

VCA ANTECH INC  
Form 10-Q  
May 09, 2005

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

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**FORM 10-Q**

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

For the quarterly period ended March 31, 2005

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

**Commission File Number: 001-16783**

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**VCA ANTECH, INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**95-4097995**

*(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  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: common stock, \$0.001 par value 82,287,120 shares as of May 6, 2005.

VCA ANTECH, INC.  
FORM 10-Q  
MARCH 31, 2005

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****VCA ANTECH, INC. AND SUBSIDIARIES****CONDENSED, CONSOLIDATED BALANCE SHEETS****As of March 31, 2005 and December 31, 2004****(Unaudited)****(In thousands, except par value)**

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 41,526	\$ 30,964
Restricted cash	1,250	1,250
Trade accounts receivable, less allowance for uncollectible accounts of \$8,095 and \$7,668 at March 31, 2005 and December 31, 2004, respectively	31,735	28,936
Inventory	13,169	10,448
Prepaid expenses and other	6,305	6,275
Deferred income taxes	12,220	11,472
Prepaid income taxes	1,219	10,830
Total current assets	107,424	100,175
Property and equipment, net	123,708	119,903
Other assets:		
Goodwill	513,477	499,144
Other intangible assets, net	11,629	11,660
Deferred financing costs, net	3,843	4,052
Other	6,494	7,166
Total assets	\$ 766,575	\$ 742,100
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term obligations	\$ 3,323	\$ 6,043
Accounts payable	15,883	15,566
Accrued payroll and related liabilities	21,742	19,850
Accrued interest	5,769	1,578
Other accrued liabilities	24,043	21,874
Total current liabilities	70,760	64,911
Long-term obligations, less current portion	390,152	390,846
Deferred income taxes	32,951	31,514
Other liabilities	12,699	12,915

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Minority interest	9,659	9,155
Commitments and contingencies		
Preferred stock, par value \$0.001, 11,000 shares authorized, none outstanding		
Stockholders' equity:		
Common stock, par value \$0.001, 175,000 shares authorized, 82,272 and 82,191 shares outstanding as of March 31, 2005 and December 31, 2004, respectively	82	82
Additional paid-in capital	251,782	251,412
Accumulated deficit	(1,513)	(18,759)
Accumulated other comprehensive income	12	34
Notes receivable from stockholders	(9)	(10)
Total stockholders' equity	250,354	232,759
Total liabilities and stockholders' equity	\$ 766,575	\$ 742,100

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****For the Three Months Ended March 31, 2005 and 2004****(Unaudited)****(In thousands, except per share amounts)**

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Revenue	\$ 186,863	\$ 144,350
Direct costs	136,336	104,790
Gross profit	50,527	39,560
Selling, general and administrative expense	14,132	8,701
Loss (gain) on sale of assets	(10)	62
Operating income	36,405	30,797
Interest expense, net	6,667	5,985
Other expense	64	111
Minority interest in income of subsidiaries	685	416
Income before provision for income taxes	28,989	24,285
Provision for income taxes	11,743	9,541
Net income	\$ 17,246	\$ 14,744
Basic earnings per common share	\$ 0.21	\$ 0.18
Diluted earnings per common share	\$ 0.21	\$ 0.18
Shares used for computing basic earnings per share	82,220	81,482
Shares used for computing diluted earnings per share	83,511	83,020

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****For the Three Months Ended March 31, 2005 and 2004****(Unaudited)****(In thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Cash flows from operating activities:		
Net income	\$ 17,246	\$ 14,744
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,342	3,616
Amortization of debt costs	209	184
Provision for uncollectible accounts	1,033	628
Loss (gain) on sale of assets	(10)	62
Other	(248)	
Tax benefit from stock options exercised	179	323
Minority interest in income of subsidiaries	685	416
Distributions to minority interest partners	(656)	(374)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(3,771)	(4,485)
Decrease (increase) in inventory, prepaid expenses and other assets	(2,429)	42
Increase in accounts payable and other accrued liabilities	2,059	473
Increase in accrued payroll and related liabilities	1,892	1,784
Increase in accrued interest	4,191	4,092
Decrease in prepaid income taxes	9,642	6,038
Increase in deferred income tax assets	(530)	(393)
Increase in deferred income tax liabilities	1,534	2,386
Net cash provided by operating activities	35,368	29,536
Cash flows used in investing activities:		
Business acquisitions, net of cash acquired	(14,322)	(14,113)
Real estate acquired in connection with business acquisitions	(221)	
Property and equipment additions, net	(7,209)	(3,465)
Proceeds from sale of assets	92	178
Other	77	95
Net cash used in investing activities	(21,583)	(17,305)
Cash flows used in financing activities:		
Repayment of long-term obligations	(3,414)	(529)
Proceeds from issuance of common stock under stock option plans	191	422
Net cash used in financing activities	(3,223)	(107)
Increase in cash and cash equivalents	10,562	12,124



Cash and cash equivalents at beginning of period	30,964	17,237
Cash and cash equivalents at end of period	\$ 41,526	\$ 29,361

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****March 31, 2005****(Unaudited)****1. General**

The accompanying unaudited condensed, consolidated financial statements of our company, VCA Antech, Inc. and subsidiaries, have been prepared in accordance with generally accepted accounting principles in the United States for interim financial information and in accordance with the rules and regulations of the United States Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles in the United States for annual financial statements as permitted under applicable rules and regulations. In the opinion of our management, all adjustments considered necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 2005 are not necessarily indicative of the results to be expected for the full year. For further information, refer to our consolidated financial statements and footnotes thereto included in our 2004 annual report on Form 10-K.

**2. Acquisitions**

Our acquisition strategy includes the acquisition of animal hospitals. If favorable opportunities are presented we may pursue the acquisition of animal hospital chains, laboratories or related businesses. In accord with that strategy, we acquired the following:

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Animal Hospitals:</b>		
Acquisitions	8	9
Acquisitions relocated into our existing animal hospitals	(1)	(2)
Total	7	7

The following table summarizes the preliminary aggregate consideration, including acquisition costs, paid by us for our acquired animal hospitals and the allocation of the purchase price (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Consideration:</b>		
Cash	\$ 13,620	\$ 13,776
Obligations to sellers (1)	900	725
Notes payable and other liabilities assumed	21	16
Total	\$ 14,541	\$ 14,517

**Purchase Price Allocation:**

Goodwill (2)	\$ 13,209	\$ 13,358
Identifiable intangible assets	774	710
Tangible assets	558	449
<b>Total</b>	<b>\$ 14,541</b>	<b>\$ 14,517</b>

- 
- (1) Represents a portion of the purchase price withheld, or the holdback, as security for indemnification obligations of the sellers under the acquisition agreement.
- (2) We expect that \$8.5 million and \$11.9 million of the goodwill recorded for these acquisitions as of March 31, 2005 and 2004, respectively, will be fully deductible for income tax purposes.

**Table of Contents*****Partnership Interests***

We purchased the ownership interests of partners in certain partially-owned subsidiaries of our company. The following table summarizes the consideration paid by us and the amount of goodwill recorded for these acquisitions (in thousands):

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Consideration:</b>		
Cash	\$ 500	\$ 56
Notes payable		131
Total	\$ 500	\$ 187
Goodwill recorded (1)	\$ 25	\$ 163

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(1) We expect that the goodwill recorded in the three months ended March 31, 2004 will be fully deductible for income tax purposes.

***Other Acquisition Payments***

We paid \$575,000 and \$280,000 during the three months ended March 31, 2005 and 2004, respectively, of unused holdbacks to sellers in previously closed acquisitions.

We paid \$90,000 during the three months ended March 31, 2005 for earnout targets that were met and recorded goodwill in the same amount.

***Significant Acquisitions******STI***

On October 1, 2004, we acquired Sound Technologies Inc., STI, which is a supplier of ultrasound and digital radiography equipment and related computer hardware, software and services to the veterinary industry. As of March 31, 2005, we had not finalized the purchase price accounting for this transaction as we are still in the process of integrating STI into our operations. As part of integrating STI into our operations, we may incur additional legal and accounting fees. In addition, pursuant to the terms of the purchase agreement, we are obligated to pay an additional \$3.5 million if certain performance targets are achieved. Costs incurred in integrating STI and the payment of the \$3.5 million obligation will result in additions to the total purchase price of the transaction.

The total consideration, excluding the potential integration costs and the \$3.5 million obligation described above, as of March 31, 2005, was \$29.4 million, consisting of: \$22.4 million in cash paid to holders of STI stock; \$1.1 million in assumed debt; \$5.5 million in assumed liabilities; and \$350,000 paid for professional and other outside services. The preliminary allocation of the \$29.4 million purchase price was allocated as follows: \$19.3 million to goodwill; \$4.7 million to identifiable intangible assets; and \$5.4 million to tangible assets. We expect that \$389,000 of the goodwill recorded will be fully deductible for income tax purposes.

*National PetCare Centers, Inc.*

On June 1, 2004, we acquired NPC, which operated 67 animal hospitals located in 11 states as of the merger date. This merger allowed us to expand our animal hospital operations in nine states, particularly California and Texas, and to expand into two new states, Oregon and Oklahoma.

The purchase price accounting for this transaction has been finalized except our plan to close or sell certain NPC animal hospitals that do not meet our operating model. The costs to close or sell these animal hospitals, which will consist primarily of lease termination costs and employee severance, will result in additions to the purchase price.

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The total consideration, excluding the cost to close or sell certain NPC animal hospitals as described above, as of March 31, 2005, was \$90.1 million, consisting of: \$66.2 million in cash paid to holders of NPC stock and debt; \$2.5 million in assumed debt; \$12.4 million in assumed liabilities; \$4.5 million of operating leases whose terms were in excess of market; \$2.0 million paid for professional and other outside services; and \$2.5 million paid as part of our plan to close certain facilities and terminate certain employees. The \$90.1 million purchase price was allocated as follows: \$76.4 million to goodwill; \$1.4 million to identifiable intangible assets; and \$12.3 million to tangible assets, including real estate in the amount of \$5.0 million. We expect that \$28.8 million of the goodwill recorded will be fully deductible for income tax purposes.

**3. Goodwill and Other Intangible Assets**

Goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to identifiable assets acquired and liabilities assumed.

The following table presents the changes in the carrying amount of our goodwill by segment for the three months ended March 31, 2005 (in thousands):

	<b>Laboratory</b>	<b>Animal Hospital</b>	<b>Medical Equipment</b>	<b>Total</b>
Balance as of January 1, 2005	\$ 93,671	\$ 386,255	\$ 19,218	\$ 499,144
Goodwill acquired		13,209		13,209
Other (1)		546	54	600
Goodwill related to partnership interests		577		577
Goodwill related to sale of animal hospital		(53)		(53)
Balance as of March 31, 2005	\$ 93,671	\$ 400,534	\$ 19,272	\$ 513,477

(1) Other is the result of purchase price adjustments, purchasing the ownership interest of partners and the payment of earnouts.

In addition to goodwill, we have amortizable intangible assets at March 31, 2005 and December 31, 2004 as follows (in thousands):

	<b>As of March 31, 2005</b>			<b>As of December 31, 2004</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Covenants-not-to-compete	\$ 12,370	\$ (5,816)	\$ 6,554	\$ 11,604	\$ (5,290)	\$ 6,314
Noncontractual customer relationships	3,340	(392)	2,948	3,340	(246)	3,094
Technology	1,250	(125)	1,125	1,250	(62)	1,188
Trademarks	560	(28)	532	560	(14)	546
Contracts	397	(52)	345	397	(26)	371
Client lists	672	(547)	125	665	(518)	147
Total	\$ 18,589	\$ (6,960)	\$ 11,629	\$ 17,816	\$ (6,156)	\$ 11,660

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

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Aggregate amortization expense	\$ 804	\$ 440

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Based on balances at March 31, 2005, estimated annual amortization expense for other intangible assets for the current year and the next four fiscal years is as follows (in thousands):

2005	\$ 3,084
2006	\$ 2,740
2007	\$ 2,496
2008	\$ 1,942
2009	\$ 905

**4. Calculation of Earnings per Common Share**

Basic and diluted earnings per common share were computed as follows (in thousands, except per share amounts):

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Net income	\$ 17,246	\$ 14,744
Weighted average common shares outstanding:		
Basic	82,220	81,482
Effect of dilutive potential common shares:		
Stock options	1,291	1,396
Contracts that may be settled in stock or cash		142
Diluted	83,511	83,020
Basic earnings per common share	\$ 0.21	\$ 0.18
Diluted earnings per common share	\$ 0.21	\$ 0.18

**5. Lines of Business**

As of March 31, 2005, we had four reportable segments: Laboratory, Animal Hospital, Medical Technology and Corporate. We acquired our Medical Technology segment on October 1, 2004 and therefore do not have operating results for periods prior to that date. These segments are strategic business units that have different products, services and/or functions. The segments are managed separately because each is a distinct and different business venture with unique challenges, rewards and risks. The Laboratory segment provides diagnostic laboratory testing services for veterinarians, both associated with our animal hospitals and those independent of us. The Animal Hospital segment provides veterinary services for companion animals and sells related retail and pharmaceutical products. The Medical Technology segment sells ultrasound and digital radiography equipment, related computer hardware, software and ancillary services to the veterinary market. The accounting policies of our segments are the same as those described in the summary of significant accounting policies included in our consolidated financial statements and footnotes thereto included in our 2004 annual report on Form 10-K. We evaluate the performance of our segments based on gross profit. For purposes of reviewing the operating performance of the segments, all intercompany sales and purchases are



accounted for as if they were transactions with independent third parties at current market prices.

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

	<b>Laboratory</b>	<b>Animal Hospital</b>	<b>Medical Technology</b>	<b>Corporate</b>	<b>Intercompany Eliminations</b>	<b>Total</b>
<b>Three Months Ended March 31, 2005</b>						
Revenue	\$ 53,439	\$ 133,354	\$ 4,484	\$	\$ (4,414)	\$ 186,863
Direct costs	29,570	107,619	3,445		(4,298)	136,336
Gross profit	23,869	25,735	1,039		(116)	50,527
Selling, general and administrative expense	3,365	3,703	1,567	5,497		14,132
Loss (gain) on sale of assets		(10)				(10)
Operating income (loss)	\$ 20,504	\$ 22,042	\$ (528)	\$ (5,497)	\$ (116)	\$ 36,405
Depreciation and amortization	\$ 902	\$ 2,744	\$ 299	\$ 397	\$	\$ 4,342
Capital expenditures	\$ 1,681	\$ 3,881	\$ 120	\$ 1,832	\$ (305)	\$ 7,209
<b>Three Months Ended March 31, 2004</b>						
Revenue	\$ 49,182	\$ 97,956	\$	\$	\$ (2,788)	\$ 144,350
Direct costs	27,715	79,863			(2,788)	104,790
Gross profit	21,467	18,093				39,560
Selling, general and administrative expense	3,173	2,748		2,780		8,701
Loss (gain) on sale of assets	(1)	63				62
Operating income (loss)	\$ 18,295	\$ 15,282	\$	\$ (2,780)	\$	\$ 30,797
Depreciation and amortization	\$ 821	\$ 2,401	\$	\$ 394	\$	\$ 3,616
Capital expenditures	\$ 746	\$ 2,453	\$	\$ 266	\$	\$ 3,465
<b>At March 31, 2005</b>						
Total assets	\$ 143,948	\$ 520,955	\$ 35,811	\$ 65,861	\$	\$ 766,575
<b>At December 31, 2004</b>						
Total assets	\$ 135,600	\$ 503,485	\$ 35,198	\$ 67,817	\$	\$ 742,100

**6. Stock-Based Compensation**

We have granted stock options to various employees under multiple stock option plans and are accounting for those options under the intrinsic value method as prescribed in Accounting Principles Board, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees*. Under that method, when options are granted with a strike price equal to or greater than market price on date of issuance, there is no impact on earnings either on the date of grant or thereafter, absent modification to the options. This method is not a fair-value based method of accounting as defined by Statement of Financial Accounting Standards, SFAS, No. 123, *Accounting for Stock-Based Compensation*. Fair-value based methods of accounting require compensation expense to be recognized based on the fair market value of the options granted over their vesting period. The following table presents net income and earnings per common share as if we accounted for our stock options under SFAS No. 123 and the fair-value based method of accounting (in thousands, except per share amounts):

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	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
As reported	\$ 17,246	\$ 14,744
Deduct: Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	(2,303)	(222)
Pro forma net income available to common stockholders	\$ 14,943	\$ 14,522
Earnings per common share:		
Basic as reported	\$ 0.21	\$ 0.18
Basic pro forma	\$ 0.18	\$ 0.18
Diluted as reported	\$ 0.21	\$ 0.18
Diluted pro forma	\$ 0.18	\$ 0.17

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 123R, *Share-Based Payment*, which replaces SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123R will require us to measure the cost of share-based payments to employees, including stock options, based on the grant date fair value and to recognize the cost over the requisite service period.

On April 19, 2005, the Securities and Exchange Commission amended the compliance date for SFAS 123R to fiscal years beginning after June 15, 2005. We plan to adopt SFAS 123R effective with the compliance date applicable to us, which is currently scheduled for January 1, 2006. We are currently evaluating the method we will use to value share-based payments and the impact of this standard on our consolidated financial statements.

**7. Commitments and Contingencies**

We have certain commitments, including operating leases and supply purchase agreements, incident to the ordinary course of our business. These items are discussed in detail in our consolidated financial statements and footnotes thereto included in our 2004 annual report on Form 10-K. We also have contingencies, which are discussed below.

*a. Earn-out Payments*

In connection with certain acquisitions, we assumed certain contractual arrangements whereby additional cash may be paid to former owners of acquired companies upon attainment of specified financial criteria over periods of one to three years, 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, we will be obligated to make cash payments of \$2.3 million for the remainder of 2005 and \$2.2 million in 2006.

*b. Officers Compensation*

We have entered into employment agreements with three of our officers whereby payments may be required if our company terminates their employment in certain circumstances. We have entered into an agreement with another officer providing for similar benefits if we terminate his employment without cause. The amounts payable are based upon the executives' salaries and/or bonus history at the time of termination and the cost to our company of continuing to provide certain benefits. Had all of such officers been terminated as of December 31, 2004, we would have had aggregate obligations of approximately \$9.4 million plus the cost of the continuing benefits under such agreements.

The employment agreements with our three executives also obligate our company to make certain payments in the event of a change in control of our company. The amounts payable by our company under these agreements upon a change of control are based on the officer's salary and bonus history at the time of termination and the cost to our company of continuing to provide certain benefits. Had all of our officers been terminated following a change in control as of December 31, 2004, we would have aggregate obligations of approximately \$9.1 million under these agreements plus the cost of the continuing benefits. These agreements also provide for the acceleration of the vesting of certain of the stock options held by the officers in such circumstances.

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### *c. State Laws*

The laws of many states prohibit business corporations from providing, or holding themselves out as providers of, veterinary medical care. These laws vary from state to state and are enforced by the courts and by regulatory authorities with broad discretion. At March 31, 2005, we operated 102 animal hospitals in 13 states with these laws, including 24 in New York and 26 in Texas. In two of these states, we operated a mobile imaging service. We may experience difficulty in expanding operations into other states with similar laws. Given varying and uncertain interpretations of the veterinary laws of each state, we may not be in compliance with restrictions on the corporate practice of veterinary medicine in all states. A determination that we are in violation of applicable restrictions on the practice of veterinary medicine in any state in which we operate could have a material adverse effect, particularly if we were unable to restructure its operations to comply with the requirements of that state.

All of the states in which we operate impose various registration requirements. To fulfill these requirements, each facility has been registered with appropriate governmental agencies and, where required, has appointed a licensed veterinarian to act on behalf of each facility. All veterinary doctors practicing in our clinics are required to maintain valid state licenses to practice.

### *d. 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.

## **8. Reclassifications**

Certain prior year balances have been reclassified to conform to the 2005 financial statement presentation.

## **9. Condensed, Consolidating Information**

We have a legal structure comprised of a holding company and an operating company. VCA is our holding company, or commonly referred to as our parent company. Vicar Operating, Inc., or Vicar, is our operating company and is wholly owned by VCA. Vicar owns the capital stock of all of our subsidiaries.

The borrowings under our senior credit facility are secured obligations owed by Vicar. These borrowings are guaranteed by VCA, and its wholly-owned subsidiaries. Vicar may borrow up to \$50.0 million under a revolving line of credit under the senior credit facility. Vicar's obligations under the senior credit facility are secured by the assets of VCA and its wholly-owned subsidiaries in addition to a pledge of capital stock or similar equity interests of VCA's wholly-owned subsidiaries.

The borrowings under our 9.875% senior subordinated notes are general unsecured obligations owed by Vicar. These notes are unconditionally guaranteed on a senior subordinated basis by VCA and its wholly-owned subsidiaries.

Our partnerships may elect to serve as guarantors of our obligations; however, none of our partnerships have elected to do so. The partnerships are referred to as Non-Guarantor Subsidiaries in the following financial statements.

Vicar conducts all of its business through and derives virtually all of its income from its subsidiaries. Therefore, Vicar's ability to make required payments with respect to its indebtedness and other obligations depends on the financial results and condition of its subsidiaries and its ability to receive funds from its subsidiaries.

This condensed financial information has been prepared from the books and records maintained by VCA, Vicar, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries. The condensed financial information may not necessarily be indicative of results of operations or financial position had the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries operated as independent entities. The separate financial statements of the Guarantor Subsidiaries are not presented because we determined they would not be material to investors.

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**VCA ANTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED, CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**CONDENSED, CONSOLIDATED BALANCE SHEETS**  
**As of March 31, 2005**  
**(In thousands)**

	VCA	Vicar	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Elimination	Consolidated
Current assets:						
Cash and cash equivalents	\$	\$ 34,603	\$ 6,820	\$ 103	\$	\$ 41,526
Restricted cash		1,250				1,250
Trade accounts receivable, net		(197)	31,270	662		31,735
Inventory			12,659	510		13,169
Prepaid expenses and other		3,439	2,538	328		6,305
Deferred income taxes		12,220				12,220
Prepaid income taxes		1,219				1,219
Total current assets		52,534	53,287	1,603		107,424
Property and equipment, net		7,499	113,751	2,458		123,708
Other assets:						
Goodwill, net			481,783	31,694		513,477
Covenants-not-to-compete, net			10,949	680		11,629
Deferred financing costs, net		3,843				3,843
Other	27	1,958	3,662	3,065	(2,218)	6,494
Investment in subsidiaries	284,050	438,805	32,261		(755,116)	
Total assets	\$ 284,077	\$ 504,639	\$ 695,693	\$ 39,500	\$ (757,334)	\$ 766,575
Current liabilities:						
Current portion of long-term obligations	\$	\$ 2,297	\$ 1,026	\$	\$	\$ 3,323
Accounts payable		10,374	5,509			15,883
Accrued payroll and related liabilities		13,782	7,525	435		21,742
Accrued interest		5,623	146			5,769
Other accrued liabilities		15,031	9,001	11		24,043
Total current liabilities		47,107	23,207	446		70,760
Long-term obligations, less current portion		390,388	1,982		(2,218)	390,152
Deferred income taxes		30,880	2,071			32,951
Other liabilities		6,294	6,405			12,699
Intercompany payable/(receivable)	33,723	(254,080)	223,223	(2,866)		
Minority interest					9,659	9,659
Preferred stock						



Stockholders' equity:						
Common stock	82					82
Additional paid-in capital	251,782					251,782
Accumulated equity (deficit)	(1,513)	284,038	438,805	41,920	(764,763)	(1,513)
Accumulated other comprehensive income	12	12			(12)	12
Notes receivable from stockholders	(9)					(9)
Total stockholders' equity	250,354	284,050	438,805	41,920	(764,775)	250,354
Total liabilities and stockholders' equity	\$ 284,077	\$ 504,639	\$ 695,693	\$ 39,500	\$ (757,334)	\$ 766,575

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**VCA ANTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED, CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**CONDENSED, CONSOLIDATED BALANCE SHEETS**  
**As of December 31, 2004**  
**(In thousands)**

	VCA	Vicar	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Elimination	Consolidated
Current assets:						
Cash and cash equivalents	\$	\$ 27,947	\$ 2,944	\$ 73	\$	\$ 30,964
Restricted cash		1,250				1,250
Trade accounts receivable, net		11	28,220	705		28,936
Inventory			9,955	493		10,448
Prepaid expenses and other		3,774	2,205	296		6,275
Deferred income taxes		11,472				11,472
Prepaid income taxes		10,830				10,830
Total current assets		55,284	43,324	1,567		100,175
Property and equipment, net		6,544	110,843	2,516		119,903
Other assets:						
Goodwill, net			467,819	31,325		499,144
Covenants-not-to-compete, net			10,979	681		11,660
Deferred financing costs, net		4,052				4,052
Other	30	1,907	3,971	2,774	(1,516)	7,166
Investment in subsidiaries	266,827	404,414	32,117		(703,358)	
Total assets	\$ 266,857	\$ 472,201	\$ 669,053	\$ 38,863	\$ (704,874)	\$ 742,100
Current liabilities:						
Current portion of long-term obligations	\$	\$ 4,896	\$ 1,147	\$ 101	\$ (101)	\$ 6,043
Accounts payable		9,644	5,922			15,566
Accrued payroll and related liabilities		12,283	7,131	436		19,850
Accrued interest		1,425	153			1,578
Other accrued liabilities		12,651	9,234	(11)		21,874
Total current liabilities		40,899	23,587	526	(101)	64,911
Long-term obligations, less current portion		390,160	2,101		(1,415)	390,846
Deferred income taxes		29,443	2,071			31,514
Other liabilities		6,263	6,652			12,915
Intercompany payable/(receivable)	34,098	(261,391)	230,228	(2,935)		
Minority interest					9,155	9,155

## Preferred stock

## Stockholders' equity:

Common stock	82					82
Additional paid-in capital	251,412					251,412
Accumulated equity (deficit)	(18,759)	266,793	404,414	41,272	(712,479)	(18,759)
Accumulated other comprehensive income	34	34			(34)	34
Notes receivable from stockholders	(10)					(10)
Total stockholders' equity	232,759	266,827	404,414	41,272	(712,513)	232,759
Total liabilities and stockholders' equity	\$ 266,857	\$ 472,201	\$ 669,053	\$ 38,863	\$ (704,874)	\$ 742,100

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**VCA ANTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED, CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**CONDENSED, CONSOLIDATED INCOME STATEMENTS**  
**For the Three Months Ended March 31, 2005**  
**(In thousands)**

	<b>VCA</b>	<b>Vicar</b>	<b>Guarantor Subsidiaries</b>	<b>Non- Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
Revenue	\$	\$	\$ 172,796	\$ 14,504	\$ (437)	\$ 186,863
Direct costs			125,428	11,345	(437)	136,336
Gross profit			47,368	3,159		50,527
Selling, general and administrative expense		5,497	8,136	499		14,132
Gain on sale of assets			(10)			(10)
Operating income (loss)		(5,497)	39,242	2,660		36,405
Interest expense, net	(1)	6,642	75	(49)		6,667
Other expense		64				64
Minority interest in income of subsidiaries					685	685
Equity interest in income of subsidiaries	17,245	34,391	2,024		(53,660)	
Income before provision for income taxes	17,246	22,188	41,191	2,709	(54,345)	