adjustments are made based on market considerations, demographics and our costs. These adjustments historically have approximated 3% to 6% on most services at the majority of our animal hospitals and are typically implemented in February of each year.

Animal Hospital gross profit is calculated as Animal Hospital revenue less Animal Hospital direct costs. Animal Hospital direct costs are comprised of all costs of services and products at the animal hospitals, including, but not limited to, salaries of veterinarians, technicians and all other animal hospital-based personnel, facilities rent, occupancy costs, supply costs, depreciation and amortization, certain marketing and promotional expenses incurred by each individual animal hospital and costs of goods sold associated with the retail sales of pet food and pet supplies.

Our Animal Hospital gross margin declined slightly to 20.3% for the three months ended June 30, 2009 and 19.3% for the six months ended June 30, 2009 as compared to 21.0% and 19.7% in the prior year periods. Our Animal Hospital same-store gross margin also declined slightly to 20.9% for the three months ended June 30, 2009 as compared to 21.2% in the prior year period however remained unchanged at 20.1% for the six months ended June 30, 2009 and 2008.

The decrease in same-store gross margin for the three months ended June 30, 2009 was primarily due to an increase in marketing and other direct costs. The same-store margin for the six months ended June 30, 2009 was also impacted by the increase in marketing costs offset primarily by a decrease in labor costs predominantly due to our efforts to manage our margin.

Our combined Animal Hospital margin was also impacted by lower gross margins from our acquired animal hospitals. Over the last several years we have acquired a significant number of animal hospitals. Many of these newly acquired animal hospitals had lower gross margins at the time of acquisition than those previously operated by us. We have improved these lower gross margins, in the aggregate, subsequent to the acquisition by improving animal hospital revenue, reducing costs, and increasing operating leverage.

Laboratory Segment

The following table summarizes revenue and gross profit for our Laboratory segment (in thousands, except percentages):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	**2008**	**% Change**	**2009**	**2008**	**% Change**
Revenue	$82,811	$81,840	1.2%	$160,300	$158,569	1.1%
Gross profit	$41,030	$40,874	0.4%	$ 77,036	$ 78,216	(1.5)%
Gross margin	49.5%	49.9%		48.1%	49.3%	

Table of Contents

Laboratory revenue increased $971,000 for the three months ended June 30, 2009 and $1.7 million for the six months ended June 30, 2009 as compared to the same periods in the prior year. The components of the increase in Laboratory revenue are detailed below (in thousands, except percentages and average price per requisition):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	% Change	2009	2008	% Change
Internal growth:						
Number of requisitions (1)	3,618	3,599	0.5%	6,850	6,796	0.8%
Average revenue per requisition (2)	$ 22.77	$ 22.74	0.1%	$ 23.27	$ 23.19	0.3%
Total internal revenue (1)	$ 82,369	$ 81,840	0.6%	$ 159,370	$ 157,572	1.1%
Billing day adjustment (3)					997	
Acquired revenue (4)	442			930		
Total	$ 82,811	$ 81,840	1.2%	$ 160,300	$ 158,569	1.1%

(1) Internal revenue and requisitions were calculated using Laboratory operating results, adjusted to exclude the operating results of acquired laboratories for the comparable periods that we did not own them in the prior year and adjusted for the impact resulting from any differences in the number of billing days in comparable periods.

(2) Computed by dividing internal revenue by the number of requisitions.

(3) The billing day adjustment reflects the impact of one fewer billing day in the six months ended June 30, 2009 as compared to the six months ended June 30, 2008.

(4) Acquired revenue represents the revenue recognized from our acquired laboratories for the comparable current year period that we did not own them in the prior year.

Requisitions from internal growth continue to increase as the result of an ongoing trend in veterinary medicine to focus on the importance of laboratory diagnostic testing in the diagnosis, early detection and treatment of diseases, and the migration of certain tests to outside laboratories that have historically been performed in veterinary hospitals. However, for the three and six months ended June 30, 2009 this increase has slowed significantly due to the economic downturn.

The average revenue per requisition increased slightly for the three and six months ended June 30, 2009 as compared to prior year periods due to price increases which ranged from 3% to 4% in both February 2009 and February 2008. The price increases were largely offset by other factors including changes in the mix, performing lower-priced tests historically performed at the veterinary hospitals, and a decrease in higher-priced tests as a result of the current economic environment.

Laboratory gross profit is calculated as Laboratory revenue less Laboratory direct costs. Laboratory direct costs are comprised of all costs of laboratory services, including but not limited to, salaries of veterinarians, specialists, technicians and other laboratory-based personnel, transportation and delivery costs, facilities rent, occupancy costs, depreciation and amortization and supply costs.

Laboratory margins decreased 40 basis points and 120 basis points during the three and six months ended June 30, 2009, respectively. The decrease was primarily due to costs incurred in advance of projected revenue related to our expansion into Canada, in addition to increased depreciation and amortization expense and repairs and maintenance expense related to new equipment purchases and leasehold improvements. Excluding the results for Canada our Laboratory margins would have increased 20 basis points for the three months ended June 30, 2009, and would have decreased only 50 basis points for the six months ended June 30, 2009.

Table of Contents

Medical Technology Segment

The following table summarizes revenue and gross profit for the Medical Technology segment (in thousands, except percentages):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	**2008**	**% Change**	**2009**	**2008**	**% Change**
Revenue	$10,628	$11,838	(10.2)%	$19,786	$25,687	(23.0)%
Gross profit	$ 3,833	$ 4,222	(9.2)%	$ 7,358	$ 9,135	(19.5)%
Gross margin	36.1%	35.7%		37.2%	35.6%	

Medical Technology revenue decreased $1.2 million for the three months ended June 30, 2009 and $5.9 million for the six months ended June 30, 2009 as compared to the same periods in the prior year. Overall, Medical Technology revenue has been impacted by current economic trends which have caused many members of the veterinary community to delay their expenditures for capital assets such as digital radiography and ultrasound equipment.

The decline in revenue for the three months ended June 30, 2009 was primarily due to a decrease in the sale of ultrasound equipment. The sale of ultrasound equipment has decreased due to several factors including, as mentioned above, current economic conditions and in addition, the maturing of the market for this type of equipment. The remainder of the decline in Medical Technology revenue for the three months ended June 30, 2009 was due to a decrease in sales of digital radiography equipment. The overall decline in revenue was partially offset by an increase in customer support revenue related to an increase in the base of installed digital radiography units and an overall increase in renewal rates.

The decline in revenue for the six months ended June 30, 2009 was primarily due to a decrease in the sales of digital radiography equipment and to a lesser extent sales of ultrasound equipment.

Medical Technology gross profit is calculated as Medical Technology revenue less Medical Technology direct costs. Medical Technology direct costs are comprised of all product and service costs, including, but not limited to, all costs of equipment, related products and services, salaries of technicians, support personnel, trainers, consultants and other non-administrative personnel, depreciation and amortization and supply costs.

Medical Technology gross profit decreased $389,000 for the three months ended June 30, 2009 and $1.8 million for the six months ended June 30, 2009 as compared to the same periods in the prior year. The decrease is attributable to the decrease in revenue as discussed above and a decline in digital radiography and ultrasound margins. The decline in digital radiography margins was the result of a change in product mix from higher-margin small-animal business to lower-margin equine business. The decline in ultrasound margins was due to the decrease in average selling prices which were lower in an effort to stimulate demand.

Intercompany Revenue

Laboratory revenue for the three and six months ended June 30, 2009 included intercompany revenue of $8.5 million and $16.5 million, respectively, that was generated by providing laboratory services to our animal hospitals. Medical Technology revenue for the three and six months ended June 30, 2009 included intercompany revenue of $1.4 million and $2.6 million, respectively, that was generated by providing products and services to our animal hospitals and laboratories. For purposes of reviewing the operating performance of our business segments, all intercompany transactions are accounted for as if the transaction was with an independent third party at current market prices. For financial reporting purposes, intercompany transactions are eliminated as part of our consolidation.

Table of Contents

Selling, General and Administrative Expense

The following table summarizes our selling, general and administrative expense (SG&A) in both dollars and as a percentage of applicable revenue (in thousands, except percentages):

	Three Months Ended June 30,					Six Months Ended June 30,				
	2009		2008			2009		2008		
	$	% of Revenue	$	% of Revenue	% Change	$	% of Revenue	$	% of Revenue	% Change
Animal Hospital	$ 5,378	2.1%	$ 5,694	2.3%	(5.5)%	$ 10,762	2.2%	$ 11,172	2.3%	(3.7)%
Laboratory	5,644	6.8%	5,185	6.3%	8.9%	11,211	7.0%	10,136	6.4%	10.6%
Medical Technology	2,658	25.0%	2,948	24.9%	(9.8)%	5,742	29.0%	6,382	24.8%	(10.0)%
Corporate	9,525	2.8%	8,982	2.7%	6.0%	18,679	2.8%	18,297	2.8%	2.1%
Total SG&A	$ 23,205	6.7%	$ 22,809	6.8%	1.7%	$ 46,394	7.0%	$ 45,987	7.2%	0.9%

Consolidated SG&A increased slightly for the three and six months ended June 30, 2009. Our Laboratory segment SG&A increased due to costs incurred related to our expansion into Canada and research and development expenses associated with potential new products. Corporate SG&A increased primarily due to transaction costs of $440,000 incurred related to our acquisition of Eklin Medical Systems, Inc.. Effective January 1, 2009, transaction costs are now expensed in accordance with the new purchase accounting standard, SFAS No. 141R. The increases in Laboratory and corporate SG&A were almost fully offset by decreases in Animal Hospital and Medical Technology SG&A. These decreases were due to reductions in travel and entertainment expense and decreased bonuses and commissions as a result of the current economic environment.

Operating Income

The following table summarizes our operating income in both dollars and as a percentage of applicable revenue (in thousands, except percentages):

	Three Months Ended June 30,					Six Months Ended June 30,				
	2009		2008			2009		2008		
	$	% of Revenue	$	% of Revenue	% Change	$	% of Revenue	$	% of Revenue	% Change
Animal Hospital	$ 47,626	18.2%	$ 46,822	18.7%	1.7%	$ 85,665	17.1%	$ 82,674	17.3%	3.6%
Laboratory	35,361	42.7%	35,678	43.6%	(0.9)%	65,798	41.0%	68,080	42.9%	(3.4)%
Medical Technology	1,170	11.0%	1,274	10.8%	(8.2)%	1,610	8.1%	2,733	10.6%	(41.1)%
Corporate	(14,809)	(4.3)%	(8,994)	(2.7)%	64.7%	(23,971)	(3.6)%	(18,309)	(2.9)%	30.9%
Intercompany	(384)	3.9%	(750)	7.3%	(48.8)%	(638)	3.4%	(1,111)	5.8%	(42.6)%
Total operating income	$ 68,964	20.0%	$ 74,030	22.1%	(6.8)%	$ 128,464	19.4%	$ 134,067	20.9%	(4.2)%

The decrease in our consolidated operating income was primarily due to a $5.3 million non-cash charge taken during the three months ended June 30, 2009 related to the write-off of an internal-use software project due to the failure of the project to reach development milestones and our decision to pursue alternative solutions. Excluding the impact of the internal-use software charge which is included in the corporate results above, operating income

increased slightly during the three months ended June 30, 2009, primarily due to the increases in revenue mentioned above partially offset by a slight decrease in margins.

Excluding the impact of the internal-use software charge, operating income decreased slightly during the six months ended June 30, 2009, primarily due to a decrease in consolidated operating margin related to a change in mix from higher margin Laboratory business to lower margin Animal Hospital business, combined with an increase in selling, general and administrative expense as a percentage of revenue.

Table of Contents

Interest Expense, Net

The following table summarizes our interest expense, net of interest income (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Interest expense (income):				
Senior term notes	$ 2,573	$ 5,563	$ 5,160	$ 12,576
Interest rate hedging agreements	2,727	1,656	5,972	2,438
Capital leases and other	569	401	1,149	1,042
Amortization of debt costs	121	117	241	233
	5,990	7,737	12,522	16,289
Interest income	(264)	(692)	(678)	(1,629)
Total interest expense, net of interest income	$ 5,726	$ 7,045	$ 11,844	$ 14,660

The decrease in net interest expense for the three and six months ended June 30, 2009 was primarily attributable to a decrease in the weighted average interest rate in comparison to the prior year.

Provision for Income Taxes

Our effective tax rate was 39.2% for both the three and six months ended June 30, 2009 compared to 39.1% for both the three and six months ended June 30, 2008. The effective tax rate is subject to ongoing review and evaluation by management and could change in future quarters.

Liquidity and Capital Resources

Introduction

We generate cash primarily from payments made by customers for our veterinary services, payments from animal hospitals and other clients for our laboratory services, and from proceeds received from the sale of our imaging equipment and other related services. Our business historically has experienced strong liquidity, as fees for services provided in our animal hospitals are due at the time of service and fees for laboratory services are collected under standard industry terms. Our cash disbursements are primarily for payments related to the compensation of our employees, supplies and inventory purchases for our operating segments, occupancy and other administrative costs, interest expense, payments on long-term borrowings, capital expenditures and animal hospital acquisitions. Cash outflows fluctuate with the amount and timing of the settlement of these transactions.

We manage our cash, investments and capital structure so we are able to meet the short-term and long-term obligations of our business while maintaining financial flexibility and liquidity. We forecast, analyze and monitor our cash flows to enable investment and financing within the overall constraints of our financial strategy.

At June 30, 2009, our consolidated cash and cash equivalents totaled $138.9 million, representing an increase of $49.9 million as compared to December 31, 2008. In addition, cash flows generated from operating activities totaled $110.2 million in the six months ended June 30, 2009, representing an increase of $8.8 million as compared to the six months ended June 30, 2008.

We have historically funded our working capital requirements, capital expenditures and investment in animal hospital acquisitions from internally generated cash flows and we expect to do so in the future. As of June 30, 2009, we have access to an unused $75.0 million revolving credit facility, which allows us to maintain further operating and financial flexibility. Historically, we have been able to obtain cash from other additional borrowings. The availability of financing in the form of debt or equity however is influenced by many factors including our profitability, operating cash flows, debt levels, debt ratings, contractual restrictions, and market conditions. Although in the past we have been able to obtain financing for material transactions on terms that we believe to be reasonable, there is a possibility that we may not be able to obtain financing on favorable terms in the future.

Future Cash Flows

Short-Term

Other than our acquisitions of hospital chains, we historically have funded our working capital requirements, capital expenditures and investments in animal hospital acquisitions from internally generated cash flow. We anticipate that our cash on hand and net cash provided by operations will be sufficient to meet our anticipated cash requirements for the next 12 months. If we consummate one or more significant acquisitions of animal hospital chains during this period, we may seek additional debt or equity financing.

For the year ended December 31, 2009, we expect to spend $60.0 million to $70.0 million, excluding real estate, related to the acquisition of independent animal hospitals. The ultimate number of acquisitions and cash used is largely dependent upon the attractiveness of the candidates and the strategic fit within our operations. From January 1, 2009 through June 30, 2009, we spent $24.9 million in connection with the acquisition of 13 animal hospitals and one pathology office, as well as $3.8 million for the related real estate. In addition, we expect to spend approximately $80.0 million in 2009 for both property and equipment additions and capital costs necessary to maintain our existing facilities.

Long-Term

Our long-term liquidity needs, other than those related to the day-to-day operations of our business, including commitments for operating leases, generally are comprised of scheduled principal and interest payments for our outstanding long-term indebtedness, capital expenditures related to the expansion of our business and acquisitions in accordance with our growth strategy. In addition to the scheduled payments on our senior term notes, we are required to make mandatory prepayments in the event we have excess cash flow. Pursuant to the terms of our senior credit facility, mandatory prepayments are due on our senior term notes equal to 75% of any excess cash flow at the end of 2009 and 2010. Excess cash flow is defined as earnings before interest, taxes, depreciation and amortization less voluntary and scheduled debt repayments, capital expenditures, interest payable in cash, taxes payable in cash and cash paid for acquisitions. These payments reduce on a pro rata basis the remaining scheduled principal payments.

We expect that our long-term cash flow from operations will not be sufficient to repay our long-term debt when it comes due in May 2011. We anticipate that we will refinance such indebtedness, amend its terms to extend the maturity dates, or issue common stock in our company. Our management cannot make any assurances that such refinancing or amendments, if necessary, will be available on attractive terms, if at all.

Debt Related Covenants

Our senior credit facility contains certain financial covenants pertaining to fixed-charge coverage and leverage ratios. In addition, the senior credit facility has restrictions pertaining to capital expenditures, acquisitions and the payment of cash dividends. As of June 30, 2009, we were in compliance with these covenants.

At June 30, 2009, we had a fixed-charge coverage ratio of 1.67 to 1.00, which was in compliance with the required ratio of no less than 1.20 to 1.00. The senior credit facility defines the fixed-charge coverage ratio as that ratio that is calculated on a last 12-month basis by dividing pro forma earnings before interest, taxes, depreciation and amortization, as defined by the senior credit facility (pro forma earnings), by fixed charges. Fixed charges are defined as cash interest expense, scheduled principal payments on debt obligations, capital expenditures, and provision for income taxes. Pro forma earnings include 12 months of operating results for businesses acquired during the period.

At June 30, 2009, we had a leverage ratio of 1.84 to 1.00, which was in compliance with the required ratio of no more than 2.75 to 1.00. The senior credit facility defines the leverage ratio as that ratio which is calculated as total debt divided by pro forma earnings.

Table of Contents

Historical Cash Flows

The following table summarizes our cash flows (in thousands):

	Six Months Ended June 30,	
	2009	2008
Cash provided by (used in):		
Operating activities	$ 110,199	$ 101,449
Investing activities	(57,353)	(132,242)
Financing activities	(2,892)	(4,134)
Effect of exchange rate changes on cash and cash equivalents	(18)	(15)
Increase (decrease) in cash and cash equivalents	49,936	(34,942)
Cash and cash equivalents at beginning of period	88,959	110,866
Cash and cash equivalents at end of period	$ 138,895	$ 75,924

Cash Flows from Operating Activities

Net cash provided by operating activities increased $8.8 million in the six months ended June 30, 2009 as compared to the same period in the prior year. This increase was due primarily to additional cash generated from acquired businesses and favorable working capital requirements. The increase was partially offset by an increase in cash paid for taxes.

Cash Flows from Investing Activities

The table below presents the components of the changes in investing cash flows (in thousands):

	Six Months Ended June 30,		
	2009	2008	Variance
Investing Cash Flows:			
Acquisition of independent animal hospitals and laboratories	$ (24,928)	$ (78,022)	$ 53,094 (1)
Other	(3,216)	(2,345)	(871)
Total cash used for acquisitions	(28,144)	(80,367)	52,223
Property and equipment additions	(25,208)	(25,543)	335
Real estate acquired with acquisitions	(3,828)	(13,098)	9,270 (2)
Proceeds from sale of assets	108	1,753	(1,645) (3)
Other	(281)	(14,987)	14,706 (4)
Net cash used in investing activities	$ (57,353)	$ (132,242)	$ 74,889

(1) The number of acquisitions will vary from year to year based upon the available pool of suitable

candidates. In addition, the cash used for acquisitions declined in 2009 as a result of our desire to accumulate cash in advance of our debt refinancing which is expected to occur early next year.

(2) Due to the lower return on investment realized on acquired real estate we are highly selective in our decision to acquire real estate. The decrease in cash used to acquire real estate is due to a decrease in opportunities that met our selective criteria.

(3) The decrease in proceeds from sale of assets is primarily due to a significant land sale in 2008.

(4) The decrease in other investing cash flows was primarily due to investments made in 2008 related to our expansion into

other markets.

Table of Contents

Cash Flows from Financing Activities

The table below presents the components of the changes in financing cash flows (in thousands):

	Six Months Ended June 30,		
	2009	2008	Variance
Financing Cash Flows:			
Repayment of long-term obligations	$ (3,899)	$ (3,925)	$ 26
Distributions to noncontrolling interest partners	(1,493)	(1,456)	(37) (1)
Proceeds from stock options exercises	2,895	892	2,003 (2)
Excess tax benefits from stock options	154	355	(201)
Stock repurchases	(549)		(549) (3)
Net cash used in financing activities	$ (2,892)	$ (4,134)	$ 1,242

(1) The distributions to noncontrolling interest partners represents cash payments to noncontrolling interest partners for their portion of partnership income. As mentioned in Note 4 in our June 30, 2009 Notes to Condensed, Consolidated Financial Statements, we adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletins (ARB) No. 51* (SFAS No. 160) effective

January 1, 2009, which resulted in a reclassification of these distributions from operating activities to financing activities.

(2) The number of stock option exercises has increased in comparison to the prior year related to the increase in the market price of our stock during the six months ended June 30, 2009.

(3) The stock repurchases in fiscal 2009 represent cash paid for taxes by VCA on behalf of employees who elected to settle their income tax withholdings on vested stock awards with stock.

Off-Balance-Sheet Arrangements

Other than operating leases, as of June 30, 2009 we do not have any off-balance-sheet financing arrangements.

Interest Rate Swap Agreements

We have interest rate swap agreements whereby we pay counterparties amounts based on fixed interest rates and set notional principal amounts in exchange for the receipt of payments from the counterparties based on London Interbank Offer Rates (LIBOR) and the same set notional principal amounts. We entered into these interest rate swap agreements to hedge against the risk of increasing interest rates. The contracts effectively convert a certain amount of our variable-rate debt under our senior credit facility to fixed-rate debt for purposes of controlling cash paid for interest. That amount is equal to the notional principal amount of the interest rate swap agreements, and the fixed-rate conversion period is equal to the terms of the contract. All of our interest rate swap agreements qualify for hedge accounting and are summarized as follows:

	Interest Rate Swap Agreements	
Fixed interest rate	5.34%	2.64%
Notional amount (in millions)	$100.0	$100.0
Effective date	6/11/2007	2/12/2008
Expiration date	12/31/2009	2/26/2010
Counterparty	Goldman Sachs	Wells Fargo
Qualifies for hedge accounting	Yes	Yes

In the future, we may enter into additional interest rate strategies. However, we have not yet determined what those strategies will be or their possible impact.

Table of Contents

Description of Indebtedness

Senior Credit Facility

At June 30, 2009, we had $519.6 million principal amount outstanding under our senior term notes and no borrowings outstanding under our revolving credit facility.

We pay interest on our senior term notes based on the interest rate offered to our administrative agent on LIBOR plus a margin of 1.50% per annum. We pay interest on our revolving credit facility based upon Wells Fargo s prime rate plus the margin of 0.50%.

The senior term notes mature in May 2011 and the revolving credit facility matures in May 2010.

Other Debt and Capital Lease Obligations

At June 30, 2009, we had seller notes secured by assets of certain animal hospitals, unsecured debt and capital leases that totaled $29.3 million.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. However, it eliminates inconsistencies in the guidance provided in previous accounting pronouncements. In December 2007, the FASB provided a one-year deferral of SFAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value on a recurring basis, at least annually. Accordingly, we adopted SFAS No. 157 on January 1, 2008, as required for our financial assets and financial liabilities, which did not have a material impact on our consolidated financial statements. We adopted SFAS No. 157 on January 1, 2009 for our non-financial assets and non-financial liabilities, which did not have a material impact on our consolidated financial statements. We have included the applicable disclosures in Note 7 in our June 30, 2009 Notes to Condensed, Consolidated Financial Statements.

In December 2007, the FASB issued SFAS No. 160. SFAS No. 160 changes the accounting and reporting for minority interests, which are re-characterized as noncontrolling interests and classified as a component of equity. We adopted SFAS No. 160 on January 1, 2009. The adoption of SFAS No. 160 did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141R retains the underlying concepts of SFAS No. 141, *Business Combinations* (SFAS No. 141) in that all business combinations continue to be accounted for at fair value under the acquisition method of accounting. SFAS No. 141R changes the application of the acquisition method in a number of significant respects. Acquisition costs will generally be expensed as incurred; non-controlling interests will be valued at fair value at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS No. 141R is effective on a prospective basis for all of our business combinations for which the acquisition date is on or after January 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS No. 141R amends SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109) such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS No. 141R would also apply the provisions of SFAS No. 141R.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS No. 161). SFAS No. 161 changed the disclosure requirements for derivative instruments and hedging activities to enhance the current disclosure framework in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The additional disclosures require information about how our interest rate swap agreements and hedging activities affect our financial position, financial performance and cash flows. We adopted SFAS No. 161 on January 1, 2009 and have included the applicable disclosures in Note 6 and Note 7 in our June 30, 2009 Notes to Condensed, Consolidated Financial Statements. The adoption of SFAS No. 161 did not have a material impact on our consolidated financial statements.

Table of Contents

In April 2008, the FASB issued FASB Staff Position (FSP) Financial Accounting Standards (FAS) 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends SFAS No. 142 to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141, *Business Combinations*, and other U.S. generally accepted accounting principals (GAAP). We adopted FSP FAS 142-3 on January 1, 2009. The adoption of FSP FAS 142-3 did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and Accounting Principles Board Opinions (APB) 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 requires disclosures about fair value of financial instruments in interim and annual financial statements. FSP FAS 107-1 and APB 28-1 is effective for periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. We early adopted the provisions of this FSP and all other related guidance for the quarter ended March 31, 2009 and we have included the required disclosures in Note 7 in our June 30, 2009 Notes to Condensed, Consolidated Financial Statements. The adoption did not have a material impact upon our consolidated financial statements.

In April 2009, the FASB issued FSP FAS 141R-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP FAS 141R-1). FSP FAS 141R-1 amends SFAS No. 141R regarding the initial recognition and measurement of contingencies acquired or assumed in a business combination. FSP FAS 141R-1 requires recognition at fair value of such contingencies if the acquisition-date fair value can be determined during the measurement period. FSP FAS 141R-1 became effective for us for contingent assets and liabilities arising from business combinations with acquisition dates on or after January 1, 2009. Our adoption of FSP FAS 141R-1 did not have a material impact on our consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS No. 165). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 requires disclosure of the date through which subsequent events have been evaluated and whether that date represents the date the financial statements were issued or were available to be issued. We adopted SFAS No. 165 for the quarter ended June 30, 2009. The adoption of SFAS No. 165 did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167). SFAS No. 167 amends FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (FIN 46(R)) to replace a quantitative analysis with a qualitative analysis of interests in variable interest entities for the purpose of determining the primary beneficiary of a variable interest entity. SFAS No. 167 also requires companies to more frequently assess whether they must consolidate a variable interest entity. The provisions of SFAS No. 167 will be effective for our company on January 1, 2010. We are currently evaluating the impact of SFAS No. 167 on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162* (SFAS No. 168). SFAS No. 168 replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162) and establishes *The FASB Accounting Standards Codification* as the source of authoritative GAAP recognized by the FASB. SFAS No. 168 will be effective for our quarter ending September 30, 2009. SFAS No. 168 does not change GAAP and our adoption of SFAS No. 168 will not have a material impact on our consolidated financial statements.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At June 30, 2009, we had borrowings of $519.6 million under our senior credit facility with fluctuating interest rates based on market benchmarks such as LIBOR. For our variable-rate debt, changes in interest rates generally do not affect the fair market value, but do impact earnings and cash flow. To reduce the risk of increasing interest rates, we entered into the following interest rate swap agreements:

	Interest Rate Swap Agreements	
Fixed interest rate	5.34%	2.64%
Notional amount (in millions)	$100.0	$100.0
Effective date	6/11/2007	2/12/2008
Expiration date	12/31/2009	2/26/2010
Counterparty	Goldman Sachs	Wells Fargo
Qualifies for hedge accounting	Yes	Yes

These interest rate swap agreements have the effect of reducing the amount of our debt exposed to variable interest rates. For every 1.0% increase in LIBOR we will pay an additional $4.0 million in pre-tax interest expense on an annualized basis for the unhedged portion of our senior term notes. Conversely for every 1.0% decrease in LIBOR we will save $4.0 million in pre-tax interest expense on an annualized basis. This represents an increase of $1.3 million in both additional interest payments and interest savings, in comparison to our estimate included in Item 7A of our 2008 Annual Report on Form 10-K, due to the expiration of all of our swaps in the next 12 months.

In the future, we may enter into additional interest rate strategies. However, we have not yet determined what those strategies may be or their possible impact.

ITEM 4. CONTROLS AND PROCEDURES

We carried out an evaluation required by the Exchange Act, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the Exchange Act, as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

During our most recent fiscal quarter, there were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur, or that all control issues and instances of fraud, if any, within the company have been detected.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not subject to any legal proceedings other than ordinarily routine litigation incidental to the conduct of our business.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in our 2008 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On June 1, 2009, we held our annual meeting of stockholders at which our stockholders:

- elected each of John M. Baumer and Frank Reddick as a Class I director; and
- ratified KPMG LLP as our independent registered accounting firm.

The following Class III directors were not up for re-election and have three-year terms that expire in 2011: John B. Chickering, Jr. and John Heil. The following Class II director was not up for reelection and has a three-year term that expires in 2010: Robert L. Antin.

The results of the election of two Class I directors were as follows:

Candidate	For	Withhold
John M. Baumer	62,059,519	17,168,576
Frank Reddick	47,236,340	31,991,755

The results of the other matters upon which our stockholders voted were as follows:

Proposal	For	Against	Abstain
Ratify KPMG LLP as our independent registered accounting firm	78,849,603	291,965	86,526

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 7, 2009.

Date: August 7, 2009	By: /s/ Tomas W. Fuller
	Tomas W. Fuller
	Chief Financial Officer

Table of Contents

EXHIBIT INDEX

Exhibit No.	**Description**
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.