

VCA INC  
Form 10-Q  
November 06, 2015

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

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FORM 10-Q

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

For the quarterly period ended September 30, 2015

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

Commission File Number: 001-16783

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

Delaware 95-4097995  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
12401 West Olympic Boulevard  
Los Angeles, California 90064-1022  
(Address of principal executive offices)  
(310) 571-6500  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No .  
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No .

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(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  No .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: common stock, \$0.001 par value, 80,641,801 shares as of November 2, 2015.

VCA Inc. and Subsidiaries  
 Form 10-Q  
 September 30, 2015  
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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## VCA Inc. and Subsidiaries

## Condensed, Consolidated Balance Sheets

(Unaudited)

(In thousands, except par value)

|   | September 30,<br>2015 | December 31,<br>2014 |
|---|-----------------------|----------------------|
| Assets  |                       |                      |
| Current assets:   |                       |                      |
| Cash and cash equivalents   | \$74,992              | \$81,383             |
| Trade accounts receivable, less allowance for uncollectible accounts of \$22,065 and \$19,846 at September 30, 2015 and December 31, 2014, respectively       | 74,654                | 60,482               |
| Inventory   | 51,597                | 56,050               |
| Prepaid expenses and other  | 30,827                | 36,924               |
| Deferred income taxes   | 30,329                | 30,331               |
| Prepaid income taxes  | —                     | 18,277               |
| Total current assets  | 262,399               | 283,447              |
| Property and equipment, net   | 492,532               | 468,041              |
| Goodwill  | 1,489,843             | 1,415,861            |
| Other intangible assets, net  | 100,939               | 88,175               |
| Notes receivable  | 2,345                 | 2,807                |
| Deferred financing costs, net   | 6,568                 | 7,874                |
| Other   | 76,564                | 65,815               |
| Total assets  | \$2,431,190           | \$2,332,020          |
| Liabilities and Equity  |                       |                      |
| Current liabilities:  |                       |                      |
| Current portion of long-term debt   | \$34,043              | \$19,356             |
| Accounts payable  | 45,512                | 46,284               |
| Accrued payroll and related liabilities   | 82,966                | 64,359               |
| Income tax payable  | 1,827                 | —                    |
| Other accrued liabilities   | 75,179                | 67,219               |
| Total current liabilities   | 239,527               | 197,218              |
| Long-term debt, less current portion  | 847,112               | 775,412              |
| Deferred income taxes   | 104,425               | 103,502              |
| Other liabilities   | 31,969                | 33,190               |
| Total liabilities   | 1,223,033             | 1,109,322            |
| Commitments and contingencies   |                       |                      |
| Redeemable noncontrolling interests   | 11,273                | 11,077               |
| Preferred stock, par value \$0.001, 11,000 shares authorized, none outstanding  | —                     | —                    |
| VCA Inc. stockholders' equity:  |                       |                      |
| Common stock, par value \$0.001, 175,000 shares authorized, 80,567 and 82,937 shares outstanding as of September 30, 2015 and December 31, 2014, respectively | 81                    | 83                   |
| Additional paid-in capital  | 16,135                | 155,802              |
| Retained earnings   | 1,211,612             | 1,064,158            |
| Accumulated other comprehensive loss  | (43,909)              | (19,397)             |
| Total VCA Inc. stockholders' equity   | 1,183,919             | 1,200,646            |
| Noncontrolling interests  | 12,965                | 10,975               |

|                              |             |             |
|------------------------------|-------------|-------------|
| Total equity                 | 1,196,884   | 1,211,621   |
| Total liabilities and equity | \$2,431,190 | \$2,332,020 |

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

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

|  | Three Months Ended |           | Nine Months Ended |             |
|--|--------------------|-----------|-------------------|-------------|
|  | September 30,      |           | September 30,     |             |
|  | 2015               | 2014      | 2015              | 2014        |
| Revenue  | \$551,717          | \$499,577 | \$1,599,955       | \$1,438,556 |
| Direct costs   | 414,051            | 375,820   | 1,207,580         | 1,092,933   |
| Gross profit   | 137,666            | 123,757   | 392,375           | 345,623     |
| Selling, general and administrative expense                        | 44,860             | 42,792    | 133,743           | 124,163     |
| Impairment of goodwill and other long-lived assets                 | —                  | 27,019    | —                 | 27,019      |
| Business interruption insurance gain                               | (4,523)            | ) —       | (4,523)           | ) —         |
| Net loss (gain) on sale or disposal of assets                      | 250                | 470       | (234)             | ) (173)     |
| Operating income   | 97,079             | 53,476    | 263,389           | 194,614     |
| Interest expense, net  | 5,455              | 4,367     | 15,396            | 12,564      |
| Debt retirement costs  | —                  | 1,709     | —                 | 1,709       |
| Other expense  | 59                 | 188       | 88                | 178         |
| Income before provision for income taxes                           | 91,565             | 47,212    | 247,905           | 180,163     |
| Provision for income taxes   | 35,097             | 18,261    | 95,961            | 69,389      |
| Net income   | 56,468             | 28,951    | 151,944           | 110,774     |
| Net income attributable to noncontrolling interests                | 1,614              | 1,499     | 4,490             | 3,695       |
| Net income attributable to VCA Inc.                                | \$54,854           | \$27,452  | \$147,454         | \$107,079   |
| Basic earnings per share   | \$0.68             | \$0.32    | \$1.80            | \$1.22      |
| Diluted earnings per share   | \$0.67             | \$0.31    | \$1.78            | \$1.21      |
| Weighted-average shares outstanding for basic earnings per share   | 80,815             | 86,274    | 81,700            | 87,543      |
| Weighted-average shares outstanding for diluted earnings per share | 81,795             | 87,360    | 82,744            | 88,665      |

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

VCA Inc. and Subsidiaries  
 Condensed, Consolidated Statements of Comprehensive Income  
 (Unaudited)  
 (In thousands)

|  | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|----------|------------------------------------|-----------|
|  | 2015                                | 2014     | 2015                               | 2014      |
| Net income <sup>(1)</sup>  | \$56,468                            | \$28,951 | \$151,944                          | \$110,774 |
| Other comprehensive income:  |                                     |          |                                    |           |
| Foreign currency translation adjustments                                     | (14,005 )                           | (6,207 ) | (25,274 )                          | (6,919 )  |
| Other comprehensive loss   | (14,005 )                           | (6,207 ) | (25,274 )                          | (6,919 )  |
| Total comprehensive income   | 42,463                              | 22,744   | 126,670                            | 103,855   |
| Comprehensive income attributable to noncontrolling interests <sup>(1)</sup> | 1,187                               | 1,021    | 3,728                              | 3,167     |
| Comprehensive income attributable to VCA Inc.                                | \$41,276                            | \$21,723 | \$122,942                          | \$100,688 |

<sup>(1)</sup> Includes approximately \$2.5 million and \$1.9 million of net income related to redeemable and mandatorily redeemable noncontrolling interests for the nine months ended September 30, 2015 and 2014, respectively.

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

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VCA Inc. and Subsidiaries  
Condensed, Consolidated Statements of Equity  
(Unaudited)  
(In thousands)

|   | Common Stock |        | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated                      |           | Noncontrolling<br>Interests | Total |
|---|--------------|--------|----------------------------------|----------------------|----------------------------------|-----------|-----------------------------|-------|
|   | Shares       | Amount |                                  |                      | Other<br>Comprehensive<br>Income |           |                             |       |
| Balances, December 31, 2013   | 88,508       | \$ 89  | \$384,797                        | \$928,720            | \$ (6,190 )                      | \$ 10,200 | \$1,317,616                 |       |
| Net income (excludes \$723 and \$1,172 related to redeemable and mandatorily redeemable noncontrolling interests, respectively)   | —            | —      | —                                | 107,079              | —                                | 1,800     | 108,879                     |       |
| Other comprehensive loss (excludes \$358 related to mandatorily redeemable noncontrolling interests)                              | —            | —      | —                                | —                    | (6,391 )                         | (170 )    | (6,561 )                    |       |
| Formation of noncontrolling interests   | —            | —      | —                                | —                    | —                                | 933       | 933                         |       |
| Distribution to noncontrolling interests  | —            | —      | —                                | —                    | —                                | (1,627 )  | (1,627 )                    |       |
| Purchase of noncontrolling interests  | —            | —      | 29                               | —                    | —                                | —         | 29                          |       |
| Share-based compensation  | —            | —      | 12,234                           | —                    | —                                | —         | 12,234                      |       |
| Issuance of common stock under stock incentive plans  | 614          | —      | 926                              | —                    | —                                | —         | 926                         |       |
| Stock repurchases   | (3,830 )     | (4 )   | (139,906 )                       | —                    | —                                | —         | (139,910 )                  |       |
| Excess tax benefit from stock based compensation  | —            | —      | 3,808                            | —                    | —                                | —         | 3,808                       |       |
| Balances, September 30, 2014  | 85,292       | \$ 85  | \$261,888                        | \$1,035,799          | \$ (12,581 )                     | \$ 11,136 | \$1,296,327                 |       |
| Balances, December 31, 2014   | 82,937       | \$ 83  | \$155,802                        | \$1,064,158          | \$ (19,397 )                     | \$ 10,975 | \$1,211,621                 |       |
| Net income (excludes \$1,392 and \$1,088 related to redeemable and mandatorily redeemable noncontrolling interests, respectively) | —            | —      | —                                | 147,454              | —                                | 2,010     | 149,464                     |       |
| Other comprehensive loss (excludes \$338 related to mandatorily redeemable noncontrolling interests)                              | —            | —      | —                                | —                    | (24,512 )                        | (424 )    | (24,936 )                   |       |
| Formation of noncontrolling interests   | —            | —      | —                                | —                    | —                                | 2,661     | 2,661                       |       |
| Distribution to noncontrolling interests  | —            | —      | —                                | —                    | —                                | (1,784 )  | (1,784 )                    |       |
| Purchase of noncontrolling interests  | —            | —      | (217 )                           | —                    | —                                | (473 )    | (690 )                      |       |

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|  |          |       |            |              |              |           |              |
|--|----------|-------|------------|--------------|--------------|-----------|--------------|
| Share-based compensation                             | —        | —     | 12,086     | —            | —            | —         | 12,086       |
| Issuance of common stock under stock incentive plans | 633      | 1     | 1,570      | —            | —            | —         | 1,571        |
| Stock repurchases                                    | (3,003 ) | (3 )  | (161,114 ) | —            | —            | —         | (161,117 )   |
| Excess tax benefit from stock based compensation     | —        | —     | 8,008      | —            | —            | —         | 8,008        |
| Balances, September 30, 2015                         | 80,567   | \$ 81 | \$ 16,135  | \$ 1,211,612 | \$ (43,909 ) | \$ 12,965 | \$ 1,196,884 |

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

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

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2015                               | 2014      |
| Cash flows from operating activities:   |                                    |           |
| Net income  | \$151,944                          | \$110,774 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |           |
| Impairment of goodwill and other long-lived assets                                | —                                  | 27,019    |
| Depreciation and amortization   | 60,634                             | 59,659    |
| Amortization of debt issue costs  | 1,306                              | 957       |
| Provision for uncollectible accounts  | 6,723                              | 4,388     |
| Debt retirement costs   | —                                  | 1,709     |
| Net gain on sale or disposal of assets  | (234)                              | (173)     |
| Share-based compensation  | 12,086                             | 12,234    |
| Excess tax benefits from stock based compensation                                 | (8,008)                            | (3,808)   |
| Other   | (431)                              | 381       |
| Changes in operating assets and liabilities:                                      |                                    |           |
| Trade accounts receivable   | (20,568)                           | (9,678)   |
| Inventory, prepaid expenses and other assets                                      | (931)                              | (8,233)   |
| Accounts payable and other accrued liabilities                                    | (2,451)                            | 2,920     |
| Accrued payroll and related liabilities   | 18,892                             | 14,761    |
| Income taxes  | 28,054                             | 12,137    |
| Net cash provided by operating activities   | 247,016                            | 225,047   |
| Cash flows from investing activities:   |                                    |           |
| Business acquisitions, net of cash acquired                                       | (119,336)                          | (65,415)  |
| Property and equipment additions  | (61,470)                           | (50,093)  |
| Proceeds from sale or disposal of assets  | 6,469                              | 4,464     |
| Other   | (434)                              | (202)     |
| Net cash used in investing activities   | (174,771)                          | (111,246) |
| Cash flows from financing activities:   |                                    |           |
| Repayment of long-term obligations  | (20,174)                           | (563,976) |
| Proceeds from issuance of long-term obligations                                   | —                                  | 600,000   |
| Proceeds from revolving credit facility   | 97,000                             | —         |
| Payment of financing costs  | —                                  | (7,987)   |
| Distributions to noncontrolling interest partners                                 | (3,810)                            | (3,577)   |
| Purchase of noncontrolling interests  | (1,493)                            | (326)     |
| Proceeds from issuance of common stock under stock incentive plans                | 1,571                              | 926       |
| Excess tax benefits from stock based compensation                                 | 8,008                              | 3,808     |
| Stock repurchases   | (161,117)                          | (139,910) |
| Other   | 2,210                              | (838)     |
| Net cash used in financing activities   | (77,805)                           | (111,880) |
| Effect of currency exchange rate changes on cash and cash equivalents             | (831)                              | (443)     |
| (Decrease) increase in cash and cash equivalents                                  | (6,391)                            | 1,478     |
| Cash and cash equivalents at beginning of period                                  | 81,383                             | 125,029   |
| Cash and cash equivalents at end of period  | \$74,992                           | \$126,507 |

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

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

|  | Nine Months Ended<br>September 30, |           |
|--|------------------------------------|-----------|
|  | 2015                               | 2014      |
| Supplemental disclosures of cash flow information:                   |                                    |           |
| Interest paid  | \$13,674                           | \$10,633  |
| Income taxes paid  | \$67,814                           | \$57,108  |
| Supplemental schedule of noncash investing and financing activities: |                                    |           |
| Detail of acquisitions:  |                                    |           |
| Fair value of assets acquired and liabilities assumed                | \$138,160                          | \$79,979  |
| Fair value of pre-existing investment                                | —                                  | (2,014 )  |
| Noncontrolling interest  | —                                  | (1,705 )  |
| Cash paid for acquisitions, net of acquired cash                     | (119,336 )                         | (65,415 ) |
| Assumed debt   | (12,402 )                          | (4,483 )  |
| Contingent consideration   | (476 )                             | (2,531 )  |
| Holdbacks  | (4,497 )                           | (2,900 )  |
| Liabilities assumed  | \$1,449                            | \$931     |

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

VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements  
September 30, 2015  
(Unaudited)

### 1. Nature of Operations

Our company, VCA Inc. (“VCA”) is a Delaware corporation formed in 1986 and is based in Los Angeles, California. We are an animal healthcare company with the following five operating segments: Animal Hospital, Laboratory, Medical Technology, Vetstreet and Camp Bow Wow. Our operating segments are aggregated into two reportable segments: Animal Hospital and Laboratory. Our Medical Technology, Vetstreet and Camp Bow Wow operating segments are combined in our All Other category. See Footnote 8, Lines of Business within these notes to unaudited condensed, consolidated financial statements.

Our animal hospitals offer a full range of general medical and surgical services for companion animals. Our animal hospitals treat diseases and injuries, provide pharmaceutical products and perform a variety of pet-wellness programs, including health examinations, diagnostic testing, vaccinations, spaying, neutering and dental care. At September 30, 2015, we operated or managed 674 animal hospitals throughout 41 states and four Canadian provinces.

We operate a full-service veterinary diagnostic laboratory network serving all 50 states and certain areas in Canada. Our laboratory network provides sophisticated testing and consulting services used by veterinarians in the detection, diagnosis, evaluation, monitoring, treatment and prevention of diseases and other conditions affecting animals. At September 30, 2015, we operated 59 laboratories of various sizes located strategically throughout the United States and Canada.

Our Medical Technology business 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.

Our Vetstreet business provides several different services to the veterinary community including, online communications, professional education, marketing solutions and a home delivery platform for independent animal hospitals.

Our Camp Bow Wow business franchises a premier provider of pet services including dog day care, overnight boarding, grooming and other ancillary services at specially designed pet care facilities, principally under the service mark Camp Bow Wow®. As of September 30, 2015, there were 128 Camp Bow Wow® franchise locations operating in 35 states and one Canadian province.

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.

### 2. Basis of Presentation

Our accompanying unaudited, condensed, consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial information and in accordance with the rules and regulations of the United States Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements as permitted under applicable rules and regulations. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year ending December 31, 2015. For further information, refer to our audited consolidated financial statements and notes thereto included in our 2014 Annual Report on Form 10-K.

The preparation of our condensed, consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in our condensed, consolidated financial

statements and notes thereto. Actual results could differ from those estimates.

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VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2015  
(Unaudited)

### 3. Goodwill and Other Long-Lived Assets

#### Goodwill

The following table presents the changes in the carrying amount of our goodwill for the nine months ended September 30, 2015 (in thousands):

|                                  | Animal<br>Hospital | Laboratory | All Other  | Total        |
|----------------------------------|--------------------|------------|------------|--------------|
| Balance as of December 31, 2014  |                    |            |            |              |
| Goodwill                         | \$ 1,305,558       | \$ 97,535  | \$ 142,825 | \$ 1,545,918 |
| Accumulated impairment losses    | —                  | —          | (130,057)  | (130,057)    |
| Subtotal                         | 1,305,558          | 97,535     | 12,768     | 1,415,861    |
| Goodwill acquired                | 89,473             | 4,172      | 255        | 93,900       |
| Foreign translation adjustment   | (18,157)           | (71)       | —          | (18,228)     |
| Other <sup>(1)</sup>             | (1,686)            | (4)        | —          | (1,690)      |
| Balance as of September 30, 2015 |                    |            |            |              |
| Goodwill                         | 1,375,188          | 101,632    | 143,080    | 1,619,900    |
| Accumulated impairment losses    | —                  | —          | (130,057)  | (130,057)    |
| Subtotal                         | \$ 1,375,188       | \$ 101,632 | \$ 13,023  | \$ 1,489,843 |

<sup>(1)</sup> "Other" primarily includes write-offs related to the sale of three animal hospitals partially offset by measurement period adjustments.

#### Other Intangible Assets

Our acquisition related amortizable intangible assets at September 30, 2015 and December 31, 2014 are as follows (in thousands):

|  | As of September 30, 2015    |                             |                           | As of December 31, 2014     |                             |                           |
|--|-----------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------|---------------------------|
|  | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Carrying<br>Amount |
| Non-contractual customer relationships | \$ 117,689                  | \$(48,249)                  | \$ 69,440                 | \$ 101,056                  | \$(45,295)                  | \$ 55,761                 |
| Covenants not-to-compete               | 12,163                      | (4,818)                     | 7,345                     | 10,093                      | (4,422)                     | 5,671                     |
| Favorable lease assets                 | 9,451                       | (5,330)                     | 4,121                     | 9,576                       | (4,962)                     | 4,614                     |
| Trademarks                             | 12,691                      | (4,138)                     | 8,553                     | 13,503                      | (4,015)                     | 9,488                     |
| Contracts                              | 100                         | (36)                        | 64                        | 100                         | (11)                        | 89                        |
| Technology                             | 1,627                       | (670)                       | 957                       | 1,627                       | (414)                       | 1,213                     |
| Franchise rights                       | 11,730                      | (1,271)                     | 10,459                    | 11,730                      | (391)                       | 11,339                    |
| Total                                  | \$ 165,451                  | \$(64,512)                  | \$ 100,939                | \$ 147,685                  | \$(59,510)                  | \$ 88,175                 |





VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2015  
(Unaudited)

### 3. Goodwill and Other Long-Lived Assets, continued

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

|                                | Three Months Ended |         | Nine Months Ended |          |
|--------------------------------|--------------------|---------|-------------------|----------|
|                                | September 30,      |         | September 30,     |          |
|                                | 2015               | 2014    | 2015              | 2014     |
| Aggregate amortization expense | \$5,811            | \$5,231 | \$17,195          | \$15,605 |

The estimated amortization expense related to acquisition related intangible assets for the remainder of 2015 and each of the succeeding years thereafter, as of September 30, 2015, is as follows (in thousands):

#### Finite-lived intangible assets:

|                   |          |
|-------------------|----------|
| Remainder of 2015 | \$6,092  |
| 2016              | 22,584   |
| 2017              | 16,816   |
| 2018              | 13,421   |
| 2019              | 10,363   |
| Thereafter        | 30,623   |
| Total             | \$99,899 |

Indefinite-lived intangible assets:

|                         |           |
|-------------------------|-----------|
| Trademarks              | 1,040     |
| Total intangible assets | \$100,939 |

### 4. Acquisitions

The table below reflects the activity related to the acquisitions and dispositions of our animal hospitals and laboratories during the nine months ended September 30, 2015 and 2014, respectively:

|                          | Nine Months Ended |      |
|--------------------------|-------------------|------|
|                          | September 30,     |      |
|                          | 2015              | 2014 |
| <b>Animal Hospitals:</b> |                   |      |
| Acquisitions             | 42                | 23   |
| Acquisitions, merged     | (4                | ) (4 |
| Sold, closed or merged   | (7                | ) (6 |
| Net increase             | 31                | 13   |
| <b>Laboratories:</b>     |                   |      |
| Acquisitions             | 1                 | —    |
| Acquisitions, merged     | (1                | ) —  |
| New facilities           | —                 | 3    |
| Net increase             | —                 | 3    |



VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2015  
(Unaudited)

4. Acquisitions, continued

Animal Hospital and Laboratory Acquisitions

The purchase price allocations for some of the 2015 animal hospital acquisitions included in the table below are preliminary; however, adjustments, if any, are not expected to be material. The measurement periods for purchase price allocations do not exceed 12 months from the acquisition date. The following table summarizes the aggregate consideration for our independent animal hospitals and the Abaxis Veterinary Reference Laboratory ("AVRL") acquired during the nine months ended September 30, 2015 and 2014, respectively, (in thousands):

|   | Nine Months Ended<br>September 30, |          |
|---|------------------------------------|----------|
|   | 2015                               | 2014     |
| Consideration:  |                                    |          |
| Cash, net of cash acquired                            | \$ 119,036                         | \$46,948 |
| Assumed debt  | 12,402                             | 4,160    |
| Holdbacks   | 4,497                              | 1,400    |
| Earn-outs   | 476                                | 721      |
| Fair value of total consideration transferred         | \$136,411                          | \$53,229 |
| Allocation of the Purchase Price:                     |                                    |          |
| Tangible assets                                       | \$10,060                           | \$2,317  |
| Identifiable intangible assets <sup>(1)</sup>         | 34,130                             | 8,176    |
| Goodwill <sup>(2)</sup>                               | 93,645                             | 46,502   |
| Other liabilities assumed                             | (1,424                             | ) (47    |
| Fair value of assets acquired and liabilities assumed | \$136,411                          | \$56,948 |
| Noncontrolling interest                               | —                                  | (1,705   |
| Fair value of pre-existing investment                 | —                                  | (2,014   |
| Total   | \$136,411                          | \$53,229 |

Identifiable intangible assets include customer relationships, trademarks and covenants-not-to-compete. The weighted-average amortization period for the total identifiable intangible assets is approximately twelve years. The weighted-average amortization period for customer relationships, trademarks and covenants is approximately thirteen years, nine years and five years, respectively.

(2) We expect that \$73.8 million and \$36.6 million of the goodwill recorded for these acquisitions, as of September 30, 2015 and 2014, respectively, will be fully deductible for income tax purposes.

Included in the table above is Antech Diagnostics, Inc.'s March 31, 2015 acquisition of AVRL for total consideration of \$21.0 million. At the time of the acquisition, we allocated the full purchase price of AVRL to goodwill. During the quarter ended June 30, 2015, the fair market value of identifiable intangible assets was finalized which resulted in a reclassification of the majority of the goodwill to these identifiable intangible assets. Of the goodwill recorded, \$15.3 million was reclassified as customer relationships with an amortization period of 20 years. The purchase price allocation is pending the finalization of fixed asset valuations.



VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2015  
(Unaudited)

4. Acquisitions, continued

Camp Bow Wow

On August 15, 2014, we acquired 100% of D.O.G. Enterprises, LLC for \$17.0 million in cash and contingent consideration of up to \$3.0 million that may be earned over the next three years. Camp Bow Wow primarily franchises a premier provider of pet services including dog day care, overnight boarding, grooming and other ancillary services at specially designed pet care facilities, principally under the service mark Camp Bow Wow®. As of September 30, 2015, there were 128 Camp Bow Wow® franchise locations operating in 35 states and one Canadian province.

The following table summarizes the total purchase price and the final allocation of the purchase price (in thousands):

|   |          |
|---|----------|
| Consideration:                                |          |
| Cash, net of cash acquired                    | \$15,174 |
| Assumed debt                                  | 323      |
| Holdbacks                                     | 1,500    |
| Earn-outs                                     | 760      |
| Fair value of total consideration transferred | \$17,757 |
| Allocation of the Purchase Price:             |          |
| Tangible assets                               | \$637    |
| Identifiable intangible assets <sup>(1)</sup> | 13,420   |
| Goodwill <sup>(2)</sup>                       | 4,219    |
| Other liabilities assumed                     | (519)    |
| Total   | \$17,757 |

Identifiable intangible assets primarily include franchise rights, trademarks, covenants-not-to-compete and existing technology. The weighted-average amortization period for the total identifiable intangible assets is approximately <sup>(1)</sup> ten years. The weighted-average amortization periods for the franchise rights, covenants and existing technology is approximately ten years, three years and four years, respectively. The trademarks have an indefinite life and will be assessed annually for impairment.

<sup>(2)</sup> As of September 30, 2015, we expect that the full amount of goodwill recorded for this acquisition will be deductible for income tax purposes.

VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2015  
(Unaudited)

### 5. Other Accrued Liabilities

Other accrued liabilities consisted of the following at September 30, 2015 and December 31, 2014 (in thousands):

|  | September 30, 2015 | December 31, 2014 |
|--|--------------------|-------------------|
| Deferred revenue                           | \$ 16,526          | \$ 14,304         |
| Accrued health insurance                   | 5,113              | 5,194             |
| Deferred rent                              | 4,702              | 4,535             |
| Accrued other insurance                    | 4,735              | 4,381             |
| Miscellaneous accrued taxes <sup>(1)</sup> | 4,446              | 3,025             |
| Accrued accounting and legal fees          | 2,952              | 2,900             |
| Accrued workers' compensation              | 5,856              | 2,781             |
| Holdbacks and earn-outs                    | 10,629             | 7,878             |
| Customer deposits                          | 2,129              | 2,229             |
| Accrued consulting fees                    | 3,655              | 3,172             |
| Accrued lease payments                     | 1,378              | 1,657             |
| Other                                      | 13,058             | 15,163            |
|  | \$ 75,179          | \$ 67,219         |

<sup>(1)</sup> Includes property, sales and use taxes.

### 6. Long-Term Obligations

Long-term obligations consisted of the following at September 30, 2015 and December 31, 2014 (in thousands):

|                      | September 30,<br>2015   | December 31,<br>2014 |            |
|----------------------|---|----------------------|------------|
| Senior term notes    | Notes payable, maturing in 2019, secured by assets, variable interest rate (1.69% and 1.67% at September 30, 2015 and December 31, 2014, respectively)            | 592,500              | 600,000    |
| Revolving credit     | Revolving line of credit, maturing in 2019, secured by assets, variable interest rate (1.69% and 1.67% at September 30, 2015 and December 31, 2014, respectively) | 232,000              | 135,000    |
| Secured seller notes | Notes payable matures in 2015, secured by assets and stock of certain subsidiaries, with interest rate of 10.0%   | 230                  | 230        |
|                      | Total debt obligations  | 824,730              | 735,230    |
|                      | Capital lease obligations and other debt  | 56,425               | 59,538     |
|                      |   | 881,155              | 794,768    |
|                      | Less — current portion  | (34,043)             | (19,356)   |
|                      |   | \$ 847,112           | \$ 775,412 |

Interest Rate. In general, borrowings under the Senior Credit Facility (including swing line borrowings) bear interest, at our option, on either:

• the base rate (as defined below) plus the applicable margin of 0.50% (Pricing Tier 4, see table below) per annum; or

the Eurodollar rate (as defined below), plus a margin of 1.50% (Pricing Tier 4, see table below) per annum



VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2015  
(Unaudited)

6. Long-Term Obligations, continued

Each of the aforementioned margins remain applicable until the date of delivery of the compliance certificate and the financial statements, for the period ended September 30, 2015, at which time the applicable margin will be determined by reference to the leverage ratio in effect from time to time as set forth in the following table:

| Pricing Tier | Consolidated Leverage Ratio | Applicable Margin for                  |                                       | Commitment Fee |
|--------------|-----------------------------|--|---------------------------------------|----------------|
|              |                             | Eurodollar Loans/Letter of Credit Fees | Applicable Margin for Base Rate Loans |                |
| 1            | ≥ 4.00:1.00                 | 2.25                                   | % 1.25                                | % 0.45         |
| 2            | < 4.00:1.00 and ≥ 3.25:1.00 | 2.00                                   | % 1.00                                | % 0.40         |
| 3            | < 3.25:1.00 and ≥ 2.50:1.00 | 1.75                                   | % 0.75                                | % 0.35         |
| 4            | < 2.50:1.00 and ≥ 1.75:1.00 | 1.50                                   | % 0.50                                | % 0.30         |
| 5            | < 1.75:1.00 and ≥ 1.00:1.00 | 1.25                                   | % 0.25                                | % 0.25         |
| 6            | < 1.00:1.00                 | 1.00                                   | % —                                   | % 0.25         |

The base rate for the senior term notes is a rate per annum equal to the highest of the (a) Federal Funds Rate plus 0.5%, (b) Bank of America, N.A.'s ("Bank of America") prime rate in effect on such day, and (c) the Eurodollar rate plus 1.0%. The Eurodollar rate is defined as the rate per annum equal to the London Interbank Offered Rate ("LIBOR"), or a comparable or successor rate which is approved by Bank of America.

**Maturity and Principal Payments.** The senior term notes mature on August 27, 2019. Principal payments on the senior term notes of \$7.5 million are due each calendar quarter from December 31, 2015 to and including June 30, 2017, \$11.3 million are due each calendar quarter from September 30, 2017 to and including June 30, 2018 and \$15.0 million are due each calendar quarter thereafter with a final payment of the outstanding principal balance due upon maturity.

The revolving credit facility has a per annum commitment fee determined by reference to the Leverage Ratio in effect from time to time as set forth in the table above and is applied to the unused portion of the commitment. The revolving credit facility matures on August 27, 2019. Principal payments on the revolving credit facility are made at our discretion with the entire unpaid amount due at maturity. At September 30, 2015, we had borrowings of \$232.0 million under our revolving credit facility.

The following table sets forth the scheduled principal payments for the Senior Credit Facility (in thousands):

|                   | 2015    | 2016     | 2017     | 2018     | 2019      |
|-------------------|---------|----------|----------|----------|-----------|
| Senior term notes | \$7,500 | \$30,000 | \$37,500 | \$52,500 | \$465,000 |
| Revolving loans   | —       | —        | —        | —        | 232,000   |
|                   | \$7,500 | \$30,000 | \$37,500 | \$52,500 | \$697,000 |

**Guarantees and Security.** We and each of our wholly-owned domestic subsidiaries guarantee the outstanding indebtedness under the Senior Credit Facility. Any borrowings, along with the guarantees of the domestic subsidiaries, are further secured by a pledge of substantially all of our consolidated assets, including 65% of the voting equity and 100% of the non-voting equity interest in each of our foreign subsidiaries.



VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2015  
(Unaudited)

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

|   | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|---|-------------------------------------|----------|------------------------------------|-----------|
|   | 2015                                | 2014     | 2015                               | 2014      |
| Net income attributable to VCA Inc.         | \$54,854                            | \$27,452 | \$147,454                          | \$107,079 |
| Weighted-average common shares outstanding: |                                     |          |                                    |           |
| Basic                                       | 80,815                              | 86,274   | 81,700                             | 87,543    |
| Effect of dilutive potential common shares: |                                     |          |                                    |           |
| Stock options                               | 338                                 | 324      | 338                                | 285       |
| Non-vested shares and units                 | 642                                 | 762      | 706                                | 837       |
| Diluted                                     | 81,795                              | 87,360   | 82,744                             | 88,665    |
| Basic earnings per common share             | \$0.68                              | \$0.32   | \$1.80                             | \$1.22    |
| Diluted earnings per common share           | \$0.67                              | \$0.31   | \$1.78                             | \$1.21    |

For the three months ended September 30, 2015 and 2014 there were no potential common shares excluded from the computation of diluted earnings per share.

For the nine months ended September 30, 2015, an immaterial amount of potential common shares were excluded from the computation of diluted earnings per share because their inclusion would have had an antidilutive effect. For the nine months ended September 30, 2014 there were no potential common shares excluded from the computation of diluted earnings per share.

VCA Inc. and Subsidiaries

Notes to Condensed, Consolidated Financial Statements (Continued)

September 30, 2015

(Unaudited)

8. Lines of Business

Our Animal Hospital and Laboratory business segments are each considered reportable segments in accordance with the FASB's guidance related to Segment Reporting. Our Animal Hospital segment provides veterinary services for companion animals and sells related retail and pharmaceutical products. Our Laboratory segment provides diagnostic laboratory testing services for veterinarians, both associated with our animal hospitals and those independent of us. Our other operating segments included in the "All Other" category are our Medical Technology business, which sells digital radiography and ultrasound imaging equipment, related computer hardware, software and ancillary services to the veterinary market, our Vetstreet business, which provides online and printed communications, professional education, marketing solutions to the veterinary community and an ecommerce platform for independent animal hospitals, and our Camp Bow Wow business, which primarily franchises a premier provider of pet services including dog day care, overnight boarding, grooming and other ancillary services at specially designed pet care facilities. These operating segments do not meet the quantitative requirements for reportable segments. Our operating 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. 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 2014 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 generally accounted for as if they were transactions with independent third parties at current market prices.

VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2015  
(Unaudited)

## 8. Lines of Business, continued

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

|  | Animal<br>Hospital | Laboratory | All Other  | Corporate    | Eliminations | Total      |
|--|--------------------|------------|------------|--------------|--------------|------------|
| Three Months Ended<br>September 30, 2015                     |                    |            |            |              |              |            |
| External revenue   | \$441,924          | \$84,129   | \$24,544   | \$—          | \$1,120      | \$551,717  |
| Intercompany revenue   | —                  | 16,180     | 6,294      | —            | (22,474)     | ) —        |
| Total revenue  | 441,924            | 100,309    | 30,838     | —            | (21,354)     | ) 551,717  |
| Direct costs   | 366,983            | 48,901     | 19,077     | —            | (20,910)     | ) 414,051  |
| Gross profit   | 74,941             | 51,408     | 11,761     | —            | (444)        | ) 137,666  |
| Selling, general and<br>administrative expense               | 10,677             | 9,542      | 7,660      | 16,981       | —            | 44,860     |
| Operating income (loss) before<br>sale or disposal of assets | 64,264             | 41,866     | 4,101      | (16,981)     | ) (444)      | ) 92,806   |
| Business interruption<br>insurance gain                      | —                  | —          | (4,523)    | ) —          | —            | (4,523)    |
| Net loss on sale or disposal of<br>assets                    | 175                | —          | 72         | 3            | —            | 250        |
| Operating income (loss)                                      | \$64,089           | \$41,866   | \$8,552    | \$(16,984)   | ) \$(444)    | ) \$97,079 |
| Depreciation and amortization                                | \$16,520           | \$2,731    | \$1,181    | \$588        | \$ (549)     | ) \$20,471 |
| Property and equipment<br>additions                          | \$19,429           | \$5,735    | \$127      | \$2,773      | \$(1,115)    | ) \$26,949 |
| Three Months Ended<br>September 30, 2014                     |                    |            |            |              |              |            |
| External revenue   | \$395,820          | \$77,394   | \$25,397   | \$—          | \$966        | \$499,577  |
| Intercompany revenue   | —                  | 14,509     | 4,684      | —            | (19,193)     | ) —        |
| Total revenue  | 395,820            | 91,903     | 30,081     | —            | (18,227)     | ) 499,577  |
| Direct costs   | 327,283            | 46,879     | 19,945     | —            | (18,287)     | ) 375,820  |
| Gross profit   | 68,537             | 45,024     | 10,136     | —            | 60           | 123,757    |
| Selling, general and<br>administrative expense               | 9,269              | 8,610      | 8,023      | 16,890       | —            | 42,792     |
| Operating income (loss) before<br>sale or disposal of assets | 59,268             | 36,414     | 2,113      | (16,890)     | ) 60         | 80,965     |
| Impairment of goodwill and<br>other long-lived assets        | —                  | —          | 27,019     | —            | —            | 27,019     |
| Net loss (gain) on sale or<br>disposal of assets             | 598                | 7          | —          | (135)        | ) —          | 470        |
| Operating income (loss)                                      | \$58,670           | \$36,407   | \$(24,906) | ) \$(16,755) | ) \$60       | \$53,476   |
| Depreciation and amortization                                | \$15,201           | \$2,671    | \$1,781    | \$688        | \$(479)      | ) \$19,862 |
| Property and equipment<br>additions                          | \$17,224           | \$2,391    | \$1,123    | \$2,025      | \$(649)      | ) \$22,114 |



VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2015  
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## 8. Lines of Business, continued

|   | Animal<br>Hospital | Laboratory | All Other  | Corporate    | Eliminations | Total         |
|---|--------------------|------------|------------|--------------|--------------|---------------|
| Nine Months Ended<br>September 30, 2015               |                    |            |            |              |              |               |
| External revenue                                      | \$1,270,326        | \$252,645  | \$73,895   | \$—          | \$3,089      | \$1,599,955   |
| Intercompany revenue                                  | —                  | 47,858     | 19,839     | —            | (67,697)     | ) —           |
| Total revenue   | 1,270,326          | 300,503    | 93,734     | —            | (64,608)     | ) 1,599,955   |
| Direct costs  | 1,066,516          | 144,410    | 59,160     | —            | (62,506)     | ) 1,207,580   |
| Gross profit  | 203,810            | 156,093    | 34,574     | —            | (2,102)      | ) 392,375     |
| Selling, general and<br>administrative expense        | 32,351             | 27,894     | 24,088     | 49,410       | —            | 133,743       |
| Operating income (loss)<br>before charges             | 171,459            | 128,199    | 10,486     | (49,410)     | ) (2,102)    | ) 258,632     |
| Business interruption<br>insurance gain               | —                  | —          | (4,523)    | ) —          | —            | (4,523)       |
| Net (gain) loss on sale or<br>disposal of assets      | (445)              | ) 41       | 92         | 78           | —            | (234)         |
| Operating income (loss)                               | \$171,904          | \$128,158  | \$14,917   | \$(49,488)   | ) \$(2,102)  | ) \$263,389   |
| Depreciation and amortization                         | \$49,032           | \$7,940    | \$3,509    | \$1,755      | \$(1,602)    | ) \$60,634    |
| Property and equipment<br>additions                   | \$45,506           | \$11,813   | \$1,427    | \$5,349      | \$(2,625)    | ) \$61,470    |
| Nine Months Ended<br>September 30, 2014               |                    |            |            |              |              |               |
| External revenue                                      | \$1,134,184        | \$233,497  | \$68,055   | \$—          | \$2,820      | \$1,438,556   |
| Intercompany revenue                                  | —                  | 42,895     | 13,859     | —            | (56,754)     | ) —           |
| Total revenue   | 1,134,184          | 276,392    | 81,914     | —            | (53,934)     | ) 1,438,556   |
| Direct costs  | 953,511            | 139,245    | 54,161     | —            | (53,984)     | ) 1,092,933   |
| Gross profit  | 180,673            | 137,147    | 27,753     | —            | 50           | 345,623       |
| Selling, general and<br>administrative expense        | 28,261             | 24,909     | 23,782     | 47,211       | —            | 124,163       |
| Operating income (loss)<br>before charges             | 152,412            | 112,238    | 3,971      | (47,211)     | ) 50         | 221,460       |
| Impairment of goodwill and<br>other long-lived assets | —                  | —          | 27,019     | —            | —            | 27,019        |
| Net loss (gain) on sale or<br>disposal of assets      | 1,180              | (71)       | ) (1,087)  | ) (195)      | ) —          | (173)         |
| Operating income (loss)                               | \$151,232          | \$112,309  | \$(21,961) | ) \$(47,016) | ) \$50       | \$194,614     |
| Depreciation and amortization                         | \$45,053           | \$7,769    | \$5,921    | \$2,333      | \$(1,417)    | ) \$59,659    |
| Property and equipment<br>additions                   | \$38,411           | \$5,676    | \$2,801    | \$4,769      | \$(1,564)    | ) \$50,093    |
| At September 30, 2015                                 |                    |            |            |              |              |               |
| Total assets  | \$2,147,136        | \$304,807  | \$76,969   | \$391,471    | \$(489,193)  | ) \$2,431,190 |

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At December 31, 2014

|              |             |           |          |           |            |   |             |
|--------------|-------------|-----------|----------|-----------|------------|---|-------------|
| Total assets | \$2,021,725 | \$258,550 | \$89,596 | \$270,414 | \$(308,265 | ) | \$2,332,020 |
|--------------|-------------|-----------|----------|-----------|------------|---|-------------|

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VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2015  
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## 9. Commitments and Contingencies

We have certain commitments including operating leases, purchase agreements and acquisition agreements. These items are discussed in detail in our consolidated financial statements and notes thereto included in our 2014 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 fulfillment of specified financial criteria as set forth in the respective agreements. The amount to be paid cannot be determined until the earn-out periods have expired. If the specified financial criteria are satisfied, we will be obligated to pay an additional \$5.5 million.

In accordance with business combination accounting guidance, contingent consideration, such as earn-outs, are recognized as part of the consideration transferred on the acquisition date. A liability is initially recorded based upon its acquisition date fair value. The changes in fair value are recognized in earnings where applicable for each reporting period. The fair value is determined using a contractually stated formula using either a multiple of revenue or Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"). The formulas used to determine the estimated fair value are Level 3 inputs. The changes in fair value were immaterial to our condensed, consolidated financial statements when taken as a whole. We recorded \$3.1 million and \$3.2 million in earn-out liabilities as of September 30, 2015 and December 31, 2014, respectively, which are included in other accrued liabilities in our condensed, consolidated balance sheets.

### b. Legal Proceedings

On May 29, 2013, a former veterinary assistant at one of our animal hospitals filed a purported class action lawsuit against us in the Superior Court of the State of California for the County of Los Angeles, titled Jorge Duran vs. VCA Animal Hospitals, Inc., et. al. The lawsuit seeks to assert claims on behalf of current and former veterinary assistants employed by us in California, and alleges, among other allegations, that we improperly failed to pay regular and overtime wages, improperly failed to provide proper meal and rest periods, and engaged in unfair business practices. The lawsuit seeks damages, statutory penalties, and other relief, including attorneys' fees and costs. On May 7, 2014, we obtained partial summary judgment, dismissing four of the eight claims of the complaint, including the claims for failure to pay regular and overtime wages. We intend to continue to vigorously defend against the remaining claims in this action. At this time, we are unable to estimate the reasonably possible loss or range of possible loss, but do not believe losses, if any, would have a material effect on our results of operations or financial position taken as a whole.

On July 16, 2014, two additional former veterinary assistants filed a purported class action lawsuit against us in the Superior Court of the State of California for the County of Los Angeles, titled La Kimba Bradsbery and Cheri Brakensiek vs. Vicar Operating, Inc., et. al. The lawsuit seeks to assert claims on behalf of current and former veterinary assistants, kennel assistants, and client service representatives employed by us in California, and alleges, among other allegations, that we improperly failed to pay regular and overtime wages, improperly failed to provide proper meal and rest periods, improperly failed to pay reporting time pay, improperly failed to reimburse for certain business-related expenses, and engaged in unfair business practices. The lawsuit seeks damages, statutory penalties, and other relief, including attorneys' fees and costs. These two actions are related before the same judge hearing the Duran action discussed above.

In September 2014, the court issued an order staying the La Kimba Bradsbery lawsuit until class certification is completed in the Duran case. Plaintiff Duran filed his class certification motion and supporting documentation in January 2015. A class certification hearing was held on June 2, 2015.

On June 25, 2015, the Court entered an Order denying class certification to veterinary assistants who were allegedly not given proper meal or rest periods. The plaintiff continues to have a Private Attorney Generals Act ("PAGA") claim. We intend to continue to vigorously defend against the remaining claim in this action. At this time, we are unable to estimate the reasonably possible loss or range of possible loss, but do not believe losses, if any, would have a material effect on our results of operations or financial position taken as a whole.

VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2015  
(Unaudited)

#### 9. Commitments and Contingencies, continued

On July 12, 2013, an individual who provided courier services with respect to our laboratory clients in California filed a purported class action lawsuit against us in the Superior Court of the State of California for the County of Santa Clara - San Jose Branch, titled Carlos Lopez vs. Logistics Delivery Solutions, LLC, Antech Diagnostics, Inc., et. al. Logistics Delivery Solutions, LLC, a co-defendant in the lawsuit, is a company with which Antech has contracted to provide courier services in California. The lawsuit seeks to assert claims on behalf of individuals who were engaged by Logistics Delivery Solutions, LLC to perform such courier services and alleges, among other allegations, that Logistics Delivery Solutions and Antech Diagnostics improperly classified the plaintiffs as independent contractors, improperly failed to pay overtime wages, and improperly failed to provide proper meal periods. The lawsuit seeks damages, statutory penalties, and other relief, including attorneys' fees and costs. The parties have an agreement in principle to settle the action, on a class-wide basis, for an amount not to exceed \$1,250,000. Logistics Delivery Solutions, LLC, has agreed to pay half of the claim. Accordingly, as of September 30, 2015, we have accrued the remaining fifty percent. The proposed settlement, when and if it becomes effective, would not be an admission of wrongdoing or acceptance of fault by any of the defendants named in the complaint. Antech Diagnostics and Logistics Delivery Solutions have agreed upon the terms of this proposed settlement to eliminate the uncertainties, risk, distraction and expense associated with protracted litigation. The proposed settlement remains subject to court approval and class notice administration before it will be effective.

On May 12, 2014, an individual client who purchased goods and services from one of our animal hospitals filed a purported class action lawsuit against us in the United States District Court for the Northern District of California, titled Tony M. Graham vs. VCA Antech, Inc. and VCA Animal Hospitals, Inc. The lawsuit seeks to assert claims on behalf of the plaintiff and other individuals who purchased similar goods and services from our animal hospitals and alleges, among other allegations, that we improperly charged such individuals for "biohazard waste management" in connection with the services performed. The lawsuit seeks compensatory and punitive damages in unspecified amounts, and other relief, including attorneys' fees and costs. VCA successfully had the venue transferred to the Southern District of California. This case is in an early procedural stage and we intend to vigorously defend this action. At this time, we are unable to estimate the reasonably possible loss or range of possible loss, but do not believe losses, if any, would have a material effect on our results of operations or financial position taken as a whole. In addition to the lawsuits described above, we are party to ordinary routine legal proceedings and claims incidental to our business, but we are not currently a party to any legal proceeding that we believe would have a material adverse effect on our financial position, results of operations, or cash flows.

VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2015  
(Unaudited)

### 10. Noncontrolling Interests

We own some of our animal hospitals in partnerships with noncontrolling interest holders. We consolidate our partnerships in our condensed, consolidated financial statements because our ownership interest in these partnerships is equal to or greater than 50.1% and we control these entities. We record noncontrolling interest in income of subsidiaries equal to our partners' percentage ownership of the partnerships' income. We also record changes in the redemption value of our redeemable noncontrolling interests in net income attributable to noncontrolling interests in our condensed, consolidated income statements. We reflect our noncontrolling partners' cumulative share in the equity of the respective partnerships as either noncontrolling interests in equity, mandatorily redeemable noncontrolling interests in other liabilities, or redeemable noncontrolling interests in temporary equity (mezzanine) in our condensed, consolidated balance sheets.

#### a. Mandatorily Redeemable Noncontrolling Interests

The terms of some of our partnership agreements require us to purchase the partner's equity in the partnership in the event of the partner's death. We report these redeemable noncontrolling interests at their estimated redemption value, which approximates fair value, and classify them as liabilities due to the certainty of the related event. Estimated redemption value is determined using either a contractually stated formula or a discounted cash flow technique, both of which are used as an approximation of fair value. The discounted cash flow inputs used to determine the redemption value are Level 3 and include forecasted growth rates, valuation multiples, and the weighted average cost of capital. We recognize changes in the obligation as interest cost in our condensed, consolidated income statement.

The following table provides a summary of mandatorily redeemable noncontrolling interests included in other liabilities in our condensed, consolidated balance sheets (in thousands):

|  | Income<br>Statement<br>Impact | Mandatorily<br>Redeemable<br>Noncontrolling<br>Interests |   |
|--|-------------------------------|--|---|
| Balance as of December 31, 2013          |                               | \$9,355  |   |
| Noncontrolling interest expense          | \$1,172                       |  |   |
| Redemption value change                  | 315                           | 1,487  |   |
| Distribution to noncontrolling interests |                               | (1,064)  | ) |
| Currency translation adjustment          |                               | (358)  | ) |
| Balance as of September 30, 2014         |                               | \$9,420  |   |
| Balance as of December 31, 2014          |                               | \$9,405  |   |
| Noncontrolling interest expense          | \$1,088                       |  |   |
| Redemption value change                  | 1                             | 1,089  |   |
| Purchase of noncontrolling interests     |                               | (803)  | ) |
| Distribution to noncontrolling interests |                               | (1,099)  | ) |
| Currency translation adjustment          |                               | (338)  | ) |
| Balance as of September 30, 2015         |                               | \$8,254  |   |

VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2015  
(Unaudited)

10. Noncontrolling Interests, continued

b. Redeemable Noncontrolling Interests

We also enter into partnership agreements whereby the noncontrolling interest partner is issued certain “put” rights. These rights are normally exercisable at the sole discretion of the noncontrolling interest partner. We report these redeemable noncontrolling interests at their estimated redemption value and classify them in temporary equity (mezzanine). We recognize changes in the obligation in net income attributable to noncontrolling interests in our condensed, consolidated income statement.

The following table provides a summary of redeemable noncontrolling interests (in thousands):

|  | Income<br>Statement<br>Impact | Redeemable<br>Noncontrolling<br>Interests |   |
|--|-------------------------------|---|---|
| Balance as of December 31, 2013          |                               | \$ 10,678                                 |   |
| Noncontrolling interest expense          | \$ 940                        |   |   |
| Redemption value change                  | (217                          | ) 723                                     |   |
| Formation of noncontrolling interests    |                               | 855                                       |   |
| Purchase of noncontrolling interests     |                               | (356                                      | ) |
| Distribution to noncontrolling interests |                               | (886                                      | ) |
| Balance as of September 30, 2014         |                               | \$ 11,014                                 |   |
| Balance as of December 31, 2014          |                               | \$ 11,077                                 |   |
| Noncontrolling interest expense          | \$ 1,021                      |   |   |
| Redemption value change                  | 371                           | 1,392                                     |   |
| Distribution to noncontrolling interests |                               | (1,196                                    | ) |
| Balance as of September 30, 2015         |                               | \$ 11,273                                 |   |

VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2015  
(Unaudited)

## 11. Recent Accounting Pronouncements

In July 2015, the FASB issued Accounting Standards Update (ASU) 2015-11, “Inventory (Topic 330): “Simplifying the Measurement of Inventory,” which amends the guidelines for the measurement of inventory. The amendments in this ASU do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method, but do apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. Under the amendments, an entity should measure inventory at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments in this ASU should be applied prospectively with earlier application permitted. We will further study the implications of this statement in order to evaluate the expected impact on the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03 - “Interest - Imputation of Interest (Subtopic 2015-03): Simplifying the Presentation of Debt Issuance Costs” which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03. This ASU is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years and is to be implemented retrospectively. Early adoption is permitted for financial statements that have not been previously issued. Adoption of the new guidance will only affect the presentation of our consolidated balance sheets and will not have a significant impact on our consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis.” The amendments in this update affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments (i) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, (ii) eliminate the presumption that a general partner should consolidate a limited partnership, (iii) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, and (iv) provide a scope exception from consolidation guidance for reporting entities with interests in certain legal entities. This ASU is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. We do not expect this adoption to have a significant impact on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 creating Accounting Standards Codification (ASC) Section 606, “Revenue from Contracts with Customers”. The new section will replace Section 605, “Revenue Recognition” and create modifications to various other revenue accounting standards for specialized transactions and industries. The guidance in this update is intended to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards (IFRS) that would remove inconsistencies and weaknesses in revenue requirements, provide a more robust framework for addressing revenue issues, and improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets.

The new accounting guidance will require companies to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in

exchange for those goods or services. This update creates a five-step model that requires companies to exercise judgment when considering the terms of the contract(s) which include (i) identifying the contract(s) with the customer, (ii) identifying the separate performance obligations in the contract, (iii) determining the transaction price, (iv) allocating the transaction price to the separate performance obligations, and (v) recognizing revenue when each performance obligation is satisfied. The update allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements.

The updated guidance was originally effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Based on the Board's approved decision on July 9, 2015 to defer the effective date by one year, public organizations may apply the new revenue standard to annual reporting periods beginning after December 15, 2017. Additionally, the Board decided to permit both public and nonpublic organizations to adopt the new revenue standard early, but not before the original public organization effective date. Accordingly, we will adopt the new provisions of this

VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2015  
(Unaudited)

11. Recent Accounting Pronouncements, continued

accounting standard at the beginning of fiscal year 2018. We will further study the implications of this statement in order to evaluate the expected impact on the consolidated financial statements and evaluate the method of adoption we would apply.

12. Subsequent Events

Sale of Majority Interest in Vetstreet

On November 2, 2015, we entered into an agreement pursuant to which a subsidiary of Henry Schein, Inc., provider of health care products and services to office-based dental, animal health and medical practitioners, will acquire a majority interest in our subsidiary, Vetstreet, Inc., a software as a service (SaaS) provider of marketing solutions and health information analytics to veterinary practices and animal health product manufacturers. Following the closing of the transaction, the subsidiary of Henry Schein, Inc., will own 80.1 percent of our Vetstreet business, with the remaining interest owned by us.

The transaction is currently expected to close in the first quarter of 2016.

Executive Stock Grant

During October 2015, our Board of Directors granted 159,971 shares of non-vested common stock to our executives. The awards granted to executive officers are subject to vesting based upon achievement of performance standards and continued service. The award will vest in equal annual installments over four years.



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. 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 are described throughout this report and in our Annual Report on Form 10-K, particularly in “Risk Factors,” Part I, Item 1A of that report.

The forward-looking information set forth in this Quarterly Report on Form 10-Q is as of November 6, 2015, and we undertake no duty to update this information unless required by law. Shareholders and prospective investors can find information filed with the SEC after November 6, 2015 at our website at <http://investor.vca.com> or at the SEC’s website at [www.sec.gov](http://www.sec.gov).

We are a leading North American 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. We also provide both online and printed communications, education and information, and analytical-based marketing solutions to the veterinary community. Additionally, we franchise a premier provider of pet services including dog day care, overnight boarding, grooming and other ancillary services at specially designed pet care facilities.

Our reportable segments are as follows:

Our Animal Hospital segment operates the largest network of freestanding, full-service animal hospitals in the nation. Our animal hospitals offer a full range of general medical and surgical services for companion animals. We treat diseases and injuries, offer pharmaceutical and retail products and perform a variety of pet wellness programs, including health examinations, diagnostic testing, routine vaccinations, spaying, neutering and dental care. At September 30, 2015, our animal hospital network consisted of 674 animal hospitals in 41 states and in four Canadian provinces.

Our Laboratory segment operates the largest network of veterinary diagnostic laboratories in the nation. Our laboratories provide sophisticated testing and consulting services used by veterinarians in the detection, diagnosis, evaluation, monitoring, treatment and prevention of diseases and other conditions affecting animals. At September 30, 2015, our laboratory network consisted of 59 laboratories serving all 50 states and certain areas in Canada.

Our “All Other” category includes the results of our Medical Technology, Vetstreet and Camp Bow Wow operating segments. Each of these segments did not meet the materiality thresholds to be considered reportable segments.

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.

## Use of Supplemental Non-GAAP Financial Measures

In this management's discussion and analysis, we use supplemental measures of our performance, which are derived from our consolidated financial information, but which are not presented in our consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These financial measures, which are considered "Non-GAAP financial measures" under SEC rules, include our Non-GAAP gross profit and our Non-GAAP gross margin on a consolidated basis for our Animal Hospital segment, and the same measures expressed on a same-store basis. Additionally, our Non-GAAP financial measures include our Non-GAAP operating income and Non-GAAP operating margin on a consolidated basis. Lastly, our Non-GAAP financial measures also include our Non-GAAP consolidated net income and Non-GAAP diluted earnings per share. See Consolidated Results of Operations - Non-GAAP Financial Measures below for information about our use of these Non-GAAP financial measures, including our reasons for including the measures, material limitations with respect to the usefulness of the measures, and a reconciliation of each Non-GAAP financial measure to the most directly comparable GAAP financial measure.

### Executive Overview

During the three and nine months ended September 30, 2015, we experienced increases in both consolidated revenue and gross profit. The increases were primarily driven by revenue from our acquisitions and organic growth in our Animal Hospital and Laboratory segments. Our Animal Hospital same-store revenue increased 5.4% and 5.6% for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in the prior year. Our Laboratory internal revenue increased 6.0% and 6.5% for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in the prior year. Our consolidated operating income increased 81.5% and 35.3% for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in the prior year. Our consolidated operating margin increased by 6.9% and 3.0% for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in the prior year. Our Non-GAAP consolidated operating income, which excludes the impact of intangible asset amortization associated with acquisitions, increased 14.7% and 16.4% for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in the prior year. Our Non-GAAP consolidated operating margins increased by 0.6% and 0.8% for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in the prior year. The increase in Non-GAAP consolidated operating income was primarily due to improved results from our Animal Hospital and Laboratory business segments.

### Share Repurchase Program

In April 2013, our Board of Directors authorized a share repurchase for up to \$125 million of our common shares, which was completed in August 2014. In August 2014, our Board of Directors authorized the continuance of that share repurchase program, authorizing us to repurchase up to an additional \$400 million of our common shares. These repurchases may be made from time to time in open market purchases, pursuant to trading plans established in accordance with SEC rules, through privately negotiated transactions, block trades or accelerated share repurchases. The timing and number of shares repurchased will depend on a variety of factors, including price, capital availability, legal requirements and economic and market conditions. The Company is not obligated to purchase any shares under the repurchase program, and repurchases may be suspended or discontinued at any time without prior notice. Our share repurchase program has no expiration date. The repurchases have been and will continue to be funded by existing cash balances and by our revolving credit facility. Refer to Item 2. Unregistered Sales of Equity Securities and the Use of Proceeds in Part II of this report.

### Recent Developments

On November 2, 2015, we entered into an agreement pursuant to which a subsidiary of Henry Schein, Inc., provider of health care products and services to office-based dental, animal health and medical practitioners, will acquire a majority interest in our subsidiary, Vetstreet, Inc., a software as a service (SaaS) provider of marketing solutions and health information analytics to veterinary practices and animal health product manufacturers. Following the closing of the transaction, the subsidiary of Henry Schein, Inc., will own 80.1 percent of our Vetstreet business, with the remaining interest owned by us.

The transaction is currently expected to close in the first quarter of 2016. Refer to Note 12, Subsequent Events to the Unaudited Condensed, Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

### Acquisitions

Our annual growth strategy includes the acquisition of independent animal hospitals. We also evaluate the acquisition of animal hospital chains, laboratories and related businesses if favorable opportunities are presented. For the nine months ended September 30, 2015, we acquired \$90.3 million of annualized Animal Hospital revenue.

The following table summarizes the changes in the number of facilities operated by our Animal Hospital and Laboratory segments during the nine months ended September 30, 2015 and 2014, respectively:

|                          | Nine Months Ended<br>September 30, |      |
|--------------------------|------------------------------------|------|
|                          | 2015                               | 2014 |
| <b>Animal Hospitals:</b> |                                    |      |
| Beginning of period      | 643                                | 609  |
| Acquisitions             | 42                                 | 23   |
| Acquisitions, merged     | (4                                 | ) (4 |
| Sold, closed or merged   | (7                                 | ) (6 |
| End of period            | 674                                | 622  |
| <b>Laboratories:</b>     |                                    |      |
| Beginning of period      | 59                                 | 56   |
| Acquisitions             | 1                                  | —    |
| Acquisitions, merged     | (1                                 | ) —  |
| New facilities           | —                                  | 3    |
| End of period            | 59                                 | 59   |

### Critical Accounting Policies

Our condensed, consolidated financial statements have been prepared in accordance with GAAP, which require management to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and on other factors that management believes to be reasonable. Actual results may differ from those estimates. Critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our condensed, consolidated financial statements. A discussion of such critical accounting policies, which include revenue recognition, goodwill, other intangible assets, and income taxes, can be found in our 2014 Annual Report on Form 10-K. There have been no material changes to the policies noted above as of this quarterly report on Form 10-Q for the period ended September 30, 2015.

### Recent Accounting Pronouncements

A discussion of recent accounting pronouncements is included in Note 11, Recent Accounting Pronouncements to the Unaudited Condensed, Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

## 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 |        | Nine Months Ended |        |   |
|---|--------------------|--------|-------------------|--------|---|
|   | September 30,      |        | September 30,     |        |   |
|   | 2015               | 2014   | 2015              | 2014   |   |
| Revenue:  |                    |        |                   |        |   |
| Animal Hospital                                     | 80.1               | % 79.2 | % 79.4            | % 78.8 | % |
| Laboratory  | 18.2               | 18.4   | 18.8              | 19.2   |   |
| All Other   | 5.6                | 6.0    | 5.9               | 5.7    |   |
| Intercompany  | (3.9 )             | (3.6 ) | (4.1 )            | (3.7 ) | ) |
| Total revenue                                       | 100.0              | 100.0  | 100.0             | 100.0  |   |
| Direct costs  | 75.0               | 75.2   | 75.5              | 76.0   |   |
| Gross profit  | 25.0               | 24.8   | 24.5              | 24.0   |   |
| Selling, general and administrative expense         | 8.1                | 8.6    | 8.4               | 8.6    |   |
| Impairment of goodwill and other long-lived assets  | —                  | 5.4    | —                 | 1.9    |   |
| Business interruption insurance gain                | (0.8 )             | —      | (0.3 )            | —      | ) |
| Net loss (gain) on sale or disposal of assets       | 0.1                | 0.1    | (0.1 )            | —      | ) |
| Operating income                                    | 17.6               | 10.7   | 16.5              | 13.5   |   |
| Interest expense, net                               | 1.0                | 0.9    | 1.0               | 0.9    |   |
| Debt retirement costs                               | —                  | 0.3    | —                 | 0.1    |   |
| Income before provision for income taxes            | 16.6               | 9.5    | 15.5              | 12.5   |   |
| Provision for income taxes                          | 6.4                | 3.7    | 6.0               | 4.8    |   |
| Net income  | 10.2               | 5.8    | 9.5               | 7.7    |   |
| Net income attributable to noncontrolling interests | 0.3                | 0.3    | 0.3               | 0.3    |   |
| Net income attributable to VCA Inc.                 | 9.9                | % 5.5  | % 9.2             | % 7.4  | % |

## Revenue

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

|                 | Three Months Ended |            |           |            |          | Nine Months Ended |            |             |            |          |
|-----------------|--------------------|------------|-----------|------------|----------|-------------------|------------|-------------|------------|----------|
|                 | September 30,      |            | 2014      |            | % Change | September 30,     |            | 2014        |            | % Change |
|                 | \$                 | % of Total | \$        | % of Total |          | \$                | % of Total | \$          | % of Total |          |
| Animal Hospital | \$441,924          | 80.1 %     | \$395,820 | 79.2 %     | 11.6 %   | \$1,270,326       | 79.4 %     | \$1,134,184 | 78.8 %     | 12.0 %   |
| Laboratory      | 100,309            | 18.2 %     | 91,903    | 18.4 %     | 9.1 %    | 300,503           | 18.8 %     | 276,392     | 19.2 %     | 8.7 %    |
| All Other       | 30,838             | 5.6 %      | 30,081    | 6.0 %      | 2.5 %    | 93,734            | 5.9 %      | 81,914      | 5.7 %      | 14.4 %   |
| Intercompany    | (21,354 )          | (3.9 )%    | (18,227 ) | (3.6 )%    | (17.2)%  | (64,608 )         | (4.1 )%    | (53,934 )   | (3.7 )%    | (19.8)%  |
| Total revenue   | \$551,717          | 100.0 %    | \$499,577 | 100.0 %    | 10.4 %   | \$1,599,955       | 100.0 %    | \$1,438,556 | 100.0 %    | 11.2 %   |

Consolidated revenue increased \$52.1 million and \$161.4 million for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in the prior year. Increases in revenue attributable to revenue from animal hospitals acquired since the beginning of the comparable periods in the prior year were the largest factor contributing to our growth in revenues during the three and nine month periods ended September 30, 2015. Excluding the impact of acquisitions, revenue increased \$13.6 million and \$56.2 million for the three and nine months ended September 30, 2015, respectively, primarily due to organic growth in our Animal Hospital and Laboratory segments. The increases were partially offset by the impact of foreign currency translation. Our Animal Hospital same-store revenue increased 5.4% and 5.6% for the three and nine months ended September 30, 2015, respectively,



as compared to the same periods in the prior year. Our Laboratory internal revenue growth was 6.0% and 6.5% for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in the prior year.

#### Direct Costs

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

|                    | Three Months Ended<br>September 30, |                 |           |                 |             | Nine Months Ended<br>September 30, |                 |             |                 |             |
|--------------------|-------------------------------------|-----------------|-----------|-----------------|-------------|------------------------------------|-----------------|-------------|-----------------|-------------|
|                    | 2015                                |                 | 2014      |                 | %<br>Change | 2015                               |                 | 2014        |                 | %<br>Change |
|                    | \$                                  | % of<br>Revenue | \$        | % of<br>Revenue |             | \$                                 | % of<br>Revenue | \$          | % of<br>Revenue |             |
| Animal Hospital    | \$366,983                           | 83.0 %          | \$327,283 | 82.7 %          | 12.1 %      | \$1,066,516                        | 84.0 %          | \$953,511   | 84.1 %          | 11.9 %      |
| Laboratory         | 48,901                              | 48.8 %          | 46,879    | 51.0 %          | 4.3 %       | 144,410                            | 48.1 %          | 139,245     | 50.4 %          | 3.7 %       |
| All Other          | 19,077                              | 61.9 %          | 19,945    | 66.3 %          | (4.4 )%     | 59,160                             | 63.1 %          | 54,161      | 66.1 %          | 9.2 %       |
| Intercompany       | (20,910 )                           | (3.8 )%         | (18,287 ) | (3.7 )%         | (14.3 )%    | (62,506 )                          | (3.9 )%         | (53,984 )   | (3.8 )%         | (15.8 )%    |
| Total direct costs | \$414,051                           | 75.0 %          | \$375,820 | 75.2 %          | 10.2 %      | \$1,207,580                        | 75.5 %          | \$1,092,933 | 76.0 %          | 10.5 %      |

Consolidated direct costs increased \$38.2 million and \$114.6 million for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in the prior year. The increases were primarily attributable to animal hospitals acquired since the beginning of the comparable periods in the prior year. Excluding the impact of animal hospital acquisitions, the increase in direct costs was primarily due to compensation related costs, supplies, and rent, predominately in the animal hospital segment and discussed further under Segment Results.

#### Gross Profit

The following table summarizes our consolidated gross profit and consolidated Non-GAAP gross profit in dollars and as a percentage of applicable revenue (in thousands, except percentages):

|   | Three Months Ended<br>September 30, |                 |           |                 |             | Nine Months Ended<br>September 30, |                 |           |                 |             |
|---|-------------------------------------|-----------------|-----------|-----------------|-------------|------------------------------------|-----------------|-----------|-----------------|-------------|
|   | 2015                                |                 | 2014      |                 | %<br>Change | 2015                               |                 | 2014      |                 | %<br>Change |
|   | \$                                  | Gross<br>Margin | \$        | Gross<br>Margin |             | \$                                 | Gross<br>Margin | \$        | Gross<br>Margin |             |
| Animal Hospital   | \$74,941                            | 17.0 %          | \$68,537  | 17.3 %          | 9.3 %       | \$203,810                          | 16.0 %          | \$180,673 | 15.9 %          | 12.8 %      |
| Laboratory  | 51,408                              | 51.2 %          | 45,024    | 49.0 %          | 14.2 %      | 156,093                            | 51.9 %          | 137,147   | 49.6 %          | 13.8 %      |
| All Other   | 11,761                              | 38.1 %          | 10,136    | 33.7 %          | 16.0 %      | 34,574                             | 36.9 %          | 27,753    | 33.9 %          | 24.6 %      |
| Intercompany  | (444 )                              |                 | 60        |                 |             | (2,102 )                           |                 | 50        |                 |             |
| Consolidated gross profit   | \$137,666                           | 25.0 %          | \$123,757 | 24.8 %          | 11.2 %      | \$392,375                          | 24.5 %          | \$345,623 | 24.0 %          | 13.5 %      |
| Intangible asset amortization associated with acquisitions                  | 5,750                               |                 | 5,166     |                 |             | 17,013                             |                 | 15,406    |                 |             |
| Non-GAAP consolidated gross profit and Non-GAAP gross margin <sup>(1)</sup> | \$143,416                           | 26.0 %          | \$128,923 | 25.8 %          | 11.2 %      | \$409,388                          | 25.6 %          | \$361,029 | 25.1 %          | 13.4 %      |



Non-GAAP consolidated gross profit and Non-GAAP gross margin are not measurements of financial performance prepared in accordance with GAAP. See Non-GAAP Financial Measures below for information (1) about these Non-GAAP financial measures, including our reasons for including the measures, material limitations with respect to the usefulness of the measures, and a reconciliation of each Non-GAAP financial measure to the most directly comparable GAAP financial measure.

Consolidated gross profit increased \$13.9 million and \$46.8 million for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in the prior year. Non-GAAP consolidated gross profit, which excludes the impact of intangible asset amortization associated with acquisitions, increased \$14.5 million and \$48.4 million for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in the prior year. The increases in Non-GAAP consolidated gross profit were primarily attributable to organic revenue growth and increased gross margins in our Laboratory business segment. The increases in Non-GAAP consolidated gross profit also included \$6.6 million and \$17.5 million of gross profit related to acquisitions consummated since the beginning of the comparable periods in the prior year for the three and nine months ended September 30, 2015, respectively.

## Segment Results

### Animal Hospital Segment

#### Revenue

Animal Hospital revenue increased \$46.1 million and \$136.1 million for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in the prior year. The components of the increase are summarized in the following table (in thousands, except percentages and average revenue per order):

|  | Three Months Ended |           |          | Nine Months Ended  |             |          |   |  |
|--|--------------------|-----------|----------|--------------------|-------------|----------|---|--|
|  | September 30, 2015 | 2014      | % Change | September 30, 2015 | 2014        | % Change |   |  |
| Same-store facilities:                   |                    |           |          |                    |             |          |   |  |
| Orders <sup>(1)</sup>                    | 2,318              | 2,281     | 1.6      | % 6,511            | 6,374       | 2.1      | % |  |
| Average revenue per order <sup>(2)</sup> | \$177.91           | \$171.61  | 3.7      | % \$179.66         | \$173.74    | 3.4      | % |  |
| Same-store revenue <sup>(1)</sup>        | \$412,464          | \$391,416 | 5.4      | % \$1,169,740      | \$1,107,362 | 5.6      | % |  |
| Acquisitions                             | 38,253             | 1,560     |          | 117,361            | 17,743      |          |   |  |
| Closures                                 | 1                  | 2,844     |          | 2,418              | 9,079       |          |   |  |
| Net acquired revenue <sup>(3)</sup>      | \$38,254           | \$4,404   |          | \$119,779          | \$26,822    |          |   |  |
| Foreign currency impact                  | (8,794 )           | —         |          | (19,193 )          | —           |          |   |  |
| Total                                    | \$441,924          | \$395,820 | 11.6     | % \$1,270,326      | \$1,134,184 | 12.0     | % |  |

(1) Same-store revenue and orders were calculated using Animal Hospital operating results, adjusted to exclude the operating results for newly acquired animal hospitals that we did not own, as of the beginning of the comparable period in the prior year. Same-store revenue also includes revenue generated by customers referred from our relocated or combined animal hospitals, including those merged upon acquisition.

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

(3) Net acquired revenue represents the revenue from animal hospitals acquired, net of revenue from animal hospitals sold or closed, on or after the beginning of the comparable period in the prior year. Fluctuations in net acquired revenue occur due to the volume, size, and timing of acquisitions and dispositions.

During the three and nine months ended September 30, 2015, as compared to the same period in the prior year, our volume of same-store orders increased primarily due to the combination of an overall improvement in the United States economy during the quarter when compared to the prior year quarter and the impact of certain previously implemented marketing initiatives in our animal hospitals.

Our business strategy is to place a greater emphasis on comprehensive wellness visits and advanced medical procedures, which typically generate higher priced orders. During the three and nine months ended September 30, 2015, we experienced an increase in both the number of lower-priced orders and higher-priced orders. Price increases as well as the mix in year over year growth rates of low to high-priced orders contributed to the overall increase in the average revenue per order. Prices at each of our animal hospitals are reviewed regularly and adjustments are made based on



market considerations, demographics and our costs. These adjustments historically approximated 3% to 6% on most services at the majority of our animal hospitals and are typically implemented in November of each year; however, price increases in November 2014 generally ranged between 3% and 4%.

### Direct Costs

Animal Hospital direct costs increased \$39.7 million for the three months ended September 30, 2015, as compared to the same period in the prior year. The increase was primarily due to an increase in compensation related expenses of \$23.4 million, supplies of \$6.6 million, rent of \$1.3 million and depreciation and amortization of \$1.4 million. The remainder of the increase was due to numerous items, all of which were individually immaterial. The increases in compensation related-costs and supplies generally are related to revenue growth and acquisitions. The increase in depreciation and amortization is related to acquired animal hospitals.

Animal Hospital direct costs increased \$113.0 million for the nine months ended September 30, 2015, as compared to the same period in the prior year. The increase was primarily due to an increase in compensation related expenses of \$65.0 million, supplies of \$20.7 million, rent of \$4.4 million and depreciation and amortization of \$4.2 million. The remainder of the increase was due to numerous items, all of which were individually immaterial. As mentioned above, the increases in compensation related-costs and supplies generally are related to revenue growth and acquisitions while the increase in depreciation and amortization is related to acquired animal hospitals.

### Gross Profit

Animal Hospital gross profit is calculated as Animal Hospital revenue less Animal Hospital direct costs. Animal Hospital direct costs comprise 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 expense and costs of goods sold associated with the retail sales of pet food and pet supplies.

The following table summarizes gross profit, gross margin, Non-GAAP gross profit and Non-GAAP gross margin for our Animal Hospital segment (in thousands, except percentages) and the same measures on a same-store basis:

|  | Three Months Ended |          |          | Nine Months Ended |           |          |   |
|--|--------------------|----------|----------|-------------------|-----------|----------|---|
|  | September 30,      |          | % Change | September 30,     |           | % Change |   |
|  | 2015               | 2014     |          | 2015              | 2014      |          |   |
| Gross profit   | \$74,941           | \$68,537 | 9.3      | % \$203,810       | \$180,673 | 12.8     | % |
| Intangible asset amortization associated with acquisitions | 4,658              | 4,121    |          | 13,895            | 12,102    |          |   |
| Non-GAAP gross profit <sup>(1)</sup>                       | \$79,599           | \$72,658 | 9.6      | % \$217,705       | \$192,775 | 12.9     | % |
| Gross margin   | 17.0               | % 17.3   | %        | 16.0              | % 15.9    | %        |   |
| Non-GAAP gross margin <sup>(1)</sup>                       | 18.0               | % 18.4   | %        | 17.1              | % 17.0    | %        |   |
| Same-store gross profit                                    | \$71,538           | \$68,594 | 4.3      | % \$194,654       | \$179,834 | 8.2      | % |
| Intangible asset amortization associated with acquisitions | 3,378              | 4,089    |          | 9,879             | 11,579    |          |   |
| Non-GAAP same-store gross profit <sup>(1)</sup>            | \$74,916           | \$72,683 | 3.1      | % \$204,533       | \$191,413 | 6.9      | % |
| Same-store gross margin                                    | 17.3               | % 17.5   | %        | 16.6              | % 16.2    | %        |   |
| Non-GAAP same-store gross margin <sup>(1)</sup>            | 18.2               | % 18.6   | %        | 17.5              | % 17.3    | %        |   |

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Non-GAAP gross profit and Non-GAAP gross margin and the same measures expressed on a same store basis, are not measurements of financial performance prepared in accordance with GAAP. See Non-GAAP Financial

- (1) Measures below for information about these Non-GAAP financial measures, including our reasons for including the measures, material limitations with respect to the usefulness of the measures, and a reconciliation of each Non-GAAP financial measure to the most directly comparable GAAP financial measure.

Consolidated Animal Hospital gross profit increased \$6.4 million for the three months ended September 30, 2015, as compared to the same period in the prior year. Non-GAAP gross profit, which excludes the impact of intangible asset amortization associated with acquisitions, increased \$6.9 million for the three months ended September 30, 2015, as compared to the same period in the prior year. The increase in Non-GAAP consolidated gross profit was primarily attributable to additional gross profit from acquired animal hospitals of \$4.2 million for the three months ended September 30, 2015 and same-store revenue growth.

Consolidated Animal Hospital gross profit increased \$23.1 million for the nine months ended September 30, 2015, as compared to the same period in the prior year. Non-GAAP gross profit, which excludes the impact of intangible asset amortization associated with acquisitions, increased \$24.9 million for the nine months ended September 30, 2015, as compared to the same period in the prior year. The increase in Non-GAAP consolidated gross profit was primarily attributable to an increase in Animal Hospital same-store revenue growth combined with an increase in gross margin which increased as a result of leverage gained from higher same-store revenue and additional gross profit from acquired animal hospitals of \$11.8 million for the nine months ended September 30, 2015.

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 primarily through cost efficiencies.

#### Laboratory Segment

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

|              | Three Months Ended<br>September 30, |          |          | Nine Months Ended<br>September 30, |           |          |   |  |
|--------------|-------------------------------------|----------|----------|------------------------------------|-----------|----------|---|--|
|              | 2015                                | 2014     | % Change | 2015                               | 2014      | % Change |   |  |
| Revenue      | \$100,309                           | \$91,903 | 9.1      | % \$300,503                        | \$276,392 | 8.7      | % |  |
| Gross profit | \$51,408                            | \$45,024 | 14.2     | % \$156,093                        | \$137,147 | 13.8     | % |  |
| Gross margin | 51.2                                | % 49.0   | %        | 51.9                               | % 49.6    | %        |   |  |

Laboratory revenue increased \$8.4 million and \$24.1 million for the three and nine months ended September 30, 2015, respectively, 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 revenue per requisition):

|  | Three Months Ended<br>September 30, |          |          | Nine Months Ended<br>September 30, |           |          |   |  |
|--|-------------------------------------|----------|----------|------------------------------------|-----------|----------|---|--|
|  | 2015                                | 2014     | % Change | 2015                               | 2014      | % Change |   |  |
| Internal growth:                               |                                     |          |          |                                    |           |          |   |  |
| Number of requisitions <sup>(1)</sup>          | 3,318                               | 3,273    | 1.4      | % 10,046                           | 9,883     | 1.6      | % |  |
| Average revenue per requisition <sup>(2)</sup> | \$29.36                             | \$28.08  | 4.6      | % \$29.31                          | \$27.97   | 4.8      | % |  |
| Total internal revenue <sup>(1)</sup>          | \$97,413                            | \$91,903 | 6.0      | % \$294,478                        | \$276,392 | 6.5      | % |  |
| Acquired revenue <sup>(3)</sup>                | 2,896                               | —        |          | 6,025                              | —         |          |   |  |
| Total  | \$100,309                           | \$91,903 | 9.1      | % \$300,503                        | \$276,392 | 8.7      | % |  |

Internal revenue and requisitions were calculated using Laboratory operating results, which are adjusted (i) to

- (1) exclude the operating results of acquired laboratories that we did not own as of the beginning of the comparable period in the prior year, and (ii) for the impact resulting from any differences in the number of billing days in the comparable period, if applicable.

- (2) Computed by dividing internal revenue by the number of requisitions.
- (3) Acquired revenue represents the current-year period revenue recognized from our acquired laboratories that we did not own as of the beginning of the comparable period in the prior year.

The increase in Laboratory revenue for the three and nine months ended September 30, 2015, as compared to the same periods in the prior year, was due to an increase in average revenue per requisition, primarily as a result of price increases in February 2015 and changes in product mix.

Laboratory gross profit is calculated as Laboratory revenue less direct costs. Laboratory direct cost comprises 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 increased to 51.2% and 51.9% for the three and nine months ended September 30, 2015, as compared to 49.0% and 49.6% for the same periods in the prior year. The improvement in gross margins is primarily attributable to leverage on labor and transportation costs.

#### Intercompany Revenue

Laboratory revenue for the three and nine months ended September 30, 2015 included intercompany revenue of \$16.2 million and \$47.9 million, respectively, generated by providing laboratory services to our animal hospitals, as compared to \$14.5 million and \$42.9 million for the respective prior year periods. All Other revenue for the three and nine months ended September 30, 2015 included intercompany revenue of \$6.3 million and \$19.8 million, respectively, generated by providing products and services to our animal hospitals and laboratories, as compared to \$4.7 million and \$13.9 million for the respective prior year periods. For purposes of reviewing the operating performance of our segments, all intercompany transactions are accounted for as if the transaction was with an independent third party at current market prices. For financial reporting purposes, intercompany transactions are eliminated as part of our consolidation.

#### Selling, General and Administrative Expense

SG&A is primarily comprised of costs incurred to support each of our business units. These costs typically include compensation related items for our accounting, legal, information technology, marketing, training, and medical operations departments and in addition, other shared costs such as marketing and rent for corporate facilities. The following table summarizes our selling, general and administrative (“SG&A”) expense in both dollars and as a percentage of applicable revenue (in thousands, except percentages):

|                 | Three Months Ended<br>September 30,<br>2015 |                 |          |                 |             | Nine Months Ended<br>September 30,<br>2015 |                 |           |                 |             |
|-----------------|---|-----------------|----------|-----------------|-------------|--|-----------------|-----------|-----------------|-------------|
|                 | \$  | % of<br>Revenue | \$       | % of<br>Revenue | %<br>Change | \$   | % of<br>Revenue | \$        | % of<br>Revenue | %<br>Change |
| Animal Hospital | \$10,677                                    | 2.4 %           | \$9,269  | 2.3 %           | 15.2 %      | \$32,351                                   | 2.5 %           | \$28,261  | 2.5 %           | 14.5 %      |
| Laboratory      | 9,542                                       | 9.5 %           | 8,610    | 9.4 %           | 10.8 %      | 27,894                                     | 9.3 %           | 24,909    | 9.0 %           | 12.0 %      |
| All Other       | 7,660                                       | 24.8 %          | 8,023    | 26.7 %          | (4.5 )%     | 24,088                                     | 25.7 %          | 23,782    | 29.0 %          | 1.3 %       |
| Corporate       | 16,981                                      | 3.1 %           | 16,890   | 3.4 %           | 0.5 %       | 49,410                                     | 3.1 %           | 47,211    | 3.3 %           | 4.7 %       |
| Total SG&A      | \$44,860                                    | 8.1 %           | \$42,792 | 8.6 %           | 4.8 %       | \$133,743                                  | 8.4 %           | \$124,163 | 8.6 %           | 7.7 %       |

Consolidated SG&A expense increased \$2.1 million for the three months ended September 30, 2015, as compared to the same period in the prior year. The increase in consolidated SG&A expense for the three months ended September 30, 2015, was primarily due to increases in compensation related expenses at our Animal Hospital and Laboratory segments of \$1.4 million and \$0.2 million, respectively, related to increased headcount to support our growing operations. The remainder of the variance is attributable to All Other operating SG&A expense partially offset by cost reductions at Vetstreet.

Consolidated SG&A expense increased \$9.6 million for the nine months ended September 30, 2015, as compared to the same period in the prior year. The increase in consolidated SG&A expense for the nine months ended September 30, 2015, was primarily due to increases in compensation related expenses at our Animal Hospital and Laboratory segments of \$3.8 million and \$1.6 million, respectively. Increases in other SG&A expenses of \$1.4 million



at our Laboratory segment and \$2.2 million in our Corporate expenses related to increased headcount to support our growing operations. The remainder of the variance is attributable to All Other operating SG&A expense partially offset by cost reductions at Vetstreet.

## Operating Income

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

|  | Three Months Ended<br>September 30,<br>2015 |                 |          |                 |             | September 30,<br>2014 |                 |           |                 |             | Nine Months Ended<br>September 30,<br>2015 |                 |    |                 |             | September 30,<br>2014 |                 |    |                 |             |
|--|---|-----------------|----------|-----------------|-------------|-----------------------|-----------------|-----------|-----------------|-------------|--|-----------------|----|-----------------|-------------|-----------------------|-----------------|----|-----------------|-------------|
|  | \$  | % of<br>Revenue | \$       | % of<br>Revenue | %<br>Change | \$                    | % of<br>Revenue | \$        | % of<br>Revenue | %<br>Change | \$   | % of<br>Revenue | \$ | % of<br>Revenue | %<br>Change | \$                    | % of<br>Revenue | \$ | % of<br>Revenue | %<br>Change |
| Animal Hospital  | \$64,089                                    | 14.5 %          | \$58,670 | 14.8 %          | 9.2 %       | \$171,904             | 13.5 %          | \$151,232 | 13.3 %          | 13.7 %      |  |                 |    |                 |             |                       |                 |    |                 |             |
| Laboratory   | 41,866                                      | 41.7 %          | 36,407   | 39.6 %          | 15.0 %      | 128,158               | 42.6 %          | 112,309   | 40.6 %          | 14.1 %      |  |                 |    |                 |             |                       |                 |    |                 |             |
| All Other  | 8,552                                       | 27.7 %          | (24,906) | (82.8)%         | 134.3 %     | 14,917                | 15.9 %          | (21,961)  | (26.8)%         | 167.9 %     |  |                 |    |                 |             |                       |                 |    |                 |             |
| Corporate  | (16,984)                                    |                 | (16,755) |                 | (1.4)%      | (49,488)              |                 | (47,016)  |                 | (5.3)%      |  |                 |    |                 |             |                       |                 |    |                 |             |
| Eliminations   | (444)                                       |                 | 60       |                 | (840.0)%    | (2,102)               |                 | 50        |                 | (4,304.0)%  |  |                 |    |                 |             |                       |                 |    |                 |             |
| Total GAAP consolidated operating income   | \$97,079                                    | 17.6 %          | \$53,476 | 10.7 %          | 81.5 %      | \$263,389             | 16.5 %          | \$194,614 | 13.5 %          | 35.3 %      |  |                 |    |                 |             |                       |                 |    |                 |             |
| Impairment of goodwill and other long-lived assets   | —   |                 | 27,019   |                 |             | —                     |                 | 27,019    |                 |             |  |                 |    |                 |             |                       |                 |    |                 |             |
| Impact of business interruption insurance gain   | (4,523)                                     |                 | —        |                 |             | (4,523)               |                 | —         |                 |             |  |                 |    |                 |             |                       |                 |    |                 |             |
| Intangible asset amortization associated with acquisitions                                       | 5,811                                       |                 | 5,231    |                 |             | 17,195                |                 | 15,605    |                 |             |  |                 |    |                 |             |                       |                 |    |                 |             |
| Non-GAAP consolidated operating income and Non-GAAP consolidated operating margin <sup>(1)</sup> | \$98,367                                    | 17.8 %          | \$85,726 | 17.2 %          | 14.7 %      | \$276,061             | 17.3 %          | \$237,238 | 16.5 %          | 16.4 %      |  |                 |    |                 |             |                       |                 |    |                 |             |

Non-GAAP consolidated operating income and Non-GAAP consolidated operating margin are not measurements of financial performance prepared in accordance with GAAP. See Non-GAAP Financial Measures below for

(1) information about these Non-GAAP financial measures, including our reasons for including the measures, material limitations with respect to the usefulness of the measures, and a reconciliation of each Non-GAAP financial measure to the most directly comparable GAAP financial measure.

Consolidated operating income increased by \$43.6 million and \$68.8 million during the three and nine months ended September 30, 2015, respectively, as compared to the same periods in the prior year. Non-GAAP consolidated operating income, which excludes the impact of intangible asset amortization associated with acquisitions, increased

by \$12.6 million and \$38.8 million for the three and nine months ended September 30, 2015, respectively, as compared to the same periods in the prior year. The increases in Non-GAAP consolidated operating income for the three and nine months ended September 30, 2015, were primarily related to improved results, as mentioned above in our Animal Hospital and Laboratory segments.

**Intangible asset amortization associated with acquisitions**

Included in our direct costs is amortization expense related to our acquired intangible assets. At acquisition we assign a fair market value to identifiable intangible assets other than goodwill in our purchase price allocation. These assets include non-contractual customer relationships, covenants not-to-compete, trademarks, contracts and technology. For those identified intangible assets that have finite lives, we amortize those values over the estimated useful lives to direct costs. For the three and nine months ended September 30, 2015, amortization expenses associated with acquired intangible assets were \$5.8 million and \$17.2 million, respectively. For the three and nine months ended September 30, 2014, amortization expenses associated with acquired intangible assets were \$5.2 million and \$15.6 million, respectively.

## Interest Expense, Net

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

|   | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|---|-------------------------------------|---------|------------------------------------|----------|
|   | 2015                                | 2014    | 2015                               | 2014     |
| Interest expense:   |                                     |         |                                    |          |
| Senior term notes and revolver                              | \$3,535                             | \$2,704 | \$9,839                            | \$7,781  |
| Capital leases and other                                    | 1,513                               | 1,363   | 4,351                              | 3,937    |
| Amortization of debt costs                                  | 436                                 | 353     | 1,307                              | 958      |
| Consolidated interest expense                               | 5,484                               | 4,420   | 15,497                             | 12,676   |
| Interest income   | (29                                 | ) (53   | ) (101                             | ) (112   |
| Total consolidated interest expense, net of interest income | \$5,455                             | \$4,367 | \$15,396                           | \$12,564 |

The increase in consolidated net interest expense for the three and nine months ended September 30, 2015, as compared to the same period in the prior year, was primarily attributable to an increase in the weighted average debt balance of our senior term notes, revolver commitment fees, and amortized debt costs. The weighted average debt balance increased as a result of refinancing our senior credit facility and \$232 million of additional borrowings from our revolving credit facility, of which \$36 million were drawn during the three months ended September 30, 2015. Amortized debt costs also increased as a result of refinancing our senior credit facility.

## Provision for Income Taxes

The effective tax rate of income attributable to VCA for the three and nine months ended September 30, 2015 was 39.0% and 39.4%, respectively, as compared to 39.1% for the year ended December 31, 2014.

## 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.

## Non-GAAP Financial Measures

We use Non-GAAP financial measures to supplement the financial information presented on a GAAP basis. We believe that excluding certain items from our GAAP results allows our management to better understand our consolidated financial performance from period to period and in relationship to the operating results of our segments. We also believe that excluding certain items from our GAAP results allows our management to better project our future consolidated financial performance because our forecasts are developed at a level of detail different from that used to prepare GAAP-based financial measures. Moreover, we believe these Non-GAAP financial measures provide investors with useful information to help them evaluate our operating results by facilitating an enhanced understanding of our operating performance, and enabling them to make more meaningful period to period comparisons.

The Non-GAAP financial measures presented in this report include Non-GAAP gross profit and Non-GAAP gross margin, computed on a consolidated basis, for our Animal Hospital segment, and the same measures expressed on a same-store basis. Additionally, our Non-GAAP financial measures include our Non-GAAP operating income and Non-GAAP operating margin on a consolidated basis. Lastly, our Non-GAAP financial measures also include our Non-GAAP consolidated net income and Non-GAAP diluted earnings per share. These Non-GAAP financial measures, as defined by us, represent the comparable GAAP measures adjusted to exclude certain charges or credits, as detailed in the tables above and below. In future fiscal periods, we may exclude such items and may incur income and expenses similar to these excluded items. Accordingly, the exclusion of these items and other similar items in our Non-GAAP presentation should not be interpreted as implying that these items are non-recurring, infrequent, or unusual.

There are limitations to the use of the Non-GAAP financial measures presented in this report.

Our Non-GAAP financial measures may not be comparable to similarly titled measures of other companies. Other companies, including companies in our industry, may calculate the Non-GAAP financial measures differently than we

do, limiting the usefulness of those measures for comparative purposes. In addition, these items can have a material impact on earnings. Our management compensates for the foregoing limitations by relying primarily on our GAAP results and using Non-GAAP financial measures supplementally. The Non-GAAP financial measures are not meant to be considered as indicators of performance in isolation from or as a substitute for consolidated gross profit or gross margin prepared in accordance with GAAP and should be read only in conjunction with financial

information presented on a GAAP basis. We have presented reconciliations of each Non-GAAP financial measure to the most comparable GAAP measure for the three and nine months ended September 30, 2015 and September 30, 2014 and encourage you to review the reconciliations in conjunction with the presentation of the Non-GAAP financial measures for each of the periods included in this report. Refer to the tables above in the gross profit and operating income sections within Part I, Item 2 of this report for a reconciliation of consolidated gross profit to Non-GAAP gross profit and consolidated operating income to Non-GAAP operating income.

Our Non-GAAP adjustments include the following:

Business interruption insurance gain - Our GAAP net income includes a \$4.5 million gain related to business interruption insurance proceeds from the May 14, 2014 fire for the three and nine months ended September 30, 2015. There were no additional estimated losses recorded in connection with the May 14, 2014 fire damage of the Medical Technology headquarters in Carlsbad, California.

Intangible asset amortization associated with acquisitions - Our GAAP net income includes amortization expense related to intangible assets in our acquired businesses. The amortization expense related to our acquired intangible assets can vary significantly dependent upon the amount and size of our acquisitions in each period; accordingly, we exclude amortization from our GAAP net income, for all periods presented, to provide investors with more comparable operating results.

Goodwill and other long-lived asset impairment adjustment - We recognized a non-cash impairment charge of \$27.0 million related to the write-down of goodwill and other long-lived assets in our Vetstreet business for the three and nine months ended September 30, 2014.

Debt retirement costs adjustment - We incurred debt retirement costs of \$1.7 million related to the refinancing of our senior credit facility for the three and nine months ended September 30, 2014.

The following table reconciles our GAAP net income to Non-GAAP net income and calculates our Non-GAAP diluted earnings per share for the adjustments mentioned above:

|   | Three Months Ended |           | Nine Months Ended |           |
|---|--------------------|-----------|-------------------|-----------|
|   | September 30,      |           | September 30,     |           |
|   | 2015               | 2014      | 2015              | 2014      |
| GAAP net income   | \$54,854           | \$27,452  | \$147,454         | \$107,079 |
| Impact of goodwill and other long-lived asset impairment adjustment | —                  | 27,019    | —                 | 27,019    |
| Impact of debt retirement cost adjustment                           | —                  | 1,709     | —                 | 1,709     |
| Impact of business interruption insurance gain                      | (4,523 )           | —         | (4,523 )          | —         |
| Intangible asset amortization associated with acquisitions          | 5,811              | 5,231     | 17,195            | 15,605    |
| Tax benefit on above adjustments                                    | (503 )             | (12,694 ) | (4,959 )          | (16,755 ) |
| Non-GAAP net income   | \$55,639           | \$48,717  | \$155,167         | \$134,657 |
| Non-GAAP diluted earnings per share                                 | \$0.68             | \$0.56    | \$1.88            | \$1.52    |
| Shares used for computing adjusted diluted earnings per share       | 81,795             | 87,360    | 82,744            | 88,665    |

## Liquidity and Capital Resources

### Introduction

We generate cash primarily from (i) payments made by customers for our veterinary services, (ii) payments from animal hospitals and other clients for our laboratory services, (iii) proceeds received from the sale of our imaging equipment and other related services and (iv) payments received from participating hospitals for Vetstreet subscriptions and reminder notices. 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, acquisitions and shares repurchases. Cash outflows fluctuate with the amount and timing of the settlement of these transactions.

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

At September 30, 2015, our consolidated cash and cash equivalents totaled \$75.0 million, representing a decrease of \$6.4 million, compared to December 31, 2014. Cash flows generated from operating activities totaled at \$247.0 million for the nine months ended September 30, 2015, representing an increase of \$22.0 million, compared to the nine months ended September 30, 2014.

At September 30, 2015, \$16.8 million of the \$75.0 million of cash and cash equivalents were held by foreign subsidiaries. Our intention is to indefinitely reinvest foreign earnings in our foreign subsidiaries. If these earnings were used to fund domestic operations, they would be subject to additional income taxes upon repatriation.

We have historically funded our working capital requirements, capital expenditures, investments in the acquisition of individual hospitals and laboratories, and other smaller acquisitions primarily from internally generated cash flows. In the future, we plan to continue to utilize our revolving credit facility to supplement our internally generated cash flows to fund both our acquisition pipeline and our share repurchase program. As of September 30, 2015, we have access to \$568 million under our revolving credit facility which allows us to maintain further operating and financial flexibility.

Historically, we have been able to access the capital markets to fund larger acquisitions that could not be funded out of internally generated cash flows. The availability of financing in the form of debt or equity is influenced by many factors including our profitability, operating cash flows, debt levels, debt ratings, contractual restrictions, and market conditions. Although in the past we have been able to obtain financing for material transactions on terms we believed 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

We anticipate that our cash on hand and net cash provided by operations and available funds under our revolving credit agreement and incremental facilities will be sufficient to meet our anticipated cash requirements for the next 12 months. If we consummate additional significant acquisitions during this period, we may seek additional debt or equity financing.

For the year ended December 31, 2015, we expect to spend \$115 million to \$135 million for the acquisition of independent animal hospitals. The ultimate number of acquisitions and cash used is largely dependent upon the attractiveness of the candidates and the strategic fit within our operations. For the nine months ended September 30, 2015, we spent \$99.2 million in connection with the acquisition of 42 independent animal hospitals and \$20.1 million in connection with the acquisition of certain assets of Abaxis Veterinary Reference Laboratory. In addition, we expect to spend approximately \$95 million in 2015 for both property and equipment additions and capital costs necessary to maintain our existing facilities, of which approximately \$61.5 million had been expended at September 30, 2015.

In August 2014, our Board of Directors authorized the continuance of our April 2013 share repurchase program, which was completed in August 2014. The new plan authorizes us to repurchase up to an additional \$400 million of our common shares from time to time in open market purchases, pursuant to trading plans established in accordance with SEC rules, through privately negotiated transactions, block trades and accelerated share repurchases. The timing and number of shares repurchased will depend on a variety of factors, including price, capital availability, legal requirements and economic and market conditions. The Company is not obligated to purchase any shares under the repurchase program, and repurchases may be suspended or discontinued at any time without prior notice. The repurchases have been and will continue to be funded by existing cash balances and by our revolving credit facility. During the quarter ended September 30, 2015, we repurchased an aggregate of 1,030,000 shares of common stock for \$58.5 million under our new plan.

##### 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.

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We are unable to project with certainty whether our long-term cash flow from operations will be sufficient to repay our long-term debt when it comes due. If this cash flow is insufficient, we expect that we will need to refinance such indebtedness, amend its terms to extend maturity dates, or issue common stock of 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 interest coverage and leverage ratios. As of September 30, 2015, we were in compliance with these covenants, including the two covenant ratios, the interest coverage ratio and the leverage ratio.

At September 30, 2015, we had an interest coverage ratio of 20.11 to 1.00, which was in compliance with the required ratio of no less than 3.00 to 1.00. The senior credit facility defines the interest 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 consolidated interest expense. Interest expense is defined as total interest expense with respect to all outstanding indebtedness, including commissions, discounts and other fees charged related to letters of credit. Pro forma earnings include 12 months of operating results for businesses acquired during the period.

At September 30, 2015, we had a leverage ratio of 2.19 to 1.00, which was in compliance with the required ratio of no more than 4.25 to 1.00 from September 30, 2015 until December 31, 2015 as defined under the senior credit facility. The senior credit facility defines the leverage ratio as that ratio which is calculated as total debt divided by pro forma earnings.

#### Historical Cash Flows

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

|   | Nine Months Ended<br>September 30, |            |
|---|------------------------------------|------------|
|   | 2015                               | 2014       |
| Cash provided by (used in):   |                                    |            |
| Operating activities  | \$247,016                          | \$225,047  |
| Investing activities  | (174,771 )                         | (111,246 ) |
| Financing activities  | (77,805 )                          | (111,880 ) |
| Effect of currency exchange rate changes on cash and cash equivalents | (831 )                             | (443 )     |
| (Decrease) increase in cash and cash equivalents                      | (6,391 )                           | 1,478      |
| Cash and cash equivalents at beginning of period                      | 81,383                             | 125,029    |
| Cash and cash equivalents at end of period                            | \$74,992                           | \$126,507  |

#### Cash Flows from Operating Activities

Net cash provided by operating activities increased by \$22.0 million for the nine months ended September 30, 2015, as compared to the prior-year period. Operating cash flows for the nine months ended September 30, 2015 included \$151.9 million of net income, net non-cash expenses of \$72.1 million and net cash provided as a result of changes in operating assets and liabilities of \$23.0 million. The changes in operating assets and liabilities included a \$28.1 million decrease in income taxes which consisted of a \$26.2 million decrease in prepaid income taxes and a \$1.8 million increase in income taxes payable, and an \$18.9 million increase in accrued payroll and related liabilities. This is being partially offset by a \$20.6 million increase in trade accounts receivable, a \$2.5 decrease in accounts payable and other accrued liabilities and a \$1.0 increase in inventory, prepaid expenses and other assets. The decreases in prepaid income taxes and income taxes payable and the increase in accrued payroll and related liabilities was primarily due to timing of payment obligations. The increase in trade accounts receivable was primarily due to an increase in our Laboratory business segment revenue as compared to the prior-year period, as well as increased revenue related to our Hospital segment. The decrease in accounts payable and other accrued liabilities is also a result of timing of payment obligations. The increase in inventory, prepaid expenses, and other assets was primarily due to increases in service agreements entered into by our Laboratory segment, and increased medical supplies in relation to

the acquired hospitals in 2015, along with new product offerings. These increases are partially offset by the receipt of the insurance payment related to the May 2014 fire at our Medical Technology business and the depletion of certain products.

Net cash provided by operating activities increased by \$6.0 million for the nine months ended September 30, 2014, as compared to the prior-year period. Operating cash flows for the nine months ended September 30, 2014 included \$110.8 million of net income, net non-cash expenses of \$102.3 million and net cash provided as a result of changes in operating assets and liabilities of \$11.9 million. The changes in operating assets and liabilities included a \$14.8 million increase in accrued payroll and related liabilities, a \$12.1 million decrease in prepaid income taxes, and a \$2.9 million increase in accounts payable and accrued liabilities. These changes were offset by an \$8.2 million increase in inventory, prepaid expenses and other assets, and a \$9.7 million increase in trade accounts receivable. The increase in accrued payroll and related liabilities, the decrease in prepaid incomes taxes, and the increase in accounts payable and accrued liabilities are a result of timing of payment obligations. The increase in inventory, prepaid expenses and other assets is primarily due to increased medical supplies in relation to the acquired hospitals during 2014, and increased partner program funds provided for joint marketing initiatives used to promote certain products. The increase in trade accounts receivable is primarily due to the addition of new hospitals in 2014 as well as increased Antech revenue.

#### Cash Flows from Investing Activities

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

|   | Nine Months Ended |              | Change                     |
|---|-------------------|--------------|----------------------------|
|   | 2015              | 2014         |                            |
| Investing Cash Flows:                       |                   |              |                            |
| Business acquisitions, net of cash acquired | \$(119,336 )      | \$(65,415 )  | \$(53,921 ) <sup>(1)</sup> |
| Property and equipment additions            | (61,470 )         | (50,093 )    | (11,377 ) <sup>(2)</sup>   |
| Proceeds from sale or disposal of assets    | 6,469             | 4,464        | 2,005                      |
| Other                                       | (434 )            | (202 )       | (232 )                     |
| Net cash used in investing activities       | \$(174,771 )      | \$(111,246 ) | \$(63,525 )                |

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

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



## Cash Flows from Financing Activities

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

|  | Nine Months Ended |              | Change     |     |
|--|-------------------|--------------|------------|-----|
|  | September 30,     |              |            |     |
|  | 2015              | 2014         |            |     |
| Financing Cash Flows:  |                   |              |            |     |
| Repayment of long-term obligations                                 | \$(20,174 )       | \$(563,976 ) | \$543,802  | (1) |
| Proceeds from issuance of long-term obligations                    | —                 | 600,000      | (600,000 ) | (1) |
| Proceeds from revolving credit facility                            | 97,000            | —            | 97,000     | (2) |
| Payment of financing costs   | —                 | (7,987 )     | 7,987      | (1) |
| Distributions to noncontrolling interest partners                  | (3,810 )          | (3,577 )     | (233 )     |     |
| Purchase of noncontrolling interests                               | (1,493 )          | (326 )       | (1,167 )   | (3) |
| Proceeds from issuance of common stock under stock incentive plans | 1,571             | 926          | 645        |     |
| Excess tax benefits from stock based compensation                  | 8,008             | 3,808        | 4,200      | (4) |
| Stock repurchases  | (161,117 )        | (139,910 )   | (21,207 )  | (5) |
| Other  | 2,210             | (838 )       | 3,048      | (6) |
| Net cash used in financing activities                              | \$(77,805 )       | \$(111,880 ) | \$34,075   |     |

On August 27, 2014, we entered into a new senior credit facility which resulted in the payoff of our previous credit agreement in the amount of \$533.2 million, proceeds of \$600 million from the issuance of long-term obligations (1) from our new senior term credit agreement, and payments of \$8.0 million related to financing costs to creditors and third parties. Additionally, our principal payment obligations did not commence until September 2015. See Note 7, Long-term Obligations, in our 2014 Form 10-K for more details on the refinance of our senior credit facility.

(2) The \$97.0 million borrowed from our revolving credit facility in 2015 was used primarily to fund stock repurchases under our existing \$400 million share repurchase authorization.

(3) The cash paid to purchase noncontrolling interests will vary based upon differing opportunities and circumstances during each of the respective periods.

(4) The amount of excess tax benefits varies from period to period based upon the volume of options exercised or number of shares vested, and the related stock price at the time these stock activities occur.

(5) The cash paid for stock repurchases includes both the repurchase of our common shares, in accordance with our share repurchase program, and income taxes paid on behalf of employees who elected to settle their tax obligation on vested stock with a portion of their vested stock.

(6) In September 2015, we received \$2.7 million in proceeds from the sale of a noncontrolling interest.

### Future Contractual Cash Requirements

The following table sets forth material changes from the amounts reported in our 2014 Form 10-K to our scheduled principal and interest due by us for each of the years indicated as of September 30, 2015 (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                                       | \$824,730             | \$30,230         | \$82,500  | \$712,000 | \$—               |
| Variable cash interest expense Term A <sup>(1)</sup> | 50,321                | 13,776           | 25,869    | 10,676    | —                 |
|  | \$875,051             | \$44,006         | \$108,369 | \$722,676 | \$—               |

<sup>(1)</sup> The interest payments on our variable-rate senior term notes are based on rates effective as of September 30, 2015.

#### Off-Balance-Sheet Financing Arrangements

Other than operating leases, as of September 30, 2015, we do not have any off-balance-sheet financing arrangements.

#### Description of Indebtedness

##### Senior Credit Facility

At September 30, 2015, we had \$593 million in principal outstanding under our senior term notes and \$232 million in borrowings outstanding under our revolving credit facility.

We pay interest on our senior term notes and revolving credit facility based on the interest rate offered to our administrative agent on, the Eurodollar rate plus the applicable margin determined by reference to the Leverage Ratio in effect from time-to-time, ranging from 1.00% to 2.25% per annum. We pay a commitment fee on our revolving credit facility determined by reference to the Leverage Ratio in effect from time-to-time ranging from 0.25% to 0.45% per annum. The table is set forth in Note 6, Long-Term Obligations, of this quarterly report on Form 10-Q.

##### Other Debt and Capital Lease Obligations

At September 30, 2015, we had a seller note secured by assets of a certain animal hospital, capital leases, and other debt that consisted of \$4.0 million and \$52.6 million included in the current portion and non-current portion of long-term debt, respectively. Our seller note matures in 2015 and has an interest rate of 10.0%. Our capital leases and other debt have various maturities through 2042 and various interest rates ranging from 1.9% to 15.0%.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our quantitative and qualitative disclosures about market risk from those disclosed in Part II, Item 7A, of our 2014 Annual Report on Form 10-K.

### ITEM 4. CONTROLS AND PROCEDURES

We carried out an evaluation required by the Exchange Act, under the supervision and with the participation of our chief executive officer and chief 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 chief executive officer and chief 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 chief executive officer and chief 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

On May 29, 2013, a former veterinary assistant at one of our animal hospitals filed a purported class action lawsuit against us in the Superior Court of the State of California for the County of Los Angeles, titled Jorge Duran vs. VCA Animal Hospitals, Inc., et. al. The lawsuit seeks to assert claims on behalf of current and former veterinary assistants employed by us in California, and alleges, among other allegations, that we improperly failed to pay regular and overtime wages, improperly failed to provide proper meal and rest periods, and engaged in unfair business practices. The lawsuit seeks damages, statutory penalties, and other relief, including attorneys' fees and costs. On May 7, 2014, we obtained partial summary judgment, dismissing four of the eight claims of the complaint, including the claims for failure to pay regular and overtime wages. We intend to continue to vigorously defend against the remaining claim in this action. At this time, we are unable to estimate the reasonably possible loss or range of possible loss, but do not believe losses, if any, would have a material effect on our results of operations or financial position taken as a whole.

On July 16, 2014, two additional former veterinary assistants filed a purported class action lawsuit against us in the Superior Court of the State of California for the County of Los Angeles, titled La Kimba Bradsbery and Cheri Brakensiek vs. Vicar Operating, Inc., et. al. The lawsuit seeks to assert claims on behalf of current and former veterinary assistants, kennel assistants, and client service representatives employed by us in California, and alleges, among other allegations, that we improperly failed to pay regular and overtime wages, improperly failed to provide proper meal and rest periods, improperly failed to pay reporting time pay, improperly failed to reimburse for certain business-related expenses, and engaged in unfair business practices. The lawsuit seeks damages, statutory penalties, and other relief, including attorneys' fees and costs. These two actions are related before the same judge hearing the Duran action discussed above.

In September 2014, the court issued an order staying the La Kimba Bradsbery lawsuit until class certification is completed in the Duran case. Plaintiff Duran filed his class certification motion and supporting documentation in January 2015. A class certification hearing was held on June 2, 2015.

On June 25, 2015, the Court entered an Order denying class certification to veterinary assistants who were allegedly not given proper meal or rest periods. The plaintiff continues to have a Private Attorney Generals Act ("PAGA") claim. We intend to continue to vigorously defend against the remaining claim in this action. At this time, we are unable to estimate the reasonably possible loss or range of possible loss, but do not believe losses, if any, would have a material effect on our results of operations or financial position taken as a whole.

On July 12, 2013, an individual who provided courier services with respect to our laboratory clients in California filed a purported class action lawsuit against us in the Superior Court of the State of California for the County of Santa Clara - San Jose Branch, titled Carlos Lopez vs. Logistics Delivery Solutions, LLC, Antech Diagnostics, Inc., et. al. Logistics Delivery Solutions, LLC, a co-defendant in the lawsuit, is a company with which Antech has contracted to provide courier services in California. The lawsuit seeks to assert claims on behalf of individuals who were engaged by Logistics Delivery Solutions, LLC to perform such courier services and alleges, among other allegations, that Logistics Delivery Solutions and Antech Diagnostics improperly classified the plaintiffs as independent contractors, improperly failed to pay overtime wages, and improperly failed to provide proper meal periods. The lawsuit seeks damages, statutory penalties, and other relief, including attorneys' fees and costs. The parties have an agreement in principle to settle the action, on a class-wide basis, for an amount not to exceed \$1,250,000. Logistics Delivery Solutions, LLC, has agreed to pay half of the claim. Accordingly, as of September 30, 2015, we have accrued the remaining fifty percent. The proposed settlement, when and if it becomes effective, would not be an admission of wrongdoing or acceptance of fault by any of the defendants named in the complaint. Antech Diagnostics and Logistics Delivery Solutions have agreed upon the terms of this proposed settlement to eliminate the uncertainties, risk,

distraction and expense associated with protracted litigation. The proposed settlement remains subject to court approval and class notice administration before it will be effective.

On May 12, 2014, an individual client who purchased goods and services from one of our animal hospitals filed a purported class action lawsuit against us in the United States District Court for the Northern District of California, titled Tony M. Graham vs. VCA Antech, Inc. and VCA Animal Hospitals, Inc. The lawsuit seeks to assert claims on behalf of the plaintiff and other individuals who purchased similar goods and services from our animal hospitals and alleges, among other allegations, that we improperly charged such individuals for “biohazard waste management” in connection with the services performed. The lawsuit seeks compensatory and punitive damages in unspecified amounts, and other relief, including attorneys' fees and

costs. VCA successfully had the venue transferred to the Southern District of California. This case is in an early procedural stage and we intend to vigorously defend this action. At this time, we are unable to estimate the reasonably possible loss or range of possible loss, but do not believe losses, if any, would have a material effect on our results of operations or financial position taken as a whole.

In addition to the lawsuits described above, we are party to ordinary routine legal proceedings and claims incidental to our business, but we are not currently a party to any legal proceeding that we believe would have a material adverse effect on our financial position, results of operations, or cash flows.

#### ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A, of our 2014 Annual Report on Form 10-K.

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

##### Transactions in Our Equity Securities

For the period covered by this report, we have not engaged in any transactions involving the sale 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. We have not engaged in any sales of registered securities for which the use of proceeds is required to be disclosed.

The following table provides information on shares of our common stock we repurchased during the quarter ended September 30, 2015:

| Period<br>(1)                           | Total<br>Number<br>of Shares<br>Purchased<br>(2) | Average<br>Price Paid<br>Per Share<br>(3) | Total Number of<br>Shares Purchased<br>as<br>Part of Publicly<br>Announced Plan<br>or Program<br>(4) | Approximate Dollar<br>Value of Shares That<br>May Yet Be<br>Purchased<br>Under the Plan<br>or Program<br>(4) |
|---|--|---|--|--|
|   |  |   |  |  |
| July 1, 2015 to July 31, 2015           | 220,000  | \$ 54.85                                  | 12,067,774   | \$ 147,458,165   |
| August 1, 2015 to August 31, 2015       | 866,640  | \$ 57.20                                  | 49,572,431   | \$ 101,058,831   |
| September 1, 2015 to September 30, 2015 | 50,260   | \$ 55.66                                  | 2,797,472  | \$ 101,058,831   |
|   | 1,136,900  | \$ 56.68                                  | 64,437,677   | \$ 101,058,831   |

(1) Information is based on settlement dates of repurchase transactions.

Consists of shares of our common stock, par value \$0.001 per share. Of these shares, 1,030,000 shares were repurchased in the open market or in block trades pursuant to a previously-announced share repurchase program (2)(see (4) below). The balance of the repurchases were related to 106,900 shares of common stock surrendered to us by employees to satisfy minimum statutory tax withholding obligations in connection with the vesting of restricted stock and payout of restricted stock units. In the table above, these shares were excluded from column (4) as they do not affect the number of shares that may be repurchased under the Share Repurchase Program.

(3) The average price paid for shares repurchased under the Share Repurchase Program excludes commissions paid.

(4) In April 2013, our Board of Directors authorized a repurchase program to purchase up to \$125 million in shares of our common stock. As of August 2014, we have completed this program and our Board of Directors authorized a

new repurchase program to buyback up to \$400 million in shares of our common stock in open market purchases or negotiated transactions.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure, other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

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

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

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

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Definition Linkbase

101.LAB XBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 6, 2015.

Date: November 6, 2015

By: /s/ Tomas W. Fuller  
Tomas W. Fuller  
Chief Financial Officer, Principal  
Accounting Officer, and Vice President  
and Secretary

EXHIBIT INDEX

| Exhibit No.     | Description   |
|-----------------|---|
| 31.1            | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                             |
| 31.2            | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                             |
| 32.1            | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 101.INS | XBRL Instance Document  |
| Exhibit 101.SCH | XBRL Extension Schema Document  |
| Exhibit 101.CAL | XBRL Extension Calculation Linkbase Document  |
| Exhibit 101.LAB | XBRL Extension Label Linkbase Document  |
| Exhibit 101.PRE | XBRL Extension Presentation Linkbase Document   |
| Exhibit 101.DEF | XBRL Extension Definition Linkbase Document   |