VCA ANTECH INC
Form 10-Q
August 08, 2008

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

FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2008

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission File Number: 001-16783

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

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

12401 West Olympic Boulevard
Los Angeles, California 90064-1022
(Address of principal executive offices)
(310) 571-6500
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o.
Indicate by check mark whether the registrant 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	Accelerated filer	Non-accelerated filer o	Smaller reporting company o
þ	o		

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ.
Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: common stock, $0.001 par value, 84,391,739 shares as of August 1, 2008.

VCA Antech, Inc.
Form 10-Q
June 30, 2008
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 75,924	$ 110,866
Trade accounts receivable, less allowance for uncollectible accounts of $11,048 and $10,940 at June 30, 2008 and December 31, 2007, respectively	48,834	42,650
Inventory	25,527	25,517
Prepaid expenses and other	19,251	15,307
Deferred income taxes	14,907	14,402
Prepaid income taxes		8,160
Total current assets	184,443	216,902
Property and equipment, less accumulated depreciation and amortization of $136,947 and $124,884 at June 30, 2008 and December 31, 2007, respectively	241,634	214,020
Goodwill	885,447	821,967
Other intangible assets, net	34,156	22,373
Notes receivable, net	12,355	3,493
Deferred financing costs, net	1,304	1,537
Other	14,419	6,419
Total assets	$ 1,373,758	$ 1,286,711
Liabilities and Stockholders Equity		
Current liabilities:		
Current portion of long-term obligations	$ 7,810	$ 7,886
Accounts payable	26,288	28,092
Accrued payroll and related liabilities	39,451	38,341
Income taxes payable	2,464	
Other accrued liabilities	49,298	42,074
Total current liabilities	125,311	116,393
Long-term obligations, less current portion	548,686	552,294
Deferred income taxes	33,321	28,197
Other liabilities	9,208	11,236
Minority interest	12,403	10,207
Commitments and contingencies		
Preferred stock, par value $0.001, 11,000 shares authorized, none outstanding		

Stockholders equity:		
Common stock, par value $0.001, 175,000 shares authorized, 84,397 and 84,335 shares outstanding as of June 30, 2008 and December 31, 2007, respectively	84	84
Additional paid-in capital	300,606	296,037
Accumulated earnings	347,117	275,598
Accumulated other comprehensive loss	(2,978)	(3,335)
Total stockholders equity	644,829	568,384
Total liabilities and stockholders equity	$ 1,373,758	$ 1,286,711

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenue	$ 334,434	$ 300,305	$ 642,266	$ 565,450
Direct costs	237,468	210,427	462,269	399,652
Gross profit	96,966	89,878	179,997	165,798
Selling, general and administrative expense	22,809	22,043	45,987	43,516
Write-down and loss (gain) on sale of assets	127	420	(57)	542
Operating income	74,030	67,415	134,067	121,740
Interest expense, net	7,045	6,671	14,660	12,444
Other (income) expense	(213)	172	(36)	227
Income before minority interest and provision for income taxes	67,198	60,572	119,443	109,069
Minority interest in income of subsidiaries	988	1,028	1,945	1,874
Income before provision for income taxes	66,210	59,544	117,498	107,195
Provision for income taxes	25,893	23,697	45,979	43,035
Net income	$ 40,317	$ 35,847	$ 71,519	$ 64,160
Basic earnings per share	$ 0.48	$ 0.43	$ 0.85	$ 0.77
Diluted earnings per share	$ 0.47	$ 0.42	$ 0.83	$ 0.75
Weighted-average shares outstanding for basic earnings per share	84,371	83,742	84,359	83,674
Weighted-average shares outstanding for diluted earnings per share	85,725	85,605	85,805	85,481

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

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VCA Antech, Inc. and Subsidiaries
Condensed, Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Six Months Ended June 30,	
	2008	**2007**
Cash flows from operating activities:		
Net income	$ 71,519	$ 64,160
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,325	12,740
Amortization of debt issue costs	233	137
Provision for uncollectible accounts	2,008	2,110
Write-down and (gain) loss on sale of assets	(57)	542
Share-based compensation	3,322	2,300
Minority interest in income of subsidiaries	1,945	1,874
Distributions to minority interest partners	(1,456)	(1,364)
Deferred income taxes	5,431	3,025
Excess tax benefit from exercise of stock options	(355)	(2,680)
Other	(150)	(173)
Changes in operating assets and liabilities:		
Accounts receivable	(8,004)	(5,244)
Inventory, prepaid expenses and other assets	(4,519)	45
Accounts payable and other accrued liabilities	2,307	(173)
Accrued payroll and related liabilities	1,465	1,105
Income taxes	10,979	15,789
Net cash provided by operating activities	99,993	94,193
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(80,367)	(203,322)
Real estate acquired in connection with business acquisitions	(13,098)	(7,962)
Property and equipment additions	(25,543)	(27,236)
Proceeds from sale of assets	1,753	1,564
Other	(14,987)	(256)
Net cash used in investing activities	(132,242)	(237,212)
Cash flows from financing activities:		
Repayment of long-term obligations	(3,925)	(4,224)
Proceeds from issuance of long-term obligations		160,000
Payment of debt issue costs		(794)
Proceeds from issuance of common stock under stock option plans	892	2,360
Excess tax benefit from exercise of stock options	355	2,680
Net cash (used in) provided by financing activities	(2,678)	160,022
Effect of currency exchange rate changes on cash and cash equivalents	(15)	

(Decrease) increase in cash and cash equivalents	(34,942)	17,003
Cash and cash equivalents at beginning of period	110,866	45,104
Cash and cash equivalents at end of period	$ 75,924	$ 62,107

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

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VCA Antech, Inc. and Subsidiaries
Notes To Condensed, Consolidated Financial Statements
June 30, 2008
(Unaudited)

1. Nature of Operations

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

We operate a full-service veterinary diagnostic laboratory network serving all 50 states. Our laboratory network provides sophisticated testing and consulting services used by veterinarians in the detection, diagnosis, evaluation, monitoring, treatment and prevention of diseases and other conditions affecting animals. At June 30, 2008, we operated 39 laboratories of various sizes located strategically throughout the United States and Canada.

Our animal hospitals offer a full range of general medical and surgical services for companion animals. Our animal hospitals treat diseases and injuries, provide pharmaceutical products and perform a variety of pet-wellness programs, including health examinations, diagnostic testing, vaccinations, spaying, neutering and dental care. At June 30, 2008, we operated 465 animal hospitals throughout 39 states.

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

2. Basis of Presentation

Our accompanying unaudited, condensed, consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States for interim financial information and in accordance with the rules and regulations of the United States Securities and Exchange Commission. Accordingly, they do not include all of the information and notes required by GAAP in the United States for annual financial statements as permitted under applicable rules and regulations. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. The results of operations for the three and six months ended June 30, 2008, are not necessarily indicative of the results to be expected for the full year ending December 31, 2008. For further information, refer to our consolidated financial statements and notes thereto included in our 2007 Annual Report on Form 10-K.

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

3. Acquisitions

We acquired the following animal hospitals and laboratories during the six months ended June 30, 2008:

Animal Hospitals:	
Acquisitions	36
Acquisitions relocated into our existing animal hospitals	(4)
Total	32
Laboratories:	
Acquisitions	3
Acquisitions relocated into our existing laboratories	(1)
Total	2

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

3. Acquisitions, continued

Animal Hospital and Laboratory Acquisitions

The following table summarizes the preliminary purchase price, including acquisition costs, paid by us for the 36 animal hospitals and 3 laboratories we acquired during the six months ended June 30, 2008, and the preliminary allocation of the purchase price (in thousands):

Preliminary Purchase Price:	
Cash	$ 78,022
Liabilities assumed	4,213
Total	$ 82,235
Preliminary Allocation of the Purchase Price:	
Tangible assets	$ 3,820
Identifiable intangible assets	14,980
Goodwill (1)	63,435
Total	$ 82,235

(1) We expect that $57.2 million of the goodwill recorded for these acquisitions as of June 30, 2008 will be fully deductible for income tax purposes.

Other Acquisition Payments

In connection with substantially all of our acquisitions, we withheld a portion of the purchase price (holdback) as security for indemnification obligations of the sellers under the acquisition agreement. We paid $1.6 million to sellers for the unused portion of holdbacks during the six months ended June 30, 2008. The total outstanding holdbacks at June 30, 2008 and December 31, 2007 were $4.4 million and $2.2 million, respectively.

We also paid $213,000 for earn-out payments during the six months ended June 30, 2008.

4. Goodwill and Other Intangible Assets

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. The following table presents the changes in the carrying amount of our goodwill for the six months ended June 30, 2008 (in thousands):

	Laboratory	Animal Hospital	Medical Technology	Total
Balance as of December 31, 2007	$ 95,344	$ 707,463	$ 19,160	$ 821,967
Goodwill acquired	312	63,123		63,435

Goodwill related to partnership interests (1)		2,168		2,168
Other (2)		(2,123)		(2,123)
Balance as of June 30, 2008	$ 95,656	$ 770,631	$ 19,160	$ 885,447

(1) In various circumstances we are required to, or elect to, purchase the minority interest in certain of our partnership arrangements.

(2) Other includes purchase price adjustments and earn-out payments.

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

4. Goodwill and Other Intangible Assets, continued

Other Intangible Assets

In addition to goodwill, we have amortizable intangible assets at June 30, 2008 and December 31, 2007 as follows (in thousands):

	As of June 30, 2008			As of December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Covenants not-to-compete	$ 16,452	$ (7,315)	$ 9,137	$ 13,487	$ (6,928)	$ 6,559
Non-contractual customer relationships	23,848	(4,011)	19,837	12,992	(2,755)	10,237
Favorable lease asset	5,612	(1,329)	4,283	5,594	(1,019)	4,575
Technology	1,270	(949)	321	1,270	(822)	448
Trademarks	699	(217)	482	582	(185)	397
Contracts	380	(356)	24	380	(309)	71
Client lists	126	(54)	72	137	(51)	86
Total	$ 48,387	$ (14,231)	$ 34,156	$ 34,442	$ (12,069)	$ 22,373

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Aggregate amortization expense	$ 1,743	$ 1,065	$ 2,947	$ 2,030

The estimated amortization expense related to intangible assets for the remainder of 2008 and each of the four succeeding years thereafter as of June 30, 2008 is as follows (in thousands):

Remainder of 2008	$ 3,631
2009	6,404
2010	5,592
2011	4,782
2012	2,438
Thereafter	11,309
Total	$ 34,156

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

5. Other Accrued Liabilities

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

	June 30, 2008	December 31, 2007
Accrued workers compensation insurance	$ 7,484	$ 6,051
Deferred revenue	7,353	7,018
Interest rate swap liability	5,898	5,827
Accrued health insurance	3,976	3,273
Holdbacks	4,390	2,215
Accrued lease payments	1,881	2,329
Accrued liability insurance	2,240	1,787
Accrued post-retirement healthcare	1,571	1,281
Accrued accounting fees	1,403	690
Other	13,102	11,603
	$ 49,298	$ 42,074

6. Interest Rate Swap Agreements

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

	Interest Rate Swap Agreements			
Fixed interest rate	5.51%	4.95%	5.34%	2.64%
Notional amount (in millions)	$ 50.0	$ 75.0	$ 100.0	$ 100.0
Effective date	6/20/2006	4/30/2007	6/11/2007	2/12/2008
Expiration date	6/30/2009	4/30/2009	12/31/2009	2/26/2010
Counterparty	Goldman Sachs	Wells Fargo	Goldman Sachs	Wells Fargo
Qualifies for hedge accounting	Yes	Yes	Yes	Yes

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Cash paid (received) (1)	$1,703	$(531)	$2,391	$(1,020)
Recognized (gain) loss from ineffectiveness (2)	$ (213)	$ 172	$ (36)	$ 227

(1) These amounts are included in interest expense in our consolidated

income statements.

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

On January 1, 2008, we adopted the applicable provisions of SFAS No. 157, *Fair Value Measurement*s (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements related to financial instruments. In December 2007, the FASB provided a one-year deferral of SFAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or

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

6. Interest Rate Swap Agreements, continued

disclosed at fair value on a recurring basis. Accordingly, our adoption of SFAS No. 157 was limited to our financial assets and liabilities, which consist of our 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.

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

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

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

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

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

		Basis of Fair Value Measurement		
	Balance at June 30, 2008	Quoted Prices In Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Interest rate swap agreements:				
Prepaid expenses and other	$ 918	$	$ 918	$
Other accrued liabilities	$ 5,898	$	$ 5,898	$

7. Share-Based Compensation

Stock Option Activity

There were no stock options granted during the six months ended June 30, 2008. The aggregate intrinsic value of our stock options exercised during the three and six months ended June 30, 2008 was $811,000 and $1.2 million, respectively, and the actual tax benefit realized on options exercised during these periods was $316,000 and $477,000, respectively.

At June 30, 2008 there was $516,000 of total unrecognized compensation cost related to our stock options. This cost is expected to be recognized over a weighted-average period of less than one year.

The compensation cost that has been charged against income for stock options for the three months ended June 30, 2008 and 2007 was $438,000 and $446,000 million, respectively. The corresponding income tax benefit recognized was $170,000 and $177,000 for the three months ended June 30, 2008 and 2007, respectively.

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

7. Share-Based Compensation, continued

The compensation cost that has been charged against income for stock options for the six months ended June 30, 2008 and 2007 was $875,000 and $991,000, respectively. The corresponding income tax benefit recognized was $341,000 and $394,000 for the six months ended June 30, 2008 and 2007, respectively.

Non-vested Stock Activity

During the six months ended June 30, 2008, we granted 418,780 shares of non-vested common stock, 177,000 of which were issued to certain of our executives and contain performance conditions. The performance based awards provide that the number of shares that will ultimately vest will be between 0% and 100% of the total granted based upon the attainment of performance targets. Assuming continued service through each vesting date, these awards vest in three installments as follows: 25% in March 2010, 50% in March 2011 and 25% in March 2012.

Total compensation cost charged against income related to non-vested stock awards was $1.6 million and $637,000 for the three months ended June 30, 2008 and 2007, respectively. The corresponding income tax benefit recognized in the income statement was $613,000 and $253,000 for the three months ended June 30, 2008 and 2007, respectively.

Total compensation cost charged against income related to non-vested stock awards was $2.4 million and $1.3 million for the six months ended June 30, 2008 and 2007, respectively. The corresponding income tax benefit recognized in the income statement was $952,000 and $510,000 for the six months ended June 30, 2008 and 2007, respectively.

At June 30, 2008, there was $17.9 million of unrecognized compensation cost related to these non-vested shares that will be recognized over a weighted-average period of 3.2 years, assuming the performance conditions are met. A summary of our non-vested stock activity for the six months ended June 30, 2008 is as follows (in thousands, except per share amounts):

	Shares	Weighted-Average Fair Value Per Share
Outstanding at December 31, 2007	352,832	$ 32.90
Granted	418,780	30.31
Vested	(2,667)	40.59
Forfeited/Canceled	(1,500)	32.34
Outstanding at June 30, 2008	767,445	$ 31.46

8. Calculation of Earnings per Share

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

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

8. Calculation of Earnings per Share, continued

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	$ 40,317	$ 35,847	$ 71,519	$ 64,160

For the three months ended June 30, 2008 and 2007, potential common shares of 47,997 and 14,132, respectively, were excluded from the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

For the six months ended June 30, 2008 and 2007, potential common shares of 39,997 and 56,973, respectively, were excluded from the computation of diluted earnings per share because their inclusion would have had an anti-dilutive effect.

9. Comprehensive Income

Total comprehensive income consists of net income and the other comprehensive gain (loss) during the three and six months ended June 30, 2008 and 2007. The following table provides a summary of comprehensive income (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	$ 40,317	$ 35,847	$ 71,519	$ 64,160
Other comprehensive gain (loss):				
Foreign currency translation adjustments	(18)		(18)	
Unrealized gain (loss) on hedging instruments	3,675	1,010	(1,765)	934
Tax (expense) benefit	(1,437)	(401)	679	(371)
Loss (gain) on hedging instruments reclassified to income	1,703	(531)	2,391	(1,020)
Tax (expense) benefit	(663)	211	(930)	405
Other comprehensive gain (loss)	3,260	289	357	(52)
Total comprehensive income	$ 43,577	$ 36,136	$ 71,876	$ 64,108

10. Segment Reporting

Our reportable segments are Laboratory, Animal Hospital, and Medical Technology. These segments are strategic business units that have different services, products and/or functions. The segments are managed separately because each is a distinct and different business venture with unique challenges, risks and rewards. Our Laboratory segment provides diagnostic laboratory testing services for veterinarians, both associated with our animal hospitals and those independent of us. Our Animal Hospital segment provides veterinary services for companion animals and sells related retail and pharmaceutical products. Our Medical Technology segment sells

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

10. Segment Reporting, continued

digital radiography and ultrasound imaging equipment, related computer hardware, software and ancillary services to the veterinary market. We also operate a corporate office that provides general and administrative support services for our other segments.

The accounting policies of our segments are the same as those described in the summary of significant accounting policies included in our 2007 Annual Report on Form 10-K. We evaluate the performance of our segments based on gross profit and operating income. For purposes of reviewing the operating performance of our segments, all intercompany sales and purchases are accounted for as if they were transactions with independent third parties at current market prices.

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

	Laboratory	Animal Hospital	Medical Technology	Corporate	Intercompany Eliminations	Total
Three Months Ended June 30, 2008						
External revenue	$ 73,591	$ 251,001	$ 9,842	$	$	$ 334,434
Intercompany revenue	8,249		1,996		(10,245)	
Total revenue	81,840	251,001	11,838		(10,245)	334,434
Direct costs	40,966	198,381	7,616		(9,495)	237,468
Gross profit	40,874	52,620	4,222		(750)	96,966
Selling, general and administrative expense	5,185	5,694	2,948	8,982		22,809
Write-down and loss on sale of assets	11	104		12		127
Operating income (loss)	$ 35,678	$ 46,822	$ 1,274	$ (8,994)	$ (750)	$ 74,030
Depreciation and amortization	$ 1,808	$ 5,535	$ 404	$ 454	$ (139)	$ 8,062
Capital expenditures	$ 3,637	$ 12,091	$ 175	$ 617	$ (440)	$ 16,080
Three Months Ended June 30, 2007						
External revenue	$ 72,027	$ 218,466	$ 9,812	$	$	$ 300,305
Intercompany revenue	7,183		823		(8,006)	
Total revenue	79,210	218,466	10,635		(8,006)	300,305
Direct costs	39,244	172,165	6,850		(7,832)	210,427
Gross profit	39,966	46,301	3,785		(174)	89,878
Selling, general and administrative expense	5,046	5,321	2,693	8,983		22,043
Write-down and loss on sale of assets	58	322	40			420
Operating income (loss)	$ 34,862	$ 40,658	$ 1,052	$ (8,983)	$ (174)	$ 67,415
Depreciation and amortization	$ 1,593	$ 4,420	$ 428	$ 460	$ (92)	$ 6,809

Capital expenditures	$ 4,601	$ 9,324	$ 176	$ 1,526	$ (266)	$ 15,361

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

10. Segment Reporting, continued

	Laboratory	Animal Hospital	Medical Technology	Corporate	Intercompany Eliminations	Total
Six Months Ended June 30, 2008						
External revenue	$ 142,649	$ 477,101	$ 22,516	$	$	$ 642,266
Intercompany revenue	15,920		3,171		(19,091)	
Total revenue	158,569	477,101	25,687		(19,091)	642,266
Direct costs	80,353	383,344	16,552		(17,980)	462,269
Gross profit	78,216	93,757	9,135		(1,111)	179,997
Selling, general and administrative expense	10,136	11,172	6,382	18,297		45,987
Write-down and (gain) loss on sale of assets		(89)	20	12		(57)
Operating income (loss)	$ 68,080	$ 82,674	$ 2,733	$ (18,309)	$ (1,111)	$ 134,067
Depreciation and amortization	$ 3,455	$ 10,418	$ 801	$ 913	$ (262)	$ 15,325
Capital expenditures	$ 5,415	$ 19,146	$ 257	$ 1,442	$ (717)	$ 25,543
Six Months Ended June 30, 2007						
External revenue	$ 139,269	$ 405,637	$ 20,544	$	$	$ 565,450
Intercompany revenue	13,538		1,263		(14,801)	
Total revenue	152,807	405,637	21,807		(14,801)	565,450
Direct costs	76,839	323,756	13,711		(14,654)	399,652
Gross profit	75,968	81,881	8,096		(147)	165,798
Selling, general and administrative expense	10,013	10,881	5,628	16,994		43,516
Write-down and loss on sale of assets	58	444	40			542
Operating income (loss)	$ 65,897	$ 70,556	$ 2,428	$ (16,994)	$ (147)	$ 121,740
Depreciation and amortization	$ 2,946	$ 8,290	$ 807	$ 878	$ (181)	$ 12,740
Capital expenditures	$ 7,724	$ 16,280	$ 424	$ 3,136	$ (328)	$ 27,236
At June 30, 2008						
Total assets	$ 195,383	$ 1,013,625	$ 44,469	$ 128,674	$ (8,393)	$ 1,373,758
At December 31, 2007						
Total assets	$ 178,846	$ 934,366	$ 54,954	$ 125,173	$ (6,628)	$ 1,286,711

11. Commitments and Contingencies

We have certain commitments, including operating leases and supply purchase agreements. These items are discussed in detail in our consolidated financial statements and notes thereto included in our 2007 Annual Report on Form 10-K. We also have contingencies as follows:

a. Earn-out Payments

We have contractual arrangements in connection with certain acquisitions, whereby additional cash may be paid to former owners of acquired companies upon attainment of specified financial criteria as set forth in the respective agreements. The amount to be paid cannot be determined until the earn-out periods expire and the attainment of criteria is established. If the specified financial criteria are attained, at June 30, 2008, we will be obligated to pay an additional $1.45 million.

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

11. Commitments and Contingencies, continued

b. Officers Compensation

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

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

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

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

c. Other Contingencies

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

12. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. However, it eliminates inconsistencies in the guidance provided in previous accounting pronouncements. In December 2007, the FASB provided a one-year deferral of SFAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value on a recurring basis, at least annually. Accordingly, we adopted SFAS No. 157 on January 1, 2008, as required for our financial assets and financial liabilities, which did not have a material impact on our consolidated financial statements. The provisions of SFAS No. 157 as it related to our non-financial assets and liabilities will be effective for our company on January 1, 2009. We are currently evaluating the impact of SFAS No. 157 with respect to our non-financial assets and liabilities on our consolidated financial statements.

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

12. Recent Accounting Pronouncements, continued

In February 2007, the FASB issued SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), which permits entities to choose to measure certain financial instruments and other eligible items at fair value when the items are not otherwise currently required to be measured at fair value. We adopted SFAS No. 159 on January 1, 2008. Upon adoption, we did not elect the fair value option for any items within the scope of SFAS No. 159 and, therefore, the adoption of SFAS No. 159 did not have an impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141R will significantly change the accounting for business combinations in a number of areas including the treatment of contingent consideration, contingencies, acquisition costs, in-process research and development and restructuring costs. In addition, under SFAS No. 141R, changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will impact income tax expense. The provisions of SFAS No. 141R will be effective for our company on January 1, 2009. We are currently evaluating the impact of adopting SFAS No. 141R on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 will change the accounting and reporting for minority interests, which will be re-characterized as non-controlling interests and classified as a component of equity. This new standard will significantly change the accounting for transactions with minority interest holders. The provisions of SFAS No. 160 will be effective for our company on January 1, 2009. We are currently evaluating the impact of adopting SFAS No. 160 on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS No. 133* (SFAS No. 161). SFAS No. 161 will change the disclosure requirement for derivative instruments and hedging activities to enhance the current disclosure framework in SFAS No. 133. The additional disclosures will require information about how derivatives and hedging activities affect an entity s financial position, financial performance, and cash flows. The provisions of SFAS No. 161 will be effective for our company on January 1, 2009. We are currently evaluating the impact of adopting SFAS No. 161 on our consolidated financial statements.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends FASB Statement No. 142, *Goodwill and Other Intangible Assets,* to improve the consistency between the useful life of a recognized intangible asset under Statement No. 142 and the period of expected cash flows used to measure the fair value of the asset under Statement No 141, *Business Combinations*, and other U.S. GAAP. The provisions of FSP FAS 142-3 will be effective for our company on January 1, 2009. We are currently evaluating the impact of adopting FSP FAS 142-3 on our consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 will not change the accounting or disclosure requirement for the financial statements. The new standard identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles. The provisions of SFAS No. 162 will be effective 60 days following SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.* Currently, we believe that SFAS No. 162 will not have a material impact on our consolidated financial statements.

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

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Introduction

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

The forward-looking information set forth in this Quarterly report on Form 10-Q is as of August 8, 2008, and we undertake no duty to update this information. Shareholders and prospective investors can find information filed with the SEC after August 8, 2008 at our website at http://investor.vcaantech.com or at the SEC s website at www.sec.gov.

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

Our laboratory segment operates the largest network of veterinary diagnostic laboratories in the nation. Our laboratories provide sophisticated testing and consulting services used by veterinarians in the detection, diagnosis, evaluation, monitoring, treatment and prevention of diseases and other conditions affecting animals. At June 30, 2008, our laboratory network consisted of 39 laboratories serving all 50 states and certain areas in Canada.

Our animal hospital segment operates the largest network of freestanding, full-service animal hospitals in the nation. Our animal hospitals offer a full range of general medical and surgical services for companion animals. We treat diseases and injuries, offer pharmaceutical and retail products and perform a variety of pet wellness programs, including health examinations, diagnostic testing, routine vaccinations, spaying, neutering and dental care. At June 30, 2008, our animal hospital network consisted of 465 animal hospitals in 39 states.

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

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

Executive Overview

The company delivered strong operating results during the three months ended June 30, 2008, achieved through a combination of acquisitions and continued internal revenue growth. Although our organic revenue growth rates have been impacted by the challenging economic environment, we have been able to continue our long record of earnings growth by increasing our rate of acquisitions and by implementing cost controls. Our laboratory internal revenue growth was 2.5%, and our animal hospital same-store revenue declined by 0.2%.

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Acquisitions and Facilities

Our growth strategy includes the acquisition of independent animal hospitals. We currently anticipate that animal hospital acquired revenue for 2008 will range from $90.0 million to $100.0 million. In addition, we also evaluate the acquisition of animal hospital chains, laboratories or related businesses if favorable opportunities are presented. The following table summarizes the changes in the number of facilities operated by our animal hospital and laboratory segment during the six months ended June 30, 2008:

Animal Hospitals:	
Beginning of period	438
Acquisitions	36
Acquisitions relocated into our existing animal hospitals	(4)
Sold or closed	(5)
End of period	465
Laboratories:	
Beginning of period	36
Acquisitions	3
Acquisitions relocated into our existing laboratories	(1)
Created	1
End of period	39

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States, which require management to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and on other factors that management believes to be reasonable. Actual results may differ from those estimates. Critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our consolidated financial statements. A discussion of such critical accounting policies, which include revenue recognition, valuation of goodwill and other intangible assets, income taxes, and self-insured liabilities can be found in our Annual Report on Form 10-K for the year ended December 31, 2007. There have been no material changes to those policies as of this Quarterly Report on Form 10-Q for the period ended June 30, 2008.

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Consolidated Results of Operations

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenue:				
Laboratory	24.5%	26.4%	24.7%	27.0%
Animal hospital	75.1	72.7	74.3	71.7
Medical technology	3.5	3.5	4.0	3.9
Intercompany	(3.1)	(2.6)	(3.0)	(2.6)
Total revenue	100.0	100.0	100.0	100.0
Direct costs	71.0	70.1	72.0	70.7
Gross profit	29.0	29.9	28.0	29.3
Selling, general and administrative expense	6.8	7.3	7.2	7.7
Write-down and loss (gain) on sale of assets	0.1	0.2	(0.1)	0.1
Operating income	22.1	22.4	20.9	21.5
Interest expense, net	2.1	2.2	2.3	2.3
Other (income) expense	(0.1)	0.1		
Income before minority interest and provision for income taxes	20.1	20.1	18.6	19.2
Minority interest in income of subsidiairies	0.3	0.3	0.3	0.3
Income before provision for income taxes	19.8	19.8	18.3	18.9
Provision for income taxes	7.7	7.9	7.2	7.6
Net income	12.1%	11.9%	11.1%	11.3%

Revenue

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

	Three Months Ended June 30,					Six Months Ended June 30,				
	2008		2007			2008		2007		
	$	% of Total	$	% of Total	% Change	$	% of Total	$	% of Total	% Change
Laboratory	$ 81,840	24.5%	$ 79,210	26.4%	3.3%	$ 158,569	24.7%	$ 152,807	27.0%	3.8%
Animal hospital	251,001	75.1%	218,466	72.7%	14.9%	477,101	74.3%	405,637	71.7%	17.6%
Medical technology	11,838	3.5%	10,635	3.5%	11.3%	25,687	4.0%	21,807	3.9%	17.8%
Intercompany	(10,245)	(3.1)%	(8,006)	(2.6)%	28.0%	(19,091)	(3.0)%	(14,801)	(2.6)%	29.0%
Total revenue	$ 334,434	100.0%	$ 300,305	100.0%	11.4%	$ 642,266	100.0%	$ 565,450	100.0%	13.6%

Consolidated revenue increased $34.1 million for the three months ended June 30, 2008 and $76.8 million for the six months ended June 30, 2008. The increase in consolidated revenue for the three and six months ended June 30, 2008 was attributable primarily to revenue from acquired animal hospitals, including Healthy Pet which was acquired on June 1, 2007, and internal revenue growth in our Laboratory business segment. The increase in consolidated revenue for the six months ended June 30, 2008 was also aided by same-store growth in our Hospital business segment.

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Gross Profit

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

	Three Months Ended June 30,					Six Months Ended June 30,				
	2008		2007			2008		2007		
	$	Gross Margin	$	Gross Margin	% Change	$	Gross Margin	$	Gross Margin	% Change
Laboratory	$ 40,874	49.9%	$ 39,966	50.5%	2.3%	$ 78,216	49.3%	$ 75,968	49.7%	3.0%
Animal hospital	52,620	21.0%	46,301	21.2%	13.6%	93,757	19.7%	81,881	20.2%	14.5%
Medical technology	4,222	35.7%	3,785	35.6%	11.5%	9,135	35.6%	8,096	37.1%	12.8%
Intercompany	(750)		(174)			(1,111)		(147)		
Total gross profit	$ 96,966	29.0%	$ 89,878	29.9%	7.9%	$ 179,997	28.0%	$ 165,798	29.3%	8.6%

Consolidated gross profit increased $7.1 million for the three months ended June 30, 2008 and $14.2 million for the six months ended June 30, 2008. The increase for the three and six months ended June 30, 2008 was primarily due to acquired animal hospitals as discussed above and organic growth partially offset by a slight decline in margins.

Selling, General and Administrative Expense

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

	Three Months Ended June 30,					Six Months Ended June 30,				
	2008		2007			2008		2007		
	$	% of Revenue	$	% of Revenue	% Change	$	% of Revenue	$	% of Revenue	% Change
Laboratory	$ 5,185	6.3%	$ 5,046	6.4%	2.8%	$ 10,136	6.4%	$ 10,013	6.6%	1.2%
Animal hospital	5,694	2.3%	5,321	2.4%	7.0%	11,172	2.3%	10,881	2.7%	2.7%
Medical technology	2,948	24.9%	2,693	25.3%	9.5%	6,382	24.8%	5,628	25.8%	13.4%
Corporate	8,982	2.7%	8,983	3.0%	0.0%	18,297	2.8%	16,994	3.0%	7.7%
Total SG&A	$ 22,809	6.8%	$ 22,043	7.3%	3.5%	$ 45,987	7.2%	$ 43,516	7.7%	5.7%

Consolidated selling, general and administrative expense increased $766,000 for the three months ended June 30, 2008 and $2.5 million for the six months ended June 30, 2008. The increase was primarily attributable to expanding our administrative operations in order to manage our recent acquisitions, compensation and benefits related to annual salary increases, share-based compensation expense due to non-vested shares granted in 2007 and 2008, and commissions as a result of our medical technology segment s strong operating performance.

Write-down and (Gain) Loss on Sale of Assets

During the six months ended June 30, 2008, we sold certain assets, including real estate, for a net gain of $303,000 and wrote-off certain other assets totaling $246,000.

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Operating Income

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

	Three Months Ended June 30,					Six Months Ended June 30,				
	2008		2007			2008		2007		
	$	% of Revenue	$	% of Revenue	% Change	$	% of Revenue	$	% of Revenue	% Change
Laboratory	$ 35,678	43.6%	$ 34,862	44.0%	2.3%	$ 68,080	42.9%	$ 65,897	43.1%	3.3%
Animal hospital	46,822	18.7%	40,658	18.6%	15.2%	82,674	17.3%	70,556	17.4%	17.2%
Medical technology	1,274	10.8%	1,052	9.9%	21.1%	2,733	10.6%	2,428	11.1%	12.6%
Corporate	(8,994)	(2.7)%	(8,983)	(3.0)%	0.1%	(18,309)	(2.9)%	(16,994)	(3.0)%	7.7%
Intercompany	(750)	7.3%	(174)	2.2%	331.0%	(1,111)	5.8%	(147)	1.0%	655.8%
Total operating income	$ 74,030	22.1%	$ 67,415	22.4%	9.8%	$ 134,067	20.9%	$ 121,740	21.5%	10.1%

The increase in our consolidated operating income was primarily due to both revenue growth and our ability to leverage our existing cost structure.

Interest Expense, Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Interest expense (income):				
Senior term notes	$ 5,563	$ 7,369	$ 12,576	$ 13,774
Interest rate hedging agreements	1,656	(529)	2,438	(1,018)
Capital leases and other	401	349	1,042	699
Amortization of debt costs	117	76	233	137
	7,737	7,265	16,289	13,592
Interest income	(692)	(594)	(1,629)	(1,148)
Total interest expense, net of interest income	$ 7,045	$ 6,671	$ 14,660	$ 12,444

The increase in net interest expense for the three and six months ended June 30, 2008, was primarily attributable to an increase in the average borrowings outstanding during the periods due to additional debt incurred related to the Healthy Pet acquisition partially offset by a decrease in the weighted average interest rate.

Provision for Income Taxes

Our effective tax rate was 39.1% for the three and six months ended June 30, 2008 compared to 39.8% and 40.1% for the three and six months ended June 30, 2007, respectively. The effective tax rate is subject to ongoing review and evaluation by management and could change in future quarters.

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Segment Results

Laboratory Segment

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

	Three Months Ended June 30,					Six Months Ended June 30,				
	2008		2007			2008		2007		
	$	Gross Margin	$	Gross Margin	% Change	$	Gross Margin	$	Gross Margin	% Change
Revenue	$81,840		$79,210		3.3%	$158,569		$152,807		3.8%
Gross profit	$40,874	49.9%	$39,966	50.5%	2.3%	$ 78,216	49.3%	$ 75,968	49.7%	3.0%

Laboratory revenue increased $2.6 million for the three months ended June 30, 2008 and increased $5.8 million for the six months ended June 30, 2008 as compared to the same periods in the prior year. The components of the increase in laboratory revenue are detailed below (in thousands, except percentages and average price per requisition):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2008	2007	% Change	2008	2007	% Change
Laboratory Revenue:						
Internal growth:						
Number of requisitions (1)	3,530	3,474	1.6%	6,755	6,593	2.5%
Average revenue per reqisition (2)	$ 23.00	$ 22.80	0.9%	$ 23.36	$ 23.18	0.8%
Total internal revenue (1)	$ 81,184	$ 79,210	2.5%	$ 157,799	$ 152,807	3.3%
Acquired revenue (3)	656			770		
Total	$ 81,840	$ 79,210	3.3%	$ 158,569	$ 152,807	3.8%

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

(2) Computed by dividing internal revenue by the

number of requisitions.

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

The increase in requisitions from internal growth is the result of a continued trend in veterinary medicine to focus on the importance of laboratory diagnostic testing in the diagnosis, early detection and treatment of diseases, and the migration of certain tests to outside laboratories that have historically been performed in veterinary hospitals. This trend is driven by an increase in the number of specialists in the veterinary industry relying on diagnostic testing, the increased focus on diagnostic testing in veterinary schools and general increased awareness through ongoing marketing and continuing education programs provided by us, pharmaceutical companies and other service providers in the industry.

No single customer represented more than 10% of our laboratory revenues during the periods presented. We derive our laboratory revenue from services provided to over 16,000 clients 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.

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The change in the average revenue per requisition is attributable to changes in the mix, including performing lower-priced tests historically performed at the veterinary hospitals, the type and number of tests performed per requisition and price increases. The price increases for most tests ranged from 3% to 4% in both February 2008 and February 2007.

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.

Animal Hospital Segment

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

	Three Months Ended June 30,					Six Months Ended June 30,				
	2008		2007			2008		2007		
	$	Gross Margin	$	Gross Margin	% Change	$	Gross Margin	$	Gross Margin	% Change
Revenue	$251,001		$218,466		14.9%	$477,101		$405,637		17.6%
Gross profit	$ 52,620	21.0%	$ 46,301	21.2%	13.6%	$ 93,757	19.7%	$ 81,881	20.2%	14.5%

Animal hospital revenue increased $32.5 million for the three months ended June 30, 2008 and $71.5 million for the six months ended June 30, 2008 as compared to the comparable periods in the prior year. The components of the increase are summarized in the following table (in thousands, except percentages and average price per order):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2008	2007	% Change	2008	2007	% Change
Animal Hospital Revenue:						
Same-store facilities:						
Orders (1)(2)	1,392	1,466	(5.1)%	2,634	2,740	(3.9)%
Average revenue per order (3)	$ 148.59	$ 141.28	5.2%	$ 146.50	$ 139.64	4.9%
Same-store revenue (1)	$ 206,841	$ 207,185	(0.2)%	$ 385,893	$ 382,670	0.8%
Net acquired revenue (4)	44,160	11,281		91,208	22,967	
Total	$ 251,001	$ 218,466	14.9%	$ 477,101	$ 405,637	17.6%

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

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

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

(4) Net acquired revenue represents the revenue from those animal hospitals acquired, net of revenue from those animal hospitals sold or closed, on or

after the beginning of the comparable period, which was April 1, 2007 for the three-month analysis, and January 1, 2007 for the six-month analysis. Fluctuations in net acquired revenue occur due to the volume, size and timing of acquisitions and dispositions during the periods from this date through the end of the applicable period.

Our business strategy is to place a greater emphasis on comprehensive wellness visits and advanced medical procedures, which typically generate higher-priced orders. Over the last few years, some pet-related products traditionally sold in our animal hospitals are now widely available in retail stores and other distribution channels. In addition, there has been a decline in the number of vaccinations as some recent professional literature and research has suggested that vaccinations can be given to pets less frequently. These trends have resulted in a decrease in

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lower-priced orders and an increase in higher-priced orders. During the six months ended June 30, 2008, we experienced a decrease in the number of orders due to a combination of factors, including the reasons discussed above and the overall impact of the current economic environment.

Price increases also 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 5% to 6% on most services at the majority of our hospitals and are typically implemented in February of each year.

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

Consistent with our growth strategies, 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. Historically, these lower gross margins, in the aggregate, have been favorably impacted subsequent to the acquisition by improvements in animal hospital revenue, increased operating leverage and our integration efforts. However, due to the substantial amount of acquisition activity that has occurred in a relatively short period of time, our gross margins have declined. Our animal hospital gross margin declined slightly to 21.0% for the three months ended June 30, 2008 and 19.7% for the six months ended June 30, 2008 as compared to 21.2% and 20.2% in the comparable prior year periods. Our animal hospital same-store gross margins remained relatively unchanged totaling 21.6% and 20.3% for the three and six months ended June 30, 2008 and as compared to 21.5% and 20.4% for the three and six months ended June 30, 2007, respectively.

Medical Technology Segment

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

	Three Months Ended June 30,					Six Months Ended June 30,				
	2008		2007			2008		2007		
	$	Gross Margin	$	Gross Margin	% Change	$	Gross Margin	$	Gross Margin	% Change
Revenue	$11,838		$10,635		11.3%	$25,687		$21,807		17.8%
Gross profit	$ 4,222	35.7%	$ 3,785	35.6%	11.5%	$ 9,135	35.6%	$ 8,096	37.1%	12.8%

Medical technology revenue increased $1.2 million for the three months ended June 30, 2008 and $3.9 million for the six months ended June 30, 2008 as compared to the comparable prior year periods which was primarily attributable to revenue on sales of our digital radiography equipment. However ultrasound revenues declined slightly year over year. 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.

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

Medical technology gross profit increased $437,000 for the three months ended June 30, 2008 and $1.0 million for the six months ended June 30, 2008 as compared to the comparable prior year periods, which was attributable to an increase in revenue as discussed above. Our medical technology gross margin remained relatively flat at 35.7% for the three months ended June 30, 2008 and declined to 35.6% for the six months ended June 30, 2008 as compared to 35.6% and 37.1% in the comparable prior year periods. The decline in year to date margins was primarily the result of an increase in material costs related to the sale of our digital radiography imaging equipment. In 2007, we implemented a strategic shift in our pricing model in an effort to mitigate the effects of increasing competition by providing better value to our customers through additional functionality.

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Intercompany Revenue

Laboratory revenue for the three and six months ended June 30, 2008 included intercompany revenue of $8.2 million and $15.9 million, respectively, that was generated by providing laboratory services to our animal hospitals. Medical technology revenue for the three and six months ended June 30, 2008 included intercompany revenue of $2.0 million and $3.2 million, respectively, that was generated by providing products and services to our animal hospitals and laboratories. For purposes of reviewing the operating performance of our business segments, all intercompany transactions are accounted for as if the transaction was with an independent third party at current market prices. For financial reporting purposes, intercompany transactions are eliminated as part of our consolidation.

Liquidity and Capital Resources

Introduction

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

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

At June 30, 2008, our consolidated cash and cash equivalents totaled $75.9 million, representing an increase of $13.8 million as compared to the prior year. In addition, cash flows generated from operating activities totaled $100.0 million in 2008, representing an increase of $5.8 million as compared to the six months ended June 30, 2007.

We also have access to an unused $75.0 million revolving credit facility, which allows us to maintain further operating and financial flexibility. Historically we have been able to obtain cash from other borrowings. The availability of financing in the form of debt or equity however is influenced by many factors including our profitability, operating cash flows, debt levels, debt ratings, contractual restrictions, and market conditions. Although in the past we have been able to obtain financing for material transactions on terms that we believe to be reasonable, there is a possibility that we may not be able to obtain financing on favorable terms in the future.

Future Cash Flows

Short-term

Other than our acquisitions of hospital chains, we historically have funded our working capital requirements, capital expenditures and investments in animal hospital acquisitions from internally generated cash flow. We anticipate that our cash on hand, net cash provided by operations and our revolving credit facility 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 2008, we expect to spend $90 million to $100 million, excluding real estate, related to 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, 2008 through June 30, 2008, we spent over $74.0 million in connection with the acquisition of 36 animal hospitals, and $13.1 million for the related real estate. In addition, we expect to spend approximately $60 million in 2008 for both property and equipment additions and capital costs necessary to maintain our existing facilities.

Long-term

Our long-term liquidity needs, other than those related to the day-to-day operations of our business, including commitments for operating leases, generally are comprised of scheduled principal and interest payments for our

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outstanding long-term indebtedness, capital expenditures related to the expansion of our business and acquisitions in accordance with our growth strategy. In addition to the scheduled payments on our senior term notes, we are required to make mandatory prepayments in the event we have excess cash flow. Pursuant to the terms of our senior credit facility, mandatory prepayments are due on our senior term notes equal to 75% of any excess cash flow at the end of 2008, 2009 and 2010. Excess cash flow is defined as earnings before interest, taxes, depreciation and amortization less voluntary and scheduled debt repayments, capital expenditures, interest payable in cash, taxes payable in cash and cash paid for acquisitions. These payments reduce on a pro rata basis the remaining scheduled principal payments.

We are unable to project with certainty whether our long-term cash flow from operations will be sufficient to repay our long-term debt when it comes due. If this cash flow is insufficient, we expect that we will need to refinance such indebtedness, amend its terms to extend the maturity dates, or issue common stock in our company. Our management cannot make any assurances that such refinancing or amendments, if necessary, will be available on attractive terms, if at all.

Debt Related Covenants

Our senior credit facility contains certain financial covenants pertaining to fixed charge coverage and leverage ratios. In addition, the senior credit facility has restrictions pertaining to capital expenditures, acquisitions and the payment of cash dividends. As of June 30, 2008, we were in compliance with these covenants.

At June 30, 2008, we had a fixed charge coverage ratio of 1.64 to 1.00, which was in compliance with the required ratio of no less than 1.20 to 1.00. The senior credit facility defines the fixed charge coverage ratio as that ratio that is calculated on a last 12-month basis by dividing pro forma earnings before interest, taxes, depreciation and amortization, as defined by the senior credit facility (pro forma earnings), by fixed charges. Fixed charges are defined as cash interest expense, scheduled principal payments on debt obligations, capital expenditures, and provision for income taxes. Pro forma earnings include 12 months of operating results for businesses acquired during the period.

At June 30, 2008, we had a leverage ratio of 1.92 to 1.00, which was in compliance with the required ratio of no more than 3.00 to 1.00. The senior credit facility defines the leverage ratio as that ratio which is calculated as total debt divided by pro forma earnings.

Historical Cash Flows

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

	Six Months Ended June 30,	
	2008	**2007**
Cash provided by (used in):		
Operating activities	$ 99,993	$ 94,193
Investing activities	(132,242)	(237,212)
Financing activities	(2,678)	160,022
Effect of exchange rate changes on cash and cash equivalents	(15)	
(Decrease) increase in cash and cash equivalents	(34,942)	17,003
Cash and cash equivalents at beginning of period	110,866	45,104
Cash and cash equivalents at end of period	$ 75,924	$ 62,107

Cash Flows from Operating Activities

Net cash provided by operating activities increased $5.8 million in the six months ended June 30, 2008 as compared to the same period in the prior year. This increase was due primarily to additional cash generated from acquired businesses and improved operating performance, partially offset by changes in working capital and an increase in cash paid for taxes of $5.3 million.

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Cash Flows from Investing Activities

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

	Six Months Ended June 30,		
	2008	**2007**	**Variance**
Investing Cash Flows:			
Acquisition of Healthy Pet	$	$ (154,376)	$ 154,376 (1)
Acquisition of independent animal hospitals	(78,022)	(47,055)	(30,967) (2)
Other	(2,345)	(1,891)	(454)
Total cash used for acquisitions	(80,367)	(203,322)	122,955
Property and equipment additions	(25,543)	(27,236)	1,693 (3)
Real estate acquired with acquisitions	(13,098)	(7,962)	(5,136) (4)
Proceeds from sale of assets	1,753	1,564	189
Other	(14,987)	(256)	(14,731) (5)
Net cash used in investing activities	$ (132,242)	$ (237,212)	$ 104,970

(1) The decrease in cash used is primarily due to the acquisition of the Healthy Pet chain in June of 2007.

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

(3) The decrease in cash used to acquire property and equipment was primarily

due to a reduction in costs related to certain technology related initiatives in 2007 aimed at creating operational efficiencies.

(4) The increase in cash used to acquire real estate was due primarily to a increase in the number of favorable opportunities presented.

(5) The increase in other investing cash flows was due primarily to certain investments in related businesses.

Cash Flows from Financing Activities

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

	Six Months Ended June 30,		
	2008	**2007**	**Variance**
Financing Cash Flows:			
Repayment of long-term obligations	$ (3,925)	$ (4,224)	$ 299
Proceeds from issuance of long-term obligations		160,000	(160,000) (1)
Payment of debt issue costs		(794)	794
Proceeds from stock options exercises	892	2,360	(1,468) (2)
Excess tax benefits from stock options	355	2,680	(2,325) (2)
Net cash (used in) provided by financing activities	$ (2,678)	$ 160,022	$ (162,700)

(1) The decrease in proceeds from the issuance of long-term

obligations is due to funds borrowed in 2007 related to the Healthy Pet acquisition.

(2) The number of stock option exercises has declined in comparison to the prior year. Accordingly, there has been a decline in the amount of excess tax benefits as well.

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Off-Balance Sheet Arrangements

Other than operating leases as of June 30, 2008, we do not have any off-balance sheet financing arrangements.

Interest Rate Swap Agreements

We have interest rate swap agreements whereby we pay counterparties amounts based on fixed interest rates and set notional principal amounts in exchange for the receipt of payments from the counterparties based on London Interbank Offer Rates (LIBOR) and the same set notional principal amounts. We entered into these interest rate swap agreements to hedge against the risk of increasing interest rates. The contracts effectively convert a certain amount of our variable-rate debt under our senior credit facility to fixed-rate debt for purposes of controlling cash paid for interest. That amount is equal to the notional principal amount of the interest rate swap agreements, and the fixed-rate conversion period is equal to the terms of the contract. All of our interest rate swap agreements at June 30, 2008 qualify for hedge accounting and are summarized as follows:

Fixed interest rate	5.51%	4.95%	5.34%	2.64%
Notional amount (in millions)	$ 50.0	$ 75.0	$ 100.0	$ 100.0
Effective date	6/20/2006	4/30/2007	6/11/2007	2/12/2008
Expiration date	6/30/2009	4/30/2009	12/31/2009	2/26/2010
Counterparty	Goldman Sachs	Wells Fargo	Goldman Sachs	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 June 30, 2008, we had $525.0 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 and our revolving credit facility based on the interest rate offered to our administrative agent on LIBOR plus a margin of 1.50% per annum.

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

Other Debt and Capital Lease Obligations

At June 30, 2008, we had seller notes secured by assets of certain animal hospitals, unsecured debt and capital leases that totaled $31.5 million.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. However, it eliminates inconsistencies in the guidance provided in previous accounting pronouncements. In December 2007, the FASB provided a one-year deferral of SFAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value on a recurring basis, at least annually. The provisions of SFAS No. 157 as it related to our non-financial assets and liabilities will be effective for us on January 1, 2009. Accordingly, we adopted SFAS No. 157 on January 1, 2008, as required for our financial assets and financial liabilities, which did not have a material impact on our consolidated financial statements. In accordance with the new standard, we have provided additional disclosures which are included in the discussion of our interest rate swap agreements included in our notes to consolidated financial statements. We are currently evaluating the impact of SFAS No. 157 with respect to our non-financial assets and liabilities on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159), which permits entities to choose to measure certain financial instruments and other eligible items at fair value when the items are not otherwise currently required to be measured at fair value. We

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adopted SFAS No. 159 on January 1, 2008. Upon adoption, we did not elect the fair value option for any items within the scope of SFAS No. 159 and, therefore, the adoption of SFAS No. 159 did not have an impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141R will significantly change the accounting for business combinations in a number of areas including the treatment of contingent consideration, contingencies, acquisition costs, in-process research and development and restructuring costs. In addition, under SFAS No. 141R, changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will impact income tax expense. The provisions of SFAS No. 141R will be effective for our company on January 1, 2009. We are currently evaluating the impact of adopting SFAS No. 141R on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 will change the accounting and reporting for minority interests, which will be re-characterized as non-controlling interests and classified as a component of equity. This new standard will significantly change the accounting for transactions with minority interest holders. The provisions of SFAS No. 160 will be effective for our company on January 1, 2009. We are currently evaluating the impact of adopting SFAS No. 160 on our consolidated financial statements.

In June 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS No. 133* (SFAS No. 161). SFAS No. 161 will change the disclosure requirement for derivative instruments and hedging activities to enhance the current disclosure framework in SFAS No. 133. The additional disclosures will require information about how derivatives and hedging activities affect an entity s financial position, financial performance, and cash flows. The provisions of SFAS No. 161 will be effective for our company on January 1, 2009. We are currently evaluating the impact of adopting SFAS No. 161 on our consolidated financial statements.

In April 2008, the FASB issued FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS 142-3). FSP FAS 142-3 amends FASB Statement No. 142, *Goodwill and Other Intangible Assets,* to improve the consistency between the useful life of a recognized intangible asset under Statement No. 142 and the period of expected cash flows used to measure the fair value of the asset under Statement No 141, *Business Combinations*, and other U.S. GAAP. The provisions of FSP FAS 142-3 will be effective for our company on January 1, 2009. We are currently evaluating the impact of adopting FSP FAS 142-3 on our consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS No. 162). SFAS No. 162 will not change the accounting or disclosure requirement for the financial statements. The new standard identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles. The provisions of SFAS No. 162 will be effective 60 days following SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.* Currently, we do not believe that SFAS No. 162 will have a material impact on our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At June 30, 2008, we had borrowings of $525.0 million under our senior credit facility with fluctuating interest rates based on market benchmarks such as LIBOR. For our variable-rate debt, changes in interest rates generally do not affect the fair market value, but do impact earnings and cash flow. To reduce the risk of increasing interest rates, we entered into the following interest rate swap agreements:

Fixed interest rate	5.51%	4.95%	5.34%	2.64%
Notional amount (in millions)	$ 50.0	$ 75.0	$ 100.0	$ 100.0
Effective date	6/20/2006	4/30/2007	6/11/2007	2/12/2008
Expiration date	6/30/2009	4/30/2009	12/31/2009	2/26/2010
Counterparty	Goldman Sachs	Wells Fargo	Goldman Sachs	Wells Fargo

These interest rate swap agreements have the effect of reducing the amount of our debt exposed to variable interest rates. During the six months ended June 30, 2008 we entered into an additional $100.0 million notional amount interest rate swap agreement. As a result, for every 1.0% increase in LIBOR we will pay an additional $2.1

million in pre-tax interest expense on an annualized basis and conversely for every 1.0% decrease in LIBOR we will save $2.1 million in pre-tax interest expense on an annualized basis. This represents a reduction of $0.5 million in both additional interest payments and interest savings in comparison to our estimate included in Item 7A of our 2007 Form 10-K.

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

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in our 2007 Annual Report on Form 10-K.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

On June 4, 2008, we held our annual meeting of stockholders at which our stockholders:

elected each of John B. Chickering, Jr., and John Heil as a Class III director; and

ratified KPMG LLP as our independent registered accounting firm.

The following Class II directors were not up for re-election and have three-year terms that expire in 2009: John Baumer and Frank Reddick. The following Class I director was not up for re-election and has a three-year term that expires 2010: Robert Antin.

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

Candidate	Yes Votes	No Votes	Abstain	Broker Non-Vote
John B. Chickering, Jr.	72,080,505		5,765,813	
John Heil	72,116,772		5,729,546	

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

Proposal	Yes Votes	No Votes	Abstain	Broker Non-Vote
Ratify KPMG LLP as our independent registered accounting firm	77,459,850	344,241	42,227	

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

10.1 Letter Agreement, dated as of April 25, 2008, by and between VCA Antech, Inc. and Neil Tauber. Incorporated by reference to Exhibit 10.1 to the Registrant s current report on Form 8-K filed April 28, 2008.

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

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

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

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SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 8, 2008.

Date: August 8, 2008

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

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EXHIBIT INDEX

Exhibit No.	Description
10.1*	Letter Agreement, dated as of April 25, 2008, by and between VCA Antech, Inc. and Neil Tauber. Incorporated by reference to Exhibit 10.1 to the Registrant s current report on Form 8-K filed April 28, 2008.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Management contract or compensatory plan or arrangement