VCA ANTECH INC
Form 10-K
February 26, 2010

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

Form 10-K

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

For the fiscal year ended December 31, 2009

or

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)	*(Zip code)*

(310) 571-6500
Registrant s telephone number, including area code:

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, par value $0.001 per share	Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of the voting common equity held by non-affiliates as of June 30, 2009, was approximately $2.2 billion, computed by reference to the price of $26.70 per share, the price at which the common equity was last sold on such date as reported on the NASDAQ Global Select Market. For purposes of this computation, it is assumed that the shares beneficially held by directors and officers of the registrant would be deemed to be stock held by affiliates. Non-affiliated common stock outstanding at June 30, 2009 was 82,872,634 shares.

Total common stock outstanding at February 23, 2010 was 85,672,733 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the definitive Proxy Statement to be delivered to stockholders in connection with the 2010 Annual Meeting of Stockholders are incorporated by reference into Items 10, 11, 12, 13 and 14 hereof.

VCA ANTECH, INC. AND SUBSIDIARIES

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Forward-Looking Statements

This annual report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, as well as assumptions that, if they materialize or prove incorrect, could cause our results and the results of our consolidated subsidiaries to differ materially from those expressed or implied by these forward-looking statements. We generally identify forward-looking statements in this report using words like believe, intend, seek, expect, estimate, may, plan, should plan, project, con predict, potential, continue, or similar expressions. You may find 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 include those items discussed in *Risk Factors* in Item 1A of this annual report.

PART I

ITEM 1. BUSINESS

Company Overview

We are a leading national animal healthcare company operating in the United States and Canada. We provide veterinary services and diagnostic testing to support veterinary care and we sell diagnostic imaging equipment and other medical technology products and related services to the veterinary market.

Our animal hospitals offer a full range of general medical and surgical services for companion animals, as well as specialized treatments including advanced diagnostic services, internal medicine, oncology, ophthalmology, dermatology and cardiology. In addition, we provide pharmaceutical products and perform a variety of pet wellness programs including health examinations, diagnostic testing, routine vaccinations, spaying, neutering and dental care. Our network of animal hospitals is supported by more than 1,600 veterinarians and had approximately 6.6 million patient visits in 2009. Our network of veterinary diagnostic laboratories 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. Our network of veterinary diagnostic laboratories provides diagnostic testing for over 16,000 clients, which includes standard animal hospitals, large animal practices, universities and other government organizations. Our Medical Technology business sells digital radiography and ultrasound imaging equipment, provides education and training on the use of that equipment, and provides consulting and mobile imaging services.

Our principal executive offices are located at 12401 West Olympic Boulevard, Los Angeles, California. We can be contacted at (310) 571-6500.

Company History

Our company was formed in 1986 as a Delaware corporation and during the 1990s established a position in the animal hospital and veterinary diagnostic laboratory markets through both internal growth and acquisitions. By December 31, 1999, our company operated a total of 194 animal hospitals and had built a laboratory network of 13 laboratories servicing animal hospitals in all 50 states. Subsequent to 1999, our company continued its growth by adding additional laboratories and through the acquisition of individually owned animal hospitals and the following animal hospital

chains:

On June 1, 2004, we acquired National PetCare Centers, Inc. (NPC), which operated 67 animal hospitals as of the acquisition date. This acquisition allowed us to expand our animal hospital operations, particularly in California and Texas.

On July 1, 2005, we acquired Pet s Choice, Inc. (Pet s Choice), which operated 46 animal hospitals as of the acquisition date. This acquisition allowed us to expand our animal hospital operations, particularly in Texas and Washington.

On June 1, 2007, we acquired Healthy Pet Corp. (Healthy Pet), which operated 44 animal hospitals and a small laboratory, which primarily serviced its own animal hospitals, as of the acquisition date. This acquisition allowed us to expand our animal hospital operations, particularly in Massachusetts, Connecticut, Virginia and Georgia.

Subsequent to 1999, we also acquired and opened additional laboratories that service locations with a high level of demand (i.e., large metropolitan areas). In addition, on October 1, 2004, we acquired Sound Technologies, Inc. (STI), which is a supplier of digital radiography and ultrasound imaging equipment and related computer hardware, software and services to the veterinary industry. The acquisition of STI provided us the opportunity to sell digital imaging equipment, which we believe is an expanding segment within the animal healthcare industry. On July 1, 2009, we acquired Eklin Medical Systems, Inc. (Eklin), a leading seller of digital radiography, ultrasound and practice management software systems in the veterinary market. The combined company is the largest supplier of diagnostic imaging equipment and other medical technology products to the veterinary market.

Industry Overview

According to American Pet Products Association, Inc s. (APPA) *2009-2010 APPA National Pet Owners Survey*, the United States population of companion animals is approximately 199 million, including about 171 million dogs and cats. APPA estimates that over $28 billion was spent in the United States on pets in 2009 for veterinary care, supplies, medicine and boarding and grooming. The survey indicated that the ownership of pets is widespread with over 71 million, or 62%, of U.S. households owning at least one pet, including companion and other animals. Specifically, 46 million households owned at least one dog and 38 million households owned at least one cat.

We believe that among pet owners there is a growing awareness of pet health and wellness, including the benefits of preventive care and specialized services. As technology continues to migrate from the human healthcare sector into the practice of veterinary medicine, more sophisticated treatments, diagnostic tests and equipment are becoming available to treat companion animals. These new and increasingly complex procedures, diagnostic tests, including laboratory testing and advanced imaging, and pharmaceuticals are gaining wider acceptance as pet owners are exposed to these previously unconsidered treatment programs through their exposure with this technology in human healthcare, and through literature and marketing programs sponsored by large pharmaceutical and pet nutrition companies.

Even as treatments available in veterinary medicine become more complex, prices for veterinary services typically remain a low percentage of a pet owner s income, facilitating payment at the time of service. Unlike the human healthcare industry, providers of veterinary services are not dependent on third-party payers in order to collect fees. As such, providers of veterinary services typically do not have the problems of extended payment collection cycles or pricing pressures from third-party payers faced by human healthcare providers. Outsourced laboratory testing and diagnostic equipment sales are wholesale businesses that collect payments directly from animal hospitals under standard industry payment terms. Fees for services provided in our animal hospitals are due at the time of service. For example, in 2009 over 99% of our animal hospital services were paid at the time of service. In addition, over the past three fiscal years our bad debt expense has averaged less than 1% of total revenue.

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 infestation of fleas, heartworms and ticks, and the number of daylight hours.

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Animal Hospital Industry

Animal healthcare is provided predominately by the veterinarian practicing as a sole practitioner, or as part of a larger group practice or hospital. Veterinarians diagnose and treat animal illnesses and injuries, perform surgeries, provide routine medical exams and prescribe medication. Some veterinarians specialize by type of medicine, such as orthopedics, dentistry, ophthalmology or dermatology. Others focus on a particular type of animal. The principal factors in a pet owner s decision as to which veterinarian to use include convenient location and hours, personal recommendations, reasonable fees and quality of care.

According to the American Veterinary Medical Association, the U.S. market for veterinary services is highly fragmented with more than 51,000 veterinarians practicing at the end of 2009. We have estimated that there are over 22,000 companion animal hospitals operating at the end of 2009. Although most animal hospitals are single-site, sole-practitioner facilities, we believe veterinarians are gravitating toward larger, multi-doctor animal hospitals that provide state-of-the-art facilities, treatments, methods and pharmaceuticals to enhance the services they can provide their clients.

Well-capitalized animal hospital operators have the opportunity to supplement their internal growth with selective acquisitions. We believe the extremely fragmented animal hospital industry is consolidating due to:

- the purchasing, marketing and administrative cost advantages that can be realized by a large, multiple location, multi-doctor veterinary provider;
- the cost of financing equipment purchases and upgrading technology necessary for a successful practice;
- the desire of veterinarians to focus on practicing veterinary medicine, rather than spending large portions of their time performing the administrative tasks necessary to operate an animal hospital;
- the choice of some owners of animal hospitals to diversify their investment portfolio by selling all or a portion of their investment in the animal hospital; and
- the appeal to many veterinarians of the benefits and flexible work schedule that is not typically available to a sole practitioner or single-site provider.

Diagnostic Laboratory Industry

Veterinarians use laboratory tests to diagnose and monitor illnesses and conditions through the detection of substances in urine, tissue, fecal and blood samples, and other specimens. As is the case with the physician treating a human patient, laboratory diagnostic testing is becoming a routine diagnostic tool used by the veterinarian.

Veterinary laboratory tests are performed primarily at veterinary diagnostic laboratories, universities or at animal hospitals using on-site diagnostic equipment. For certain tests, on-site diagnostic equipment can provide more timely results than outside laboratories, but this in-house testing requires the animal hospital or veterinarian to purchase or lease the equipment, maintain and calibrate the equipment periodically to avoid testing errors, employ trained personnel to operate it and purchase testing supplies. Conversely, veterinary diagnostic laboratories can provide a wider range of tests than generally are available on-site at most animal hospitals and do not require any up-front investment on the part of the animal hospital or veterinarian. Leading veterinary diagnostic laboratories also employ highly trained individuals who specialize in the detection and diagnosis of diseases and thus are a valuable resource for the veterinarian.

Our laboratories offer a broad spectrum of standard and customized tests to the veterinary market, convenient sample pick-up times, rapid test reporting and access to professional consulting services provided by trained specialists. Providing the customer with this level of service at competitive prices requires high throughput volumes due to the operating leverage associated with the laboratory business. As a result, larger laboratories are likely to have a competitive advantage relative to smaller laboratories.

We believe that the outsourced laboratory testing market is among the faster growing segments of the animal healthcare industry as a result of:

- the increased focus on wellness, early detection and monitoring programs in veterinary medicine, which is increasing the overall number of tests being performed;
- the emphasis in veterinary education on diagnostic tests and the trend toward specialization in veterinary medicine, which are causing veterinarians to increasingly rely on tests for more accurate diagnoses; and
- the continued technological developments in veterinary medicine, which are increasing the breadth of tests offered.

Medical Technology Industry

Veterinarians use radiography and ultrasound imaging equipment to capture and view anatomical images to aid in the diagnosis and treatment of a broad range of diseases and injuries in animals. Digital radiography imaging equipment utilizes high-frequency electromagnetic waves to capture x-ray images that are then digitized and stored in digital format. Ultrasound imaging equipment utilizes high-frequency sound waves and echoes to display a two-dimensional image of the tissue being examined. Veterinarians can display images created by digital radiography and ultrasound imaging equipment on computer monitors, manipulate the images, store them electronically and transmit them in digital format over the Internet with additional computer hardware and software.

We believe that the use of digital radiography and ultrasound imaging equipment provides advantages to veterinarians when compared to other imaging equipment for the following reasons:

- the ability to see greater detail and manipulate images, which assists in the diagnosis of illnesses and injuries and improves the quality of care;
- the ability to transmit images over the Internet to facilitate consultation with a specialist;
- improved efficiencies, including the ability to easily store and retrieve images electronically; and
- the reduction of costs associated with the purchasing, processing, storing, filing and retrieving of conventional film used by traditional x-ray equipment.

Business Strategy

Our business strategy is to continue expanding our market leadership in animal healthcare through our Animal Hospital, Laboratory and Medical Technology segments. Key elements to our strategy include:

- **Capitalizing on our Leading Market Position to Generate Revenue Growth.** Our leading market position in the animal hospital and veterinary laboratory markets positions us to capitalize on favorable growth trends in the animal healthcare industry. In our animal hospitals, we seek to generate revenue growth by capitalizing on the growing emphasis on pet health and wellness. In our laboratories, we seek to generate revenue growth by taking advantage of the growing number of outsourced diagnostic tests, the opportunities to expand the testing that we provide and by increasing our market share. We continually educate veterinarians on new and existing technologies and tests available to diagnose medical conditions. Further, we leverage the knowledge of our specialists by providing veterinarians with extensive client support in utilizing and understanding these diagnostic tests. Our Medical Technology segment seeks to leverage our strengths in the broader veterinary

markets by introducing technologies, products and services to the veterinary market. We seek to generate revenue growth by increasing our market share and educating veterinarians on new and existing technologies.

Leveraging Established Infrastructure to Improve Margins. We intend to leverage our established Animal Hospital and Laboratory infrastructure to continue to increase our operating margins. Due to our established networks and the fixed cost nature of our business model, we are able to realize high margins on incremental revenue from Animal Hospital and Laboratory customers. For example, given

that our nationwide transportation network servicing our Laboratory customers is a relatively fixed cost, we are able to achieve significantly higher margins on most incremental tests ordered by the same customer when picked up by our couriers at the same time.

Utilizing Enterprise-Wide Information Systems to Improve Operating Efficiencies. Our Laboratory and the majority of our Animal Hospital operations utilize enterprise-wide management information systems. We believe that these common systems enable us to more effectively manage the key operating metrics that drive our business. With the aid of these systems, we seek to standardize pricing, expand the services our veterinarians provide, capture unbilled services and increase volume through targeted marketing programs.

Pursuing Selected Acquisitions. The fragmentation of the animal hospital industry provides us with significant expansion opportunities in our Animal Hospital segment. Depending upon the attractiveness of the candidates and the strategic fit with our existing operations, we intend to acquire independent animal hospitals each year with aggregate annual revenues of approximately $50.0 million to $60.0 million. Our overall acquisition strategy involves the identification of high-quality practices where we can create additional value through the services and scale we can provide. Our typical candidate mirrors the profile of our existing animal hospital base. These acquisitions will be used to both expand existing markets and to enter into new geographic areas. In addition, we also evaluate the acquisition of animal hospital chains, laboratories or related businesses if favorable opportunities are presented. We intend primarily to use cash in our acquisitions but, depending on the timing and amount of our acquisitions, we may use stock or debt.

Business Segments

We report our results of operations through three segments: Animal Hospital, Laboratory and Medical Technology.

Information regarding revenue and operating income, attributable to each of our segments, is included in the *Segment Result*s section within *Management s Discussion and Analysis of Financial Condition and Results of Operations,* and within Note 13, *Lines of Business,* of our *Notes to Consolidated Financial Statements*, which are incorporated herein by reference.

Animal Hospital

At December 31, 2009, we operated 489 animal hospitals serving 40 states. Our Animal Hospital revenue accounted for 76%, 75% and 73% of total consolidated revenue in 2009, 2008 and 2007, respectively.

Services

In addition to general medical and surgical services, we offer specialized treatments for companion animals, including advanced diagnostic services, internal medicine, oncology, ophthalmology, dermatology and cardiology. We also provide pharmaceutical products for use in the delivery of treatments by our veterinarians and pet owners. Many of our animal hospitals offer additional services, including grooming, bathing and boarding. We also sell specialty pet products at our animal hospitals, including pet food, vitamins, therapeutic shampoos and conditioners, flea collars and sprays, and other accessory products.

Animal Hospital Network

We seek to provide quality care in clean, attractive facilities that are generally open between 10 to 15 hours per day, six to seven days per week. Our typical animal hospital:

is located in a 4,000 to 6,000 square-foot, freestanding facility in an attractive location;

has annual revenue between $1.0 million and $2.5 million;

is supported by three to five veterinarians; and

has an operating history of over 10 years.

As of December 31, 2009, our nationwide network of freestanding, full-service animal hospitals had facilities located in the following states:

California	84	Oklahoma	7
Texas*	46	Minnesota*	6
Florida	34	New Mexico	6
Washington*	33	North Carolina*	6
Massachusetts	25	Alaska	5
New York*	25	Delaware	4
Pennsylvania	21	Hawaii	3
Illinois	17	Missouri	3
Virginia	17	Nebraska*	3
Connecticut	16	New Hampshire*	3
Arizona	14	Wisconsin	3
Georgia	13	Louisiana*	2
Indiana	13	Rhode Island*	2
Colorado	11	South Carolina	2
Maryland	11	Vermont	2
Michigan*	11	Alabama*	1
New Jersey*	11	Kentucky	1
Oregon*	10	Tennessee	1
Ohio	8	Utah	1
Nevada	7	West Virginia*	1

* States with laws that prohibit corporations from providing veterinary medical care. In these states we provide administrative and support services to veterinary medical groups pursuant to management agreements.

Marketing

We primarily direct our marketing efforts toward our existing clients through customer education efforts. We inform and educate our clients about pet wellness and quality care through mailings of *HealthyPet Magazine*, which focuses on pet care and wellness. We also market through targeted demographic mailings regarding specific pet health issues and collateral health material made available at each animal hospital. With these internal marketing programs, we seek to leverage our existing customer base by increasing the number and intensity of the services received during each visit. We send reminder notices to increase awareness of the advantages of regular, comprehensive veterinary medical care, including preventive care such as early disease detection exams, vaccinations, dental screening and geriatric care. We also have expanded our online capabilities, offering increased convenience for our clients to book appointments or find detailed health related materials on our hospital websites. We also enter into referral arrangements with local pet shops, humane societies and veterinarians to increase our client base. We seek to obtain referrals from veterinarians by promoting our specialized diagnostic and treatment capabilities to veterinarians and veterinary practices that cannot offer their clients these services.

Personnel

Our animal hospitals generally employ a staff of between 20 and 30 full-time-equivalent employees, depending upon the facility s size and customer base. The staff includes administrative and technical support personnel, three to five

veterinarians, a hospital manager who supervises the day-to-day activities of the facility, and a small office staff.

We actively recruit qualified veterinarians and technicians and are committed to supporting continuing education for our professional staff. We operate post-graduate teaching programs for veterinarians at 15 of our

facilities, which train approximately 120 veterinarians each year. We believe that these programs enhance our reputation in the veterinary profession and further our ability to continue to recruit the most talented veterinarians.

We seek to establish an environment that supports the veterinarian in the delivery of quality medicine and fosters professional growth through increased patient flow and a diverse case mix, continuing education, state-of-the-art equipment and access to specialists. We believe our animal hospitals offer attractive employment opportunities to veterinarians because of our professional environment, competitive compensation, management opportunities, employee benefits not generally available to a sole practitioner, flexible work schedules that accommodate personal lifestyles and the ability to relocate to different regions of the country.

We have established a medical advisory board to support our operations. Our advisory board, under the direction of our Chief Medical Officer, recommends medical standards for our network of animal hospitals and is comprised of veterinarians recognized for their outstanding knowledge and reputations in the veterinary field. Our advisory board members represent both the different geographic regions in which we operate and the medical specialties practiced by our veterinarians; and three members are faculty members at highly-ranked veterinary colleges. Additionally, our regional medical directors, a group of highly experienced clinicians, are also closely involved in the development and implementation of our medical programs.

Laboratory

We operate a full-service, veterinary diagnostic laboratory network serving all 50 states and certain areas in Canada. Our Laboratory revenue accounted for 21%, 21% and 23% of total consolidated revenue in 2009, 2008 and 2007, respectively. We service a diverse customer base of over 16,000 clients including animal hospitals we operate, which accounted for 10%, 10% and 9% of total Laboratory revenue in 2009, 2008 and 2007, respectively.

Services

Our diagnostic spectrum includes over 300 different tests in the area of chemistry, pathology, endocrinology, serology, hematology and microbiology, as well as tests specific to particular diseases. We do not conduct experiments on animals.

Although modified to address the particular requirements of the species tested, the tests performed in our veterinary laboratories are similar to those performed in human clinical laboratories and utilize similar laboratory equipment and technologies. We believe that the growing concern for animal health, combined with the movement of veterinary medicine toward increasing specialization, may result in the migration of additional areas of human testing into the veterinary field.

Given the recent advancements in veterinary medical technology and the increased breadth and depth of knowledge required for the practice of veterinary medicine, many veterinarians solicit the knowledge and experience of our specialists to interpret test results to aid in the diagnosis of illnesses and to suggest possible treatment alternatives. Our diagnostic experts include veterinarians, chemists and other scientists with expertise in pathology, internal medicine, oncology, cardiology, dermatology, neurology and endocrinology. Because of our specialist involvement, we believe the quality of our service further distinguishes our laboratory services as a premiere service provider.

Laboratory Network

At December 31, 2009, we operated 47 veterinary diagnostic laboratories. Our laboratory network includes:

- primary hubs that are open 24 hours per day and offer a full-testing menu;

secondary laboratories that are open 24 hours per day and offer a wide-testing menu servicing large metropolitan areas; and

short term assessment and treatment (STAT) laboratories that service other locations with demand sufficient to warrant nearby laboratory facilities and are open primarily during daytime hours.

We connect our laboratories to our customers with what we believe is the industry s largest transportation network, picking up requisitions daily through an extensive network of drivers and independent couriers. Customers outside our transportation network use FedEx to send specimens to our laboratory just outside of Memphis, Tennessee, which permits rapid and cost-efficient testing because of the proximity to the primary sorting facility of FedEx.

In 2009, we derived 74% of our Laboratory revenue from major metropolitan areas, where we offer twice-a-day pick-up service and same-day results. In addition, in these areas we generally offer to report results within three hours of pick-up. Outside of these areas, we typically provide test results to veterinarians before 8:00 a.m. the day following pick-up.

Sales, Marketing and Client Service

Our full-time sales and field-service representatives market laboratory services and maintain relationships with existing customers. Our sales force is commission-based and organized along geographic regions. We support our sales efforts by strengthening our industry-leading team of specialists, developing marketing literature, attending trade shows, participating in trade associations and providing educational services to veterinarians. Our client-service representatives respond to customer inquiries, provide test results and, when appropriate, introduce the customer to other services offered by the laboratory.

Personnel

Each of our primary and secondary laboratory locations includes a manager, supervisors for each department and personnel for laboratory testing. In addition, we employ or contract with specialists to interpret test results to assist veterinarians in the diagnosis of illnesses and to suggest possible treatment alternatives.

We actively recruit qualified personnel and are committed to supporting continuing education for our professional staff. We have internal training programs for routine testing procedures to improve the skill level of our technicians and to improve the overall capacity of our existing staff. We sponsor various internship and certain other educational programs. These programs serve to build awareness of our company with students, who may seek employment with our company following graduation.

Medical Technology

Our Medical Technology segment sells digital radiography and ultrasound imaging equipment and related computer hardware, software and services, including consulting services and training, to the veterinary market. Our digital radiography and ultrasound imaging equipment are used by veterinarians to capture and view anatomical images to aid in the diagnosis and treatment of a broad range of diseases and injuries in animals. In addition, we have mobile imaging units that provide mobile diagnostic ultrasound imaging services to veterinarians who do not own their own ultrasound imaging equipment. Our Medical Technology revenue accounted for 3%, 3% and 4% of consolidated revenue in 2009, 2008 and 2007, respectively.

Products and Services

We sell digital radiography imaging equipment, which is comprised of a network of various components that we acquire from third-party manufacturers and developers. A key component is the amorphous silicon flat-panel x-ray detector, which we acquire from Varian Medical Systems pursuant to a distribution agreement entered into in February 2008, granting us worldwide rights to incorporate these detectors into veterinary digital imaging equipment for sale to the veterinary community. We also acquire hardware from Canon, Inc. on a non-exclusive basis.

We sell General Electric ultrasound imaging equipment pursuant to an agreement entered into with General Electric in July 2001 granting us exclusive rights to sell this equipment to members and institutions in the North American veterinary community.

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We license our proprietary software, TruDR. TruDR allows for the capture of digital x-ray images and transmits those images to a computer containing archiving and reviewing software. TruDR, or similar software, is a required component for our digital radiography imaging equipment to function. TruDR is not applicable to ultrasound imaging equipment sales.

We also provide mobile imaging, consulting, education and training services to our customers. In addition, we sell extended service agreements to our customers that include technical support, product updates for software and extended warranty coverage for a period of up to five years. The products included in our warranty programs are generally covered by the original equipment manufacturer and we coordinate the warranty support between our customer and the manufacturer.

Sales and Marketing

Our sales agents market and sell our products and services to veterinary hospitals and universities. Our sales agents receive a base salary and commissions based on sales. We market our products and services through direct mail, advertisements in trade magazines, trade shows and direct sales calls to our intended customers.

Systems

Animal Hospital

We use an enterprise-wide management information system to support our Animal Hospital operations. We decide whether or not to place newly acquired animal hospitals on this network based on a cost-benefit analysis. In addition, a majority of our animal hospitals utilize consistent patient accounting/point-of-sale software and we are able to track performance of hospitals on a per-service, per-veterinarian and per-client basis.

Laboratory

We use an enterprise-wide management information system to support our veterinary laboratories. All of our financial, customer records and laboratory results are stored in computer databases. Laboratory technicians and specialists are able to electronically access test results from remote testing sites. Our software gathers data in a data warehouse enabling us to provide expedient results via fax or through our Internet online resulting system.

Competition

The companion animal healthcare industry is highly competitive and subject to continual change in the manner in which services are delivered and providers are selected. We believe that the primary factors influencing a customer s selection of an animal hospital are convenient location and hours, personal recommendations, reasonable fees and quality of care. Our primary competitors for our animal hospitals in most markets are individual practitioners or small, regional multi-clinic practices. In addition, some national companies in the pet care industry, including the operators of super-stores, are developing networks of animal hospitals in markets that include our animal hospitals.

Among veterinary diagnostic laboratories, we believe that quality, price, specialist support and the time required to deliver results are the major competitive factors. There are many clinical laboratories that provide a broad range of diagnostic testing services in the same markets serviced by us, and we also face competition from several providers of on-site diagnostic equipment that allows veterinarians to perform various testing. Our principal competitor in most geographic locations in the United States is IDEXX Laboratories.

The primary competitive factors in the medical imaging equipment industry are quality, technical capability, breadth of product line, distribution capabilities, price and the ability to provide quality service and support. There are many companies that manufacture and sell digital radiography and ultrasound imaging equipment.

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Government Regulation

Certain states have laws that prohibit business corporations from providing, or holding themselves out as providers of, veterinary medical care. In these states we do not provide veterinary services or own veterinary practices. We provide management and other administrative services to veterinary practices located in these states. At December 31, 2009, we provided management services to 160 animal hospitals in 14 states under management agreements with the veterinary practices. In one of these states, we operated a mobile imaging service. Although we seek to structure our operations to comply with veterinary medicine laws of each state in which we operate, given the varying and uncertain interpretations of these laws, 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 on our operations, particularly if we were unable to restructure our operations to comply with the requirements of that state. As of December 31, 2009, we believe we are in compliance with these veterinary medicine laws.

In addition, all of the states in which we operate impose various registration requirements. To fulfill these requirements, we have registered each of our facilities with appropriate governmental agencies and, where required, have appointed a licensed veterinarian to act on behalf of each facility. All veterinarians practicing in our animal hospitals are required to maintain valid state licenses to practice.

Our acquisitions may be subject to pre-merger or post-merger review by governmental authorities for anti-trust and other legal compliance. Adverse regulatory action could negatively affect our operations through the assessment of fines or penalties against us or the possible requirement of divestiture of one or more of our operations.

Employees

At December 31, 2009 we employed or managed on behalf of the professional corporations to which we provide services approximately 8,500 full-time-equivalent employees. At that date, none of these employees were a party to a collective bargaining agreement.

Availability of Our Reports Filed with the Securities and Exchange Commission (SEC)

We maintain a website with the address http://investor.vcaantech.com. We are not including the information contained on our website as a part of, or incorporating it by reference into, this annual report on Form 10-K. We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file that material with, or furnish that material to, the SEC.

The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Copies of our reports filed electronically with the SEC may be accessed on the SEC s website www.sec.gov. The public may also read and copy any materials filed with the SEC at the SEC s Public Reference Room at 100 F Street NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at (800) SEC-0330.

ITEM 1A. RISK FACTORS

Various sections of this annual report contain forward-looking statements, all of which are based on current expectations and could be affected by the uncertainties and risk factors described below and throughout this annual report. Our actual results may differ materially from these forward-looking statements.

The current financial crisis and general economic conditions may continue to cause a decline in business and have a material adverse effect on our revenue and profitability.

The continued financial crisis and related economic uncertainty has had, and may continue to have, an adverse impact on our revenue and our profitability. Consumer spending habits, including spending for pet

healthcare, are affected by, among other things, prevailing economic conditions, levels of employment, salaries and wage rates, consumer confidence and consumer perception of economic conditions. Recently, these factors have caused consumer spending to deteriorate significantly and may cause levels of spending to remain depressed for the foreseeable future. These factors may cause pet owners to elect to forgo expensive treatment options or to defer treatment for their pets altogether. We have experienced a decline in the frequency of visits to our animal hospitals, the number of orders placed in our animal hospitals and the average revenue per requisition in our laboratories. These factors have contributed to a decline in our Animal Hospital same-store revenue growth and the rate of our Laboratory internal revenue growth. While we continue to employ cost control measures, our profit margins may continue to decline until our businesses return to historical growth rates.

In addition, the economic downturn may have a material adverse effect on our ability to refinance our existing long-term debt coming due in 2011 and to fund our growth and may exacerbate the effect of the risks discussed below, including the impact on our growth strategy, changes in demand for our products and services, the carrying value of our goodwill and other intangibles, our ability to service our substantial indebtedness and sales of our medical imaging equipment.

If we are unable to effectively execute our growth strategy, we may not achieve our desired economies of scale and our profitability may decline.

Our success depends in part on our ability to increase our revenue and operating income through a balanced program of organic growth initiatives and selective acquisitions of established animal hospitals, laboratories and related businesses. If we cannot implement or effectively execute on this strategy, our results of operations will be adversely affected. Even if we effectively implement our growth strategy, we may not achieve the economies of scale that we have experienced in the past or that we anticipate occurring in the future. We have not experienced same-store revenue growth in our animal hospitals for the past five quarters. Our Laboratory growth has declined and could become negative. Our Animal Hospital same-store revenue, adjusted for differences in business days, has fluctuated between a decline of 3.2% and growth of 6.6% for 2005 through 2009. Our Laboratory internal revenue growth, adjusted for differences in billing days, has fluctuated between 0.9% and 15.2% over the same years. Our internal growth may continue to fluctuate and may be below our historical rates. Any reduction in the rate of our internal growth may cause our revenue and operating income to decrease. Investors should not assume that our historical growth rates are reliable indicators of results in future periods.

Changes in the demand for our products and services could negatively affect our operating results.

The frequency of visits to our animal hospitals has declined and may continue to decline. We believe that the frequency of visits is impacted by several trends in the industry, in addition to the continuing financial crisis. Client visits may be negatively impacted as a result of preventative care and better pet nutrition. Demand for vaccinations will be impacted in the future as protocols for vaccinations change. Our veterinarians establish their own vaccine protocols. Some of our veterinarians have changed their protocols and others may change their protocols in light of recent and/or future literature. The demand for our products and services may also decline as a result of the eradication or substantial declines in the prevalence of certain diseases. Also, many pet-related products traditionally sold at animal hospitals have become more widely available in retail stores and other channels of distribution, including the Internet, resulting in a decline in demand for these products at our animal hospitals.

Due to the fixed cost nature of our business, fluctuations in our revenue could adversely affect our gross profit, operating income and margins.

A substantial portion of our expenses, particularly rent and personnel costs, are fixed costs and are based in part on expectations of revenue. We may be unable to reduce spending in a timely manner to compensate for any significant

fluctuations in our revenue. Accordingly, shortfalls in revenue may adversely affect our gross profit, operating income and margins.

Any failure in our information technology systems, disruption in our transportation network or failure to receive supplies could significantly increase testing turn-around time, reduce our production capacity and otherwise disrupt our operations.

Our laboratory operations depend on the continued and uninterrupted performance of our information technology systems and transportation network, including overnight delivery services provided by FedEx. Sustained system failures or interruption in our transportation network could disrupt our ability to process laboratory requisitions, perform testing, provide test results in a timely manner and/or bill the appropriate party. We could lose customers and revenue as a result of a system or transportation network failure. In addition, any change in government regulation related to transportation samples or specimens could also have an impact on our business.

Our computer systems are vulnerable to damage or interruption from a variety of sources, including telecommunications failures, electricity brownouts or blackouts, malicious human acts and natural disasters. Moreover, despite network security measures, some of our servers are potentially vulnerable to physical or electrical break-ins, computer viruses and similar disruptive problems. Despite the precautions we have taken, unanticipated problems affecting our systems could cause interruptions in our information technology systems. Our insurance policies may not adequately compensate us for any losses that may occur due to any failures in our systems.

Our laboratory operations depend on a limited number of employees to upgrade and maintain its customized computer systems. If we were to lose the services of some or all of these employees, it may be time-consuming for new employees to become familiar with our systems, and we may experience disruptions in service during these periods.

Our operations depend, in some cases, on the ability of single source suppliers or a limited number of suppliers, to deliver products and supplies on a timely basis. Some of these suppliers are smaller companies with limited capital resources and some of the products that we purchase from these suppliers are proprietary, and, therefore, cannot be readily or easily replaced by alternative suppliers. We have in the past experienced, and may in the future experience, shortages of or difficulties in acquiring products and/or supplies in the quantities and of the quality needed. Shortages in the availability of products and/or supplies for an extended period of time will disrupt our ability to deliver products and provide services in a timely manner, could result in the loss of customers, and could have a material adverse impact on our results of operations.

Difficulties integrating new acquisitions may impose substantial costs and cause other problems for us.

Our success depends on our ability to timely and cost-effectively acquire, and integrate into our business, additional animal hospitals, laboratories and related businesses. In 2009, we acquired 27 animal hospitals, two laboratories and Eklin. In 2008, we acquired 51 animal hospitals and four laboratories. In 2007, we acquired 73 animal hospitals, including 44 animal hospitals as part of the acquisition of Healthy Pet and two laboratories. We expect to continue our animal hospital acquisition program and if presented with favorable opportunities, we may acquire animal hospital chains, laboratories or related businesses. Our expansion into new territories and new business segments creates the risk that we will be unsuccessful in the integration of the acquired businesses that are new to our operations. Any difficulties in the integration process could result in increased expense, loss of customers and a decline in profitability. In some cases, we have experienced delays and increased costs in integrating acquired businesses, particularly where we acquire a large number of animal hospitals in a single region at or about the same time. We also could experience delays in converting the systems of acquired businesses into our systems, which could result in increased staff and payroll expense to collect our results as well as delays in reporting our results, both for a particular region and on a consolidated basis. Further, the legal and business environment prevalent in new territories and with respect to new businesses may pose risks that we do not anticipate and adversely impact our ability to integrate newly acquired operations. In addition, our field management may spend a greater amount of time integrating these new businesses and less time managing our existing businesses. During these periods, there may be less attention directed to

marketing efforts or staffing issues, which could affect our revenues and expenses. For all of these reasons, our historical success in integrating acquired businesses is not a reliable indicator of our

ability to do so in the future. If we are not successful in timely and cost-effectively integrating future acquisitions, it could result in decreased revenue, increased costs and lower margins.

The significant competition in the companion animal healthcare industry could result in a decrease in our prices, an increase in our acquisition costs, a loss of market share and could materially affect our revenue and profitability.

The companion animal healthcare industry is highly competitive with few barriers to entry. To compete successfully, we may be required to reduce prices, increase our acquisition and operating costs or take other measures that could have an adverse effect on our financial condition, results of operations, margins and cash flow. In addition, if we are unable to compete successfully, we may lose market share.

A significant component of our annual growth strategy includes the acquisition of independent animal hospitals. The competition for animal hospital acquisitions from small national and regional multi-clinic companies may cause us to increase the amount we pay to acquire additional animal hospitals and may result in fewer acquisitions than anticipated by our growth strategy. If we are unable to acquire a requisite number of animal hospitals annually or if our acquisition costs increase, we may be unable to effectively implement our growth strategy and realize anticipated economies of scale.

We compete with clinical laboratory companies in the same markets we service. These companies have acquired additional laboratories in the markets in which we operate and may continue their expansion, and aggressively bundle their products and services to compete with us. Increased competition may adversely affect our Laboratory revenue and margins. Several other national companies develop and sell on-site diagnostic equipment that allows veterinarians to perform their own laboratory tests. Growth of the on-site diagnostic testing market may have an adverse effect on our Laboratory revenue.

Our Medical Technology division is a leader in the market for medical imaging equipment in the animal healthcare industry. Our primary competitors are companies that are much larger than us and have substantially greater capital, manufacturing, marketing and research and development resources than we do, including companies such as Siemens Medical Systems, Philips Medical Systems and Canon Medical Systems. The success of our Medical Technology division, in part, is due to its focus on the veterinary market, which allows it to differentiate its products and services to meet the unique needs of this market. If this market receives more focused attention from these larger competitors, we may find it difficult to compete and as a result our revenues and operating margins from this segment could decline.

The carrying value of our goodwill and other intangible assets could be subject to an impairment write-down.

At December 31, 2009, our consolidated balance sheet reflected $985.7 million of goodwill and $44.3 million of other intangible assets, constituting a substantial portion of our total assets of $1.6 billion at that date. We expect that the aggregate amount of goodwill and other intangible assets on our consolidated balance sheet will increase as a result of future acquisitions. We continually evaluate whether events or circumstances have occurred that suggest that the fair value of our other intangible assets or each of our reporting units are below their respective carrying values. The determination that the fair value of our intangible assets or one of our reporting units is less than its carrying value would result in an impairment write-down. The impairment write-down would be reflected as expense and could have a material adverse effect on our results of operations during the period in which we recognize the expense.

We require a significant amount of cash to service our debt and expand our business as planned. Our revolving credit line is scheduled to expire in May 2010 and we do not have current plans to replace it.

We have, and will continue to have, a substantial amount of debt. Our substantial amount of debt requires us to dedicate a significant portion of our cash flow from operations to service interest and principal payments on our debt. In addition, we have determined not to renew our revolving credit line when it expires in May 2010 until we refinance our term loans maturing in May 2011. In order to provide an appropriate operating cash reserve, we plan to carry cash balances in amounts that are higher than our historical practices. These

factors collectively will have the effect of reducing the funds available for use for capital expenditures, acquisitions and general corporate purposes.

Our failure to satisfy covenants in our debt instruments will cause a default under those instruments.

In addition to imposing restrictions on our business and operations, our debt instruments include a number of covenants relating to financial ratios and tests. Our ability to comply with these covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions. The breach of any of these covenants would result in a default under these instruments. An event of default would permit our lenders and other debtholders to declare all amounts borrowed from them to be due and payable, together with accrued and unpaid interest. If we are unable to repay debt to our senior lenders, these lenders and other debtholders could proceed against our assets.

Our debt instruments may adversely affect our ability to run our business.

Our substantial amount of debt, as well as the guarantees of our subsidiaries and the security interests in our assets and those of our subsidiaries, could impair our ability to operate our business effectively and may limit our ability to take advantage of business opportunities. For example, our senior credit facility may:

- limit our ability to borrow additional funds or to obtain other financing in the future for working capital, capital expenditures, acquisitions, investments and general corporate purposes;
- limit our ability to dispose of our assets, create liens on our assets or to extend credit;
- make us more vulnerable to economic downturns and reduce our flexibility in responding to changing business and economic conditions;
- limit our flexibility in planning for, or reacting to, changes in our business or industry;
- place us at a competitive disadvantage to our competitors with less debt; and
- restrict our ability to pay dividends, repurchase or redeem our capital stock or debt, or merge or consolidate with another entity.

The terms of our senior credit facility allow us, under specified conditions, to incur further indebtedness, which would heighten the foregoing risks. If compliance with our debt obligations materially hinders our ability to operate our business and adapt to changing industry conditions, we may lose market share, our revenue may decline and our operating results may suffer.

Any failure by the manufacturers of our medical imaging equipment, failure in our ability to develop functional and cost-effective software for our products, or any product malfunctions could result in a decline in customer purchases and a reduction in our revenue and profitability.

We do not develop or manufacture the medical imaging equipment that we distribute, except for the software component of our digital radiography machines. Our business in this segment in large part is dependent upon distribution agreements with the manufacturers of the equipment, the ability of those manufacturers to produce desirable equipment and to keep pace with advances in technology, our ability to develop cost-effective, functional, and user-friendly software for the digital radiography machines, and the overall rate of new development within the industry. If the distribution agreements terminate or are not renewed, if the manufacturers breach their covenants

under these agreements, if the equipment manufactured by these manufacturers or our software becomes less competitive or if there is a general decrease in the rate of new development within the industry, demand for our products and services would decrease.

Manufacturing flaws, component failures, design defects, or inadequate disclosure of product-related information could result in an unsafe condition or injury. These problems could result in product liability claims and lawsuits alleging that our products have resulted or could result in an unsafe condition or injury. In addition, an adverse event involving one of our products could result in reduced market acceptance and demand for all of our products, and could harm our reputation and our ability to market our products in the

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future. Any of the foregoing problems could disrupt our business and have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our use of self-insurance, self-insured retention and high-deductible insurance programs to cover certain claims for losses suffered and costs or expenses incurred could negatively impact our business upon the occurrence of an uninsured and/or significant event.

We self-insure and use high retention or high-deductible insurance programs with regard to property risks, general, professional and employment practice liabilities, health benefits, and workers compensation. In the event that the frequency of losses we experience increases unexpectedly, the aggregate of those losses could materially increase our liability and adversely affect our financial condition, liquidity, cash flows and results of operations. In addition, we have made certain judgments as to the limits on our existing insurance coverage that we believe are in line with industry standards, as well as in light of economic and availability considerations. If we experience losses above these limits it could materially adversely affect our financial and business condition.

We may experience difficulties hiring skilled veterinarians due to shortages that could disrupt our business.

If we are unable to retain an adequate number of skilled veterinarians, we may lose customers, our revenue may decline and we may need to sell or close animal hospitals. At December 31, 2009, there were 28 veterinary schools in the country accredited by the American Veterinary Medical Association. These schools graduate approximately 2,500 veterinarians per year. There is a shortage of skilled veterinarians in some regional markets in which we operate animal hospitals. During shortages in these regions, we may be unable to hire enough qualified veterinarians to adequately staff our animal hospitals, in which event we may lose market share and our revenue and profitability may decline.

If we fail to comply with governmental regulations applicable to our business, various governmental agencies may impose fines, institute litigation or preclude us from operating in certain states.

The laws of many states prohibit business corporations from providing, or holding themselves out as providers of, veterinary medical care. At December 31, 2009, we operated 160 animal hospitals in 14 states with these laws, including 46 practices in Texas, 33 in Washington and 25 in New York. In addition, our mobile imaging service also operates in one state with these laws. We may experience difficulty in expanding our 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 on us, particularly if we are unable to restructure our 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, we have registered each of our facilities with appropriate governmental agencies and, where required, have appointed a licensed veterinarian to act on behalf of each facility. All veterinarians practicing in our animal hospitals are required to maintain valid state licenses to practice.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters and principal executive offices are located in Los Angeles, California, in approximately 50,000 square feet of leased space. At February 26, 2010, we leased or owned facilities at 574 other locations that house our animal hospitals, laboratories and medical technology group. We own 120 facilities and the remainder are leased. We believe that our real property facilities are adequate for our current needs.

ITEM 3. LEGAL PROCEEDINGS

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

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

No matters were submitted to a vote of our security holders during the fourth quarter of 2009.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock trades on the NASDAQ Global Select Market under the symbol WOOF. The following table sets forth the range of high and low sales prices per share for our common stock as quoted on the NASDAQ Global Select Market for the periods indicated.

	High	Low
Fiscal 2009 by Quarter		
Fourth	$ 27.99	$ 22.41
Third	$ 27.07	$ 24.01
Second	$ 27.25	$ 21.79
First	$ 23.03	$ 17.42
Fiscal 2008 by Quarter		
Fourth	$ 29.68	$ 14.17
Third	$ 33.45	$ 26.74
Second	$ 34.18	$ 26.78
First	$ 44.55	$ 26.55

At February 23, 2010, there were 188 holders of record of our common stock.

The following graph sets forth the percentage change in cumulative total stockholder return of our common stock from December 31, 2004 to December 31, 2009. These periods are compared with the cumulative returns of the NASDAQ Stock Market (U.S. Companies) Index and the Russell 2000 Index. The comparison assumes $100 was invested on December 31, 2004 in our common stock and in each of the foregoing indices. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among VCA Antech, Inc. , The NASDAQ Composite Index
And The Russell 2000 Index

*$ 100 invested on 12/31/04 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	12/04	12/05	12/06	12/07	12/08	12/09
VCA Antech, Inc.	100.00	144.32	164.74	226.36	101.74	127.53
NASDAQ Composite	100.00	101.33	114.01	123.71	73.11	105.61
Russell 2000	100.00	104.55	123.76	121.82	80.66	102.58

Dividends

We have not paid cash dividends on our common stock, and we do not anticipate paying cash dividends in the foreseeable future. In addition, our senior credit facility places limitations on our ability to pay cash dividends in respect of our common stock. Any future determination as to the payment of dividends on our common stock will be restricted by these limitations, will be at the discretion of our Board of Directors and will depend on our results of operations, financial condition, capital requirements and other factors deemed relevant by the Board of Directors, including the General Corporation Law of the State of Delaware, which provides that dividends are only payable out of surplus or current net profits.

Transactions in Our Equity Securities

For the period covered by this report, we have not engaged in any sales of our unregistered equity securities that were not disclosed in a quarterly report on Form 10-Q or a current report on Form 8-K, and we have not repurchased any of our equity securities in the fourth quarter.

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ITEM 6. SELECTED FINANCIAL DATA

The following table provides our selected consolidated financial data as of and for each of the years in the five- year period ended December 31, 2009. The income statement and cash flow data and the other data for each of the three years ended December 31, 2009, and the balance sheet data as of December 31, 2009 and 2008 has been derived from our audited financial statements included elsewhere in this Form 10-K. The other periods presented were derived from our audited financial statements that are not included in this Form 10-K.

The selected financial data presented below is not necessarily indicative of results of future operations and should be read in conjunction with the *Management s Discussion and Analysis of Financial Condition and Results of Operations* section and our consolidated financial statements and related notes included elsewhere in this 10-K.

	December 31,				
	2009	2008	2007	2006	2005
	(In thousands, except per share amounts)				
Income Statement Data:					
Animal Hospital revenue(3)(4)	$ 994,215	$ 959,395	$ 844,344	$ 711,997	$ 607,565
Laboratory revenue	308,478	304,952	295,695	258,345	222,064
Medical Technology revenue(5)	50,136	51,177	46,823	39,305	30,330
Intercompany revenue	(38,322)	(38,054)	(30,717)	(26,334)	(20,293)
Total revenue	1,314,507	1,277,470	1,156,145	983,313	839,666
Direct costs	971,507	934,833	834,724	712,749	613,799
Gross profit	343,000	342,637	321,421	270,564	225,867
Selling, general and administrative expense	97,437	90,727	86,877	78,020	66,185
Net loss on sale and disposal of assets(1)	4,035	234	1,323	17	441
Operating income(1)	241,528	251,676	233,221	192,527	159,241
Interest expense, net	21,466	28,559	29,503	24,240	25,043
Debt retirement costs					19,282
Other (income) expense	(104)	(212)	220	8	(122)
Income before provision for income taxes	220,166	223,329	203,498	168,279	115,038
Provision for income taxes(2)	84,580	86,219	78,636	59,650	44,113
Net income	135,586	137,110	124,862	108,629	70,925
Net income attributable to noncontrolling interests	4,158	4,126	3,850	3,100	3,109
Net income attributable to VCA Antech, Inc.	$ 131,428	$ 132,984	$ 121,012	$ 105,529	$ 67,816
Basic earnings per share	$ 1.54	$ 1.57	$ 1.44	$ 1.27	$ 0.82

Diluted earnings per share	$	1.53	$	1.55	$	1.41	$	1.24	$	0.81
Weighted-average shares outstanding for basic earnings per share		85,077		84,455		83,893		83,198		82,439
Weighted-average shares outstanding for diluted earnings per share		86,097		85,700		85,716		84,882		83,996

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	December 31,				
	2009	2008	2007	2006	2005
	(In thousands, except percentages)				
Other Financial Data:					
Consolidated gross margin	26.1%	26.8%	27.8%	27.5%	26.9%
Animal Hospital gross margin(3)(4)	18.5%	19.2%	19.3%	19.4%	19.5%
Laboratory gross margin	46.5%	46.8%	48.4%	46.2%	44.5%
Medical Technology gross margin(5)	35.5%	35.2%	33.9%	36.2%	31.1%
Consolidated operating margin(1)	18.4%	19.7%	20.2%	19.6%	19.0%
Animal Hospital operating margin(3)(4)	16.3%	16.9%	16.6%	16.6%	16.7%
Laboratory operating margin	39.0%	40.0%	41.7%	39.5%	38.2%
Medical Technology operating margin(5)	6.2%	11.1%	9.1%	8.8%	1.3%
Cash Flow Data:					
Net cash provided by operating activities	$ 183,471	$ 197,308	$ 173,764	$ 130,404	$ 118,178
Net cash used in investing activities	$ (130,770)	$ (212,711)	$ (271,305)	$ (87,732)	$ (115,431)
Net cash provided by (used in) financing activities	$ 3,477	$ (6,402)	$ 163,303	$ (56,056)	$ 24,777
Capital expenditures	$ (50,801)	$ (55,045)	$ (48,714)	$ (35,316)	$ (29,209)
Balance Sheet Data (at period end):					
Cash and cash equivalents	$ 145,181	$ 88,959	$ 110,866	$ 45,104	$ 58,488
Goodwill	$ 985,674	$ 922,057	$ 821,967	$ 625,748	$ 586,444
Total assets	$ 1,627,404	$ 1,449,038	$ 1,286,711	$ 971,957	$ 898,405
Long-term debt	$ 545,055	$ 552,631	$ 560,180	$ 390,715	$ 452,712
Total stockholders equity	$ 875,047	$ 710,989	$ 568,384	$ 430,305	$ 308,751

(1) In 2009, our operating margin was unfavorably impacted by a $3.3 million non-cash charge related to the write-off of an internal-use software project. The $3.3 million is net of $1.9 million in cash recovered for certain costs incurred on this project. The write-off impacted our 2009 operating margin by 0.3%.

(2) The 2006 provision for income taxes includes recognition of a $6.8 million tax benefit due to the outcome of an income tax audit that resulted in a reduction in our estimated tax liabilities.

(3) On July 1, 2005, we acquired Pet s Choice which operated 46 animal hospitals as of the acquisition date.

(4) On June 1, 2007, we acquired Healthy Pet, which operated 44 animal hospitals as of the acquisition date.

(5) On July 1, 2009, we acquired Eklin, a supplier of digital radiography equipment to the veterinary industry.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements provided under Part II, Item 8 of this annual report on Form 10-K. 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, seek, expect, estimate, may, should plan, project, contemplate, anticipate, predict, potential, continue, or similar expressions. You may 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 result in these forward-looking statements in being different than reflected in this report are described throughout this annual report and particularly in Risk Factors Part I, Item 1A of this annual report on Form 10-K.

The forward-looking information set forth in this annual report on Form 10-K is as of February 26, 2010, and we undertake no duty to update this information. Shareholders and prospective investors can find information filed with the SEC after February 26, 2010, at our website at http://investor.vcaantech.com or at the SEC s website at www.sec.gov.

Overview

We are a leading national animal healthcare company. We provide veterinary services and diagnostic testing services to support veterinary care and we sell diagnostic imaging equipment and 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 December 31, 2009, our animal hospital network consisted of 489 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 December 31, 2009, our laboratory network consisted of 47 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, heartworms 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.

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Executive Overview

The continued financial crisis and related economic uncertainty has had, and may continue to have, an adverse impact on our revenue and our profitability. Consumer spending habits, including spending for pet healthcare, are affected by, among other things, prevailing economic conditions, levels of employment, salaries and wage rates, consumer confidence and consumer perception of economic conditions. Recently, these factors have caused consumer spending to deteriorate significantly and may cause levels of spending to remain depressed for the foreseeable future. These factors may cause pet owners to elect to forgo expensive treatment options or to defer treatment for their pets altogether. During the latter part of 2008 and continuing through 2009, we experienced a decline in the frequency of visits to our animal hospitals, the number of orders placed in our animal hospitals and the average revenue per requisition in our laboratories. These factors have contributed to a decline in our Animal Hospital same-store revenue growth and a slowing of the rate of our Laboratory internal revenue growth.

During most of 2009, we were able to mitigate the impact of these changes on our profit margins and net income through aggressive cost management measures. However, more recently, this has become more difficult in light of cost increases being imposed on us by our vendors and the need to continue to invest in our business.

In 2010 we believe that our ability to maintain or increase margins will be dependent on revenue growth. We plan to continue our growth strategy of acquiring individual animal hospitals and maintain our strong emphasis on expense management. However, our ability to return to our historical margins will be dependent on same-store revenue growth in our animal hospitals and internal revenue growth in our laboratories.

Acquisitions and Facilities

Our annual growth strategy includes the acquisition of independent animal hospitals. In addition, we also evaluate the acquisition of animal hospital chains, laboratories or related businesses if favorable opportunities are presented. In 2009 we acquired 27 independent animal hospitals with annual revenue of $65.3 million. The following table summarizes the changes in the number of facilities operated by our Animal Hospital and Laboratory segments:

	For The Years Ended December 31,		
	2009	2008	2007
Animal hospitals:			
Beginning of period	471	438	379
Acquisitions, excluding Healthy Pet in 2007(1)	27	51	29
Healthy Pet(1)			44
Acquisitions relocated into our existing animal hospitals	(5)	(13)	(7)
New facilities		1	
Sold, closed or merged	(4)	(6)	(7)
End of period	489	471	438
Laboratories:			
Beginning of period	44	36	33
Acquisitions	2	4	2
Acquisitions relocated into our existing laboratories	(2)	(1)	(1)
New facilities	3	5	2

End of period	47	44	36

(1) Healthy Pet was acquired on June 1, 2007.

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Animal Hospital and Laboratory Acquisitions, excluding Healthy Pet

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

	For Years Ended December 31,		
	2009	2008	2007
Consideration:			
Cash(1)	$ 56,806	$ 123,129	$ 57,990
Non-cash note conversion to equity interest in subsidiary	5,700		
Contingent consideration	712		
Fair value of total consideration transferred	$ 63,218	$ 123,129	$ 57,990
Allocation of the Purchase Price:			
Tangible assets	$ 8,625	$ 4,954	$ 2,662
Identifiable intangible assets	9,408	20,447	2,906
Goodwill(2)	51,171	104,411	55,271
Notes payable and other liabilities assumed	(5,986)	(6,683)	(2,849)
Total	$ 63,218	$ 123,129	$ 57,990

(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 consolidated statements of cash flows.

(2) We expect that $33.6 million, $81.2 million and $45.7 million of the goodwill recognized in 2009, 2008 and 2007, respectively, will be fully deductible for income tax purposes.

In addition to the purchase price listed above are cash payments made for real estate acquired in connection with our purchase of animal hospitals totaling $4.9 million, $17.6 million and $8.0 million in 2009, 2008 and 2007, respectively.

Healthy Pet Acquisition

On June 1, 2007, we acquired Healthy Pet, which operated at the time of its acquisition, 44 animal hospitals and a small laboratory, which primarily serviced its own animal hospitals. This acquisition allowed us to expand our Animal Hospital operations, particularly in Massachusetts, Connecticut, Virginia, Rhode Island and Georgia. Our consolidated financial statements reflect the operating results of Healthy Pet since June 1, 2007.

We acquired Healthy Pet for a purchase price of $152.8 million. The following table summarizes the purchase price and the allocation of the purchase price (in thousands):

Consideration:

Cash paid to holders of Healthy Pet stock and debt, net of cash acquired	$ 151,755
Cash paid for professional services	1,044
Fair value of total consideration transferred	$ 152,799
Allocation of the Purchase Price:	
Tangible assets	$ 33,337
Identifiable intangible assets(1)	5,999
Goodwill(2)	142,072
Debt and capital leases assumed	(17,680)
Other liabilities assumed(3)	(10,929)
Total	$ 152,799

(1) Includes customer relationships, covenants not to compete, and favorable lease assets.

(2) We expect that $58.4 million of goodwill will be fully deductible for income tax purposes, of which $40.8 million remains as of December 31, 2009.

(3) Includes liabilities associated with the elimination of duplicate functions and closure of certain animal hospitals (net of cash received from the closure plan of $136,000).

In addition, we incurred integration costs of $1.6 million primarily to operate Healthy Pet s corporate office, which was closed in 2007. These costs were expensed as incurred and are included in corporate selling, general and administrative expense.

The pro forma impacts on revenue and earnings have not been disclosed for the current or comparable prior periods, as the amounts were immaterial to the financial statements as a whole.

Eklin Medical Systems, Inc. Acquisition

On July 1, 2009, we acquired Eklin, a leading seller of digital radiography and ultrasound systems in the veterinary market. We acquired Eklin for a purchase price of $12.5 million, net of cash acquired of $1.0 million. The following table summarizes the purchase price and allocation of the purchase price (in thousands):

Consideration:		
Cash(1)	$	12,504
Fair value of total consideration transferred	$	12,504
Allocation of the Purchase Price:		
Tangible assets	$	9,344
Identifiable intangible assets		7,351
Goodwill(2)		8,361
Other liabilities assumed		(12,552)
Total	$	12,504

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

(2) We expect that $2.8 million of the goodwill recorded for this acquisition as of December 31, 2009 will be fully deductible for income tax purposes.

In addition we incurred $537,000 in transaction costs, which were expensed in accordance with the FASB s revised accounting guidance on business combinations, effective January 1, 2009.

Eklin has been combined with STI and is reported within our Medical Technology segment.

The pro forma impacts on revenue and earnings have not been disclosed for the current or comparable prior periods, as the amounts were immaterial to the financial statements as a whole.

Critical Accounting Policies

We believe that the application of the following accounting policies, which are important to our financial position and results of operations, require significant judgments and estimates on the part of management. For a summary of all our accounting policies, including the accounting policies discussed below, see Note 2*, Summary of Significant Accounting Policies,* in our consolidated financial statements of this annual report on Form 10-K.

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Revenue

Animal Hospital and Laboratory Revenue

We recognize revenue when persuasive evidence of a sales arrangement exists, delivery of goods has occurred or services have been rendered, the sales price or fee is fixed or determinable and collectability is reasonably assured.

Medical Technology Revenue

Our Medical Technology segment generates a majority of its revenue from the sale of digital radiography and ultrasound imaging equipment. We also generate revenue from: (i) licensing software; (ii) providing technical support and product updates on a when-and-if available basis related to our software, otherwise known as maintenance; (iii) providing professional services related to our equipment and software, including installations, on-site training, education services and extended warranty programs; and (iv) providing mobile imaging services. We frequently sell equipment and license our software in multiple element arrangements in which the customer may choose a combination of our products and services.

The accounting for the sale of equipment is substantially governed by the requirements of the FASB s general revenue recognition rules, and the sale of software licenses and related items is governed by the FASB s accounting guidance for software revenue recognition.

In October 2009, the FASB issued new accounting guidance pertaining to revenue recognition for arrangements where equipment is sold with embedded software that is more than incidental to the products and services as a whole. Although we plan to early adopt this new guidance, our results for the year ended December 31, 2009 remain to be accounted for under the FASB s accounting guidance for software revenue arrangements. See Note 2c, *Summary of Significant Accounting Policies Revenue and Related Cost Recognition*, in our consolidated financial statements in this annual report on Form 10-K. The determination of the amount of software license, maintenance and professional service revenue to be recognized in each accounting period requires us to exercise judgment and use estimates. In determining whether or not to recognize revenue, we evaluate each of these criteria:

Evidence of an arrangement: We consider a non-cancelable agreement signed by the customer and us to be evidence of an arrangement.

Delivery: We consider delivery to have occurred when the ultrasound imaging equipment is delivered. We consider delivery to have occurred when the digital radiography imaging equipment, including software, is delivered or accepted by the customer if installation is required. We consider delivery to have occurred with respect to professional services when those services are provided or on a straight-line basis over the service contract term, based on the nature of the service or the terms of the contract.

Fixed or determinable fee: We assess whether fees are fixed or determinable at the time of sale and recognize revenue if all other revenue recognition requirements are met. We generally consider payments that are due within six months to be fixed or determinable based upon our successful collection history. We only consider fees to be fixed or determinable if they are not subject to refund or adjustment.

Collection is deemed probable: We conduct a credit review for all significant transactions at the time of the arrangement to determine the credit worthiness of the customer. Collection is deemed probable if we expect that the customer will be able to pay amounts under the arrangement as payments become due. If we determine that collection is not probable, we defer the revenue and recognize the revenue upon cash collection.

Under the residual method prescribed by the FASB s software revenue recognition guidance, in multiple element arrangements involving software that is more than incidental to the products and services as a whole, revenue may be recognized when vendor-specific objective evidence (VSOE) of fair value exists for all of the undelivered elements in the arrangement (i.e., maintenance and professional services), but does not exist for one or more of the delivered elements in the arrangement (i.e., the equipment, computer hardware or the

software product). VSOE of fair value is based on the price for those products and services when sold separately by us or the contractual renewal rates for the post-contract customer support services that we provide. Under the residual method, the fair value of the undelivered elements is deferred and recognized as revenue upon delivery, provided that other revenue recognition criteria are met.

If VSOE of fair value of one or more undelivered elements does not exist, the revenue for the entire transaction, including revenue related to the delivered elements, is deferred and recognized, based on the facts and circumstances, either: i) on a straight-line basis over the life of the post-contract service period if this is the only undelivered element, or ii) when the last undelivered element is delivered. Each transaction requires careful analysis to determine whether all of the individual elements in the license transaction have been identified, along with the fair value of each element and that the transaction is accounted for correctly.

Digital Radiography Imaging Equipment

We sell our digital radiography imaging equipment with multiple elements, including hardware, software, licenses and/or services. We have determined that the software included in these sales arrangements is more than incidental to the products and services as a whole. As a result, we account for digital radiography imaging equipment sales under the FASB s software revenue recognition guidance.

For those sales arrangements where we have determined VSOE of fair value for all undelivered elements, we allocate revenue to the undelivered items based on the VSOE of value independent of any discounts given. We then recognize the revenue for undelivered elements when the services are provided. We recognize the remaining or residual revenue for the delivered elements 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 post-contract customer support (PCS). This obligation is contractually defined in both terms of scope and period. When we have established VSOE of fair value 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. We recognize revenue for the delivered elements under the residual method. When we have not established VSOE of fair value for the PCS, we defer all revenue, including revenue for the delivered elements, recognizing it on a straight-line basis over the period of support.

In the third quarter of 2005, we established VSOE of fair value for the undelivered elements for a majority of our sales arrangements by including renewal rates in the sales contracts for PCS. As a result, for transactions with defined renewal rates for PCS, we began recognizing revenue on the sale of our digital radiography imaging equipment, computer hardware and software at the time of delivery or installation and customer acceptance if required per the sale arrangement, and revenue from the PCS on a straight-line basis over the term of the support period. As of 2008, we had obtained sufficient historical pricing information to establish VSOE of fair value for the undelivered elements based upon the actual sales price of the PCS sold separately.

Ultrasound Imaging Equipment

We sell our ultrasound imaging equipment on a stand-alone basis and with multiple elements, including hardware, software, licenses and/or services. We account for the sale of ultrasound imaging equipment on a stand-alone basis under the requirements of the FASB s general revenue recognition rules and recognize revenue upon delivery. We account for the sale of ultrasound imaging equipment with related computer hardware and software by separating the transaction into individual elements. We account for the ultrasound imaging equipment under the requirements of the FASB s general revenue recognition rules, as the software is not deemed to be essential to the functionality of the equipment, and we account for the computer hardware and software under the requirements of the FASB s software

revenue recognition guidance. For those sales of our ultrasound imaging equipment that include computer hardware and software, we recognize revenue on the ultrasound imaging equipment, computer hardware and software upon delivery, which occurs simultaneously.

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Digital Radiography and Ultrasound Imaging Equipment Sold Together

In certain transactions we sell our ultrasound imaging equipment and related services together with our digital radiography imaging equipment and related services. In these transactions, we allocate total invoice dollars to each element using a relative fair value basis. Each element is then accounted for pursuant to either the FASB s general revenue recognition rules or the FASB s software revenue recognition guidance.

Other Services

We recognize revenue on mobile imaging, consulting and education services at the time the services have been rendered. We also generate revenue from extended service agreements related to our digital radiography imaging and ultrasound imaging equipment. These extended service agreements include technical support, product updates for software and extended warranty coverage. The revenue for these extended service agreements is recognized on a straight-line basis over the term of the agreement.

Valuation of Goodwill and Other Intangible Assets

Goodwill

We allocate a significant portion of the purchase price for our acquired businesses to goodwill. Our 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 total amount of our goodwill at December 31, 2009 was $985.7 million, consisting of $861.9 million for our Animal Hospital segment, $96.3 million for our Laboratory segment and $27.5 million for our Medical Technology segment.

We test our goodwill for impairment annually, or sooner if circumstances indicate an impairment may exist, in accordance with goodwill guidance. We adopted the end of October as our annual impairment testing date, which allows us time to accurately complete our impairment testing process in order to incorporate the results in our annual financial statements and timely file those statements with the Securities and Exchange Commission (SEC) in accordance with our accelerated filing requirements. There were no impairment charges resulting from the October 31, 2009, 2008 or 2007 impairment tests. In addition, no events have occurred subsequent to the 2009 testing date which would indicate any impairment may have occurred.

The recognition and measurement of a goodwill impairment loss involves a two-step process:

First we identify potential impairment by comparing the estimated fair value of our reporting units with the carrying value of our reporting units per our accounting books, with carrying value defined as the reporting unit s net assets, including goodwill. If the estimated fair value of our reporting units is greater than our carrying value, there is no impairment and the second step is not needed.

Our estimated fair values are calculated in accordance with generally accepted accounting principles related to fair value and utilize generally accepted valuation techniques consisting primarily of discounted cash flow techniques and market comparables, where applicable. These valuation methods involve the use of significant assumptions and estimates such as forecasted growth rates, valuation multiples, the weighted-average cost of capital, and risk premiums, which are based upon the best available market information and are consistent with our long-term strategic plans.

If we identify a potential impairment in the first step, we are then required to measure the amount of impairment. The amount of the impairment is determined by allocating the estimated fair value of the reporting unit as determined in

step one to the reporting unit s net assets based on fair value as would be done in an acquisition. In this hypothetical acquisition, the residual estimated fair value after allocation to the reporting units identifiable net assets is the estimated fair value of goodwill. If the estimated fair value of goodwill is less than the carrying amount of goodwill, goodwill is considered impaired and written down to the estimated fair value with a corresponding charge to earnings. However, if the estimated fair value of goodwill is greater than the carrying amount of goodwill, goodwill is not considered impaired and is not adjusted to the estimated fair value.

Determining the fair value of the net assets of our reporting units under this step would require significant estimates.

In 2009, 2008 and 2007, we determined that the estimated fair value of each of our reporting units exceeded their respective net book value, resulting in a conclusion that none of the goodwill of our reporting units was impaired. However, changes in our estimates, such as forecasted cash flows, would affect the estimated fair value of our reporting units and could have resulted in a goodwill impairment charge particularly for our Medical Technology reporting unit. The fair value of our Animal Hospital and Laboratory reporting units significantly exceeded their respective book value.

We test our goodwill for impairment whenever the current circumstances indicate an impairment may exist. We believe that as a result of the current economic environment the potential for a triggering event has increased with respect to our Medical Technology reporting unit.

Other Intangible Assets

In addition to goodwill, we acquire other identifiable intangible assets in our acquisitions, including but not limited to covenants-not-to-compete, client lists, lease related assets and customer relationships. We value these identifiable intangible assets at estimated fair value. Our estimated fair values are based on generally accepted valuation techniques such as market comparables, discounted cash flow techniques or costs to replace. These valuation methods involve the use of significant assumptions such as the timing and amount of future cash flows, risks, appropriate discount rates, and the useful lives of intangible assets.

Subsequent to acquisition, we test our identifiable intangible assets for impairment as part of a broader test for impairment of long-lived assets under the FASB s accounting guidance for property, plant and equipment, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The recognition and measurement of an impairment loss under the FASB s accounting guidance also involves a two-step process:

First we identify potential impairment by estimating the aggregate projected undiscounted future cash flows associated with an asset or asset pool and compare that amount with the carrying value of those assets. If the aggregate projected cash flow is greater than our carrying amount, there is no impairment and the second step is not needed.

When we test for impairment, the cash flows that are used contain our best estimates, which include appropriate and customary assumptions.

If we identify a potential impairment in the first step, we are then required to write the assets down to fair value with a corresponding charge to earnings. If the fair value is greater than carrying value, there is no adjustment. We may be required to make significant estimates in determining the fair value of some of our assets.

Income Taxes

We account for income taxes under the FASB s accounting guidance for income taxes. In accordance with the FASB s accounting guidance, we record deferred tax liabilities and deferred tax assets, which represent taxes to be settled or recovered in the future. We adjust our deferred tax assets and deferred tax liabilities to reflect changes in tax rates or other statutory tax provisions. Changes in tax rates or other statutory provisions are recognized in the period the change occurs.

We make judgments in assessing our ability to realize future benefits from our deferred tax assets, which include operating and capital loss carryforwards. We believe that our earnings during the periods when the temporary differences become deductible will be sufficient to realize the related future tax benefits. Should we determine that we

would not be able to realize all or a portion of our deferred tax assets, an adjustment would be made to the carrying amount through a valuation allowance.

Also, our net deductible temporary differences and tax carryforwards are recorded using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected

to be settled or realized. At December 31, 2009, we have a net deferred tax liability of $56.9 million. Should the expected applicable tax rates change in the future, an adjustment to the net deferred tax liability would be credited or charged, as appropriate, to income in the period such determination was made. For example, an increase of 1.0% in our anticipated income tax rate would cause us to increase our net deferred tax liability balance by $1.4 million with a corresponding charge to earnings.

We also assess differences between our tax bases, which are more likely than not to be realized, and the as-filed tax bases of certain assets and liabilities. Effective January 1, 2007, we adopted the new accounting guidance for uncertainty in income taxes. The new guidance prescribes recognition thresholds and measurement attributes for the financial statement recognition of income tax positions. We did not have any unrecognized tax benefits on the effective date of the pronouncement, or as of December 31, 2009.

Self-Insured Liabilities

We self-insure and use high retention or high-deductible insurance programs for certain losses related to workers compensation and employee health claims. Our self-insured liabilities contain uncertainties because we are required to make assumptions and to apply judgment to estimate the ultimate cost to settle reported claims and claims incurred but not reported as of the balance sheet date. We have not made any material changes in the reserving methodology used to establish our self-insured liabilities during the past three years.

Workers Compensation Insurance

A majority of our workers compensation insurance policies are self-insured retention annual policies that begin on October 1st. The policies cover specific annual periods and are normally open for no longer than seven years after the period allowing claims for incidents occurring during the covered period to be submitted after the end of the policy year.

Under our workers compensation insurance policies, we are responsible for the first $250,000 in claim liability per individual occurrence and we are also subject to an aggregate limit. We use an internal review process to estimate claim liability based on actual and expected claims incurred and the estimated ultimate cost to settle the claims. Periodically, we review our assumptions and valuations to determine the adequacy of our self-insured liabilities. During the fourth quarter of 2009, 2008 and 2007, based upon our internal review, we revised our estimate of our claims liability resulting in a $1.2 million, $2.0 million and $2.2 million favorable impact to our net earnings, respectively.

Beginning with the 2008 policy year we changed our coverage from a self-insured retention policy to a guaranteed policy. Accordingly, the amount of estimated claims liability will decline in future years.

Health Insurance

With the exception of California employees enrolled in HMO plans, we are effectively self-insuring our employee health care benefit by retaining claims liability risk up to $200,000 per incident and an aggregate claim limit based on the number of employees enrolled in the plan per month. We estimate our liability for the uninsured portion of employee health care obligations that have been incurred but not reported based on our claims experience, the number of employees enrolled in the program and the average time from when a claim is incurred to the time it is paid. In addition, we perform an analysis of our potential liability for open claims.

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Consolidated Results of Operations

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

	For The Years Ended December 31,		
	2009	**2008**	**2007**
Revenue:			
Animal Hospital	75.6%	75.1%	73.0%
Laboratory	23.5	23.9	25.6
Medical Technology	3.8	4.0	4.0
Intercompany	(2.9)	(3.0)	(2.6)
Total revenue	100.0	100.0	100.0
Direct costs	73.9	73.2	72.2
Gross profit	26.1	26.8	27.8
Selling, general and administrative expense	7.4	7.1	7.5
Net loss on sale and disposal of assets	0.3		0.1
Operating income	18.4	19.7	20.2
Interest expense, net	1.7	2.3	2.6
Income before provision for income taxes	16.7	17.4	17.6
Provision for income taxes	6.4	6.7	6.8
Net income	10.3	10.7	10.8
Net income attributable to noncontrolling interests	0.3	0.3	0.3
Net income attributable to VCA Antech, Inc.	10.0%	10.4%	10.5%

Revenue

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

	For The Years Ended December 31,							
	2009		**2008**		**2007**			
	$	**% of Total**	**$**	**% of Total**	**$**	**% of Total**	**% Change 2009**	**2008**
Animal Hospital	$ 994,215	75.6%	$ 959,395	75.1%	$ 844,344	73.0%	3.6%	13.6%
Laboratory	308,478	23.5%	304,952	23.9%	295,695	25.6%	1.2%	3.1%
Medical Technology	50,136	3.8%	51,177	4.0%	46,823	4.0%	(2.0)%	9.3%
Intercompany	(38,322)	(2.9)%	(38,054)	(3.0)%	(30,717)	(2.6)%	0.7%	23.9%

Total revenue	$	1,314,507	100.0%	$	1,277,470	100.0%	$	1,156,145	100.0%	2.9%	10.5%

Consolidated revenue increased $37.0 million in 2009 as compared to 2008. The increase in revenue was primarily attributable to revenue from acquired animal hospitals and to a lesser extent revenue from the acquisition of Eklin and Laboratory internal growth. The increase was partially offset by declines in our Animal Hospital and Medical Technology same-store revenue. Our Animal Hospital same-store revenue, adjusted for differences in business days, declined 3.2% in 2009. Our Laboratory internal revenue growth, adjusted for differences in billing days, was 0.9% in 2009.

Consolidated revenue increased $121.3 million in 2008 as compared to 2007. The increase in revenue was attributable to the combination of revenue from acquired animal hospitals, including Healthy Pet acquired on June 1, 2007, and to a lesser extent organic growth. Our Animal Hospital same-store revenue growth,

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adjusted for differences in business days, was 0.8% in 2008. Our Laboratory internal revenue growth, adjusted for differences in billing days, was 2.1% in 2008.

The decline in our revenue growth rates is due primarily to the aforementioned changes in our economic environment.

Gross Profit

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

	For The Years Ended December 31,							
	2009		2008		2007			
		Gross		Gross		Gross	% Change	
	$	Margin	$	Margin	$	Margin	2009	2008
Animal Hospital	$ 183,698	18.5%	$ 184,185	19.2%	$ 163,053	19.3%	(0.3)%	13.0%
Laboratory	143,314	46.5%	142,783	46.8%	143,072	48.4%	0.4%	(0.2)%
Medical Technology	17,782	35.5%	18,028	35.2%	15,879	33.9%	(1.4)%	13.5%
Intercompany	(1,794)		(2,359)		(583)			
Total gross profit	$ 343,000	26.1%	$ 342,637	26.8%	$ 321,421	27.8%	0.1%	6.6%

Consolidated gross profit remained flat in 2009 as compared to 2008. Consolidated gross profit was impacted by an increase in consolidated revenue, discussed above, primarily offset by a decrease in consolidated gross margins as compared to 2008. This decrease was primarily attributable to a decline in the Animal Hospital gross margin. Consolidated gross margins in 2009 and 2008 benefited from a decrease in workers compensation insurance expense of $1.8 million and $2.9 million, respectively, or 0.1% and 0.2% of revenue, respectively, due to a reduction in our estimated workers compensation insurance liability for prior year policy periods.

Consolidated gross profit increased $21.2 million in 2008 as compared to 2007. The increase was primarily due to the increase in consolidated revenue discussed above. Consolidated gross profit in 2008 was impacted by a decrease in consolidated gross margins as compared to 2007. This decrease was primarily attributable to a decline in Laboratory gross margin. Consolidated gross margins in 2008 and 2007 benefited from a decrease in workers compensation insurance expense of $2.9 million and $3.2 million, respectively, or 0.2% and 0.3% of revenue, respectively, due to a reduction in our estimated workers compensation insurance liability for prior years policy periods.

Segment Results

Animal Hospital Segment

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

	For The Years Ended December 31,			% Change	
	2009	2008	2007	2009	2008

Revenue	$ 994,215	$ 959,395	$ 844,344	3.6%	13.6%
Gross profit	$ 183,698	$ 184,185	$ 163,053	(0.3)%	13.0%
Gross margin	18.5%	19.2%	19.3%		

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Animal Hospital revenue increased $34.8 million in 2009 as compared to 2008, and $115.1 million in 2008 as compared to 2007. The components of the increases are summarized in the following table (in thousands, except percentages and average price per order):

	2009 Comparative Analysis			2008 Comparative Analysis		
	For The Years Ended December 31,					
	2009	2008	% Change	2008	2007	% Change
Animal Hospital Revenue:						
Same-store facility:						
Orders(1)(2)	5,703	6,042	(5.6)%	5,169	5,412	(4.5)%
Average revenue per order(3)	$ 150.39	$ 146.71	2.5%	$ 146.18	$ 138.51	5.5%
Same-store revenue(1)	$ 857,685	$ 886,375	(3.2)%	$ 755,691	$ 749,607	0.8%
Business day adjustment(4)		2,761		1,704		
Net acquired revenue(5)	136,530	70,259		202,000	94,737	
Total	$ 994,215	$ 959,395	3.6%	$ 959,395	$ 844,344	13.6%

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

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

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

(4) The 2008 business day adjustment reflects the impact of one fewer business day in 2009 as compared to 2008 and one additional business day in 2008 as compared to 2007.

(5) Net acquired revenue represents the revenue from those animal hospitals acquired, net of revenue from those animal hospitals sold or closed, on or after the beginning of the comparable period, which was January 1, 2008 for the 2009 Comparative Analysis and January 1, 2007 for the 2008 Comparative Analysis. Fluctuations in net acquired revenue occur due to the volume, size and timing of acquisitions and dispositions during the periods from this date through the end of the applicable period.

During the twelve months ended December 31, 2009 we experienced a decrease in both lower and higher priced orders primarily as a result of current economic conditions and to a lesser extent the shift in the mix of orders. In addition, some pet-related products traditionally sold in our animal hospitals are now widely available in retail stores and other distribution channels such as the Internet. We also have experienced a decline in the number of vaccinations as some recent professional literature and research has suggested that vaccinations can be given to pets less frequently.

Our 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 normally resulted in a decrease in lower priced orders and an increase in higher priced orders.

Price increases contributed to the increase in the average revenue per order. Prices at each of our 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 hospitals and are typically implemented in February of each year.

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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 Animal Hospital gross margin in 2009, 2008 and 2007 was 18.5%, 19.2% and 19.3%, respectively. Our decrease in gross margin for 2009 was due to lower gross margins from our acquired hospitals and decreases in our Animal Hospital same-store gross margins. In 2008 the gross margin remained relatively flat as the lower gross margins from our acquired hospitals were largely offset by increased same-store gross margins principally as a result of the implementation of cost controls during 2008.

Our Animal Hospital same-store gross margin in 2009, 2008 and 2007 was 19.4%, 20.2% and 19.8%, respectively. The 2009 decrease in the same-store gross margin was primarily due to a decrease in same-store orders and increases in medical supplies, marketing expenses and depreciation and amortization. The 2008 increase was attributable to the aforementioned cost controls. In 2009, 2008 and 2007, our same-store animal hospitals benefited from a $1.6 million, $2.5 million and $2.6 million, respectively, or 0.2%, 0.3% and 0.3% of same-store revenue, decrease in our estimated workers compensation insurance liability recognized during the fourth quarters of 2009, 2008 and 2007.

Over the last several years we have acquired a significant number of animal hospitals. Many of these newly acquired animal hospitals had lower gross margins at the time of acquisition than those previously operated by us. We have improved these lower gross margins, in the aggregate, subsequent to the acquisition by improving animal hospital revenue, reducing costs and/or increasing operating leverage.

Laboratory Segment

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

	For The Years Ended December 31,			% Change	
	2009	**2008**	**2007**	**2009**	**2008**
Revenue	$ 308,478	$ 304,952	$ 295,695	1.2%	3.1%
Gross profit	$ 143,314	$ 142,783	$ 143,072	0.4%	(0.2)%
Gross margin	46.5%	46.8%	48.4%		

Laboratory revenue increased $3.5 million in 2009 as compared to 2008, and $9.3 million in 2008 as compared to 2007. The components of the increase in Laboratory revenue are detailed below (in thousands, except percentages and average price per requisition):

	2009 Comparative Analysis, For The Years Ended December 31,			2008 Comparative Analysis		
	2009	**2008**	**% Change**	**2008**	**2007**	**% Change**
Laboratory Revenue:						
Internal growth:						

Number of requisitions(1)		13,053		13,017	0.3%		12,887		12,577	2.5%
Average revenue per requisition(2)	$	23.49	$	23.35	0.6%	$	23.43	$	23.51	(0.3)%
Total internal revenue(1)	$	306,656	$	303,955	0.9%	$	301,878	$	295,695	2.1%
Billing day adjustment(3)				997			1,443			
Acquired revenue(4)		1,822					1,631			
Total	$	308,478	$	304,952	1.2%	$	304,952	$	295,695	3.1%

(1) Internal revenue and requisitions were calculated using Laboratory operating results, adjusted to exclude the operating results of acquired laboratories for the comparable periods that we did not own them in the

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prior year and adjusted for the impact resulting from any differences in the number of billing days in comparable periods.

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

(3) The 2008 billing day adjustment in the 2009 and 2008 Comparative Analyses reflects the impact of differences in the number of billing days in 2009 and 2007 as compared to 2008.

(4) Acquired revenue in both the 2009 and 2008 Comparative Analyses represents the revenue of the laboratories acquired in each of those respective years.

The increase in Laboratory revenue in 2009 as compared to 2008 was due to acquired revenue and an increase in internal revenue, partially offset by the impact of one fewer billing day as compared to the prior year period.

The increases in requisitions from 2007 through 2009 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 requisitions, due to the economic downturn, requisitions for both 2009 and 2008 when compared to comparable prior periods have increased only modestly.

We derive our laboratory revenue from services provided to over 16,000 independently owned animal hospitals and shifts in the purchasing habits of any individual animal hospital or small group of animal hospitals is not material to our laboratory revenues. Other companies are developing networks of animal hospitals, however, and shifts in the purchasing habits of these networks have the potential of a greater impact on our laboratory revenues.

The average revenue per requisition increased slightly in 2009 due to price increases which ranged from 3% to 4% in both February 2009 and February 2008. The price increases in 2009 as compared to 2008 were more than 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 slightly in 2009 as compared to 2008 due to a decline in our revenue growth relative to an increase in certain costs, including depreciation and amortization expense for new equipment and leasehold improvements related to our continued investment in technology. The decrease in Laboratory gross margin in 2008 compared to 2007 was primarily due to the combination of the decline in our revenue growth, relative to increasing transportation costs, in addition to costs incurred in advance of projected revenue related to our expansion into Canada.

Medical Technology Segment

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

	For The Years Ended December 31,	% Change

	2009	2008	2007	2009	2008
Revenue	$ 50,136	$ 51,177	$ 46,823	(2.0)%	9.3%
Gross profit	$ 17,782	$ 18,028	$ 15,879	(1.4)%	13.5%
Gross margin	35.5%	35.2%	33.9%		

Medical Technology revenue decreased $1.0 million in 2009 as compared to 2008, which was primarily attributable to declines on sales of our ultrasound equipment. We believe the business life cycle for ultrasound equipment is maturing and accordingly, the demand for these types of products and related services may continue to decline in the near term. The revenue from our digital radiography imaging equipment slightly

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declined due to the structure of certain sales agreements that resulted in more revenue being deferred in 2009 as compared to 2008. The decreases were largely offset by increases in our customer service revenue, including warranties, due to the acquisition of Eklin.

Medical Technology revenue increased $4.4 million in 2008 as compared to 2007, which was primarily attributable to revenue recognized on sales of our small animal digital radiography imaging equipment and customer service revenue, including warranties. The increase was partially offset by a decrease in revenue recognized on sales of our equine digital radiography and ultrasound imaging equipment.

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

Medical Technology gross profit remained relatively flat in 2009 as compared to 2008. The decline in revenues mentioned above was partially offset by a slight increase in gross margin. The increase in gross margin was primarily due to a shift in the mix of products and services sold. Specifically, the mix has been impacted by the acquisition of Eklin.

Medical Technology gross profit increased $2.1 million in 2008 as compared to 2007 due to an increase in revenue combined with an increase in gross margin. The increase in gross margin was primarily due to a shift in the mix of products and services sold. Specifically, revenue from the sale of small animal digital radiography imaging equipment, which has a higher gross margin, increased as a percentage of our total Medical Technology revenue while revenue from the sale of equine digital radiography imaging and ultrasound imaging equipment, which have lower gross margins, decreased as a percentage of our total Medical Technology revenue. With respect to our overall digital radiography sales, as a result of the current economic environment customers are purchasing more machines with less functionality or our standard configuration. This has also resulted in the increase in margins, as the average cost per unit has declined to a greater degree than the average revenue per unit. There was also an increase in revenue related to warranties sold, which has a higher gross margin, due to an overall increase in units installed year over year.

Intercompany Revenue

Laboratory revenue in 2009, 2008 and 2007 included intercompany revenue of $31.8 million, $31.1 million and $27.6 million, respectively, that was generated by providing laboratory services to our animal hospitals. Medical Technology revenue in 2009, 2008 and 2007 included intercompany revenue of $6.5 million, $6.9 million and $3.2 million, respectively, that was generated by providing products and services to our animal hospitals. For purposes of reviewing the operating performance of our business segments, all intercompany transactions are generally 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 (SG&A) expense and our expense as a percentage of applicable revenue (in thousands, except percentages):

	For The Years Ended December 31,						
	2009		2008		2007		
		% of		% of		% of	% Change

	$	Revenue	$	Revenue	$	Revenue	2009	2008
Animal Hospital	$ 21,174	2.1%	$ 22,142	2.3%	$ 21,562	2.6%	(4.4)%	2.7%
Laboratory	22,895	7.4%	20,816	6.8%	19,648	6.6%	10.0%	5.9%
Medical Technology	14,653	29.2%	12,337	24.1%	11,528	24.6%	18.8%	7.0%
Corporate	38,715	2.9%	35,432	2.8%	34,139	3.0%	9.3%	3.8%
Total SG&A	$ 97,437	7.4%	$ 90,727	7.1%	$ 86,877	7.5%	7.4%	4.4%

Consolidated SG&A expense increased $6.7 million in 2009 as compared to 2008 and increased $3.9 million in 2008 as compared to 2007, primarily due to growth in the size of our company as a result of acquisitions. Our SG&A expense as a percentage of revenue increased in 2009 primarily due to acquisition transaction costs that are now expensed in accordance with the new business combination guidance that became effective January 1, 2009 and decreased in 2008 due to the aforementioned increase in revenue combined with leverage. In addition to normal increases in SG&A to support the growth of our company, we incurred increased costs compared to 2008 related to our entry into Canada and the development of new products in our Laboratory segment in 2009.

Operating Income

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

	For The Years Ended December 31,							
	2009		2008		2007			
	$	% of Revenue	$	% of Revenue	$	% of Revenue	% Change 2009	% Change 2008
Animal Hospital	$ 161,872	16.3%	$ 162,043	16.9%	$ 140,344	16.6%	(0.1)%	15.5%
Laboratory	120,408	39.0%	121,970	40.0%	123,344	41.7%	(1.3)%	(1.1)%
Medical Technology	3,118	6.2%	5,662	11.1%	4,256	9.1%	(44.9)%	33.0%
Corporate	(42,076)		(35,640)		(34,140)		18.1%	4.4%
Eliminations	(1,794)		(2,359)		(583)		(24.0)%	304.6%
Total operating income	$ 241,528	18.4%	$ 251,676	19.7%	$ 233,221	20.2%	(4.0)%	7.9%

Consolidated operating income decreased $10.1 million in 2009 as compared to 2008. The decrease was primarily due to the decline in Animal Hospital margins in addition to an increase in SG&A as a percentage of revenue. The decrease also included a net $3.3 million non-cash charge related to the abandonment of an internally-developed software project.

The decrease in our operating margin in 2008 as compared to 2007 was primarily due to the aforementioned decrease in gross margin, partially offset by a decrease in SG&A as a percentage of revenue.

Write-down and Loss on Sale of Assets

In 2009, 2008 and 2007, we sold assets, and wrote down certain assets for net losses of $4.0 million, $234,000 and $1.3 million, respectively. The increase in loss in 2009 was related to the abandonment of an internally-developed software project (see above discussion under Operating Income).

Interest Expense, Net

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

	For The Years Ended December 31,		
	2009	2008	2007

Interest expense:			
Senior term notes	$ 9,883	$ 23,574	$ 31,915
Revolving credit facility		205	
Interest rate swap agreements	9,784	5,519	(1,536)
Capital leases and other	2,329	2,121	2,158
Amortization of debt costs	486	469	368
	22,482	31,888	32,905
Interest income	1,016	3,329	3,402
Total interest expense, net of interest income	$ 21,466	$ 28,559	$ 29,503

The decrease in net interest expense in 2009 as compared to 2008 was primarily attributable to a decrease in the effective interest rate on our senior term notes and related interest rate swap agreements from 5.5% to 3.8%, respectively.

The decrease in interest expense in 2008 as compared to 2007 was primarily attributable to a decrease in the effective interest rate on our senior term notes and related interest rate swap agreements from 6.8% to 5.5%, respectively, partially offset by a higher outstanding average balance related to the additional borrowings incurred in 2007.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests represents our partners proportionate share of income generated by those subsidiaries that we do not wholly-own.

Inflation

Historically, our operations have not been materially affected by inflation. We cannot assure that our operations will not be affected by inflation in the future.

Related Party Transactions

Transactions with Zoasis Corporation

We incurred marketing expense for vaccine reminders and other direct mail services provided by Zoasis, a company that is majority owned by Robert L. Antin, our Chief Executive Officer and Chairman. Arthur J. Antin, our Chief Operating Officer, owns an 8% interest in Zoasis. We purchased services of $2.7 million, $2.1 million and $1.8 million in 2009, 2008 and 2007, respectively. Although we receive certain discounts on these services the aggregate amount is not material to the financial statements. Beginning in late 2006, in connection with a sublease for office space located in the Zoasis corporate office, we paid rent to Zoasis of $45,000 and $54,000 in 2008 and 2007, respectively. The lease expired in August 2007 and continued on a month-to-month basis through October 2008, at which time the lease was terminated. The rent under this sublease was comparable to the rent we pay for similar spaces.

Related Party Vendors

Frank Reddick joined our company as a director in February 2002 and is a partner in the law firm of Akin Gump Strauss Hauer & Feld, LLP (Akin). Akin provided legal services to us during 2009, 2008 and 2007. The amount paid by our company to Akin for these legal services was $1.3 million, $600,000 and $1.2 million in 2009, 2008 and 2007, respectively.

Transactions with VetSource

In 2006, we entered into a pharmacy distribution agreement with Strategic Pharmaceutical Solutions, Inc. (VetSource) a start-up pharmacy distribution company. Pursuant to the terms of this agreement we are entitled to one representative on the VetSource Board of Directors. Under the agreement we promote the use of VetSource as the preferred provider of pharmaceutical products to VCA animal hospitals. We believe pricing for pharmaceutical products is no more than prices paid by us to independent third parties for similar products. We believe the pricing is comparable to normal market pricing. The agreement has a five-year term and will renew for one year terms unless either party provides written notice of termination to the other party at least 120 days prior to expiration of the then current term. The amount paid by our company to VetSource for pharmaceutical products was $38.3 million and

$22.7 million in 2009 and 2008, respectively. We did not purchase any products from VetSource in 2007.

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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 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 December 31, 2009, our consolidated cash and cash equivalents totaled $145.2 million, representing an increase of $56.2 million as compared to the prior year. Cash flows generated from operating activities totaled $183.5 million in 2009, representing a decrease of $13.8 million as compared to the prior year. We spent $130.8 million on acquisitions, investments and capital expenditures during the year.

We have historically funded our working capital requirements, capital expenditures and investment in individual acquisitions primarily from internally-generated cash flows and we expect to do so in the future. We have access to an unused $75.0 million revolving credit facility, which expires on May 16, 2010. 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 that we believe to be reasonable, there is a possibility that we may not be able to obtain financing on favorable terms in the future.

Future Cash Flows

Short-term

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

In 2010, we expect to spend $50.0 million to $60.0 million for the acquisition of independent animal hospitals. The ultimate number of acquisitions is largely dependent upon the attractiveness of the candidates and the strategic fit with our existing operations. From January 1, 2010 through February 26, 2010, we spent $5.9 million in connection with the acquisition of two animal hospitals. In addition, we expect to spend approximately $65.0 million in 2010 for both property and equipment additions and capital expenditures necessary to maintain our existing facilities.

Long-term

Our long-term liquidity needs, other than those related to the day-to-day operations of our business, including commitments for operating leases, generally are comprised of scheduled principal and interest payments for our outstanding long-term indebtedness, capital expenditures related to the expansion of our business and acquisitions in accordance with our growth strategy. The scheduled payments on our long-term obligations are included in our contractual obligations table below. In addition to the scheduled payments on our senior term notes, we are required to make mandatory prepayments in the event we have excess cash flow. Pursuant to the terms of our senior credit facility, mandatory prepayments are due on our senior term notes

equal to 75% of any excess cash flow at the end of 2010. As of December 31, 2009, we were required to make payments totaling $8.8 million related to excess cash flows. Excess cash flow is defined as earnings before interest, taxes, depreciation and amortization less voluntary and scheduled debt repayments, capital expenditures, interest payable in cash, taxes payable in cash and cash paid for acquisitions. These payments reduce on a pro rata basis the remaining scheduled principal payments.

We expect that our long-term cash flow from operations will not be sufficient to repay our long-term debt when it comes due in May 2011. We anticipate that we will refinance such indebtedness, amend its terms to extend the maturity dates, or issue common stock in our company. We do not plan to renew our revolver when it expires in May 2010; however, we are currently evaluating proposals to refinance our senior term debt from several different lending institutions. Our management cannot make any assurances that such refinancing, amendments, or equity offering, if necessary, will be available on attractive terms, if at all.

Debt Related Covenants

Our senior credit facility contains certain financial covenants pertaining to fixed charge coverage and leverage ratios. In addition, our senior credit facility has restrictions pertaining to capital expenditures, acquisitions and the payment of cash dividends. As of December 31, 2009, we were in compliance with these covenants, including the two covenant ratios, the fixed charge coverage ratio and the leverage ratio.

At December 31, 2009, we had a fixed charge coverage ratio of 1.74 to 1.00, which was in compliance with the required ratio of no less than 1.20 to 1.00. The senior credit facility defines the fixed charge coverage ratio as that ratio that is calculated on a last 12-month basis by dividing pro forma earnings before interest, taxes, depreciation and amortization, as defined by the senior credit facility (pro forma earnings), by fixed charges. Fixed charges are defined as cash interest expense, scheduled principal payments on debt obligations, capital expenditures, and provision for income taxes. Pro forma earnings include 12 months of operating results for businesses acquired during the period.

At December 31, 2009, we had a leverage ratio of 1.85 to 1.00, which was in compliance with the required ratio of no more than 2.75 to 1.00. The senior credit facility defines the leverage ratio as that ratio which is calculated as total debt divided by pro forma earnings.

Historical Cash Flows

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

	For The Years Ended December 31,		
	2009	**2008**	**2007**
Cash provided by (used in):			
Operating activities	$ 183,471	$ 197,308	$ 173,764
Investing activities	(130,770)	(212,711)	(271,305)
Financing activities	3,477	(6,402)	163,303
Effect of currency exchange rate charges on cash and cash equivalents	44	(102)	
Increase (decrease) in cash and cash equivalents	56,222	(21,907)	65,762
Cash and cash equivalents at beginning of year	88,959	110,866	45,104

Cash and cash equivalents at end of year	$ 145,181	$ 88,959	$ 110,866

Cash Flows from Operating Activities

Net cash provided by operating activities decreased $13.8 million in 2009 as compared to 2008. This decrease was primarily due to decreases in working capital and a decrease in operating performance, partially offset by a decrease of $9.4 million in cash paid for interest.

Net cash provided by operating activities increased $23.5 million in 2008 as compared to 2007. This increase was primarily due to additional cash generated from acquired businesses and an increase in cash flow related to working capital items, partially offset by an increase in cash paid for taxes of $5.1 million.

Cash Flows from Investing Activities

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

	For The Years Ended December 31,			Variance	
	2009	2008	2007	2009	2008
Investing Cash Flows:					
Acquisition of independent animal hospitals and laboratories	$ (56,806)	$ (123,129)	$ (57,990)	$ 66,323	$ (65,139)
Acquisition of Healthy Pet			(154,871)		154,871
Acquisition of Eklin	(12,504)			(12,504)	
Other	(5,267)	(3,573)	(2,662)	(1,694)	(911)
Total cash used for acquisitions(1)	(74,577)	(126,702)	(215,523)	52,125	88,821
Property and equipment additions	(50,801)	(55,045)	(48,714)	4,244	(6,331)
Real estate acquired with acquisitions(2)	(4,894)	(17,593)	(7,962)	12,699	(9,631)
Proceeds from sale of assets(3)	151	1,775	1,674	(1,624)	101
Other(4)	(649)	(15,146)	(780)	14,497	(14,366)
Net cash used in investing activities	$ (130,770)	$ (212,711)	$ (271,305)	$ 81,941	$ 58,594

(1) The number of acquisitions will vary from year to year based upon the available pool of suitable candidates. In addition, the cash used for acquisitions declined in 2009 as a result of our desire to accumulate cash in advance of our debt refinancing which is expected to occur in 2010.

(2) The decrease in cash used to acquire real estate in 2009 and increase in 2008 were due to changes in the number of opportunities that met our selective acquisition criteria.

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

(4) The decrease in cash used for other investing activities in 2009 was primarily due to investments made in 2008 related to our expansion into Canada and other markets.

Cash Flows from Financing Activities

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

For The Years Ended December 31,			Variance	
2009	2008	2007	2009	2008

Financing Cash Flows:					
Repayment of long-term obligations	$ (7,936)	$ (7,790)	$ (8,238)	$ (146)	$ 448
Proceeds from long-term obligations(1)			160,000		(160,000)
Borrowings on revolving credit facility		35,000		(35,000)	35,000
Repayment on revolving credit facility		(35,000)		35,000	(35,000)
Payment of financing costs			(926)		926
Distributions to noncontrolling interest partners(2)	(4,189)	(3,987)	(3,388)	(202)	(599)
Proceeds from stock options exercises(3)	15,297	3,606	7,989	11,691	(4,383)
Excess tax benefits from stock options	866	1,769	7,866	(903)	(6,097)
Stock repurchases(4)	(561)			(561)	
Net cash provided by (used in) financing	$ 3,477	$ (6,402)	$ 163,303	$ 9,879	$ (169,705)

(1) The decrease in proceeds from the issuance of long-term obligations and payment of financing costs is due to funds borrowed in 2007 related to the acquisition of Healthy Pet on June 1, 2007.

(2) The distributions to noncontrolling interest partners represent cash payments to noncontrolling interest partners for their portion of the partnerships excess cash. As mentioned in Note 11 in our December 31, 2009 *Notes to Consolidated Financial Statements*, we adopted new noncontrolling interest guidance effective January 1, 2009, which resulted in a reclassification of these distributions from operating activities to financing activities.

(3) The number of stock option exercises has increased in comparison to the prior year related to the increase in the market price of our stock during 2009 and the nearing expiration of certain stock options.

(4) The stock repurchases in fiscal 2009 represent cash paid for income taxes on behalf of employees who elected to settle their tax obligations on vested stocks with a portion of the stocks that vested.

Future Contractual Cash Requirements

The following table sets forth the scheduled principal, interest and other contractual cash obligations due by us for each of the years indicated as of December 31, 2009 (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	$ 518,287	$ 14,943	$ 503,308	$ 36	$
Capital lease obligations	26,768	2,252	4,617	5,002	14,897
Operating leases	829,981	46,683	93,332	92,310	597,656
Fixed cash interest expense	9,847	1,801	2,802	2,204	3,040
Variable cash interest expense Term B(1)	12,103	8,813	3,290		
Variable cash interest on swap agreements	381	381			
Purchase obligations(2)	26,572	19,626	6,946		
Other long-term liabilities	1,503	65			1,438
Earn-out payments(3)	1,905	1,440	465		
	$ 1,427,347	$ 96,004	$ 614,760	$ 99,552	$ 617,031

(1) The interest payments on our variable-rate senior term notes are based on rates effective as of December 31, 2009.

(2) Our purchase obligations consist primarily of supply purchase agreements related to our Medical Technology business and construction contracts primarily for our animal hospitals.

(3) Represents contractual arrangements whereby additional cash may be paid to former owners of acquired businesses upon attainment of specified performance targets.

Off-Balance Sheet Arrangements

Other than operating leases, which are included in the Contractual Obligations table listed above as of December 31, 2009, we do not have any off-balance sheet financing arrangements.

Interest Rate Swap Agreements

We have an interest rate swap agreement whereby we pay the counterparty amounts based on a fixed interest rate and set notional principal amount in exchange for the receipt of payments from the counterparty based on London Interbank Offer Rates (LIBOR) and the same set notional principal amount. We entered into this interest rate swap agreement to hedge against the risk of increasing interest rates. The contract effectively converts a certain amount of our variable-rate debt under our senior credit facility to fixed-rate debt. The fixed rate debt amount is equal to the notional principal amount of the interest rate swap agreement,

and the fixed-rate conversion period is equal to the term of the contract. The impact of this interest rate swap agreement has been factored into our future contractual cash requirements table above. Our interest rate swap agreement at December 31, 2009 qualifies for hedge accounting and is summarized as follows:

Fixed interest rate	2.64%
Notional amount	$100 million
Effective date	2/12/2008
Expiration date	2/26/2010
Counterparty	Wells Fargo

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 December 31, 2009, we had $516.9 million principal amount outstanding under our senior term notes and no borrowings outstanding under our revolving credit facility.

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

The senior term notes mature in May 2011 and the revolving credit facility matures in May 2010. We are currently evaluating refinancing proposals from various lenders.

Other Debt and Capital Lease Obligations

At December 31, 2009, we had seller notes secured by assets of certain animal hospitals, unsecured debt and capital leases that totaled $28.2 million.

Recent Accounting Pronouncements

The FASB has issued new accounting guidance which are not effective until after December 31, 2009. For further discussion on new accounting guidance see Note 2v, *Summary of Significant Accounting Policies Recent Accounting Pronouncements,* in our consolidated financial statements of this annual report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At December 31, 2009, we had borrowings of $516.9 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 value, but do impact earnings and cash flow. To reduce the risk of increasing interest rates, we entered into the following interest rate swap agreement:

Fixed interest rate	2.64%
Notional amount	$100 million

Effective date	2/12/2008
Expiration date	2/26/2010
Counterparty	Wells Fargo

This interest rate swap agreement has the effect of reducing the amount of our debt exposed to variable interest rates. If LIBOR increases 1% from December 31, 2009 the additional annual interest expense will amount to $5.0 million net of the effect of the swap agreement. A similar increase in LIBOR in fiscal 2008 would have resulted in $2.7 million in additional interest expense net of the effect of the swap agreement. If LIBOR decreases 1% from December 31, 2009 the annual interest expense savings will amount to $5.0 million net of the effect of the swap agreement. A similar decrease in LIBOR in fiscal 2008 would have resulted in a $2.7 million decrease in interest expense net of the effect of the swap agreement.

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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

VCA ANTECH, INC. AND SUBSIDIARIES
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MANAGEMENT S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external reporting purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management has carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our internal control over financial reporting as of December 31, 2009. In performing this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on our assessment of internal control over financial reporting, our management has concluded that, as of December 31, 2009, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management excluded Eklin Medical Systems, Inc. from its assessment of the effectiveness of the company s internal control over financial reporting as of December 31, 2009. Eklin Medical Systems, Inc., acquired July 1, 2009, accounted for approximately 2% of our total assets as of December 31, 2009.

KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this annual report on Form 10-K, has issued an audit report on management s assessment of our internal control over financial reporting.

February 26, 2010

/s/ Robert L. Antin
Robert L. Antin
Chairman of the Board, President and
Chief Executive Officer

/s/ Tomas W. Fuller
Tomas W. Fuller
Chief Financial Officer,
Vice President and Secretary

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of VCA Antech, Inc.:

We have audited the accompanying consolidated balance sheets of VCA Antech, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders equity, comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2009. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedules of condensed financial information of registrant and valuation and qualifying accounts as listed in the index under Item 8. These consolidated financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of VCA Antech, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), VCA Antech, Inc. and subsidiaries internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2010, expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California
February 26, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of VCA Antech, Inc.:

We have audited VCA Antech, Inc. and subsidiaries internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management s Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, VCA Antech, Inc. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management excluded Eklin Medical Systems, Inc. from its assessment of the effectiveness of VCA Antech, Inc. and subsidiaries internal control over financial reporting as of December 31, 2009. Eklin Medical Systems, Inc., acquired July 1, 2009, accounted for approximately 2% of the Company s total assets as of December 31, 2009. Our audit of internal control over financial reporting of VCA Antech, Inc. and subsidiaries also excluded an evaluation of the internal control over financial reporting of Eklin Medical Systems, Inc.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of VCA Antech, Inc. and subsidiaries as of December 31, 2009 and 2008, and

the related consolidated statements of income, stockholders equity, comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2009, and our report dated February 26, 2010, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Los Angeles, California
February 26, 2010

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VCA ANTECH, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	December 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 145,181	$ 88,959
Trade accounts receivable, less allowance for uncollectible accounts of $13,015 and $11,025 at December 31, 2009 and 2008, respectively	49,186	43,453
Inventory	32,031	26,631
Prepaid expenses and other	27,242	18,800
Deferred income taxes	18,318	15,938
Prepaid income taxes	6,252	5,287
Total current assets	278,210	199,068
Property and equipment, net	289,415	263,443
Goodwill	985,674	922,057
Other intangible assets, net	44,280	35,645
Notes receivable, net	5,153	12,893
Deferred financing costs, net	581	1,067
Other	24,091	14,865
Total assets	$ 1,627,404	$ 1,449,038
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term obligations	$ 17,195	$ 7,771
Accounts payable	28,326	26,087
Accrued payroll and related liabilities	33,539	42,840
Other accrued liabilities	43,298	46,424
Total current liabilities	122,358	123,122
Long-term obligations, less current portion	527,860	544,860
Deferred income taxes	75,197	47,331
Other liabilities	10,651	9,890
Total liabilities	736,066	725,203
Commitments and contingencies		
Preferred stock, par value $0.001, 11,000 shares authorized, none outstanding		
VCA Antech, Inc. stockholders equity:		
	86	85

Common stock, par value $0.001, 175,000 shares authorized, 85,584 and 84,633 shares outstanding as of December 31, 2009 and 2008, respectively		
Additional paid-in capital	335,114	308,674
Accumulated earnings	540,010	408,582
Accumulated other comprehensive loss	(163)	(6,352)
Total VCA Antech, Inc. stockholders equity	875,047	710,989
Noncontrolling interest	16,291	12,846
Total equity	891,338	723,835
Total liabilities and equity	$ 1,627,404	$ 1,449,038

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

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VCA ANTECH, INC. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENTS
(In thousands, except per share amounts)

	For The Years Ended December 31, 2009	2008	2007
Revenue	$ 1,314,507	$ 1,277,470	$ 1,156,145
Direct costs	971,507	934,833	834,724
Gross profit	343,000	342,637	321,421
Selling, general and administrative expense	97,437	90,727	86,877
Net loss on sale and disposal of assets	4,035	234	1,323
Operating income	241,528	251,676	233,221
Interest expense	22,482	31,888	32,905
Interest income	1,016	3,329	3,402
Other (income) expense	(104)	(212)	220
Income before provision for income taxes	220,166	223,329	203,498
Provision for income taxes	84,580	86,219	78,636
Net income	135,586	137,110	124,862
Net income attributable to noncontrolling interests	4,158	4,126	3,850
Net income attributable to VCA Antech, Inc	$ 131,428	$ 132,984	$ 121,012
Basic earnings per share	$ 1.54	$ 1.57	$ 1.44
Diluted earnings per share	$ 1.53	$ 1.55	$ 1.41
Weighted-average shares outstanding for basic earnings per share	85,077	84,455	83,893
Weighted-average shares outstanding for diluted earnings per share	86,097	85,700	85,716

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

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VCA ANTECH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(In thousands)

	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive Income	Noncontrolling	
	Shares	Amount	Capital	Earnings	(Loss)	Interests	Total
Balances, December 31, 2006	83,560	$ 84	$ 275,013	$ 154,586	$ 622	$ 9,686	$ 439,991
Net income				121,012		3,850	124,862
Unrealized loss on hedging instruments, net of tax					(3,025)		(3,025)
Gains on hedging instruments reclassified to income, net of tax					(932)		(932)
Formation of noncontrolling interest						401	401
Distribution to noncontrolling interest						(3,388)	(3,388)
Purchase of noncontrolling interest						(342)	(342)
Share-based compensation			4,586				4,586
Issuance of common stock under stock option plans	775		7,989				7,989
Tax benefit from stock options and awards			8,449				8,449
Balances, December 31, 2007	84,335	84	296,037	275,598	(3,335)	10,207	578,591
Net income				132,984		4,126	137,110
Foreign currency translation adjustment					(730)		(730)
Unrealized loss on foreign currency, net of tax					(239)		(239)
Unrealized loss on hedging instruments, net of tax					(5,390)		(5,390)
Losses on hedging instruments reclassified to income, net of tax					3,342		3,342
Formation of noncontrolling interest						3,241	3,241
Distribution to noncontrolling interest						(3,987)	(3,987)
						(741)	(741)

Purchase of noncontrolling interest							
Share-based compensation			7,176				7,176
Issuance of common stock under stock option plans	298	1	3,605				3,606
Tax benefit from stock options and awards			1,856				1,856
Balances, December 31, 2008	84,633	85	308,674	408,582	(6,352)	12,846	723,835
Net income				131,428		4,158	135,586
Foreign currency translation adjustment					684		684
Unrealized gain on foreign currency, net of tax					344		344
Unrealized loss on hedging instruments, net of tax					(815)		(815)
Losses on hedging instruments reclassified to income, net of tax					5,976		5,976
Formation of noncontrolling interest						3,476	3,476
Distribution to noncontrolling interest						(4,189)	(4,189)
Restricted stock unit grant			1,941				1,941
Share-based compensation			7,951				7,951
Issuance of common stock under stock option plans	951	1	15,296				15,297
Stock repurchases			(561)				(561)
Tax benefit from stock options and awards			1,813				1,813
Balances, December 31, 2009	85,584	$ 86	$ 335,114	$ 540,010	$ (163)	$ 16,291	$ 891,338

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

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VCA ANTECH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	For The Years Ended December 31,		
	2009	2008	2007
Net income	$ 135,586	$ 137,110	$ 124,862
Other comprehensive income (loss):			
Foreign currency translation adjustments	684	(730)	
Unrealized gain (loss) on foreign currency	563	(391)	
Tax (expense) benefit	(219)	152	
Unrealized loss on hedging instruments	(1,335)	(8,825)	(4,931)
Tax benefit	520	3,435	1,906
Losses (gains) on hedging instruments reclassified to income	9,784	5,472	(1,547)
Tax (benefit) expense	(3,808)	(2,130)	615
Other comprehensive income (loss):	6,189	(3,017)	(3,957)
Total comprehensive income	141,775	134,093	120,905
Comprehensive income attributable to noncontrolling interests	4,158	4,126	3,850
Comprehensive income attributable to VCA Antech, Inc.	$ 137,617	$ 129,967	$ 117,055

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

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VCA ANTECH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For The Years Ended December 31, 2009	2008	2007
Cash flows from operating activities:			
Net income	$ 135,586	$ 137,110	$ 124,862
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	39,571	31,911	27,049
Amortization of debt issue costs	486	470	368
Provision for uncollectible accounts	7,048	5,187	5,053
Net loss on sale and disposal of assets	4,035	234	1,323
Share-based compensation	7,951	7,176	4,586
Deferred income taxes	24,600	22,581	10,940
Excess tax benefits from exercise of stock options	(866)	(1,769)	(7,866)
Other	(425)	(14)	(210)
Changes in operating assets and liabilities:			
Trade accounts receivable	(10,004)	(5,674)	(2,687)
Inventory, prepaid expenses and other assets	(15,591)	(6,981)	(4,712)
Accounts payable and other accrued liabilities	(1,974)	(2,515)	7
Accrued payroll and related liabilities	(7,794)	4,863	1,154
Income taxes	848	4,729	13,897
Net cash provided by operating activities	183,471	197,308	173,764
Cash flows from investing activities:			
Business acquisitions, net of cash acquired	(74,577)	(126,702)	(215,523)
Real estate acquired in connection with business acquisitions	(4,894)	(17,593)	(7,962)
Property and equipment additions	(50,801)	(55,045)	(48,714)
Proceeds from sale of assets	151	1,775	1,674
Other	(649)	(15,146)	(780)
Net cash used in investing activities	(130,770)	(212,711)	(271,305)

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

VCA ANTECH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In thousands)

	For The Years Ended December 31, 2009	2008	2007
Cash flows from financing activities:			
Repayment of long-term obligations	(7,936)	(7,790)	(8,238)
Proceeds from the issuance of long-term obligations			160,000
Borrowings on revolving credit facility		35,000	
Repayment on revolving credit facility		(35,000)	
Payment of debt issue costs			(926)
Distributions to noncontrolling interest partners	(4,189)	(3,987)	(3,388)
Proceeds from issuance of common stock under stock option plans	15,297	3,606	7,989
Excess tax benefits from exercise of stock options	866	1,769	7,866
Stock repurchases	(561)		
Net cash provided by (used in) financing activities	3,477	(6,402)	163,303
Effect of currency exchange rate changes on cash and cash equivalents	44	(102)	
Increase (decrease) in cash and cash equivalents	56,222	(21,907)	65,762
Cash and cash equivalents at beginning of year	88,959	110,866	45,104
Cash and cash equivalents at end of year	$ 145,181	$ 88,959	$ 110,866
Supplemental disclosures of cash flow information:			
Interest paid	$ 22,064	$ 31,432	$ 32,632
Income taxes paid	$ 59,132	$ 58,909	$ 53,800
Supplemental schedule of non-cash investing and financing activities:			
Detail of acquisitions:			
Fair value of assets acquired	$ 94,528	$ 128,346	$ 246,368
Cash paid for acquisitions	(74,577)	(126,702)	(215,523)
Non-cash note conversion to equity interest in subsidiary	(5,700)		
Contingent consideration	(712)		
Liabilities assumed	$ 13,539	$ 1,644	$ 30,845

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

VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Company

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 December 31, 2009, we operated 489 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 December 31, 2009, we operated 47 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. Summary of Significant Accounting Policies

a. Principles of Consolidation

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, and include the accounts of our parent company, all majority-owned subsidiaries where we have control and certain veterinary medical groups to which we provide services as discussed below. We have eliminated all intercompany transactions and balances.

We provide management services to certain veterinary medical groups in states with laws that prohibit business corporations from providing or holding themselves out as providers of veterinary services. At December 31, 2009, we operated 160 animal hospitals in 14 of these states. In these states, we provide administrative and support services to the veterinary medical groups. Pursuant to the management agreements, the veterinary medical groups are each solely responsible for all aspects of the practice of veterinary medicine, as defined by their respective state.

We have determined that the veterinary medical groups are variable interest entities as defined by the Financial Accounting Standards Board (FASB), and that we have a variable interest in those entities through our management agreements. We also determined that our variable interests in these veterinary medical groups, in aggregate with the variable interests held by our related parties, absorb the majority of the expected losses and residual returns of the veterinary medical groups. Based on these determinations, we consolidated the veterinary medical groups in our consolidated financial statements. In June 2009, the FASB issued new accounting guidance on consolidations; see Note 2v, *Recent Accounting Pronouncements*, for a discussion of the January 1, 2010 adoption of this new guidance.

b. Use of Estimates in Preparation of Financial Statements

The preparation of our consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of our consolidated financial statements and our reported amounts of revenue and expense during the reporting period. Actual results could differ from our estimates.

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VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies, continued

c. Revenue and Related Cost Recognition

We recognize revenue, barring other facts, when the following revenue recognition criteria are met:

persuasive evidence of a sales arrangement exists;

delivery of goods has occurred or services have been rendered;

the sales price or fee is fixed or determinable; and

collectability is reasonably assured or probable for certain Medical Technology revenues.

Revenue is reported net of sales discounts and excludes sales taxes.

We generally recognize revenue and costs as follows:

For non-contractual services provided by our Animal Hospital, Laboratory and Medical Technology business units, at the time services are rendered.

For the sale of merchandise at our animal hospitals, when delivery of the goods has occurred.

For services provided by our Medical Technology business unit under defined support and maintenance contracts, on a straight-line basis over the contract period, recognizing costs as incurred; these services include, but are not limited to, technical support, when-and-if available product updates for software and extended warranty coverage.

For the sale of our digital radiography imaging equipment, ultrasound imaging equipment, software and hardware systems at the time title and risk of loss transfers to the customer, which is generally upon delivery or upon installation and customer acceptance if required per the sale arrangement. However, in certain circumstances, we defer this revenue as discussed below.

We account for revenue in our Medical Technology business as follows, depending upon the item sold:

Digital radiography imaging equipment and all of its related computer equipment, our proprietary software and services in addition to any other computers sold with our proprietary software are accounted for under the FASB s accounting guidance for software revenue recognition. Our digital radiography imaging equipment is accounted for under this literature because our proprietary software is more than incidental to the functionality of the equipment. See Note 2v, *Recent Accounting Pronouncements*, for the discussion on the adoption of new accounting guidance issued by the FASB pertaining to multiple deliverable revenue arrangements and new guidance related to revenue arrangements that include software elements. Under this new guidance our accounting for our digital radiography imaging equipment will change significantly and will follow the FASB s new accounting guidance pertaining to multiple deliverable

arrangements.

All other items, including the accounting for ultrasound imaging equipment, are accounted for pursuant to the FASB s general revenue recognition rules.

In certain transactions we sell our ultrasound imaging equipment and related services together with our digital radiography imaging equipment and related services. In these transactions, we account for each item under its respective literature and allocate revenue using a relative fair value basis.

We defer revenue for certain transactions in our Medical Technology business as follows:

We defer revenue for pre-paid services such as our consulting, education services or post-contract customer support (PCS) and recognize that revenue on a straight-line basis over the contract period or as the services are provided depending on the nature of the service.

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VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies, continued

We defer revenue for PCS provided as part of the purchase of equipment and software and recognize that revenue on a straight-line basis over the PCS period.

We defer revenue for equipment sales when we lack vendor specific objective evidence of fair value for PCS elements and recognize that revenue on a straight-line basis over the PCS period.

We defer revenue when we lack persuasive evidence of a sales agreement and recognize that revenue only when that evidence exists.

We defer revenue on transactions where we participated in the buyers leasing and recognize that revenue over the lease term.

As a result of these policies, we have deferred revenue and costs at December 31, 2009 and 2008 consisting of the following (in thousands):

	2009	2008
Deferred equipment revenue(1)	$ 10,053	$ 5,881
Deferred fixed-priced support or maintance contract revenue	2,691	1,384
Other deferred revenue(2)	2,571	2,159
Total deferred revenue	15,315	9,424
Less current portion included in other accrued liabilities	12,497	7,303
Long-term portion of deferred revenue included in other liabilities	$ 2,818	$ 2,121
Current portion of deferred costs included in prepaid expenses and other	$ 5,413	$ 3,940
Long-term portion of deferred costs included in other assets	3,635	1,013
Total deferred costs(3)	$ 9,048	$ 4,953

(1) Represents amounts billed or received for sales arrangements that include equipment, hardware, software and PCS.

(2) Represents amounts billed or received in advance for services.

(3) Represents costs related to equipment, hardware and software included in deferred equipment revenue.

d. Direct Costs

Direct costs are comprised of all service and product costs, including but not limited to, salaries of veterinarians, technicians and other hospital-based and laboratory-based personnel, transportation and delivery costs, facilities rent, occupancy costs, supply costs, depreciation and amortization, certain marketing and promotional expenses and costs of goods sold.

e. Cash and Cash Equivalents

We consider only highly liquid investments with original maturities of less than 90 days to be cash equivalents. We maintain balances in our bank accounts that are in excess of FDIC insured levels.

f. Inventory

Our inventory consists primarily of finished goods and includes imaging equipment, pet food and products and medical supplies. It is valued at the lower of cost or market using the first-in, first-out method and is

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VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies, continued

adjusted for estimated obsolescence and written down to net realizable value based upon estimates of future demand, technology developments and market conditions.

g. Property and Equipment

Property and equipment is recorded at cost. Equipment held under capital leases is recorded at the lower of the present value of the minimum lease payments or the fair value of the equipment at the beginning of the lease term.

We develop and implement new software to be used internally, or enhance our existing internal software. We develop the software using our own employees and/or outside consultants. Costs associated with the development of new software are expensed as incurred. Costs related directly to the software design, coding, testing and installation are capitalized and amortized over the expected life of the software. Costs related to upgrades or enhancements of existing systems are capitalized if the modifications result in additional functionality.

Depreciation and amortization are recognized on the straight-line method over the following estimated useful lives:

Buildings and improvements	5 to 40 years
Leasehold improvements	Lesser of lease term or 15 years
Furniture and equipment	5 to 7 years
Software	3 years
Equipment held under capital leases	5 to 10 years

Depreciation and amortization expense, including the amortization of property under capital leases, in 2009, 2008 and 2007 was $31.8 million, $25.9 million and $22.7 million, respectively.

Property and equipment at December 31, 2009 and 2008 consisted of (in thousands):

	2009	2008
Land	$ 41,980	$ 39,286
Building and improvements	95,968	83,484
Leasehold improvements	98,341	85,861
Furniture and equipment	170,672	141,771
Software	12,759	10,572
Buildings held under capital leases	19,954	19,954
Equipment held under capital leases	1,054	783
Construction in progress	16,193	20,163
Total property and equipment	456,921	401,874
Less accumulated depreciation and amortization	(167,506)	(138,431)

Total property and equipment, net	$	289,415	$	263,443

Accumulated amortization on buildings and equipment held under capital leases amounted to $3.7 million and $2.7 million at December 31, 2009 and 2008, respectively.

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VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies, continued

h. Operating Leases

Most of our facilities are under operating leases. The minimum lease payments, including predetermined fixed escalations of the minimum rent, are recognized as rent expense on a straight-line basis over the lease term as defined in the FASB s accounting guidance pertaining to leases. The lease term includes contractual renewal options that are reasonably assured based on significant leasehold improvements acquired. Any leasehold improvement incentives paid to us by a landlord are recorded as a reduction of rent expense over the lease term. No individual lease is material to our operations.

i. Goodwill

Goodwill represents the excess of the cost of an acquired entity over the net of the fair value of identifiable assets acquired and liabilities assumed.

In accordance with the FASB s accounting guidance pertaining to goodwill and other intangibles, we have determined that we have three reporting units, Animal Hospital, Laboratory and Medical Technology, and we estimate annually, or sooner if circumstances indicate an impairment may exist, the fair value of each of our reporting units and compare their estimated fair value against the net book value of those reporting units to determine if our goodwill is impaired.

We adopted the end of October as our annual impairment testing date, which allows us time to complete our impairment testing process in order to incorporate the results in our annual financial statements and timely file those statements with the Securities Exchange Commission in accordance with our accelerated filing requirements. There was no impairment charge resulting from the October 31, 2009 impairment test.

The following table presents the changes in the carrying amount of our goodwill for 2009 and 2008 (in thousands):

	Animal Hospital	Laboratory	Medical Technology	Total
Balance as of January 1, 2008	$ 707,463	$ 95,344	$ 19,160	$ 821,967
Goodwill acquired	104,088	323		104,411
Goodwill related to noncontrolling interests	2,673			2,673
Other(1)	(7,021)	27		(6,994)
Balance as of December 31, 2008	807,203	95,694	19,160	922,057
Goodwill acquired	50,741	430	8,361	59,532
Goodwill related to noncontrolling interests	3,449			3,449
Other(1)	475	161		636

Balance as of December 31, 2009	$	861,868	$	96,285	$	27,521	$ 985,674

(1) Other includes purchase price adjustments, earn-out payments and the contribution of assets in return for a noncontrolling interest in a partially-owned subsidiary. During 2008, we recorded adjustments to goodwill for a $2.3 million refund received related to Healthy Pet s working capital calculation and $2.5 million for the release of a deferred tax valuation reserve related to the Pet s Choice acquisition.

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VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies, continued

j. Other Intangible Assets

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

	2009			2008		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Non-contractual customer relationships	$ 38,359	$ (8,077)	$ 30,282	$ 26,412	$ (3,689)	$ 22,723
Covenants not-to-compete	14,748	(7,785)	6,963	16,195	(8,001)	8,194
Favorable lease asset	3,758	(502)	3,256	4,689	(629)	4,060
Technology	2,209	(1,332)	877	1,270	(1,076)	194
Trademarks	3,362	(494)	2,868	699	(251)	448
Client lists	60	(26)	34	84	(58)	26
Total	$ 62,496	$ (18,216)	$ 44,280	$ 49,349	$ (13,704)	$ 35,645

Amortization is recognized on the straight-line method over the following estimated useful lives:

Non-contractual customer relationships	4 to 25 years
Covenants not-to-compete	3 to 10 years
Favorable lease asset	1 to 14 years
Technology	5 years
Trademarks	10 years
Client lists	3 years

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

	For The Years Ended December 31,		
	2009	2008	2007
Aggregate amortization expense	$ 7,790	$ 6,052	$ 4,318

The estimated amortization expense related to intangible assets for each of the five succeeding years and thereafter at December 31, 2009 is as follows (in thousands):

2010	$ 8,814
2011	7,969
2012	6,981
2013	4,864
2014	2,617
Thereafter	13,035
Total	$ 44,280

VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies, continued

k. Income Taxes

We account for income taxes under the FASB s accounting guidance on income taxes. In accordance with the guidance, we record deferred tax liabilities and deferred tax assets, which represent taxes to be recovered or settled in the future. We adjust our deferred tax assets and deferred tax liabilities to reflect changes in tax rates or other statutory tax provisions. We make judgments in assessing our ability to realize future benefits from our deferred tax assets, which include operating and capital loss carryforwards. As such, we have a valuation allowance to reduce our deferred tax assets for the portion we believe will not be realized. Changes in tax rates or other statutory provisions are recognized in the period the change occurs. We also assess differences between our probable tax bases and the as-filed tax bases of certain assets and liabilities.

Effective January 1, 2007, we adopted the provisions of the FASB s new interpretive accounting guidance on uncertainty in income taxes. We did not have any unrecognized tax benefits on either the effective date of the accounting guidance or December 31, 2009. The new guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

l. Notes Receivable

Notes receivable are financial instruments issued in the normal course of business and are not market traded. The amounts recorded approximate fair value and are shown net of valuation allowances. There were no valuation allowances recorded as of December 31, 2009 and December 31, 2008. The notes bear interest at rates varying from 3.9% to 8.0% per annum.

m. Deferred Financing Costs

Deferred financing costs are amortized using the effective interest method over the life of the related debt. Accumulated amortization of deferred financing costs was $1.9 million and $1.4 million at December 31, 2009 and 2008, respectively.

n. Fair Value of Financial Instruments and Concentration of Risk

The carrying amount reported in our consolidated balance sheets for cash, cash equivalents, trade accounts receivable, accounts payable and accrued liabilities approximates fair value because of the immediate or short-term maturity of these financial instruments. Our policy is to place our cash and cash equivalents in highly-rated financial instruments and institutions, which we believe mitigates our credit risk. Concentration of credit risk with respect to accounts receivable is limited due to the diversity of our customer base. We routinely review the collection of our accounts receivable and maintain an allowance for potential credit losses, but historically have not experienced any significant losses related to an individual customer or groups of customers in a geographic area.

Our operations depend, in some cases, on the ability of single source suppliers or a limited number of suppliers, to deliver products and supplies on a timely basis. We have in the past experienced, and may in the future experience, shortages of or difficulties in acquiring products and/or supplies in the quantities and of the quality needed. Shortages in the availability of products and/or supplies for an extended period of time will have a negative impact on our operating results.

VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies, continued

o. Derivative Instruments

In accordance with the FASB s accounting guidance pertaining to derivatives and hedging, 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 (loss) related to this contract in the period of determination. For interest rate swap agreements accounted for under hedge accounting, we assess the effectiveness based on changes in their intrinsic value with changes in the time value portion of the contract reflected in earnings. All cash payments made or received under the contracts are recognized in interest expense.

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

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

p. Marketing and Advertising

Marketing and advertising costs are expensed as incurred. Total marketing and advertising expense included in direct costs amounted to $19.9 million, $17.5 million and $14.0 million for 2009, 2008 and 2007, respectively. Total marketing and advertising expense included in selling, general and administrative expense amounted to $2.0 million, $2.1 million and $2.3 million for 2009, 2008 and 2007, respectively.

q. Insurance and Self-Insurance

We use a combination of insurance and self-insurance with high retention or high-deductible provisions for a number of risks, including workers compensation, general liability, property insurance and our health benefits.

Liabilities associated with these risks are estimated at fair value on an undiscounted basis by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions.

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VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies, continued

r. Product Warranties

We accrue the cost of basic product warranties included with the sale of our digital radiography imaging equipment and our ultrasound imaging equipment at the time we sell these units to our customers. Our warranty costs are primarily for our assistance in helping our customers resolve issues with the warranties they have with the original equipment manufacturers. We estimate our warranty costs based on historical warranty claim experience. Accrued warranty costs at December 31, 2009 and 2008 were $108,000 and $114,000 respectively.

s. 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 potentially dilutive common shares outstanding during the period. Basic and diluted earnings per share were calculated as follows (in thousands, except per share amounts):

	For Years Ended December 31,		
	2009	2008	2007
Net income attributable to VCA Antech, Inc	$ 131,428	$ 132,984	$ 121,012
Weighted average common shares outstanding:			
Basic	85,077	84,455	83,893
Effect of dilutive potential common stock:			
Stock options	785	1,131	1,755
Non-vested shares	235	114	68
Diluted	86,097	85,700	85,716
Basic earnings per common share	$ 1.54	$ 1.57	$ 1.44
Diluted earnings per common share	$ 1.53	$ 1.55	$ 1.41

For the years ended December 31, 2009, 2008 and 2007, potential common shares of 48,008, 51,462 and 4,400, respectively, were excluded from the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

t. Share-Based Compensation

Effective January 1, 2006, we adopted the FASB s revised accounting guidance pertaining to stock compensation, which requires us to measure the cost of share-based payments granted to our employees and directors, including

stock options, based on the grant-date fair value and to recognize the cost over the requisite service period, which is typically the vesting period. We adopted the revised guidance using the modified prospective transition method, which requires us to recognize compensation expense for share-based payments granted or modified on or after January 1, 2006. Additionally, we are required to recognize compensation expense for the fair value of unvested share-based awards at January 1, 2006 over the remaining requisite service period. Operating results from prior periods have not been restated.

Prior to January 1, 2006, we reported all income tax benefits resulting from the exercise of stock options as a component of cash provided by operating activities on our consolidated statements of cash flows. The revised stock compensation guidance requires the benefits of tax deductions from the exercise of options in excess of the compensation cost for those options to be classified as cash provided by financing activities.

VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies, continued

Our company s share-based employee compensation plans are described further in Note 8, *Share-Based Compensation*.

u. Acquisitions

Effective January 1, 2009, we adopted the provisions of the FASB s revised accounting guidance on business combinations, which retained the underlying concepts in that all business combinations continued to be accounted for at fair value under the acquisition method of accounting, however changed the application of the acquisition method in a number of significant respects. Acquisition costs will generally be expensed as incurred; non-controlling interests will be valued at fair value at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. The revised business combination guidance was effective on a prospective basis for all of our business combinations for which the acquisition date is on or after January 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. The revised business combination guidance amends the FASB s accounting guidance pertaining to income taxes such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of the revised business combination guidance would also apply the provisions of the FASB s business combination guidance.

v. Recent Accounting Pronouncements

In October 2009, the FASB issued new accounting guidance pertaining to multiple-deliverable revenue arrangements. This new guidance amends existing generally accepted accounting principles for separating consideration in multiple-deliverable arrangements and establishes a selling price hierarchy for determining the selling price of a deliverable. Additionally, it eliminates the residual method of allocation, requires consideration be allocated using the relative selling price method and expands required disclosures related to a vendors multiple-deliverable revenue arrangements. This guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The adoption of this guidance will have a material impact on our Medical Technology business segment. We expect that the implementation of the requirements of this standard will result in the more timely recognition of revenue. We expect to early adopt the new requirements of this standard.

In October 2009, the FASB issued new accounting guidance related to certain revenue arrangements that include software elements. This new guidance provides additional guidance on determining which software, if any, relating to a tangible product should be excluded from the scope of software revenue guidance. Additionally, it provides guidance on how to allocate consideration to deliverables in arrangements that include both tangible products and software. It is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We expect that upon adoption of this new guidance we will no longer be governed by the previous accounting standard related to software accounting. Instead, as mentioned above, we will now be governed by the multiple-deliverable revenue arrangement guidance. We expect to early adopt the new requirements of this guidance along with the guidance for multiple-deliverable revenue arrangements mentioned above.

In June 2009, the FASB issued new accounting guidance related to consolidations. The amendments in this accounting guidance replaces the quantitative-based risks and rewards calculation for determining which company, if any, has a controlling financial interest in a variable interest entity with a primarily qualitative approach that requires a company to perform an analysis to determine whether the company s variable interest gives it a controlling financial interest. The analysis must identify whether a company has both the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance

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VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies, continued

and the obligation to absorb losses from or the right to receive the benefits of the entity that could potentially be significant to the variable interest entity. In determining whether a company has the power to direct the activities of the variable interest entity that most significantly impacts the entity s economic performance a company is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed. The new guidance also requires companies to more frequently assess whether they must consolidate a variable interest entity. The amendments in this guidance also require additional disclosures about an enterprise s involvement in variable interest entities. The new guidance is effective for our company on January 1, 2010. We have evaluated the effect of adopting this new guidance and have determined that it will not significantly impact our consolidated financial position or the results of operations.

w. Reclassifications

Certain reclassifications have been made herein to prior year balances to conform to the 2009 financial statement presentation. These include the adoption of the FASB s new accounting guidance on noncontrolling interests in consolidated financial statements.

x. Subsequent Events

We evaluated the effects of all subsequent events through February 26, 2010, the date this report is filed with the SEC.

3. Related Party Transactions

a. Transactions with Zoasis

We incurred marketing expense for vaccine reminders and other direct mail services provided by Zoasis, a company that is majority owned by Robert L. Antin, our Chief Executive Officer and Chairman. We purchased services of $2.7 million, $2.1 million and $1.8 million for 2009, 2008 and 2007, respectively. Arthur J. Antin, our Chief Operating Officer, owns an 8% interest in Zoasis. Beginning in late 2006, in connection with a sublease for office space located in the Zoasis corporate office, we paid rent to Zoasis of $45,000 and $54,000 in 2008 and 2007, respectively. The lease expired in August 2007 and continued on a month-to-month basis through October 2008, at which time the lease was terminated. The rental payments were included in the total expenditures mentioned above.

In 2003, we entered into an agreement with Zoasis pursuant to which we acquired all of Zoasis right, title, and interest in and to certain software in exchange for all our preferred stock of Zoasis then held by us. Concurrent with the purchase of the software, we granted to Zoasis a limited royalty-free, non-exclusive license to this software in exchange for Zoasis providing certain support for the software. Both we and Zoasis have a right to make modifications to the software, but all modifications and derivative works are owned by us. The software is hosted at our expense at a third-party hosting facility for the benefit of both parties.

b. Related Party Vendors

Frank Reddick joined our company as a director in February 2002 and is a partner in the law firm of Akin Gump Strauss Hauer & Feld, LLP (Akin). Akin provided legal services to us during 2009, 2008 and 2007. The amount paid by our company to Akin for these legal services was $1.3 million, $600,000 and $1.2 million in 2009, 2008 and 2007, respectively.

c. Transactions with VetSource

In 2006, we entered into a pharmacy distribution agreement with Strategic Pharmaceutical Solutions, Inc. (VetSource) a start-up pharmacy distribution company. Pursuant to the terms of this agreement we are

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VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Related Party Transactions, continued

entitled to one representative on the VetSource Board of Directors. Under the agreement we promote the use of VetSource as the preferred provider of pharmaceutical products to VCA animal hospitals. The agreement has a five-year term and will renew for one year terms unless either party provides written notice of termination to the other party at least 120 days prior to expiration of the then current term. The amount paid by our company to VetSource for pharmaceutical products was $38.3 million and $22.7 million in 2009 and 2008, respectively. We did not purchase any products from VetSource in 2007.

4. Other Accrued Liabilities

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

	As of December 31,	
	2009	2008
Accrued workers compensation insurance	$ 2,217	$ 4,436
Deferred revenue	12,497	7,303
Interest rate swap liability	380	8,899
Other	28,204	25,786
	$ 43,298	$ 46,424

5. Long-Term Obligations

Long-term obligations consisted of the following at December 31, 2009 and 2008 (in thousands):

		2009	2008
Senior term notes	Notes payable, maturing in 2011, secured by assets, variable interest rate (weighted-average interest rate of 1.9% and 4.4% in 2009 and 2008, respectively)	$ 516,889	$ 522,282
Revolving credit	Revolving line of credit, maturing in 2010, secured by assets, variable interest rate		
Secured seller notes		1,023	1,163

	Notes payable, various maturities through 2013, secured by assets and stock of certain subsidiaries, various interest rates ranging from 9.0% to 10.0%		
Unsecured debt	Note payable, maturing in 2010, interest rate of 7.25%	375	731
	Total debt obligations	518,287	524,176
	Capital lease obligations	26,768	28,455
		545,055	552,631
	Less current portion	(17,195)	(7,771)
		$ 527,860	$ 544,860

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VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Long-Term Obligations, continued

The annual aggregate scheduled maturities of our long-term obligations for the five years subsequent to December 31, 2009 are presented below (in thousands):

	Debt Obligations	Capital Lease Obligations	Total
2010	$ 14,943	$ 2,252	$ 17,195
2011	503,228	2,224	505,452
2012	80	2,393	2,473
2013	36	2,506	2,542
2014		2,496	2,496
Thereafter		14,897	14,897
Total	$ 518,287	$ 26,768	$ 545,055

Senior Credit Facility

In May 2005, we entered into a new senior credit facility with various lenders for $550.0 million of senior secured credit facilities with Goldman Sachs Credit Partners, L.P. as the syndication agent and Wells Fargo Bank, N.A. as the administrative agent. At the time of entering into the new senior credit facility, it included $475.0 million of senior term notes and a $75.0 million revolving credit facility.

In June 2007, we amended our senior credit facility to allow for additional senior term notes in the amount of $160.0 million. The funds borrowed from the additional senior term notes were primarily used to fund the acquisition of Healthy Pet on June 1, 2007. The terms, including the interest rate, of these additional senior term notes are the same as the senior term notes existing prior to the amendment. In connection with this amendment, we paid financing costs in the amount of $926,000.

The revolving credit facility allows us to borrow up to an aggregate principal amount of $75.0 million and may be used to borrow, on a same-day notice under a swing line, the lesser of $5.0 million or the aggregate unused amount of the revolving credit facility then in effect. On October 1, 2008 we borrowed $35.0 million under our revolving credit facility for general corporate purposes. These borrowings were repaid in total on November 13, 2008. At December 31, 2009, we had no borrowings outstanding under our revolving credit facility.

Since entering into our senior credit facility in May 2005, we have prepaid a portion of our senior term notes in 2005 and 2006 in the amount of $35.0 million and $60.0 million, respectively. We did not prepay any portion of our senior term notes in 2007, 2008, or 2009. In 2010, however, we are required to make a mandatory payment related to our 2009 excess cash flow requirements mentioned below.

Interest Rate on Senior Term Notes. In general, borrowings under our senior credit facility bear interest, at our option, on either:

- the base rate (as defined below) plus a margin of 0.75% per annum for the senior term notes existing from January 2005 to May 2005 and a margin of 0.50% per annum for the senior term notes existing since May 2005; or

- the adjusted Eurodollar rate (as defined below) plus a margin of 1.75% per annum for the senior term notes existing from January 2005 to May 2005 and a margin of 1.50% per annum for the senior term notes existing since May 2005.

VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Long-Term Obligations, continued

Interest Rate on Revolving Credit Facility. In general, borrowings under our revolving credit facility bear interest, at our option, on either:

the base rate (as defined below) plus a margin of 0.50% per annum; or

the adjusted Eurodollar rate (as defined below) plus a margin of 1.50% per annum.

Swing line borrowings bear interest at the base rate (as defined below), plus the same margin applicable to the revolving credit facility (as detailed above).

The base rate is the higher of (a) Wells Fargo s prime rate or (b) the Federal funds rate plus 0.5%. 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.

The revolving credit facility has a commitment fee equal to 0.50% per annum on the unused portion of the commitment or 0.375% per annum when the unused commitment is less than or equal to 50.0%.

Maturity and Principal Payments. The revolving credit facility matures on May 16, 2010. The senior term notes mature on May 16, 2011. Principal payments on the revolving credit facility are made at our discretion with the entire unpaid amount due at maturity. The remaining principal payments on the senior term notes are paid quarterly with the annual aggregate scheduled maturities as follows (in thousands):

	For Years Ending December 31,				
	2010	**2011**	**2012**	**2013**	**2014**
Senior term notes	$ 14,184	$ 502,705	$	$	$

Pursuant to the terms of the senior credit facility, mandatory prepayments are required on the senior term notes equal to 75% of any excess cash flow at the end of each fiscal year. Excess cash flow is defined as earnings before interest, taxes, depreciation and amortization, plus or minus working capital adjustments, less voluntary and scheduled debt repayments, capital expenditures, interest payable in cash, taxes payable in cash and cash paid for acquisitions. These payments reduce on a pro rata basis the remaining scheduled principal payments. All outstanding indebtedness under the senior credit facility may be voluntarily prepaid in whole or in part without premium or penalty. As of December 31, 2009 we were required to make payments related to excess cash flow totaling approximately $8.8 million.

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. At December 31, 2009, we had a fixed charge coverage ratio of 1.74 to 1.00, which was in compliance with the required ratio of no less than 1.20 to 1.00, and a leverage ratio of 1.85 to 1.00, which was in compliance with the required ratio of no more than 2.75 to 1.00.

Interest Rate Swap Agreements

We have entered into an interest rate swap agreement whereby we pay the counterparty amounts based on a fixed interest rate and set notional principal amount in exchange for the receipt of payments from the

VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Long-Term Obligations, continued

counterparty based on current LIBOR and the same set notional principal amount. The purpose of this hedge is to offset the variability of cash flows due to our outstanding variable-rate debt under our senior term notes. A summary of this agreement is as follows:

Fixed interest rate	2.64%
Notional amount	$100 million
Effective date	2/12/2008
Expiration date	2/26/2010
Counterparty	Wells Fargo
Qualifies for hedge accounting	Yes

The following table summarizes cash received or cash paid and unrealized gains or losses recognized as a result of our interest rate swap agreements (in thousands):

	For Years Ended December 31,		
	2009	2008	2007
Cash paid (received)(1)	$ 9,784	$ 5,472	$ (1,547)
Recognized (gain) loss from ineffectiveness(2)	$ (70)	$ (97)	$ 425

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

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

6. Fair Value of Financial Instruments

On January 1, 2008, we adopted the applicable provisions of the new accounting guidance on fair value measurements which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements related to financial instruments. On January 1, 2009, we adopted the new guidance for our non-financial assets and non-financial liabilities measured on a non-recurring basis. As of December 31, 2009, we do not have any applicable non-recurring measurements of non-financial assets and non-financial liabilities.

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

VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Fair Value of Financial Instruments, continued

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 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.

Long-Term Debt. We believe the carrying values of our variable-rate debt at December 31, 2009 and December 31, 2008 are not reasonable estimates of fair value due to changes in the credit markets during 2008 and 2009. We have estimated the fair value of our variable-rate debt using discounted cash flow techniques utilizing current market rates, which incorporate our credit risk.

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

	As of December 31,			
	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Variable-rate long-term debt	$ 516,889	$ 513,053	$ 522,282	$ 499,025

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

The following table reflects the fair value 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	$
At December 31, 2008				
Other accrued liabilities	$ 8,899	$	$ 8,899	$

VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Dividends

We have not paid cash dividends on our common stock and we do not anticipate paying cash dividends in the foreseeable future. In addition, our senior credit facility places limitations on our ability to pay cash dividends or make other distributions in respect of our common stock. Specifically, our senior credit facility dated May 16, 2005, as amended, prohibits us from declaring, ordering, paying, or setting apart any sum for any dividends or other distributions on account of any shares of any class of stock, other than dividends payable solely in shares of stock to holders of such class of stock. Any future determination as to the payment of dividends will depend on our results of operations, financial condition, capital requirements and other factors deemed relevant by our Board of Directors, including the General Corporation Law of the State of Delaware, which provides that dividends are only payable out of surplus or current net profits.

8. Share-Based Compensation

Stock Incentive Plans

At December 31, 2009, there were stock options, non-vested shares and restricted stock units outstanding under our existing stock incentive plans. We maintain three plans: the 1996 Stock Incentive Plan; the 2001 Stock Incentive Plan; and the 2006 Equity Incentive Plan (2006 Plan). New options and other stock awards may only be granted under the 2006 Plan. At December 31, 2009, the sum of the shares previously issued pursuant to awards under the 2006 Plan and the shares of common stock remaining available for future issuance under the 2006 Plan to our employees, directors, consultants and those of our affiliates is 6,650,435 shares. The number of shares of common stock remaining available for future issuance under the 2006 Plan may increase by any shares of common stock underlying prior outstanding options that expire, are forfeited, cancelled or terminate for any reason without having been exercised in full. Outstanding options and non-vested shares granted under our plans typically vest over periods that range from two to four years, and outstanding options typically expire between five and ten years from the date of grant.

Stock Option Activity

A summary of our stock option activity for 2009 is as follows (in thousands, except weighted-average exercise price and weighted-average remaining contractual term):

	Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2009	5,236	$ 16.89		
Exercised	(883)	17.33		

Forfeited/Canceled	(53)		23.68			
Outstanding at December 31, 2009	4,300	$	16.72	2.7	$	35,273
Exercisable at December 31, 2009	3,176	$	16.60	2.3	$	26,412
Expected to vest at December 31, 2009	1,074	$	17.04	3.8	$	8,462

The weighted-average grant-date fair value of our stock options granted during 2008 was $5.85. There were no stock options granted during 2009 and 2007. The aggregate intrinsic value of our stock options exercised during 2009, 2008 and 2007 was $7.3 million, $5.8 million and $23.0 million, respectively. The actual tax benefit realized on options exercised during 2009, 2008 and 2007 was $2.8 million, $2.2 million and $8.9 million, respectively. The total fair value of options vested during 2009, 2008 and 2007 was $72,000, $3.1 million and $1.8 million, respectively.

VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Share-Based Compensation, continued

The following table summarizes information about the options outstanding at December 31, 2009 (in thousands, except per share amounts and the weighted-average remaining contractual life):

	Options Outstanding				Options Exercisable	
Exercise Price	Number Outstanding	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price		Number Exercisable	Weighted-Avg. Exercise Price
$0.50	60	0.7	$	0.50	60	$ 0.50
$6.26 - $7.97	1,013	2.9	$	7.01	1,013	$ 7.01
$15.33 - $30.70	3,227	2.6	$	20.07	2,103	$ 21.69
	4,300				3,176	

At December 31, 2009, there was $4.1 million of total unrecognized compensation cost related to our stock options. This cost is expected to be recognized over a weighted-average period of over two years.

Calculation of Fair Value

The fair value of our options is estimated on the date of grant using the Black-Scholes option pricing model. We amortize the fair value of our options on a straight-line basis over the requisite service period. There were no options granted during 2009. The following assumptions were used to determine the fair value of those options granted during 2008:

Expected volatility(1)	36.9%
Weighted-average volatility(1)	37.0%
Expected dividends	0.0%
Expected term(2)	4.4 years
Risk-free rate(3)	2.8%

(1) We estimated the volatility of our common stock on the date of grant based on using both historical and implied volatilities.

(2) We estimated the expected term based on the output from a Monte Carlo simulation model.

(3)

The risk-free interest rate is based on the implied yield in effect at the time of option grant on U.S. Treasury zero-coupon issues with equivalent remaining terms.

We use historical data to estimate pre-vesting option forfeitures. We recognize share-based compensation only for those awards that we expect to vest.

The compensation cost that has been charged against income for stock options was $1.9 million, $1.7 million and $1.9 million for 2009, 2008 and 2007, respectively. The corresponding income tax benefit recognized in the income statement was $0.8 million, $0.6 million and $0.7 million for 2009, 2008 and 2007, respectively.

Non-Vested Shares

Additionally, under our 2006 Plan, we have issued non-vested stock awards in our common stock to certain employees and members of our Board of Directors. The non-vested stock awards to employees and executives generally vest as follows: 25% on the second anniversary of the grant date; 50% on the third anniversary of the grant date; and 25% on the fourth anniversary of the grant date. The non-vested stock awards to members of our Board of Directors generally vest in equal annual installments over three years from

VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Share-Based Compensation, continued

the date of grant. Total compensation expense related to non-vested stock awards was $6.0 million, $5.5 million and $2.7 million in 2009, 2008 and 2007, respectively. The corresponding income tax benefit recognized in the income statement was $2.3 million, $2.1 million and $1.1 million for 2009, 2008 and 2007, respectively. As of December 31, 2009 there was $8.5 million of unrecognized compensation cost related to these non-vested shares that will be recognized over a weighted-average period of 1.8 years. A summary of our non-vested stock activity for 2009 is as follows:

	Shares	Weighted-Average Fair Value Per Share
Outstanding at January 1, 2009	724,235	$ 31.52
Granted	12,096	$ 24.80
Vested	(90,660)	$ 32.89
Forfeited/Canceled	(11,650)	$ 33.93
Outstanding at December 31, 2009	634,021	$ 31.15

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

Restricted Stock Unit Activity

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

9. Commitments and Contingencies

a. Leases

We operate many of our animal hospitals from premises that are leased under operating leases with terms, including renewal options, ranging from five to 35 years. Certain leases include fair-value purchase options that can be

exercised at our discretion at various times within the lease terms.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Commitments and Contingencies, continued

The future minimum lease payments on operating leases at December 31, 2009, including renewal option periods, are as follows (in thousands):

2010	$ 46,683
2011	46,577
2012	46,755
2013	46,389
2014	45,921
Thereafter	597,656
Total	$ 829,981

Rent expense totaled $46.7 million, $42.7 million and $36.9 million in 2009, 2008 and 2007, respectively. Rental income totaled $564,000, $490,000 and $543,000 in 2009, 2008, and 2007, respectively.

b. Purchase Commitments

Under the terms of certain purchase agreements, we have aggregate commitments to purchase approximately $26.6 million of products and services through 2011.

c. Earn-out Payments

We have contractual arrangements in connection with certain acquisitions, whereby additional cash may be paid to former owners of acquired companies upon attainment of specified financial criteria as set forth in the respective agreements. The amount to be paid cannot be determined until the earn-out periods expire and the attainment of criteria is established. If the specified financial criteria are attained, we will be obligated to pay an additional $1