VCA ANTECH INC
Form 10-Q
November 08, 2010

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 September 30, 2010

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). Yes þ 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.:

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes 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, 86,174,866 shares as of November 2, 2010.

VCA Antech, Inc. and Subsidiaries
Form 10-Q
September 30, 2010
Table of Contents

	Page Number
Part I. Financial Information	
Item 1. Financial Statements (Unaudited)	
Condensed, Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009	1
Condensed, Consolidated Income Statements for the Three and Nine Months Ended September 30, 2010 and 2009	2
Condensed, Consolidated Statements of Equity for the Nine Months Ended September 30, 2010 and 2009	3
Condensed, Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009	4
Notes to Condensed, Consolidated Financial Statements	5
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3. Quantitative and Qualitative Disclosures About Market Risk	33
Item 4. Controls and Procedures	33
Part II. Other Information	
Item 1. Legal Proceedings	34
Item 1A. Risk Factors	34
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	34
Item 3. Defaults Upon Senior Securities	34
Item 5. Other Information	34
Item 6. Exhibits	34
Signature	36
Exhibit Index	37
EX-10.1	
EX-10.2	

EX-10.3
EX-10.4
EX-10.5
EX-31.1
EX-31.2
EX-32.1
EX-101 INSTANCE DOCUMENT
EX-101 SCHEMA DOCUMENT
EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 LABELS LINKBASE DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT

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)

	September 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 132,233	$ 145,181
Trade accounts receivable, less allowance for uncollectible accounts of $13,448 and $13,015 at September 30, 2010 and December 31, 2009, respectively	51,606	49,186
Inventory	34,580	32,031
Prepaid expense and other	20,785	27,242
Deferred income taxes	19,445	18,318
Prepaid income taxes	15,598	6,252
Total current assets	274,247	278,210
Property and equipment, less accumulated depreciation and amortization of $193,185 and $167,506 at September 30, 2010 and December 31, 2009, respectively	324,222	289,415
Goodwill	1,074,316	985,674
Other intangible assets, net	45,854	44,280
Notes receivable, net	6,216	5,153
Deferred financing costs, net	6,689	581
Other	31,953	24,091
Total assets	$ 1,763,497	$ 1,627,404
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt	$ 28,202	$ 17,195
Accounts payable	28,464	28,326
Accrued payroll and related liabilities	39,873	33,539
Other accrued liabilities	50,959	43,298
Total current liabilities	147,498	122,358
Long-term debt, less current portion	502,177	527,860
Deferred income taxes	90,089	75,197
Other liabilities	29,307	10,651
Total liabilities	769,071	736,066

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, 86,087 and 85,584 shares outstanding as of September 30, 2010 and December 31, 2009, respectively	86	86
Additional paid-in capital	344,895	335,114
Accumulated earnings	628,780	540,010
Accumulated other comprehensive income (loss)	347	(163)
Total VCA Antech, Inc. stockholders equity	974,108	875,047
Noncontrolling interests	20,318	16,291
Total equity	994,426	891,338
Total liabilities and equity	$ 1,763,497	$ 1,627,404

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

Table of Contents

VCA Antech, Inc. and Subsidiaries
Condensed, Consolidated Income Statements
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue	$ 358,703	$ 338,562	$ 1,043,356	$ 999,288
Direct costs	273,404	247,985	781,778	729,194
Gross profit	85,299	90,577	261,578	270,094
Selling, general and administrative expense	27,105	24,695	94,290	70,553
Net loss on sale of assets	152	409	163	5,604
Operating income	58,042	65,473	167,125	193,937
Interest expense, net	3,619	4,808	9,564	16,652
Debt retirement costs	2,550		2,550	
Other income	(180)	(1)	(490)	(131)
Income before provision for income taxes	52,053	60,666	155,501	177,416
Provision for income taxes	23,466	23,180	63,465	68,081
Net income	28,587	37,486	92,036	109,335
Net income attributable to noncontrolling interests	1,156	1,125	3,266	3,259
Net income attributable to VCA Antech, Inc	$ 27,431	$ 36,361	$ 88,770	$ 106,076
Basic earnings per share	$ 0.32	$ 0.43	$ 1.03	$ 1.25
Diluted earnings per share	$ 0.32	$ 0.42	$ 1.02	$ 1.23
Weighted-average shares outstanding for basic earnings per share	86,086	85,217	85,985	84,909
Weighted-average shares outstanding for diluted earnings per share	86,964	86,431	86,998	85,893

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 Equity
(Unaudited)
(In thousands)

	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive (Loss)	Noncontrolling	
	Shares	Amount	Capital	Earnings	Income	Interests	Total
Balances, December 31, 2008	84,633	$ 85	$ 308,674	$ 408,582	$ (6,352)	$ 12,846	$ 723,835
Net income				106,076		3,259	109,335
Foreign currency translation adjustment					592		592
Unrealized gain on foreign currency, net of tax					288		288
Unrealized loss on hedging instruments, net of tax					(801)		(801)
Losses on hedging instruments reclassified to income, net of tax					4,791		4,791
Formation of noncontrolling interests						3,440	3,440
Distribution to noncontrolling interests						(3,018)	(3,018)
Restricted stock unit grant			1,941				1,941
Share-based compensation			5,940				5,940
Issuance of common stock under stock incentive plans	808		13,110				13,110
Stock repurchases			(561)				(561)
Tax benefit from stock options and awards			1,445				1,445
Balances, September 30, 2009	85,441	$ 85	$ 330,549	$ 514,658	$ (1,482)	$ 16,527	$ 860,337
Balances, December 31, 2009	85,584	$ 86	$ 335,114	$ 540,010	$ (163)	$ 16,291	$ 891,338
Net income				88,770		3,266	92,036
Foreign currency translation adjustment					103		103
					175		175

Unrealized gain on foreign currency, net of tax							
Unrealized loss on hedging instruments, net of tax					(1)		(1)
Losses on hedging instruments reclassified to income, net of tax					233		233
Formation of noncontrolling interests						4,559	4,559
Distribution to noncontrolling interests						(3,314)	(3,314)
Purchase of noncontrolling interests						(484)	(484)
Share-based compensation			7,490				7,490
Issuance of common stock under stock incentive plans	503		4,781				4,781
Stock repurchases			(2,292)				(2,292)
Tax benefit from stock options and awards			370				370
Tax shortfall and other from stock options and awards			(568)				(568)
Balances, September 30, 2010	86,087	$ 86	$ 344,895	$ 628,780	$ 347	$ 20,318	$ 994,426

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)

	Nine Months Ended September 30,	
	2010	**2009**
Cash flows from operating activities:		
Net income	$ 92,036	$ 109,335
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,387	28,986
Amortization of debt issue costs	461	363
Provision for uncollectible accounts	5,388	5,075
Debt retirement costs	2,550	
Net loss on sale of assets	163	5,604
Share-based compensation	7,490	5,940
Deferred income taxes	10,992	16,057
Excess tax benefit from exercise of stock options	(370)	(591)
Other	(550)	(299)
Changes in operating assets and liabilities:		
Accounts receivable	(7,533)	(8,312)
Inventory, prepaid expense and other assets	(1,754)	(7,820)
Accounts payable and other accrued liabilities	7,038	742
Accrued payroll and related liabilities	3,717	(4,339)
Income taxes	(9,545)	5,580
Net cash provided by operating activities	143,470	156,321
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(45,023)	(51,853)
Real estate acquired in connection with business acquisitions	(5,834)	(3,828)
Property and equipment additions	(47,675)	(38,522)
Proceeds from sale of assets	15	123
Other	188	(440)
Net cash used in investing activities	(98,329)	(94,520)
Cash flows from financing activities:		
Repayment of debt	(548,560)	(5,898)
Proceeds from issuance of long-term debt	500,000	
Payment of financing costs	(9,112)	
Distributions to noncontrolling interest partners	(3,314)	(3,018)
Proceeds from issuance of common stock under stock option plans	4,781	13,110
Excess tax benefit from exercise of stock options	370	591
Stock repurchases	(2,292)	(561)
Net cash (used in) provided by financing activities	(58,127)	4,224

Effect of currency exchange rate changes on cash and cash equivalents	38	17
(Decrease) increase in cash and cash equivalents	(12,948)	66,042
Cash and cash equivalents at beginning of period	145,181	88,959
Cash and cash equivalents at end of period	$ 132,233	$ 155,001
Supplemental disclosures of cash flow information:		
Interest paid	$ 9,207	$ 16,329
Income taxes paid	$ 62,018	$ 46,444
Supplemental schedule of noncash investing and financing activities:		
Detail of acquisitions:		
Fair value of assets acquired	$ 104,251	$ 72,303
Cash paid for acquisitions	(42,827)	(48,042)
Cash paid to bondholders	(29,532)	
Contingent consideration	(259)	(712)
Noncash note conversion to equity interest in subsidiary		(5,700)
Liabilities assumed	$ 31,633	$ 17,849

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
September 30, 2010
(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 September 30, 2010, we operated 523 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 September 30, 2010, we operated 49 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, provides consulting and mobile imaging services, and sells software and ancillary services to the veterinary market.

2. Basis of Presentation

Our accompanying unaudited, condensed, consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) 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 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. The results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the full year ending December 31, 2010. For further information, refer to our consolidated financial statements and notes thereto included in our 2009 Annual Report on Form 10-K.

Certain reclassifications have been made herein to 2009 amounts to conform to the current year presentation. For the three and nine months ended September 30, 2009, we reclassified certain business operations from our Medical Technology segment to our Laboratory segment to conform to the current year presentation; the reclassifications did not have a material impact on either of our segments.

The preparation of our condensed, consolidated financial statements in accordance with GAAP 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.

3. Multiple-Deliverable Revenue Arrangements

In October 2009, the FASB issued new accounting guidance related to multiple-deliverable revenue arrangements. The new guidance was designed to result in financial reporting that better reflects the underlying economics of multiple-deliverable transactions. We early adopted the new guidance on January 1, 2010, which resulted in the more timely recognition of revenue in our Medical Technology business segment. The early adoption resulted in the recognition of approximately $1.1 million and $3.1 million in incremental revenue for the three and nine months ended September, 2010, respectively, in comparison to the revenue that would have been recognized under previous accounting guidance.

Table of Contents

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

3. Multiple-Deliverable Revenue Arrangements, continued

Our Medical Technology business segment sells Digital Radiography (DR) imaging equipment to end users and to distributors in international markets which includes receptor plates, related computer equipment, software and additional related equipment, with one year of warranty support on the receptor plates and items related to the plates, and technical support on all software provided with the equipment. Distributors sell the DR products and warranties to the end customers and are responsible for all support provided directly to the end customer. The support that we provide to distributors is limited to the machines that are under a current support program and includes a level of warranty coordination, support and facilitation, including technical support related to the receptor plates, and receptor plate replacement during warranty repair ensuring limited down time to the end customer.

Under the new accounting guidance, sales arrangement consideration is allocated at the inception of the arrangement to all deliverables using the relative selling price method, whereby any discount in the arrangement is allocated proportionally to each deliverable on the basis of each deliverable s selling price. The selling price for each deliverable is based on vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. For elements where VSOE is available, VSOE of fair value is based on the price for those products and services when sold separately by us or the price established by management with the relevant authority. TPE of selling price is the price of our, or any of our competitor s, largely interchangeable products or services in stand-alone sales to similarly situated customers.

We do not currently have VSOE for our DR imaging equipment as units are not sold on a stand-alone basis without the related support packages. As this is also true for our competitors, TPE of selling price is also unavailable. We therefore use the ESP to allocate the arrangement consideration related to our DR imaging equipment. Our ESP was based upon the actual selling price of our DR equipment bundled with our Sound Assurance warranty. We calculated the stand-alone selling price of the DR equipment using a cost plus margin approach. The stand-alone cost in most cases was determined using manufacturer data. The margin however was based upon the amount received on the actual sale of the bundled product, which does not differ materially from the margin exclusive of the post-contract customer support (PCS). By utilizing this cost plus actual margin method we were able to incorporate both our internal pricing strategies in addition to external market conditions.

In domestic markets we have VSOE for our PCS as the support package is sold on a stand-alone basis. Our PCS agreements normally include a warranty on the receptor plate and technical support on the software elements. In foreign markets however, we do not have VSOE on the receptor plate warranties. Accordingly we use a similar cost plus margin approach to determine the ESP.

The changes made under the new accounting guidance did not cause any changes in the units of accounting related to our arrangements.

The new guidance resulted in a different allocation of revenue to the deliverables in the current fiscal year, which changed the pattern and timing of revenue recognition for these elements but did not change the total revenue to be recognized for the arrangement. Revenue and gross profit increased by approximately $1.1 million and $271,000, respectively, for the three months ending September 30, 2010 and by $3.1 million and $816,000, respectively, for the nine months ending September 30, 2010, primarily as a result of the acceleration of revenue related to the delivery of the equipment in international markets.

We are not able to reasonably estimate the effect of adopting these standards on future financial periods as the impact will vary based on the nature and volume of new or materially modified arrangements in any given period.

Table of Contents

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

4. Goodwill and Other Intangible Assets

Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred, the fair value of any noncontrolling 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 nine months ended September 30, 2010 (in thousands):

	Animal Hospital	Laboratory	Medical Technology	Total
Balance as of December 31, 2009	$ 861,868	$ 96,285	$ 27,521	$ 985,674
Goodwill acquired	83,505	7		83,512
Goodwill related to noncontrolling interests	3,237			3,237
Other [1]	(756)	507	2,142	1,893
Balance as of September 30, 2010	$ 947,854	$ 96,799	$ 29,663	$ 1,074,316

[1] Other includes purchase-price adjustments which consist primarily of an adjustment to the valuation of deferred tax assets, buy-outs, earn-out payments and foreign currency translation adjustments.

Other Intangible Assets

In addition to goodwill, we have amortizable intangible assets at September 30, 2010 and December 31, 2009 as follows (in thousands):

	As of September 30, 2010			As of December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Noncontractual customer relationships	$ 45,537	$ (12,464)	$ 33,073	$ 38,359	$ (8,077)	$ 30,282
Covenants not-to-compete	14,039	(7,875)	6,164	14,748	(7,785)	6,963
Favorable lease asset	5,491	(2,524)	2,967	5,406	(2,150)	3,256
Trademarks	3,704	(852)	2,852	3,362	(494)	2,868
Technology	2,189	(1,414)	775	2,209	(1,332)	877
Client lists	35	(12)	23	60	(26)	34
Total	$ 70,995	$ (25,141)	$ 45,854	$ 64,144	$ (19,864)	$ 44,280

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Aggregate amortization expense	$ 2,484	$ 2,013	$ 6,825	$ 5,643

Table of Contents

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

4. Goodwill and Other Intangible Assets, continued

The estimated amortization expense related to intangible assets for the remainder of 2010 and each of the succeeding years thereafter as of September 30, 2010 is as follows (in thousands):

Remainder of 2010	$ 2,631
2011	9,809
2012	8,715
2013	6,504
2014	5,475
Thereafter	12,720
Total	$ 45,854

5. Other Accrued Liabilities

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

	September 30, 2010	December 31, 2009
Deferred revenue	$ 9,397	$ 12,497
Holdbacks	3,236	1,640
Accrued health insurance	4,734	4,484
Deferred rent	3,326	2,989
Accrued workers compensation insurance	1,567	2,217
Customer deposits	3,019	3,783
Other	25,680	15,688
	$ 50,959	$ 43,298

6. Long-Term Obligations

In August 2010, we entered into a new senior credit facility that provided $500.0 million of senior term notes and a $100.0 million revolving credit facility. The terms of the new senior credit facility are discussed in this footnote under *Senior Credit Facility*. The funds borrowed under the new senior term notes were used to retire our existing senior term notes in the principal amount of $505.4 million. In connection with the refinancing transactions, we wrote off previously deferred financing costs and paid financing costs. We incurred $9.4 million in debt retirement costs, of which approximately $2.6 million, or $1.6 million after tax were recognized as part of income from continuing operations and approximately $6.8 million were capitalized as deferred financing costs. Included in the $2.6 million of debt retirement costs included in income from continuing operations was approximately $232,000 in previously deferred financing costs that were written off as part of the transaction. The following table summarizes our long-term obligations at September 30, 2010 and December 31, 2009 (in thousands):

	September 30, 2010	December 31, 2009
Revolver	$	$
Senior term notes (LIBOR + 2.25%)	500,000	
Senior term notes (LIBOR + 1.50%)		516,889

Other debt and capital lease obligations	30,379	28,166
Total debt obligations	530,379	545,055
Less current portion	(28,202)	(17,195)
	$ 502,177	$ 527,860

Table of Contents

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

6. Long-Term Obligations, continued

Senior Credit Facility

In August 2010 we entered into a new senior credit facility with various lenders for $600 million of senior secured credit facilities with Bank of America, N.A. as the syndication agent and Wells Fargo Bank, N.A. as the administrative agent. The senior credit facility includes $500 million of senior term notes and a $100 million revolving credit facility. The revolving credit facility allows us to borrow up to an aggregate principal amount of $100 million and may be used to borrow, on a same-day notice under a swing line, the lesser of $10 million or the aggregate unused amount of the revolving credit facility then in effect. At September 30, 2010 we had no borrowings outstanding under our revolving credit facility.

Interest Rate. In general, borrowings under the senior term notes and the revolving credit facility bear interest, at our option, on either:

the base rate (as defined below); or

the adjusted Eurodollar rate (as defined below) plus a margin of 2.25% (Level III, see table below) per annum until the date of delivery of the compliance certificate and the financial statements for the period ending March 31, 2011, at which time the applicable margin will be determined by reference to the leverage ratio in effect from time to time as set forth in the following table:

Level	Leverage Ratio	Applicable Margin for Eurodollar Rate Loans	Applicable Revolving Commitment Fee %
I	≥ 2.75:1.00	2.75%	0.50%
II	< 2.75:1.00 and ≥ 2.25:1.00	2.50%	0.50%
III	< 2.25:1.00 and ≥ 1.75:1.00	2.25%	0.50%
IV	< 1.75:1.00 and ≥ 1.25:1.00	2.00%	0.50%
V	< 1.25:1.00	1.75%	0.375%

The base rate is a rate per annum equal to the greatest of Wells Fargo s prime rate in effect on such day, the Federal funds effective rate in effect on such day plus 0.50% and the adjusted Eurodollar rate for a one-month interest period commencing on such day plus 1.0%. The adjusted Eurodollar rate is defined as the rate per annum obtained by dividing (1) the rate of interest offered to Wells Fargo on the London interbank market by (2) a percentage equal to 100% minus the stated maximum rate of all reserve requirements applicable to any member bank of the Federal Reserve System in respect of Eurocurrency liabilities.

Maturity and Principal Payments. The senior term notes mature on August 19, 2015. Principal payments on the senior term notes are paid quarterly in the amount of $6.3 million for the first two years beginning on December 31, 2010, quarterly payments of $9.4 million for the two years following, and quarterly payments of $12.5 million for the three quarters prior to maturity at which time the remaining balance is due. The following table sets forth the remaining scheduled principal payments for our senior term notes (in thousands):

2010	$ 6,250
2011	25,000
2012	28,125
2013	37,500
2014	40,625
Thereafter	362,500
Total	$ 500,000

Table of Contents

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

6. Long-Term Obligations, continued

The revolving credit facility matures on August 19, 2015. Principal payments on the revolving credit facility are made at our discretion with the entire unpaid amount due at maturity.

Guarantees and Security. We and each of our wholly-owned subsidiaries guarantee the outstanding debt under the senior credit facility. These borrowings, along with the guarantees of the subsidiaries, are further secured by substantially all of our consolidated assets. In addition, these borrowings are secured by a pledge of substantially all of the capital stock, or similar equity interests, of our wholly-owned subsidiaries.

Debt Covenants. The 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 on all classes of stock. We believe the most restrictive covenant is the fixed charge coverage ratio. At September 30, 2010 we had a fixed charge coverage ratio of 1.57 to 1.00, which was in compliance with the required ratio of no less than 1.20 to 1.00.

Interest Rate Swap Agreements

In accordance with current accounting guidance, 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.

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 the 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 nonperformance 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 nonperformance 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.

As of the quarter ended March 31, 2010, all of our interest rate swap agreements had expired and we have not entered into any new agreements during the quarters ended June 30, 2010 and September 30, 2010.

Table of Contents

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

6. Long-Term Obligations, continued

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Cash paid [1]	$	$1,895	$382	$7,867
Recognized loss (gain) from ineffectiveness [2]	$	$ 1	$	$ (70)

(1) Our interest rate swap agreements effectively converted a certain amount of our variable-rate debt under our senior credit facility to fixed-rate for purposes of hedging against the risk of increasing interests rates. The above table depicts cash payments to the counterparties on our swap agreements. These payments are offset by a corresponding decrease in interest paid on our variable-rate debt under our senior credit facility. These amounts are included in interest expense, net in our condensed, consolidated income statements.

(2) These recognized losses and gains are included in other income in our condensed, consolidated income statements.

7. Fair Value Measurements

Current fair value accounting guidance includes a 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. The current guidance 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 Instruments

The FASB accounting guidance requires disclosure of fair value information about financial instruments, whether or not recognized in the accompanying condensed, consolidated balance sheets. Fair value as defined by the guidance 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.

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.

Table of Contents

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

7. Fair Value Measurements, continued

Long-Term Debt. We believe the carrying value of our variable-rate senior term debt at September 30, 2010 is a reasonable estimate of fair value. We believe the carrying value of our variable-rate debt at December 31, 2009 was not a reasonable estimate of fair value due to changes in the credit markets during 2009. We estimated the fair value of our variable-rate debt using discounted cash flow techniques utilizing current market rates, which incorporate our credit risk.

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

	As of September 30, 2010		As of December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Variable-rate long-term debt	$ 500,000	$ 500,000	$ 516,889	$ 513,053

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 of our interest rate swap agreements, which is measured on a recurring basis as defined by the FASB accounting guidance (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 December 31, 2009				
Other accrued liabilities	$ 380	$	$ 380	$

As of September 30, 2010, we do not have any applicable non-recurring measurements of non-financial assets and non-financial liabilities.

8. Share-Based Compensation

Stock Option Activity

A summary of our stock option activity for the nine months ended September 30, 2010 is as follows (in thousands):

	Stock Options	Weighted-Average Exercise Price
Outstanding at December 31, 2009	4,300	$ 16.72
Exercised	(331)	14.41

Cancelled	(48)		19.81
Outstanding at September 30, 2010	3,921	$	16.88
Exercisable at September 30, 2010	3,199	$	16.84
Expected to vest at September 30, 2010	689	$	17.04

Table of Contents

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

8. Share-Based Compensation, continued

There were no stock options granted during the nine months ended September 30, 2010. The aggregate intrinsic value of our stock options exercised during the three and nine months ended September 30, 2010 was $166,000, and $2.1 million, respectively, and the actual tax benefit realized on options exercised during these periods was $64,000 and $827,000, respectively.

At September 30, 2010 there was $1.9 million of total unrecognized compensation cost related to our stock options. This cost is expected to be recognized over a weighted-average period of 1.4 years.

The compensation cost that has been charged against income for stock options for the three months ended September 30, 2010 and 2009 was $414,000 and $471,000, respectively. The corresponding income tax benefit recognized was $161,000 and $183,000 for the three months ended September 30, 2010 and 2009, respectively.

The compensation cost that has been charged against income for stock options for the nine months ended September 30, 2010 and 2009 was $2.2 million and $1.5 million, respectively. The corresponding income tax benefit recognized was $872,000 and $574,000 for the nine months ended September 30, 2010 and 2009, respectively.

Nonvested Stock Activity

There were 240,400 nonvested common stock awards granted to employees during the three and nine months ended September 30, 2010. These awards will vest in equal annual installments over four years from the date of the grant. In addition, during the nine months ended September 30, 2010 we granted 11,104 shares of nonvested common stock to our non-employee directors, which will vest in equal annual installments over three years from the date of grant.

Total compensation cost charged against income related to nonvested stock awards was $1.2 million and $1.5 million for the three months ended September 30, 2010 and 2009, respectively. The corresponding income tax benefit recognized in the income statement was $476,000 and $603,000 for the three months ended September 30, 2010 and 2009, respectively.

Total compensation cost charged against income related to nonvested stock awards was $5.2 million and $4.5 million for the nine months ended September 30, 2010 and 2009, respectively. The corresponding income tax benefit recognized in the income statement was $2.0 and $1.7 million for the nine months ended September 30, 2010 and 2009, respectively.

At September 30, 2010, there was $9.8 million of unrecognized compensation cost related to these nonvested shares, which will be recognized over a weighted-average period of 3.0 years. A summary of our nonvested stock activity for the nine months ended September 30, 2010 is as follows:

	Shares	Grant Date Weighted-Average Fair Value Per Share
Outstanding at December 31, 2009	691,764	$ 30.54
Granted	251,504	$ 20.56
Vested	(262,275)	$ 31.79
Forfeited/Canceled	(10,355)	$ 30.35
Outstanding at September 30, 2010	670,638	$ 26.31

Table of Contents

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

8. Share-Based Compensation, continued

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 nonvested 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 was reported as a non-cash financing activity for the September 30, 2009 period. There were no restricted stock grants for the September 30, 2010 period.

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 September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Net income attributable to VCA Antech, Inc	$ 27,431	$ 36,361	$ 88,770	$ 106,076
Weighted-average common shares outstanding:				
Basic	86,086	85,217	85,985	84,909
Effect of dilutive potential common shares:				
Stock options	632	951	812	779
Nonvested shares	246	263	201	205
Diluted	86,964	86,431	86,998	85,893
Basic earnings per share	$ 0.32	$ 0.43	$ 1.03	$ 1.25
Diluted earnings per share	$ 0.32	$ 0.42	$ 1.02	$ 1.23

For the three months ended September 30, 2010 and 2009, potential common shares of 1,162,389 and 9,111, respectively, were excluded from the computation of diluted earnings per share because their inclusion would have had an antidilutive effect.

For the nine months ended September 30, 2010 and 2009, potential common shares of 13,919 and 1,227,008, respectively, were excluded from the computation of diluted earnings per share because their inclusion would have had an antidilutive effect.

Table of Contents

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

10. Comprehensive Income

Total comprehensive income consists of net income and the other comprehensive income during the three and nine months ended September 30, 2010 and 2009. The following table provides a summary of comprehensive income (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income	$ 28,587	$ 37,486	$ 92,036	$ 109,335
Other comprehensive income:				
Foreign currency translation adjustments	172	415	103	592
Unrealized gain on foreign currency	364	316	287	473
Tax expense	(142)	(124)	(112)	(185)
Unrealized loss on hedging instruments		(245)	(2)	(1,315)
Tax benefit		96	1	514
Losses on hedging instruments reclassified to income		1,895	382	7,867
Tax benefit		(741)	(149)	(3,076)
Other comprehensive income	394	1,612	510	4,870
Total comprehensive income	28,981	39,098	92,546	114,205
Comprehensive income attributable to noncontrolling interests	1,156	1,125	3,266	3,259
Comprehensive income attributable to VCA Antech, Inc	$ 27,825	$ 37,973	$ 89,280	$ 110,946

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 essentially the same as those described in the summary of significant accounting policies included in our 2009 Annual Report on Form 10-K. See Note 3, *Multiple-Deliverable Revenue Arrangements*, for an update on our revenue recognition policies as a result of implementing the FASB s accounting guidance on multiple-deliverable revenue arrangements. 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 generally accounted for as if they were transactions with independent third parties at current market prices.

Table of Contents

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

11. Lines of Business, continued

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

	Animal Hospital	Laboratory [1]	Medical Technology [1]	Corporate	Intercompany Eliminations	Total [1]
Three Months Ended September 30, 2010						
External revenue	$ 276,739	$ 67,872	$ 14,092	$	$	$ 358,703
Intercompany revenue		9,420	3,314		(12,734)	
Total revenue	276,739	77,292	17,406		(12,734)	358,703
Direct costs	230,113	42,579	12,152		(11,440)	273,404
Gross profit	46,626	34,713	5,254		(1,294)	85,299
Selling, general and administrative expense	5,599	6,804	3,731	10,971		27,105
Net loss on sale and disposal of assets	114	20	17	1		152
Operating income (loss)	$ 40,913	$ 27,889	$ 1,506	$ (10,972)	$ (1,294)	$ 58,042
Depreciation and amortization	$ 8,258	$ 2,464	$ 606	$ 616	$ (263)	$ 11,681
Capital expenditures	$ 16,969	$ 1,599	$ 428	$ 1,394	$ (640)	$ 19,750
Three Months Ended September 30, 2009						
External revenue	$ 257,385	$ 69,712	$ 11,465	$	$	$ 338,562
Intercompany revenue		8,167	1,850		(10,017)	
Total revenue	257,385	77,879	13,315		(10,017)	338,562
Direct costs	206,172	41,976	9,247		(9,410)	247,985
Gross profit	51,213	35,903	4,068		(607)	90,577
Selling, general and administrative expense	5,162	5,621	3,753	10,159		24,695
Net loss on sale and disposal of assets	400	1	1	7		409
Operating income (loss)	$ 45,651	$ 30,281	$ 314	$ (10,166)	$ (607)	$ 65,473
Depreciation and amortization	$ 6,777	$ 2,377	$ 603	$ 603	$ (214)	$ 10,146
Capital expenditures	$ 10,571	$ 2,388	$ 347	$ 557	$ (549)	$ 13,314

[1] Certain prior year amounts have been reclassified to reflect the transfer of certain business operations to the Laboratory segment from the Medical Technology segment. The reclassifications did not have a material impact on either of our segments.

Table of Contents

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

11. Lines of Business, continued

	Animal Hospital	Laboratory (1)	Medical Technology (1)	Corporate	Intercompany Eliminations	Total (1)
Nine Months Ended September 30, 2010						
External revenue	$ 791,002	$ 210,531	$ 41,823	$	$	$ 1,043,356
Intercompany revenue		27,913	5,982		(33,895)	
Total revenue	791,002	238,444	47,805		(33,895)	1,043,356
Direct costs	653,671	126,647	33,373		(31,913)	781,778
Gross profit	137,331	111,797	14,432		(1,982)	261,578
Selling, general and administrative expense	16,859	19,485	10,650	47,296		94,290
Net loss on sale and disposal of assets	63	21	71	8		163
Operating income (loss)	$ 120,409	$ 92,291	$ 3,711	$ (47,304)	$ (1,982)	$ 167,125
Depreciation and amortization	$ 23,240	$ 7,273	$ 1,812	$ 1,815	$ (753)	$ 33,387
Capital expenditures	$ 39,946	$ 3,937	$ 634	$ 4,579	$ (1,421)	$ 47,675
Nine Months Ended September 30, 2009						
External revenue	$ 757,030	$ 213,987	$ 28,271	$	$	$ 999,288
Intercompany revenue		24,930	4,092		(29,022)	
Total revenue	757,030	238,917	32,363		(29,022)	999,288
Direct costs	609,520	125,909	21,542		(27,777)	729,194
Gross profit	147,510	113,008	10,821		(1,245)	270,094
Selling, general and administrative expense	15,924	16,832	8,959	28,838		70,553
Net loss on sale and disposal of assets	270	28	7	5,299		5,604
Operating income (loss)	$ 131,316	$ 96,148	$ 1,855	$ (34,137)	$ (1,245)	$ 193,937
Depreciation and amortization	$ 19,636	$ 6,865	$ 1,327	$ 1,759	$ (601)	$ 28,986
Capital expenditures	$ 29,447	$ 6,506	$ 665	$ 3,235	$ (1,331)	$ 38,522
At September 30, 2010						
Total assets	$ 1,290,635	$ 214,191	$ 71,101	$ 202,555	$ (14,985)	$ 1,763,497
At December 31, 2009						
Total assets	$ 1,158,891	$ 207,043	$ 71,019	$ 201,024	$ (10,573)	$ 1,627,404

(1)

Certain prior year amounts have been reclassified to reflect the transfer of certain business operations to the Laboratory segment from the Medical Technology segment. The reclassifications did not have a material impact on either of our segments.

Table of Contents

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 2009 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 that were accounted for under previous business combinations accounting guidance, 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 September 30, 2010, we will be obligated to pay an additional $1.3 million. We adopted new accounting guidance regarding business combinations for acquisitions with acquisition dates of January 1, 2009 or later. Under the new guidance contingent consideration, such as earn-out liabilities, are now recognized as part of the consideration transferred on the acquisition date and a corresponding liability is recorded based on the fair value of the liability if the fair value is known or determinable. The changes in fair value are recognized in earnings where applicable at each reporting period.

b. 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.

13. Subsequent Events

On November 1, 2010, we acquired the remaining 29.6% interest in Pet DRx Corporation (Pet DRx), a provider of veterinary primary care and specialized services to companion animals. The acquisition expands our presence in the California market. Under the agreement we acquired Pet DRx for a total purchase price of $41.3 million of which approximately $4.1 million was disbursed subsequent to the quarter ended September 30, 2010. The results of Pet DRx are reported within our Animal Hospital segment.

Table of Contents

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

	Page
Introduction	20
Executive Overview	20
Critical Accounting Policies	22
Consolidated Results of Operations	23
Segment Results	25
Liquidity and Capital Resources	29

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 November 8, 2010, and we undertake no duty to update this information. Shareholders and prospective investors can find information filed with the SEC after November 8, 2010 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 September 30, 2010, our animal hospital network consisted of 523 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 September 30, 2010, our Laboratory network consisted of 49 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.

Our revenue has been adversely impacted by the current economic recession. We are unable to forecast the timing or degree of any economic recovery. Further, trends in the general economy may not be reflected in our business at the same time or in the same degree as in the general economy. The timing and degree of any economic recovery, and its impact on our business, are among the important factors that could cause our actual results to differ from our forward-looking information.

Executive Overview

During the three and nine months ended September 30, 2010, the slow pace of the economic recovery continued to impact organic revenue growth in both our Animal Hospital and Laboratory business segments. We achieved an increase in consolidated revenue through acquired animal hospitals and internal revenue growth in our Medical

Technology business segment. Our Animal Hospital same-store revenue declined 4.0% and 2.5% for the three and nine months ended September 30, 2010, respectively. Our Laboratory internal revenue declined 0.9% and 0.4% for the three and nine months ended September 30, 2010. Our overall earnings for the quarter and year-to-date included $2.6 million, or $1.6 million net of tax, in costs related to the refinancing of our long-term debt and $5.4 million, or $3.5 million net of tax, related to additional state tax payments required as a result of a tax settlement reached during the quarter. The nine months ended

Table of Contents

September 30, 2010 was also affected by the impact of charges for executive compensation related to consulting agreements entered into during the second quarter.

Refinancing Transactions

On August 19, 2010 we refinanced our senior credit facility. The new senior credit facility provides for $500 million of senior term notes and a $100 million revolving credit facility. Both the senior term notes and the revolving credit facility are priced at LIBOR plus 225 basis points, a 75 basis point increase from our previous credit facility, see Note 6, *Long-Term Obligations*, in our condensed, consolidated financial statements of this quarterly report on Form 10-Q for a more detailed discussion of applicable interest rates on our new debt. In conjunction with these refinancing transactions, we incurred $9.4 million in debt retirement costs of which approximately $2.6 million, or $1.6 million after tax were recognized as part of income from continuing operations for the three and nine months ended September 30, 2010 and the remaining $6.8 million were capitalized as deferred financing costs which will be amortized over the term of the credit facility. Included in the $2.6 million of debt retirement costs included in income from continuing operations was approximately $232,000 of previously deferred financing costs that were written off as part of the transaction.

Acquisitions and Facilities

Our growth strategy includes the acquisition of independent animal hospitals. We currently anticipate that we will acquire $110 million to $120 million, inclusive of Pet DRx Corporation, of annualized Animal Hospital revenue by the end of 2010. We also evaluate the acquisition of animal hospital chains and 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 nine months ended September 30, 2010:

Animal Hospitals:	
Beginning of period	489
Acquisitions	40
Sold, closed or merged	(6)
End of period	523
Laboratories:	
Beginning of period	47
Acquisitions	
Acquisitions relocated into our existing laboratories	(1)
Created	3
End of period	49

The following table summarizes the aggregate consideration for the 17 independent animal hospitals and three laboratories acquired during the nine months ended September 30, 2010, and the allocation of the purchase price (in thousands):

Consideration:	
Cash [(1)]	$ 38,294
Contingent consideration	259
Fair value of total consideration transferred	$ 38,553
Allocation of the Purchase Price:	

Tangible assets	$ 2,425
Identifiable intangible assets	5,614
Goodwill [(2)]	34,208
Other liabilities assumed	(3,694)
Total	$ 38,553

(1) See the *Cash Flows from Investing Activities* section in the Liquidity and Capital Resources discussion for reconciliation of cash paid for acquisitions per this schedule to the condensed, consolidated statement of cash flows.

Table of Contents

(2) We expect that $24.4 million of the goodwill recorded for these acquisitions as of September 30, 2010 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 acquisition of animal hospitals totaling $5.8 million for the nine months ended September 30, 2010.

Acquisition of Pet DRx Corporation

On July 1, 2010, we acquired a 70.4% interest in Pet DRx Corporation (Pet DRx), a provider of veterinary primary care and specialized services to companion animals. Pet DRx operated 23 animal hospitals in California at the time of its acquisition. The acquisition expands our presence in the California market. We acquired the remaining portion of Pet DRx in November 2010. The aggregate purchase price in both steps was $41.3 million. Our condensed, consolidated financial statements reflect the operating results of Pet DRx since July 1, 2010.

The following table summarizes the purchase price in the first step of the Pet DRx acquisition and the preliminary allocation of the purchase price (in thousands):

Consideration:	
Cash paid to bondholders	$ 29,532
Cash paid to shareholders	$ 4,520
Fair value of total consideration transferred	$ 34,052
Allocation of the Purchase Price:	
Tangible assets	$ 7,668
Identifiable intangible assets	3,074
Goodwill (1)	51,908
Other liabilities assumed	(25,428)
Total	37,222
Noncontrolling interest	(3,170)
	$ 34,052
Acquisition-related costs (included in selling, general and administrative expense in our income statement for the three months ended September 30, 2010)	$ 1,236
Acquisition-related costs (included in selling, general and administrative expense in our income statement for the nine months ended September 30, 2010)	$ 2,108

(1) As of September 30, 2010, we have not finalized the determination of the amount of goodwill that will be deductible for income tax purposes.

The allocation of the purchase price is preliminary because certain events have not occurred or have not been completed or finalized, including but not limited to, the valuation of assets, including intangible assets, and liabilities.

The purchase price paid in the second step of the Pet DRx acquisition will be first reflected in our financial statements for the fourth quarter 2010.

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP), 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 2009 Annual Report on Form 10-K. During the quarter ended March 31, 2010, we implemented new accounting guidance related to multiple-deliverable revenue arrangements. Other than the changes to our revenue recognition policies there have been no other material changes to the policies noted above as of this quarterly report on Form 10-Q for the period ended September 30, 2010.

Table of Contents

Medical Technology Revenue

We sell our digital radiography imaging equipment with multiple elements, including hardware, software licenses and/or services. Under new accounting guidance, tangible products containing software components and nonsoftware components that function together to deliver the tangible product s essential functionality are now accounted for under the FASB s guidance pertaining to multiple-deliverable revenue arrangements. These types of arrangements were previously accounted for under software accounting guidance. Accordingly, we now account for our digital radiography imaging equipment under this revised guidance.

Sales arrangement consideration is allocated at the inception of the arrangement to all deliverables using the relative selling price method, whereby any discount in the arrangement is allocated proportionally to each deliverable on the basis of each deliverable s selling price. The selling price for each deliverable is based on vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. For elements where VSOE is available, VSOE of fair value is based on the price for those products and services when sold separately by us or the price established by management with the relevant authority. TPE of selling price is the price of our, or any of our competitor s, largely interchangeable products or services in stand-alone sales to similarly situated customers. Our ESP was based upon the actual selling price of our DR equipment bundled with our Sound Assurance warranty. We calculated the stand-alone selling price of the DR equipment using a cost plus margin approach. The stand-alone cost in most cases was determined using manufacturer data. The margin however was based upon the amount received on the actual sale of the bundled product, which does not differ materially from the margin exclusive of the post-contract customer support (PCS). By utilizing this cost plus actual margin method we were able to incorporate both our internal pricing strategies in addition to external market conditions.

We do not currently have VSOE for our digital radiography imaging equipment as units are not sold on a stand-alone basis without support packages. As this is also true for our competitors, TPE of selling price is also unavailable. We therefore use the ESP to determine the selling price of our digital radiography imaging equipment using the methodology mentioned above. See Note 3, *Multiple-Deliverable Revenue Arrangements*, in our condensed, consolidated financial statements of this quarterly report on Form 10-Q for a more detailed discussion.

We recognize revenue when the services are provided or at the time of delivery or installation and customer acceptance. Generally, at the time of delivery and installation of equipment the only undelivered item is the PCS. This obligation is contractually defined in both terms of scope and period. For the PCS, we recognize the revenue for these services on a straight-line basis over the period of support and we expense the costs of these services as they are incurred.

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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue:				
Animal Hospital	77.1%	76.0%	75.8%	75.8%
Laboratory	21.5	23.1	22.9	23.9
Medical Technology	4.9	3.9	4.6	3.2
Intercompany	(3.5)	(3.0)	(3.3)	(2.9)
Total revenue	100.0	100.0	100.0	100.0
Direct costs	76.2	73.2	74.9	73.0
Gross profit	23.8	26.8	25.1	27.0
Selling, general and administrative expense	7.6	7.4	9.0	7.1

Net loss on sale of assets		0.1	0.1	0.5
Operating income	16.2	19.3	16.0	19.4
Interest expense, net	1.0	1.4	0.9	1.6
Debt retirement costs	0.7		0.2	
Income before provision for income taxes	14.5	17.9	14.9	17.8
Provision for income taxes	6.5	6.8	6.1	6.9
Net income	8.0	11.1	8.8	10.9
Net income attributable to noncontrolling interests	0.4	0.4	0.3	0.3
Net income attributable to VCA Antech, Inc	7.6%	10.7%	8.5%	10.6%

Table of Contents

Revenue

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

	Three Months Ended September 30,					Nine Months Ended September 30,				
	2010		2009			2010		2009		
	$	% of Total	$	% of Total	% Change	$	% of Total	$	% of Total	% Change
Animal Hospital	$ 276,739	77.1%	$ 257,385	76.0%	7.5%	$ 791,002	75.8%	$ 757,030	75.8%	4.5%
Laboratory [1]	77,292	21.5%	77,879	23.1%	(0.8)%	238,444	22.9%	238,917	23.9%	(0.2)%
Medical Technology [1]	17,406	4.9%	13,315	3.9%	30.7%	47,805	4.6%	32,363	3.2%	47.7%
Intercompany	(12,734)	(3.5)%	(10,017)	(3.0)%	27.1%	(33,895)	(3.3)%	(29,022)	(2.9)%	16.8%
Total revenue	$ 358,703	100.0%	$ 338,562	100.0%	5.9%	$ 1,043,356	100.0%	$ 999,288	100.0%	4.4%

[1] Prior year amounts have been adjusted to reflect the reclassification of certain business operations from our Medical Technology segment to our Laboratory segment. The reclassifications did not have a material impact on either segment.

Consolidated revenue increased $20.1 million for the three months ended September 30, 2010 and $44.1 million for the nine months ended September 30, 2010 as compared to the same periods in the prior year. The increase was attributable to revenue from acquired animal hospitals and increased revenue from our Medical Technology business segment. The increase was partially offset by a decline in Animal Hospital same-store revenue. Our Animal Hospital same-store revenue declined 4.0% and 2.5% for the three and nine months ended September 30, 2010, respectively. As mentioned previously, our organic growth rates were impacted by the slow pace of the economic recovery.

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 September 30,					Nine Months Ended September 30,				
	2010		2009			2010		2009		
	$	Gross Margin	$	Gross Margin	% Change	$	Gross Margin	$	Gross Margin	% Change
Animal Hospital	$ 46,626	16.8%	$ 51,213	19.9%	(9.0)%	$ 137,331	17.4%	$ 147,510	19.5%	(6.9)%
Laboratory [1]	34,713	44.9%	35,903	46.1%	(3.3)%	111,797	46.9%	113,008	47.3%	(1.1)%
Medical Technology [1]	5,254	30.2%	4,068	30.6%	29.2%	14,432	30.2%	10,821	33.4%	33.4%
Intercompany	(1,294)		(607)			(1,982)		(1,245)		
Total gross profit	$ 85,299	23.8%	$ 90,577	26.8%	(5.8)%	$ 261,578	25.1%	$ 270,094	27.0%	(3.2)%

[1] Prior year amounts have been adjusted to reflect the reclassification of certain business operations from our Medical Technology segment to our Laboratory segment. The reclassifications did not have a material impact on either segment.

Consolidated gross profit decreased $5.3 million for the three months ended September 30, 2010 and $8.5 million for the nine months ended September 30, 2010 as compared to the same periods in the prior year. The decrease was primarily due to a decline in Animal Hospital same-store revenue and a decline in both acquired and same-store Animal Hospital gross margins and to a lesser extent a decline in internal revenue and gross margin in our Laboratory segment. The decreases in our gross margin for the three and nine months ended September 30, 2010 was partially offset by increased gross profit in our Medical Technology segment from increased sales.

Table of Contents

Segment Results

Animal Hospital Segment

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	Change
Revenue	$276,739	$257,385	7.5%	$791,002	$757,030	4.5%
Gross profit	$ 46,626	$ 51,213	(9.0)%	$137,331	$147,510	(6.9)%
Gross margin	16.8%	19.9%		17.4%	19.5%	

Animal Hospital revenue increased $19.4 million for the three months ended September 30, 2010 and $34.0 million for the nine months ended September 30, 2010 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 revenue per order):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
Same-store facilities:						
Orders [1]	1,596	1,680	(5.0)%	4,585	4,804	(4.6)%
Average revenue per order [2]	$ 153.69	$ 152.10	1.0%	$ 155.85	$ 152.56	2.2%
Same-store revenue [1]	$ 245,330	$ 255,506	(4.0)%	$ 714,532	$ 732,870	(2.5)%
Business day adjustment [3]	1,591			1,614		
Net acquired revenue [4]	29,818	1,879		74,856	24,160	
Total	$ 276,739	$ 257,385	7.5%	$ 791,002	$ 757,030	4.5%

(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 year. Same-store revenue also includes revenue generated by customers referred from our relocated or combined animal hospitals, including those merged upon acquisition.

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

(3) The business day adjustment reflects the impact of one additional business day in 2010 as compared to 2009 for both periods presented.

(4) 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 July 1, 2009 for the three month analysis and January 1, 2009 for the nine 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.

We believe that factors contributing to the continued decline in our volume of same-store orders during the three and nine months ended September 30, 2010 include the continued impact of the current economic environment and the wide availability of many pet-related products, traditionally sold in our animal hospitals, in retail stores and other distribution channels such as the Internet.

In addition, 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 over the past several years resulted in a decrease in lower priced orders and an increase in higher priced orders. However, this trend did not continue during the three and nine months ended September 30, 2010 when we experienced a decrease in the number of both lower and higher priced orders, which we believe is primarily a consequence of current economic

Table of Contents

conditions in the United States, and the impact of changes in our overall business environment on the mix of tests performed.

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; however, price increases in 2010 have generally ranged between 2% and 3%.

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, and costs of goods sold associated with the retail sales of pet food and pet supplies.

Our combined Animal Hospital gross margin decreased to 16.8% for the three months ended September 30, 2010 and to 17.4% for the nine months ended September 30, 2010 as compared to 19.9% and 19.5% in the prior year periods. Our same-store gross margin decreased to 17.3% for the three months ended September 30, 2010 and to 18.0% for the nine months ended September 30, 2010 as compared to 20.0% and 19.7% for the prior year periods.

The decrease in same-store gross margin for the three and nine months ended September 30, 2010 was primarily due to the decline in same-store revenue compounded by increases in compensation costs, including health insurance, marketing, and depreciation and amortization expense. The combined Animal Hospital gross margin was further impacted by the lower gross margin 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 have a lower gross margin at the time of acquisition than our same-store facilities. Subsequently, we have improved the lower gross margin at our acquired animal hospitals, in the aggregate, by improving animal hospital revenue, reducing costs and/or increasing operating leverage.

Laboratory Segment

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
Revenue	$77,292	$77,879	(0.8)%	$238,444	$238,917	(0.2)%
Gross profit	$34,713	$35,903	(3.3)%	$111,797	$113,008	(1.1)%
Gross margin	44.9%	46.1%		46.9%	47.3%	

Laboratory revenue decreased $587,000 for the three months ended September 30, 2010 and $473,000 for the nine months ended September 30, 2010 as compared to the same periods in the prior year. The components of the changes in Laboratory revenue are detailed below (in thousands, except percentages and average revenue per requisition):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
Internal growth:						
Number of requisitions [(1)]	3,232	3,332	(3.0)%	10,001	10,271	(2.6)%
Average revenue per requisition [(2)]	$ 23.89	$ 23.37	2.2%	$ 23.79	$ 23.26	2.3%
	$ 77,209	$ 77,879	(0.9)%	$ 237,938	$ 238,917	(0.4)%

Total internal revenue [1]						
Acquired revenue [3]	83			506		
Total	$ 77,292	$ 77,879	(0.8)%	$ 238,444	$ 238,917	(0.2)%

[1] Internal revenue and requisitions were calculated using Laboratory operating results, adjusted to exclude the operating results of acquired laboratories that we did not own as of the beginning of the comparable period in the prior year, and

Table of Contents

adjusted for the impact resulting from any differences in the number of billing days in comparable periods, if applicable.

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

(3) Acquired revenue represents the current year period revenue recognized from our acquired laboratories that we did not own as of the beginning of the comparable period in the prior year.

The decrease in Laboratory revenue for the three and nine months ended September 30, 2010 was due to a decrease in internal revenue attributable to a decline in volume partially offset by increases in average revenue per requisition. In prior years requisitions from internal growth have been driven by 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 animal hospitals. While these factors historically have resulted in significant increases in internal requisitions, the economic environment and increased competition continue to impact requisitions in the current year.

The average revenue per requisition increased slightly for the three and nine months ended September 30, 2010 as compared to prior year periods due to price increases which ranged from 3% to 4% in both February 2010 and February 2009. The price increases were offset by other factors including changes in the mix, performing lower-priced tests historically performed at the animal 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.

Our Laboratory gross margin decreased to 44.9% and 46.9% for the three and nine months ended September 30, 2010, respectively, as compared to 46.1% and 47.3% in the prior year periods. The decreases in gross margin are primarily due to revenue declines, as well as increases in transportation costs from added routes and pick-ups, and increased costs from added laboratory locations, which typically experience higher costs as a percentage of revenue in the first years of operation.

Medical Technology Segment

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
Revenue	$17,406	$13,315	30.7%	$47,805	$32,363	47.7%
Gross profit	$ 5,254	$ 4,068	29.2%	$14,432	$10,821	33.4%
Gross margin	30.2%	30.6%		30.2%	33.4%	

Medical Technology revenue increased $4.1 million for the three months ended September 30, 2010 and $15.4 million for the nine months ended September 30, 2010 as compared to the prior year periods. The increases for the three months ended September 30, 2010 were due to increases in the unit sales of each of our digital radiography equipment product lines and ultrasound equipment sales. The increases for the nine months ended September 30, 2010 were due to the above mentioned increases in digital radiography equipment sales, partially due to the July 1, 2009 Eklin acquisition and increased customer service and ultrasound equipment sales. Medical Technology revenue also benefited from a change in our revenue recognition policy due to the implementation of new accounting guidance. See Note 3, *Multiple-Deliverable Revenue Arrangements*.

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 increased $1.2 million for the three months ended September 30, 2010 and $3.6 million for the nine months ended September 30, 2010 as compared to the prior year periods. Gross margin decreased to 30.2% for the three and nine months ended September 30, 2010 as compared to 30.6% and 33.4% in the prior year periods.

Table of Contents

The increase in gross profit is attributable to the increase in revenue as discussed above. The decline in gross margin for the three and nine months ended September 30, 2010 was due to changes in product mix.

Intercompany Revenue

Laboratory revenue for the three and nine months ended September 30, 2010 included intercompany revenue of $9.4 million and $27.9 million, respectively, that was generated by providing laboratory services to our animal hospitals. Medical Technology revenue for the three and nine months ended September 30, 2010 included intercompany revenue of $3.3 million and $6.0 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.

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 September 30,					Nine Months Ended September 30,				
	2010		2009			2010		2009		
	$	% of Revenue	$	% of Revenue	% Change	$	% of Revenue	$	% of Revenue	% Change
Animal Hospital	$ 5,599	2.0%	$ 5,162	2.0%	8.5%	$ 16,859	2.1%	$ 15,924	2.1%	5.9%
Laboratory	6,804	8.8%	5,621	7.2%	21.0%	19,485	8.2%	16,832	7.0%	15.8%
Medical Technology [1]	3,731	21.4%	3,753	28.2%	(0.6)%	10,650	22.3%	8,959	27.7%	18.9%
Corporate	10,971	3.1%	10,159	3.0%	8.0%	47,296	4.5%	28,838	2.9%	64.0%
Total SG&A [1]	$ 27,105	7.6%	$ 24,695	7.4%	9.8%	$ 94,290	9.0%	$ 70,553	7.1%	33.6%

[1] Prior year amounts have been reclassified to conform to the current year s presentation.

Consolidated SG&A increased $2.4 million for the three months ended September 30, 2010 and $23.7 million for the nine months ended September 30, 2010. The three and nine months ended September 30, 2010 included transaction costs of $1.2 million and $2.1 million, respectively, related to the Pet DRx acquisition. The nine months ended September 30, 2010 also included $14.5 million in estimated consulting and SERP expenses to be paid in accordance with consulting and SERP agreements entered into on June 30, 2010. Excluding these costs, consolidated SG&A increased $1.2 million and $7.1 million, respectively, for the three and nine months ended September 30, 2010. SG&A increases for the three and nine months ended September 30, 2010 were attributable to increased research and development costs and costs incurred to support the efforts of the sales team in our Laboratory segment. Additional SG&A increases for the nine months ended September 30, 2010 were primarily due to increases in other legal costs and costs incurred as a result of the continuing integration of Eklin in our Medical Technology segment.

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 September 30,					Nine Months Ended September 30,				
	2010		2009			2010		2009		
	$	% of Revenue	$	% of Revenue	% Change	$	% of Revenue	$	% of Revenue	% Change

Animal Hospital	$ 40,913	14.8%	$ 45,651	17.7%	(10.4)%	$ 120,409	15.2%	$ 131,316	17.3%	(8.3)%
Laboratory [1]	27,889	36.1%	30,281	38.9%	(7.9)%	92,291	38.7%	96,148	40.2%	(4.0)%
Medical Technology [1]	1,506	8.7%	314	2.4%	379.6%	3,711	7.8%	1,855	5.7%	100.1%
Corporate	(10,972)		(10,166)		7.9%	(47,304)		(34,137)		38.6%
Intercompany	(1,294)		(607)		113.2%	(1,982)		(1,245)		59.2%
Total operating income	$ 58,042	16.2%	$ 65,473	19.3%	(11.3)%	$ 167,125	16.0%	$ 193,937	19.4%	(13.8)%

Table of Contents

(1) Prior year amounts have been adjusted to reflect the reclassification of certain business operations from our Medical Technology segment to our Laboratory segment. The reclassifications did not have a material impact on either segment.

The decrease in our consolidated operating income during the three and nine months ended September 30, 2010 was primarily due to the SG&A increases discussed above as well as the aforementioned decline in our Animal Hospital and Laboratory gross profit.

Interest Expense, Net

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest expense:				
Senior term notes	$ 2,892	$ 2,406	$ 7,467	$ 7,566
Interest rate hedging agreements		1,895	382	7,867
Capital leases and other	732	567	1,855	1,716
Amortization of debt costs	222	122	461	363
	3,846	4,990	10,165	17,512
Interest income	(227)	(182)	(601)	(860)
Total interest expense, net of interest income	$ 3,619	$ 4,808	$ 9,564	$ 16,652

The decrease in net interest expense for the three and nine months ended September 30, 2010 was attributable to a decrease in the overall weighted average interest rate primarily due to the gradual expiration of all of our higher cost fixed-rate swap agreements during the last twelve months.

Provision for Income Taxes

The effective rate for the three and nine months ended September 30, 2010 was 46.1% and 41.7%, respectively, which reflects a tax expense of $5.4 million, or $3.5 million net of tax, recognized during the quarter ended September 30, 2010 related to settlement of taxes on 2004 through 2007 taxable income.

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 September 30, 2010, our consolidated cash and cash equivalents totaled $132.2 million, representing a decrease of $13.0 million as compared to December 31, 2009. Cash flows generated from operating activities totaled $143.5 million in the nine months ended September 30, 2010, representing a decrease of $12.9 million as compared to the nine months ended September 30, 2009.

29

Table of Contents

We have historically funded our working capital requirements, capital expenditures and investment in individual acquisitions from internally generated cash flows and we expect to continue to do so in the future. We have access to a revolving credit facility which was entered into during the quarter ended September 30, 2010 and expires August 2015. The funds borrowed under the new senior term notes were used to retire our existing senior term notes in the principal amount of $505.4 million. The new senior term notes and revolving credit facility bear interest based on the interest rate offered to our administrative agent on the London interbank market, or LIBOR, plus a margin of 2.25% per annum.

Historically we have been able to obtain cash from other 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 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 certain animal hospital chains, we historically have funded our working capital requirements, capital expenditures and investments in animal hospital acquisitions from internally generated cash flows. 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, 2010, we expect to spend $110 million to $120 million, excluding real estate, related to the acquisition of independent animal hospitals and animal hospital chains. The ultimate number of acquisitions and cash used is largely dependent upon the attractiveness of the candidates and the strategic fit within our operations and as a consequence, our actual number of acquisitions and cash expenditures may be more or less than amounts currently estimated. From January 1, 2010 through September 30, 2010, we spent $72.4 million in connection with the acquisition of 40 animal hospitals, as well as $5.8 million for the related real estate. In addition, we expect to spend approximately $65.0 million in 2010 for both property and equipment additions and capital costs necessary to maintain our existing facilities, of which approximately $47.7 million had been expended at September 30, 2010.

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. As mentioned previously under the Executive Overview section, we completed the refinancing of our senior credit facility. Scheduled principal payments are to be repaid quarterly, see contractual obligations table included below for detail of amounts due by year. Principal payments are scheduled to begin on December 31, 2010.

We are unable to project with certainty whether our long-term cash flow from operations will be sufficient to repay our long-term debt when it comes due. If this cash flow is insufficient, we expect that we will need to refinance such indebtedness, amend its terms to extend maturity dates, or issue common stock on 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 new 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 September 30, 2010, we were in compliance with these covenants, including the two covenant ratios, the fixed-charge coverage ratio and the leverage ratio.

At September 30, 2010, we had a fixed-charge coverage ratio of 1.57 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

Table of Contents

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 September 30, 2010, we had a leverage ratio of 1.92 to 1.00, which was in compliance with the required ratio of no more than 3.00 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.

Historical Cash Flows

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

	Nine Months Ended September 30,	
	2010	**2009**
Cash provided by (used in):		
Operating activities	$ 143,470	$ 156,321
Investing activities	(98,329)	(94,520)
Financing activities	(58,127)	4,224
Effect of currency exchange rate changes on cash and cash equivalents	38	17
(Decrease) increase in cash and cash equivalents	(12,948)	66,042
Cash and cash equivalents at beginning of period	145,181	88,959
Cash and cash equivalents at end of period	$ 132,233	$ 155,001

Cash Flows from Operating Activities

Net cash provided by operating activities decreased $12.9 million in the nine months ended September 30, 2010 as compared to the prior year period. This decrease was primarily due to lower operating income, compounded by an increase in cash paid for taxes, partially offset by a decrease in cash interest due to the expiration of our interest-rate swap agreements.

Cash Flows from Investing Activities

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

	Nine Months Ended September 30,		
	2010	**2009**	**Variance**
Investing Cash Flows:			
Acquisition of independent animal hospitals and laboratories	$ (38,294)	$ (35,559)	$ (2,735) (1)
Acquisition of Pet DRx .	(4,520)		(4,520)
Acquisition of Eklin		(12,483)	12,483
Other	(2,209)	(3,811)	1,602 (2)
Total cash used for acquisitions	(45,023)	(51,853)	6,830
Property and equipment additions	(47,675)	(38,522)	(9,153) (3)
Real estate acquired with acquisitions	(5,834)	(3,828)	(2,006) (4)
Proceeds from sale of assets	15	123	(108)
Other	188	(440)	628
Net cash used in investing activities	$ (98,329)	$ (94,520)	$ (3,809)

(1) The number of acquisitions will vary from year to year based upon the available pool of suitable candidates. A discussion of our acquisitions is provided above in our *Executive Overview*.

(2) The decrease in cash used for acquisitions other relates to timing differences in pay-outs of holdbacks.

Table of Contents

(3) The cash used to acquire property and equipment will vary from year to year based on upgrade requirements and expansion of our animal hospitals and laboratory facilities.

(4) Due to the lower return on investment realized on acquired real estate we are highly selective in our decision to acquire real estate. The increase in cash used to acquire real estate is due to real estate purchased in connection with the acquisition of animal hospitals.

Cash Flows from Financing Activities

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

	Nine Months Ended September 30,		
	2010	**2009**	**Variance**
Financing Cash Flows:			
Repayment of debt	$ (548,560)	$ (5,898)	$ (542,662) (1)
Proceeds from issuance of long-term debt	500,000		500,000 (1)
Payment of financing costs	(9,112)		(9,112) (1)
Distributions to noncontrolling interest partners	(3,314)	(3,018)	(296) (2)
Proceeds from stock options exercises	4,781	13,110	(8,329) (3)
Excess tax benefits from stock options	370	591	(221)
Stock repurchases	(2,292)	(561)	(1,731) (4)
Net cash (used in) provided by financing activities	$ (58,127)	$ 4,224	$ (62,351)

(1) The cash used for repayment of debt increased $542.7 million due to our August 19, 2010 debt refinance and the payoff of $29.5 million in debt related to the Pet DRx acquisition. Proceeds from the issuance of long-term debt increased also due to the August 19, 2010 debt refinance. Payments for financing costs incurred in connection with the August 19, 2010 debt refinancing. See Note 6, *Long-Term Obligations*, of this quarterly report on Form 10-Q.

(2) The distributions to noncontrolling interest partners represent cash payments to noncontrolling interest partners for their portion of the partnerships excess cash.

(3) The number of stock option exercises has decreased in comparison to the prior year as the prior year amount was impacted by the expiration of certain stock option grants.

(4) The stock repurchases for the nine months ended September 30, 2010 and September 30, 2009 represents payments for employee stock delivered at vesting to pay for income taxes owed by the employee.

Future Contractual Cash Requirements

The following table sets forth material changes from the amounts reported in our 2009 Form 10-K to our scheduled principal, interest and other contractual cash obligations due by us for each of the years indicated as of September 30, 2010 (in thousands):

		Payment due by period			
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Contractual Obligations:					
Long-term debt	$ 500,000	$ 25,000	$ 100,000	$ 375,000	$

Variable cash interest expense Term A [1]	52,947	12,315	32,630	8,002	
Other long-term liabilities [2]	31,097	2,940	5,609	4,937	17,611
	$ 584,044	$ 40,255	$ 138,239	$ 387,939	$ 17,611

(1) The interest payments on our variable-rate senior term notes are based on rates effective as of September 30, 2010.

(2) Includes future payments under our Supplemental Executive Retirement Program and Consulting Agreements.

Table of Contents

Off-Balance-Sheet Financing Arrangements

Other than operating leases, as of September 30, 2010 we do not have any off-balance-sheet financing arrangements.

Interest Rate Swap Agreements

As of March 31, 2010, all of our interest rate swap agreements had expired. We did not enter into any new agreements during the quarters ended June 30, 2010 and September 30, 2010.

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.

Description of Indebtedness

Senior Credit Facility

At September 30, 2010, we had $500 million principal amount outstanding under our senior term notes and no borrowings outstanding under our new $100 million 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 2.25% per annum.

The senior term notes and the revolving credit facility mature in August 2015.

Other Debt and Capital Lease Obligations

At September 30, 2010, we had seller notes secured by assets of certain animal hospitals, unsecured debt and capital leases that totaled $30.4 million.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At September 30, 2010, we had borrowings of $500 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. For every 1.0% increase in LIBOR, we will pay an additional $4.3 million in pre-tax interest expense on an annualized basis for our senior term notes. Conversely, for every 1.0% decrease in LIBOR we will save $4.3 million in pre-tax interest expense on an annualized basis.

In the future, we may enter into interest rate strategies to mitigate our exposure to increasing interest rates as well as to maintain an appropriate mix of fixed-rate and variable-rate debt. 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.

We had previously disclosed a material weakness in our internal control over financial reporting in our quarterly report on Form 10-Q, filed on August 10, 2010 for the quarter ended June 30, 2010, relating to significant, material non-routine transactions. Our controls over such transactions require an analysis and review of any such transactions. We previously determined that we did not consistently perform such an analysis and review as required by our policy, specifically, our executive consulting agreements were not analyzed and reviewed as required by our policy.

We believe that we have fully remediated the material weakness in our internal control over financial reporting with respect to analyzing and reviewing all significant and material non-routine transactions as of September 30, 2010. We performed an analysis and review on all non-routine transactions that were deemed significant and material, without exception, in accordance with our policy.

Table of Contents

Based on this remediation and current evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, our principal executive officer and principal financial officer concluded that, as of September 30, 2010, 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, as mentioned previously we analyzed and reviewed all significant and material non-routine transactions such that our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) has been materially affected, or is reasonably likely to have been materially affected.

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.

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 2009 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 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

10.1	Credit and Guaranty Agreement, dated August 19, 2010, by and among Vicar Operating, Inc., VCA Antech, Inc., certain subsidiaries of Vicar Operating, Inc., as guarantors, various lenders from time to time partly thereto, Wells Fargo Bank N.A., as administrative agent, collateral agent, issuing bank and swing line lender, Bank of America, N.A., as syndication agent, and JP Morgan Chase Bank, N.A., U.S. Bank National Association, and Union Bank, N.A., as co-documentation agents. Portions of the schedules have been omitted pursuant to a request for confidential treatment.
10.2	Second Amendment to Credit and Guaranty Agreement, dated as of June 1, 2007, by and among Vicar Operating, Inc., VCA Antech, Inc., certain subsidiaries of Vicar Operating, Inc. as guarantors, various lenders from time to time party thereto, Goldman Sachs Credit Partners, L.P., as joint lead arranger and sole syndication agent, and Wells Fargo Bank, N.A., as joint lead arranger and administrative agent.
10.3	Credit Guaranty Agreement, dated May 16, 2005, by and among Vicar Operating, Inc., VCA Antech, Inc., certain subsidiaries of Vicar Operating, Inc., as guarantors, various lenders from time to time partly thereto, Goldman Sachs Credit Partners, L.P., as joint lead arranger, joint bookrunner and sole arranger, Wells Fargo

34

Table of Contents

	Bank, N.A., as joint lead arranger, joint bookrunner and administrative agent and Union Bank of California, N.A, as documentation agent. Portions of the schedules have been omitted pursuant to a request for confidential treatment.
10.4	Amendment No. 1 to the Consulting Agreement by and between VCA Antech, Inc. and Neil Tauber. Original agreement furnished as Exhibit 10.7 on Form 8-K dated July 7, 2010.
10.5	Amendment No. 1 to the Consulting Agreement by and between VCA Antech, Inc. and Tomas W. Fuller. Original agreement furnished as Exhibit 10.7 on Form 8-K dated July 7, 2010. 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.
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase*
101.DEF	XBRL Taxonomy Definition Linkbase*
101.LAB	XBRL Taxonomy Extension Label Linkbase*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase*

* Furnished, not filed.

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 November 8, 2010.

Date: November 8, 2010

By: /s/ Tomas W. Fuller
Tomas W. Fuller
Chief Financial Officer

Table of Contents

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