

VCA INC
Form 10-Q
May 08, 2015

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

FORM 10-Q

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

For the quarterly period ended March 31, 2015

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

Commission File Number: 001-16783

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, 82,162,448 shares as of May 4, 2015.

VCA Inc. and Subsidiaries
 Form 10-Q
 March 31, 2015
 Table of Contents

	Page Number
<u>Part I.</u> <u>Financial Information</u>	
<u>Item 1.</u> <u>Financial Statements (Unaudited)</u>	
<u>Condensed, Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014</u>	<u>1</u>
<u>Condensed, Consolidated Statements of Income for the Three Months Ended March 31, 2015 and 2014</u>	<u>2</u>
<u>Condensed, Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2015 and 2014</u>	<u>3</u>
<u>Condensed, Consolidated Statements of Equity for the Three Months Ended March 31, 2015 and 2014</u>	<u>4</u>
<u>Condensed, Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014</u>	<u>5</u>
<u>Notes to Condensed, Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2.</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>20</u>
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>36</u>
<u>Item 4.</u> <u>Controls and Procedures</u>	<u>36</u>
<u>Part II.</u> <u>Other Information</u>	
<u>Item 1.</u> <u>Legal Proceedings</u>	<u>37</u>
<u>Item 1A.</u> <u>Risk Factors</u>	<u>38</u>
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>38</u>
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	<u>39</u>
<u>Item 4.</u> <u>Mine Safety Disclosures</u>	<u>39</u>
<u>Item 5.</u> <u>Other Information</u>	<u>39</u>
<u>Item 6.</u> <u>Exhibits</u>	<u>39</u>
<u>Signature</u>	<u>40</u>

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$59,278	\$81,383
Trade accounts receivable, less allowance for uncollectible accounts of \$18,712 and \$19,846 at March 31, 2015 and December 31, 2014, respectively	73,766	60,482
Inventory	55,142	56,050
Prepaid expenses and other	30,425	36,924
Deferred income taxes	30,324	30,331
Prepaid income taxes	—	18,277
Total current assets	248,935	283,447
Property and equipment, net	472,944	468,041
Goodwill	1,439,598	1,415,861
Other intangible assets, net	82,913	88,175
Notes receivable	2,695	2,807
Deferred financing costs, net	7,440	7,874
Other	70,477	65,815
Total assets	\$2,325,002	\$2,332,020
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt	\$26,598	\$19,356
Accounts payable	40,997	46,284
Accrued payroll and related liabilities	78,159	64,359
Income tax payable	2,570	—
Other accrued liabilities	69,979	67,219
Total current liabilities	218,303	197,218
Long-term debt, less current portion	766,591	775,412
Deferred income taxes	103,162	103,502
Other liabilities	31,745	33,190
Total liabilities	1,119,801	1,109,322
Commitments and contingencies		
Redeemable noncontrolling interests	11,108	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, 82,135 and 82,937 shares outstanding as of March 31, 2015 and December 31, 2014, respectively	82	83
Additional paid-in capital	116,068	155,802
Retained earnings	1,102,459	1,064,158
Accumulated other comprehensive loss	(34,605)	(19,397)
Total VCA Inc. stockholders' equity	1,184,004	1,200,646
Noncontrolling interests	10,089	10,975

Edgar Filing: VCA INC - Form 10-Q

Total equity	1,194,093	1,211,621
Total liabilities and equity	\$2,325,002	\$2,332,020

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

1

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

	Three Months Ended	
	March 31,	
	2015	2014
Revenue	\$499,453	\$449,507
Direct costs	385,591	348,056
Gross profit	113,862	101,451
Selling, general and administrative expense	44,398	41,440
Net loss (gain) on sale or disposal of assets	335	(1,221)
Operating income	69,129	61,232
Interest expense, net	4,837	4,167
Other expense (income)	66	(53)
Income before provision for income taxes	64,226	57,118
Provision for income taxes	24,673	22,203
Net income	39,553	34,915
Net income attributable to noncontrolling interests	1,252	872
Net income attributable to VCA Inc.	\$38,301	\$34,043
Basic earnings per share	\$0.47	\$0.39
Diluted earnings per share	\$0.46	\$0.38
Weighted-average shares outstanding for basic earnings per share	82,347	88,338
Weighted-average shares outstanding for diluted earnings per share	83,373	89,421

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 March 31,	
	2015	2014
Net income ⁽¹⁾	\$39,553	\$34,915
Other comprehensive income:		
Foreign currency translation adjustments	(15,680)	(5,521)
Other comprehensive loss	(15,680)	(5,521)
Total comprehensive income	23,873	29,394
Comprehensive income attributable to noncontrolling interests ⁽¹⁾	780	444
Comprehensive income attributable to VCA Inc.	\$23,093	\$28,950

⁽¹⁾ Includes approximately \$0.8 million and \$0.5 million of net income related to redeemable and mandatorily redeemable noncontrolling interests for the three months ended March 31, 2015 and 2014, respectively.

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

3

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated		Noncontrolling Interests	Total
	Shares	Amount			Other Comprehensive Income			
Balances, December 31, 2013	88,508	\$ 89	\$384,797	\$928,720	\$ (6,190)	\$ 10,200	\$1,317,616	
Net income (excludes \$151 and \$368 related to redeemable and mandatorily redeemable noncontrolling interests, respectively)	—	—	—	34,043	—	353	34,396	
Other comprehensive loss (excludes \$318 related to mandatorily redeemable noncontrolling interests)	—	—	—	—	(5,093)	(110)	(5,203)	
Formation of noncontrolling interests	—	—	—	—	—	81	81	
Distribution to noncontrolling interests	—	—	—	—	—	(502)	(502)	
Purchase of noncontrolling interests	—	—	30	—	—	—	30	
Share-based compensation	—	—	4,544	—	—	—	4,544	
Issuance of common stock under stock incentive plans	87	—	372	—	—	—	372	
Stock repurchases	(307)	(1)	(9,792)	—	—	—	(9,793)	
Excess tax benefit from stock based compensation	—	—	392	—	—	—	392	
Balances, March 31, 2014	88,288	\$ 88	\$380,343	\$962,763	\$ (11,283)	\$ 10,022	\$1,341,933	
Balances, December 31, 2014	82,937	\$ 83	\$155,802	\$1,064,158	\$ (19,397)	\$ 10,975	\$1,211,621	
Net income (excludes \$417 and \$359 related to redeemable and mandatorily redeemable noncontrolling interests, respectively)	—	—	—	38,301	—	476	38,777	
Other comprehensive loss (excludes \$195 related to mandatorily redeemable noncontrolling interests)	—	—	—	—	(15,208)	(277)	(15,485)	
Formation of noncontrolling interests	—	—	—	—	—	(14)	(14)	
Distribution to noncontrolling interests	—	—	—	—	—	(598)	(598)	
Purchase of noncontrolling interests	—	—	(217)	—	—	(473)	(690)	

Edgar Filing: VCA INC - Form 10-Q

Share-based compensation	—	—	4,132	—	—	—	4,132
Issuance of common stock under stock incentive plans	76	—	404	—	—	—	404
Stock repurchases	(878)	(1)	(44,844)	—	—	—	(44,845)
Excess tax benefit from stock based compensation	—	—	791	—	—	—	791
Balances, March 31, 2015	82,135	\$ 82	\$ 116,068	\$ 1,102,459	\$ (34,605)	\$ 10,089	\$ 1,194,093

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)

	Three Months Ended	
	March 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$39,553	\$34,915
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,797	19,767
Amortization of debt issue costs	434	304
Provision for uncollectible accounts	1,183	890
Net loss (gain) on sale or disposal of assets	335	(1,221)
Share-based compensation	4,132	4,544
Excess tax benefits from stock based compensation	(791)	(392)
Other	(989)	(905)
Changes in operating assets and liabilities:		
Trade accounts receivable	(14,570)	(5,825)
Inventory, prepaid expenses and other assets	2,862	(1,389)
Accounts payable and other accrued liabilities	(6,954)	(3,773)
Accrued payroll and related liabilities	14,052	6,247
Income taxes	21,581	15,165
Net cash provided by operating activities	80,625	68,327
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(32,150)	(17,295)
Real estate acquired in connection with business acquisitions	(1,502)	—
Property and equipment additions	(16,526)	(16,619)
Proceeds from sale or disposal of assets	92	859
Other	(576)	520
Net cash used in investing activities	(50,662)	(32,535)
Cash flows from financing activities:		
Repayment of long-term obligations	(5,165)	(12,806)
Distributions to noncontrolling interest partners	(1,325)	(1,090)
Purchase of noncontrolling interests	(1,483)	(326)
Proceeds from issuance of common stock under stock incentive plans	404	372
Excess tax benefits from stock based compensation	791	392
Stock repurchases	(44,845)	(9,793)
Other	(80)	—
Net cash used in financing activities	(51,703)	(23,251)
Effect of currency exchange rate changes on cash and cash equivalents	(365)	(282)
(Decrease) increase in cash and cash equivalents	(22,105)	12,259
Cash and cash equivalents at beginning of period	81,383	125,029
Cash and cash equivalents at end of period	\$59,278	\$137,288

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

5

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

	Three Months Ended March 31,	
	2015	2014
Supplemental disclosures of cash flow information:		
Interest paid	\$4,482	\$3,708
Income taxes paid	\$3,077	\$6,853
Supplemental schedule of noncash investing and financing activities:		
Detail of acquisitions:		
Fair value of assets acquired	\$38,490	\$18,550
Noncontrolling interest	—	(855)
Cash paid for acquisitions, net of acquired cash	(32,150)	(17,295)
Assumed debt	(4,446)	—
Holdbacks	(1,722)	(400)
Liabilities assumed	\$172	\$—

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

VCA Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements
March 31, 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 7, 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 March 31, 2015, we operated or managed 650 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 March 31, 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 trademark Camp Bow Wow®. As of March 31, 2015, there were 129 Camp Bow Wow® franchise locations operating in 36 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 months ended March 31, 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.

7

VCA Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)
March 31, 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 three months ended March 31, 2015 (in thousands):

	Animal 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	13,563	21,000	255	34,818
Foreign translation adjustment	(10,981)	(47)	—	(11,028)
Other ⁽¹⁾	(49)	(4)	—	(53)
Balance as of March 31, 2015				
Goodwill	1,308,091	118,484	143,080	1,569,655
Accumulated impairment losses	—	—	(130,057)	(130,057)
Subtotal	\$ 1,308,091	\$ 118,484	\$ 13,023	\$ 1,439,598

(1) "Other" primarily includes measurement period adjustments, a partnership buyout and a write-off related to the sale of an animal hospital.

Other Intangible Assets

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

	As of March 31, 2015			As of December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Non-contractual customer relationships	\$ 99,522	\$(47,541)	\$ 51,981	\$ 101,056	\$(45,295)	\$ 55,761
Covenants not-to-compete	10,260	(4,656)	5,604	10,093	(4,422)	5,671
Favorable lease assets	9,467	(5,078)	4,389	9,576	(4,962)	4,614
Trademarks	12,306	(3,622)	8,684	13,503	(4,015)	9,488
Contracts	100	(19)	81	100	(11)	89
Technology	1,627	(499)	1,128	1,627	(414)	1,213
Franchise rights	11,730	(684)	11,046	11,730	(391)	11,339
Total	\$ 145,012	\$(62,099)	\$ 82,913	\$ 147,685	\$(59,510)	\$ 88,175

VCA Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)
March 31, 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 March 31,	
	2015	2014
Aggregate amortization expense	\$5,526	\$5,147
The estimated amortization expense related to acquisition related intangible assets for the remainder of 2015 and each of the succeeding years thereafter, as of March 31, 2015, is as follows (in thousands):		
Finite-lived intangible assets:		
Remainder of 2015		\$16,156
2016		18,936
2017		13,102
2018		9,773
2019		6,770
Thereafter		17,136
Total		\$81,873
Indefinite-lived intangible assets:		
Trademarks		1,040
Total intangible assets		\$82,913

4. Acquisitions

The table below reflects the activity related to the acquisitions and dispositions of our animal hospitals and laboratories during the three months ended March 31, 2015 and 2014, respectively:

	Three Months Ended March 31,	
	2015	2014
Animal Hospitals:		
Acquisitions	11	4
Acquisitions, merged	(2	) (1
Sold, closed or merged	(2	) (4
Net increase (decrease)	7	(1
Laboratories:		
Acquisitions	1	—
Acquisitions, merged	(1) —
New facilities	—	1
Net increase	—	1

VCA Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)
March 31, 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 certain assets of Abaxis Veterinary Reference Laboratory acquired during the three months ended March 31, 2015 and 2014, respectively, (in thousands):

	Three Months Ended March 31,	
	2015	2014
Consideration:		
Cash, net of cash acquired	\$31,850	\$17,295
Assumed debt	4,446	—
Holdbacks	1,722	400
Fair value of total consideration transferred	\$38,018	\$17,695
Allocation of the Purchase Price:		
Tangible assets	\$764	\$701
Identifiable intangible assets ⁽¹⁾	2,838	2,734
Goodwill ⁽²⁾	34,563	15,115
Other liabilities assumed	(147) —
Fair value of assets acquired	\$38,018	\$18,550
Noncontrolling interest	—	(855
Total	\$38,018	\$17,695

Identifiable intangible assets include customer relationships, trademarks and covenants-not-to-compete. The (1) weighted-average amortization period for the total identifiable intangible assets is approximately five years. The weighted-average amortization period for customer relationships, trademarks and covenants is approximately five years.

(2) We expect that \$30.6 million and \$10.3 million of the goodwill recorded for these acquisitions, as of March 31, 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 certain assets of Abaxis Veterinary Reference Laboratory from Abaxis, Inc., for total consideration of \$21.0 million. The purchase price allocation for the acquisition is preliminary pending our determination of the fair market value of all related assets and liabilities. We expect that the majority of the goodwill recorded for this transaction will be reclassified to identifiable intangible assets, primarily customer relationships.

VCA Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)
March 31, 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 trademark Camp Bow Wow®. As of March 31, 2015, there were 129 Camp Bow Wow® franchise locations operating in 36 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-out contingent consideration	760
Fair value of total consideration transferred	\$17,757

Allocation of the Purchase Price:

Tangible assets	\$637
Identifiable intangible assets ⁽¹⁾	13,420
Goodwill ⁽²⁾	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 (1) 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.

(2) As of March 31, 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)
March 31, 2015
(Unaudited)

5. Other Accrued Liabilities

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

	As of March 31, 2015	As of December 31, 2014
Deferred revenue	\$ 14,852	\$ 14,304
Accrued health insurance	4,791	5,194
Deferred rent	4,635	4,535
Accrued other insurance	4,185	4,381
Miscellaneous accrued taxes ⁽¹⁾	3,522	3,025
Accrued accounting and legal fees	2,447	2,900
Accrued workers' compensation	2,548	2,781
Holdbacks and earn-outs	8,824	7,878
Customer deposits	2,442	2,229
Accrued consulting fees	3,333	3,172
Accrued lease payments	1,638	1,657
Other	16,762	15,163
	\$ 69,979	\$ 67,219

⁽¹⁾ Includes property, sales and use taxes.

6. 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 March 31,	
	2015	2014
Net income attributable to VCA Inc.	\$ 38,301	\$ 34,043
Weighted-average common shares outstanding:		
Basic	82,347	88,338
Effect of dilutive potential common shares:		
Stock options	340	254
Non-vested shares and units	686	829
Diluted	83,373	89,421
Basic earnings per common share	\$ 0.47	\$ 0.39
Diluted earnings per common share	\$ 0.46	\$ 0.38

For the three months ended March 31, 2015, there was an immaterial amount of potential common shares excluded from the computation of diluted earnings per share because their inclusion would have had an antidilutive effect. For the three months ended March 31, 2014, there were no potential common shares excluded from the computation of

diluted earnings per share.

12

VCA Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)
March 31, 2015
(Unaudited)

7. 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 in the following tables 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)
March 31, 2015
(Unaudited)

7. Lines of Business, continued

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

	Animal Hospital	Laboratory	All Other	Corporate	Eliminations	Total
Three Months Ended						
March 31, 2015						
External revenue	\$ 393,026	\$ 78,809	\$ 26,533	\$—	\$ 1,085	\$ 499,453
Intercompany revenue	—	15,163	7,694	—	(22,857)) —
Total revenue	393,026	93,972	34,227	—	(21,772)	) 499,453
Direct costs	337,542	45,990	22,803	—	(20,744)	) 385,591
Gross profit	55,484	47,982	11,424	—	(1,028)	) 113,862
Selling, general and administrative expense	11,221	8,865	8,687	15,625	—	44,398
Operating income (loss) before sale or disposal of assets	44,263	39,117	2,737	(15,625)	(1,028)	) 69,464
Net loss on sale or disposal of assets	294	6	9	26	—	335
Operating income (loss)	\$ 43,969	\$ 39,111	\$ 2,728	\$ (15,651)	\$ (1,028)	) \$ 69,129
Depreciation and amortization	\$ 16,072	\$ 2,504	\$ 1,152	\$ 592	\$ (523)	) \$ 19,797
Property and equipment additions	\$ 12,082	\$ 3,216	\$ 800	\$ 1,064	\$ (636)	) \$ 16,526
Three Months Ended						
March 31, 2014						
External revenue	\$ 351,588	\$ 74,783	\$ 22,201	\$—	\$ 935	\$ 449,507
Intercompany revenue	—	13,751	5,920	—	(19,671)) —
Total revenue	351,588	88,534	28,121	—	(18,736)	) 449,507
Direct costs	302,788	45,503	18,152	—	(18,387)	) 348,056
Gross profit	48,800	43,031	9,969	—	(349)	) 101,451
Selling, general and administrative expense	9,128	8,018	8,348	15,946	—	41,440
Operating income (loss) before sale or disposal of assets	39,672	35,013	1,621	(15,946)	(349)	) 60,011
Net loss (gain) on sale or disposal of assets	168	(71)	) (1,184)	) (134)	) —	(1,221)
Operating income (loss)	\$ 39,504	\$ 35,084	\$ 2,805	\$ (15,812)	\$ (349)	) \$ 61,232
Depreciation and amortization	\$ 14,742	\$ 2,535	\$ 2,136	\$ 819	\$ (465)	) \$ 19,767
Property and equipment additions	\$ 13,068	\$ 1,981	\$ 758	\$ 1,411	\$ (599)	) \$ 16,619
At March 31, 2015						
Total assets	\$ 2,037,578	\$ 294,826	\$ 85,645	\$ 273,051	\$ (366,098)	) \$ 2,325,002
At December 31, 2014						
Total assets	\$ 2,021,725	\$ 258,550	\$ 89,596	\$ 270,414	\$ (308,265)	) \$ 2,332,020

VCA Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)
March 31, 2015
(Unaudited)

8. 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-out agreements, 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 \$3.0 million and \$3.2 million in earn-out liabilities as of March 31, 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. We currently expect that these two actions will be consolidated with, or 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 is scheduled for June 2, 2015. 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)
March 31, 2015
(Unaudited)

8. 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. We filed our answer to the complaint on September 13, 2013. On July 18, 2014, we filed a motion for summary judgment, and on October 3, 2014 the court denied our request for summary judgment. Although we believed this lawsuit was without merit and have vigorously defended against the claims, the parties engaged in mediation on December 18, 2014. As a result of the mediation, the parties reached 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 December 31, 2014, 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.

c. Other Contingencies

On May 14, 2014, the headquarters of our Medical Technology business in Carlsbad, California was severely damaged by wildfires. There were no injuries to personnel. However, the fire caused severe damage to a substantial portion of the facility. We maintain standard insurance coverage for both property damage and business interruption losses. During the three months ended March 31, 2015, there were no additional estimated losses recorded in connection with this event. However, we continue to assess our financial losses and related insurance coverage.

VCA Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)
March 31, 2015
(Unaudited)

9. 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 Statement Impact	Mandatorily Redeemable Noncontrolling Interests
Balance as of December 31, 2013		\$9,355
Noncontrolling interest expense	\$368	
Redemption value change	5	373
Distribution to noncontrolling interests		(312)
Currency translation adjustment		(305)
Balance as of March 31, 2014		\$9,111
Balance as of December 31, 2014		\$9,405
Noncontrolling interest expense	\$359	
Redemption value change	(86	) 273
Purchase of noncontrolling interests		(803)
Distribution to noncontrolling interests		(346)
Currency translation adjustment		(195)
Balance as of March 31, 2015		\$8,334

VCA Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)
March 31, 2015
(Unaudited)

9. 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 Statement Impact	Redeemable Noncontrolling Interests
Balance as of December 31, 2013		\$10,678
Noncontrolling interest expense	\$303	
Redemption value change	(152	) 151
Formation of noncontrolling interests		855
Purchase of noncontrolling interests		(356)
Distribution to noncontrolling interests		(276)
Balance as of March 31, 2014		\$11,052
Balance as of December 31, 2014		\$11,077
Noncontrolling interest expense	\$322	
Redemption value change	95	417
Distribution to noncontrolling interests		(386)
Balance as of March 31, 2015		\$11,108

VCA Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)
March 31, 2015
(Unaudited)

10. Recent Accounting Pronouncements

In April 2015, the FASB issued Accounting Standards Update (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. Early adoption is permitted for financial statements that have not been previously issued. We do not expect this adoption to 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 guidance 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. However, on April 29, 2015, the FASB issued for public comment a proposed ASU that would defer the effective date of the new revenue recognition standard by one year.

Based on the Board's proposed decision, public organizations would 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 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.

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

	Page
<u>Introduction</u>	<u>21</u>
<u>Executive Overview</u>	<u>22</u>
<u>Critical Accounting Policies</u>	<u>23</u>
<u>Consolidated Results of Operations</u>	<u>24</u>
<u>Segment Results</u>	<u>26</u>
<u>Liquidity and Capital Resources</u>	<u>32</u>

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 May 8, 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 May 8, 2015 at our website at <http://investor.vca.com> or at the SEC’s website at 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 March 31, 2015, our animal hospital network consisted of 650 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 March 31, 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 months ended March 31, 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 5.3% for the three months ended March 31, 2015, as compared to the same period in the prior year. Our Laboratory internal revenue increased 6.1% for the three months ended March 31, 2015, as compared to the same period in the prior year. Our consolidated operating income increased 12.9% for the three months ended March 31, 2015, as compared to the same period in the prior year. Our consolidated operating margin increased 0.2% for the three months ended March 31, 2015, as compared to the same period in the prior year. Our Non-GAAP consolidated operating income, which excludes the impact of intangible asset amortization associated with acquisitions, increased 12.5% for the three months ended March 31, 2015, and our Non-GAAP consolidated operating margin increased 0.1% for the three months ended March 31, 2015, as compared to the same period 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 through various methods, including open market transactions, block trades, accelerated share repurchases, privately negotiated transactions or otherwise and may be effected through Rule 10b5-1 and Rule 10b-18 plans. 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. Refer to Item 2. Unregistered Sales of Equity Securities and the Use of Proceeds in Part II of this report.

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 three months ended March 31, 2015, we acquired \$16.3 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 three months ended March 31, 2015 and 2014, respectively:

	Three Months Ended March 31,	
	2015	2014
Animal Hospitals:		
Beginning of period	643	609
Acquisitions	11	4
Acquisitions, merged	(2	) (1
Sold, closed or merged	(2	) (4
End of period	650	608
Laboratories:		
Beginning of period	59	56
Acquisitions	1	—
Acquisitions, merged	(1) —
New facilities	—	1
End of period	59	57

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 March 31, 2015.

Recent Accounting Pronouncements

A discussion of recent accounting pronouncements is included in Note 10, 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			
	March 31,			
	2015	2014		
Revenue:				
Animal Hospital	78.7	% 78.2		%
Laboratory	18.8	19.7		
All Other	6.9	6.3		
Intercompany	(4.4	) (4.2))
Total revenue	100.0	100.0		
Direct costs	77.2	77.4		
Gross profit	22.8	22.6		
Selling, general and administrative expense	8.9	9.2		
Net loss (gain) on sale or disposal of assets	0.1	(0.2))
Operating income	13.8	13.6		
Interest expense, net	0.9	0.9		
Income before provision for income taxes	12.9	12.7		
Provision for income taxes	5.0	4.9		
Net income	7.9	7.8		
Net income attributable to noncontrolling interests	0.2	0.2		
Net income attributable to VCA Inc.	7.7	% 7.6		%

Revenue

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

	Three Months Ended						
	March 31,						
	2015		2014				
	\$	% of	\$	% of	%		
		Total		Total	Change		
Animal Hospital	\$393,026	78.7 %	\$351,588	78.2 %	11.8 %	%	
Laboratory	93,972	18.8 %	88,534	19.7 %	6.1 %	%	
All Other	34,227	6.9 %	28,121	6.3 %	21.7 %	%	
Intercompany	(21,772)	(4.4)%	(18,736)	(4.2)%	(16.2)%)%	
Total revenue	\$499,453	100.0 %	\$449,507	100.0 %	11.1 %	%	

Consolidated revenue increased \$49.9 million for the three months ended March 31, 2015, as compared to the same period in the prior year. The increase was primarily attributable to revenue from animal hospitals acquired since the beginning of the comparable period in the prior year. Excluding the impact of acquisitions, revenue increased \$20.3 million for the three months ended March 31, 2015, primarily due to organic growth in our Animal Hospital and Laboratory segments. The increase was partially offset by the impact of foreign currency translation. Our Animal Hospital same-store revenue increased 5.3% for the three months ended March 31, 2015. Our Laboratory internal revenue growth was 6.1% for the three months ended March 31, 2015.

Direct Costs

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

	Three Months Ended March 31, 2015							
	2015		2014					
	\$	% of Revenue	\$	% of Revenue	%	Change		
Animal Hospital	\$337,542	85.9 %	\$302,788	86.1 %	11.5 %			%
Laboratory	45,990	48.9 %	45,503	51.4 %	1.1 %			%
All Other	22,803	66.6 %	18,152	64.5 %	25.6 %			%
Intercompany	(20,744)	(4.2)%	(18,387)	(4.1)%	(12.8)%			%
Total direct costs	\$385,591	77.2 %	\$348,056	77.4 %	10.8 %			%

Consolidated direct costs increased \$37.5 million for the three months ended March 31, 2015, as compared to the same period in the prior year. The increase was primarily attributable to compensation related costs, supplies, rent and acquisitions related depreciation and amortization, 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 March 31,							
	2015		2014					
	\$	Gross Margin	\$	Gross Margin	%	Change		
Animal Hospital	\$55,484	14.1 %	\$48,800	13.9 %	13.7 %			%
Laboratory	47,982	51.1 %	43,031	48.6 %	11.5 %			%
All Other	11,424	33.4 %	9,969	35.5 %	14.6 %			%
Intercompany	(1,028)		(349)					
Consolidated gross profit	\$113,862	22.8 %	\$101,451	22.6 %	12.2 %			%
Intangible asset amortization associated with acquisitions	5,465		5,080					
Non-GAAP consolidated gross profit and Non-GAAP gross margin ⁽¹⁾	\$119,327	23.9 %	\$106,531	23.7 %	12.0 %			%

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 \$12.4 million for the three months ended March 31, 2015, as compared to the same period in the prior year. Non-GAAP consolidated gross profit, which excludes the impact of intangible asset amortization associated with acquisitions, increased \$12.8 million for the three months ended March 31, 2015, as compared to the same period in the prior year. The increase in Non-GAAP consolidated gross profit was primarily attributable to organic revenue growth and increased gross margins in our Animal Hospital and Laboratory business segments. The increase also included \$4.3 million of gross profit related to acquisitions consummated since the beginning of the comparable period in the prior year.

Segment Results

Animal Hospital Segment

Revenue

Animal Hospital revenue increased \$41.4 million for the three months ended March 31, 2015, as compared to the same period 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			
	March 31, 2015	2014	% Change	
Same-store facilities:				
Orders ⁽¹⁾	2,032	1,996	1.8	%
Average revenue per order ⁽²⁾	\$181.00	\$175.06	3.4	%
Same-store revenue ⁽¹⁾	\$367,740	\$349,348	5.3	%
Acquisitions	29,814	1,115		
Closures	32	1,125		
Net acquired revenue ⁽³⁾	\$29,846	\$2,240		
Foreign currency impact	(4,560)	—		
Total	\$393,026	\$351,588	11.8	%

(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 months ended March 31, 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 economy during the quarter and the impact of certain previously implemented 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. The migration of lower priced orders from our animal hospitals to other distribution channels as a result of increasing competition and our emphasis on comprehensive wellness visits has, over the past several years, resulted in a decrease in lower priced orders and an increase in higher priced orders. However, during the three months ended March 31, 2015, we experienced an increase in both the number of lower-priced orders and higher-priced orders.

Price increases as well as the aforementioned 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 \$34.8 million for the three months ended March 31, 2015, as compared to the same period in the prior year. The increase was primarily due to an increase in compensation related expenses of \$21.5 million, supplies of \$5.2 million, rent of \$1.5 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.

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		
	March 31,		
	2015	2014	% Change
Gross profit	\$55,484	\$48,800	13.7 %
Intangible asset amortization associated with acquisitions	4,570	3,945	
Non-GAAP gross profit ⁽¹⁾	\$60,054	\$52,745	13.9 %
Gross margin	14.1	% 13.9	%
Non-GAAP gross margin ⁽¹⁾	15.3	% 15.0	%
Same-store gross profit	\$53,810	\$49,138	9.5 %
Intangible asset amortization associated with acquisitions	3,470	3,936	
Non-GAAP same-store gross profit ⁽¹⁾	\$57,280	\$53,074	7.9 %
Same-store gross margin	14.6	% 14.1	%
Non-GAAP same-store gross margin ⁽¹⁾	15.6	% 15.2	%

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 \$6.7 million for the three months ended March 31, 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 \$7.3 million for the three months ended March 31, 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 gross margin, which increased as a result of leverage gained from higher same-store revenue and an additional \$3.5 million of gross profit from acquired animal hospitals.

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				
	March 31,				
	2015	2014		% Change	
Revenue	\$93,972	\$88,534	6.1	%	
Gross profit	\$47,982	\$43,031	11.5	%	
Gross margin	51.1	% 48.6		%	

Laboratory revenue increased \$5.4 million for the three months ended March 31, 2015, as compared to the same period 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				
	March 31,				
	2015	2014		% Change	
Internal growth:					
Number of requisitions ⁽¹⁾	3,140	3,109	1.0	%	
Average revenue per requisition ⁽²⁾	\$29.92	\$28.48	5.1	%	
Total internal revenue ⁽¹⁾	\$93,942	\$88,534	6.1	%	
Acquired revenue ⁽³⁾	30	—			
Total	\$93,972	\$88,534	6.1	%	

Internal revenue and requisitions were calculated using Laboratory operating results, which are adjusted (i) to exclude the operating results of acquired laboratories that we did not own as of the beginning of the comparable period in the prior year, and (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 months ended March 31, 2015, as compared to the same period 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 51.1% for the three months ended March 31, 2015, as compared to 48.6% for the same period 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 months ended March 31, 2015 included intercompany revenue of \$15.2 million, generated by providing laboratory services to our animal hospitals, as compared to \$13.8 million for the respective prior year period. All Other revenue for the three months ended March 31, 2015 included intercompany revenue of \$7.7 million, generated by providing products and services to our animal hospitals and laboratories, as compared to \$5.9 million for the respective prior year period. 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		March 31,				
	2015		2014				
	\$	% of Revenue	\$	% of Revenue	% Change		
Animal Hospital	\$11,221	2.9 %	\$9,128	2.6 %	22.9	%	
Laboratory	8,865	9.4 %	8,018	9.1 %	10.6	%	
All Other	8,687	25.4 %	8,348	29.7 %	4.1	%	
Corporate	15,625	3.1 %	15,946	3.5 %	(2.0)	%	
Total SG&A	\$44,398	8.9 %	\$41,440	9.2 %	7.1	%	

Consolidated SG&A expense increased \$3.0 million for the three months ended March 31, 2015, as compared to the same period in the prior year. The increase in consolidated SG&A expense for the three months ended March 31, 2015, was primarily due to an increase in compensation related expenses at our Animal Hospital and Laboratory segments of \$1.6 million and \$0.6 million, respectively, related to increased headcount to support our growing operations. The remainder of the variance is attributable to several individually immaterial items.

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							
	March 31, 2015		2014		% Change			
	\$	% of Revenue	\$	% of Revenue		%		
Animal Hospital	\$43,969	11.2 %	\$39,504	11.2 %	11.3 %			
Laboratory	39,111	41.6 %	35,084	39.6 %	11.5 %			
All Other	2,728	8.0 %	2,805	10.0 %	(2.7)%			
Corporate	(15,651)		(15,812)		1.0 %			
Eliminations	(1,028)		(349)		(194.6)%			
Total GAAP consolidated operating income	\$69,129	13.8 %	\$61,232	13.6 %	12.9 %			
Intangible asset amortization associated with acquisitions	5,526		5,147					
Non-GAAP consolidated operating income and Non-GAAP consolidated operating margin ⁽¹⁾	\$74,655	14.9 %	\$66,379	14.8 %	12.5 %			

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 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 \$7.9 million during the three months ended March 31, 2015, as compared to the same period in prior year. Non-GAAP consolidated operating income, which excludes the impact of intangible asset amortization associated with acquisitions, increased by \$8.3 million for the three months ended March 31, 2015, as compared to the same period in prior year. The remaining increase for the three months ended March 31, 2015, was 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 months ended March 31, 2015 and March 31, 2014, amortization expense associated with acquired intangible assets was \$5.5 million and \$5.1 million, respectively.

Interest Expense, Net

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

	Three Months Ended March 31,	
	2015	2014
Interest expense:		
Senior term notes	\$3,069	\$2,663
Capital leases and other	1,376	1,193
Amortization of debt costs	435	311
Consolidated interest expense	4,880	4,167
Interest income	(43) —
Total consolidated interest expense, net of interest income	\$4,837	\$4,167

Consolidated net interest expense increased \$0.7 million for the three months ended March 31, 2015, as compared to the same period in the prior year. The increase in consolidated net interest expense 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 the refinance of our senior credit facility and \$135 million of additional borrowings from our revolving credit facility during the fourth quarter of 2014. Amortized debt costs also increased as a result of the refinance of our senior credit facility.

Provision for Income Taxes

The effective tax rate of income attributable to VCA for the three months ended March 31, 2015 was 39.2%, as compared to 39.1% for the year ended December 31, 2014. Our estimated annual effective tax rate is 39.2%.

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 months ended March 31, 2015 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:

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.

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 March 31,	
	2015	2014
GAAP net income	\$38,301	\$34,043
Intangible asset amortization associated with acquisitions	5,526	5,147
Tax benefit on above adjustments	(2,163	) (2,015
Non-GAAP net income	\$41,664	\$37,175
Non-GAAP diluted earnings per share	\$0.50	\$0.42
Shares used for computing adjusted diluted earnings per share	83,373	89,421

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 March 31, 2015, our consolidated cash and cash equivalents totaled \$59.3 million, representing a decrease of \$22.1 million, compared to December 31, 2014. Cash flows generated from operating activities totaled at \$80.6 million for the three months ended March 31, 2015, representing an increase of \$12.3 million, compared to the three months ended March 31, 2014.

At March 31, 2015, \$14.4 million of the \$59.3 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, repurchase of our common shares, and other smaller acquisitions primarily from internally generated cash flows. In the future however, we plan to continue to utilize our revolving credit facility to

supplement our internally generated cash

32

flows to fund both our acquisition pipeline and our share repurchase program. As of March 31, 2015, we have access to \$665 million under our revolving credit facility which allows us to maintain further operating and financial flexibility. Subsequent to the quarter-end, we borrowed an additional \$20.0 million under our revolving credit facility.

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 \$70 million to \$100 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 three months ended March 31, 2015, we spent \$12.1 million in connection with the acquisition of 11 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 \$16.5 million had been expended at March 31, 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. These repurchases may be made from time to time through various methods, including open market transactions, block trades, accelerated share repurchases, privately negotiated transactions or otherwise and may be effected through Rule 10b5-1 and Rule 10b-18 plans. 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 March 31, 2015, we repurchased an aggregate of 850,000 shares of common stock for \$43.3 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.

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 March 31, 2015, we were in compliance with these covenants, including the two covenant ratios, the interest coverage ratio and the leverage ratio.

At March 31, 2015, we had an interest coverage ratio of 20.53 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 March 31, 2015, we had a leverage ratio of 2.15 to 1.00, which was in compliance with the required ratio of no more than 4.50 to 1.00 from September 30, 2014 until March 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):

	Three Months Ended March 31,	
	2015	2014
Cash provided by (used in):		
Operating activities	\$80,625	\$68,327
Investing activities	(50,662)	(32,535)
Financing activities	(51,703)	(23,251)
Effect of currency exchange rate changes on cash and cash equivalents	(365)	(282)
(Decrease) increase in cash and cash equivalents	(22,105)	12,259
Cash and cash equivalents at beginning of period	81,383	125,029
Cash and cash equivalents at end of period	\$59,278	\$137,288

Cash Flows from Operating Activities

Net cash provided by operating activities increased by \$12.3 million for the three months ended March 31, 2015, as compared to the prior-year period. Operating cash flows for the three months ended March 31, 2015 included \$39.6 million of net income, net non-cash expenses of \$24.0 million and net cash provided as a result of changes in operating assets and liabilities of \$17.0 million. The changes in operating assets and liabilities included a \$21.6 million change in incomes taxes consisting primarily of a \$19.0 million decrease to prepaid taxes, a \$14.1 million increase in accrued payroll and related liabilities, and a \$2.9 million decrease in inventory, prepaid expenses and other assets, partially offset by a \$14.6 million increase in trade accounts receivable, and a \$7.0 million decrease in accounts payable and accrued liabilities. The decreases in prepaid incomes taxes and accounts payable and accrued liabilities, and the increase in accrued payroll and related liabilities were primarily due to the timing of payment obligations. The increase in trade accounts receivable was primarily due to an increase in Laboratory business segment revenue as compared to the prior-year period. The decrease in inventory, prepaid expenses and other assets was primarily due to the depletion of certain products, and shipments clearing that were in-transit as of year-end.

Net cash provided by operating activities decreased by \$6.9 million for the three months ended March 31, 2014, as compared to the prior-year period. The decrease in cash provided by operating activities was primarily due to the timing of payment obligations related to accounts payable and other accrued liabilities, increased payments for income taxes, and the impact of increases in receivables related to Antech's service agreements.

Cash Flows from Investing Activities

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

	Three Months Ended March 31,		
	2015	2014	Change
Investing Cash Flows:			
Business acquisitions, net of cash acquired	\$(32,150)	\$(17,295)	\$(14,855) ⁽¹⁾
Property and equipment additions	(16,526)	(16,619)	93
Real estate acquired in connection with business acquisitions	(1,502)	—	(1,502) ⁽²⁾
Proceeds from sale or disposal of assets	92	859	(767)
Other	(576)	520	(1,096)
Net cash used in investing activities	\$(50,662)	\$(32,535)	\$(18,127)

- (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 real estate varies dependent upon the number of opportunities that meet our specific acquisition criteria.

Cash Flows from Financing Activities

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

	Three Months Ended		
	March 31, 2015	2014	Change
Financing Cash Flows:			
Repayment of long-term obligations	\$(5,165)	\$(12,806)	\$7,641 (1)
Distributions to noncontrolling interest partners	(1,325)	(1,090)	(235)
Purchase of noncontrolling interests	(1,483)	(326)	(1,157)(2)
Proceeds from issuance of common stock under stock incentive plans	404	372	32
Excess tax benefits from stock based compensation	791	392	399
Stock repurchases	(44,845)	(9,793)	(35,052)(3)
Other	(80)	—	(80)
Net cash used in financing activities	\$(51,703)	\$(23,251)	\$(28,452)

For the three months ended March 31, 2015, the repayment of long-term obligations decreased due primarily to the lack of scheduled amortization during the period, in addition to payments made related to acquired debt. On August 27, 2014, we entered into a new senior credit facility and in accordance with our new debt agreement, our interest payment obligations are not scheduled to commence until September 2015.

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

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.

Future Contractual Cash Requirements

Off-Balance-Sheet Financing Arrangements

Other than operating leases, as of March 31, 2015, we do not have any off-balance-sheet financing arrangements .

Description of Indebtedness

Senior Credit Facility

At March 31, 2015, we had \$600 million in principal outstanding under our senior term notes and \$135 million 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 7, Long-Term Obligations, of our 2014 Form 10-K.

Other Debt and Capital Lease Obligations

At March 31, 2015, we had a seller note secured by assets of a certain animal hospital, capital leases, and other debt that consisted of \$4.1 million and \$54.1 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 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. We currently expect that these two actions will be consolidated with, or 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 is scheduled for June 2, 2015. 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. We filed our answer to the complaint on September 13, 2013. On July 18, 2014, we filed a motion for summary judgment, and on October 3, 2014 the court denied our request for summary judgment. Although we believed this lawsuit was without merit and have vigorously defended against the claims, the parties engaged in mediation on December 18, 2014. As a result of the mediation, the parties reached 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 December 31, 2014, 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 March 31, 2015:

Period (1)	Total Number of Shares Purchased (2)	Average Price Paid Per Share (3)	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program (4)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan or Program (4)
January 1, 2015 to January 31, 2015	500,000	\$ 49.76	500,000	\$ 221,840,575
February 1, 2015 to February 28, 2015	377,956	\$ 52.72	350,000	\$ 203,396,655
March 1, 2015 to March 31, 2015	407	\$ 54.09	—	\$ 203,396,655
	878,363	\$ 51.04	850,000	\$ 203,396,655

(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, 850,000 shares were repurchased in the open market pursuant to a previously-announced share repurchase program (see (4) below). The (2) balance of the repurchases were related to 28,363 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.

In April 2013, our Board of Directors authorized a repurchase program to purchase up to \$125 million in shares of (4) 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.

10.1 Corporate Headquarters Lease, dated as of February 28, 2015, by and between VCA Inc. and Martin Shephard, Trustee of the Shephard Family Trust of 1998 (Lessor).

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 May 8, 2015.

Date: May 8, 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
10.1	Corporate Headquarters Lease, dated as of February 28, 2015, by and between VCA Inc. and Martin Shephard, Trustee of the Shephard Family Trust of 1998 (Lessor).
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