VCA ANTECH INC
Form 10-K
February 29, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

or

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

Commission file number 001-16783

For the fiscal year ended December 31, 2011

VCA Antech, 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,	**90064-1022**
Los Angeles, California	*(Zip code)*
(Address of principal executive offices)	

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

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

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

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

None

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

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

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

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 þ No ¨.

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

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 þ	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 þ.

The aggregate market value of the voting common equity held by non-affiliates as of June 30, 2011, was approximately $1.8 billion, computed by reference to the price of $21.20 per share, the price at which the common equity was last sold on such date as reported on the NASDAQ Global Select Market. For purposes of this computation, it is assumed that the shares beneficially held by directors and officers of the registrant would be deemed to be stock held by affiliates. Non-affiliated common stock outstanding at June 30, 2011 was 83,394,675 shares.

Total common stock outstanding at February 23, 2012 was 87,328,090 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the definitive Proxy Statement to be delivered to stockholders in connection with the 2011 Annual Meeting of Stockholders are incorporated by reference into Items 10, 11, 12, 13 and 14 hereof.

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VCA Antech, Inc. and Subsidiaries

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Forward-Looking Statements

This annual report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, as well as assumptions that, if they materialize or prove incorrect, could cause our results and the results of our consolidated subsidiaries to differ materially from those expressed or implied by these forward-looking statements. We generally identify forward-looking statements in this report using words like believe, intend, seek, expect, estimate, may, plan, should plan, contemplate, anticipate, predict, potential, continue, or similar expressions. You may find some of these statements below and elsewhere in t report. These forward-looking statements are not historical facts and are inherently uncertain and outside of our control. Any or all of our forward-looking statements in this report may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this report will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially. Factors that may cause our plans, expectations, future financial condition and results to change include those items discussed in *Risk Factors* in Item 1A of this annual report.

PART I

ITEM 1. BUSINESS

Company Overview

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

Our animal hospitals offer a full range of general medical and surgical services for companion animals, as well as specialized treatments including advanced diagnostic services, internal medicine, oncology, ophthalmology, dermatology and cardiology. In addition, we provide pharmaceutical products and perform a variety of pet wellness programs including health examinations, diagnostic testing, routine vaccinations, spaying, neutering and dental care. Our network of animal hospitals is supported by more than 2,500 veterinarians and had approximately 7.1 million patient visits in 2011. Our network of veterinary diagnostic laboratories provides sophisticated testing and consulting services used by veterinarians in the detection, diagnosis, evaluation, monitoring, treatment and prevention of diseases and other conditions affecting animals. Our network of veterinary diagnostic laboratories provides diagnostic testing for over 16,000 clients, which includes standard animal hospitals, large animal practices, universities and other government organizations. Our medical technology business sells digital radiography and ultrasound imaging equipment, provides education and training on the use of that equipment, and provides consulting and mobile imaging services. Our VetStreet business, provides services to veterinary practices, pharmaceutical manufacturers, and the pet owning community. Our services to veterinary practices include subscriptions to both our Pro and Consumer Pet Portals. The Pro Pet Portal provides an online platform for the veterinarian to offer secure individualized portals for pet owners as well as practice websites that are branded to the individual veterinary clinic. We also sell appointment reminder notices that are sent to pet owners on behalf of their clinics. Our services to Manufacturers predominately involve targeted marketing programs that are based upon the detailed data extracted from animal hospitals whom are subscribers to our Pro Pet Portal.

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

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Company History

Our company was formed in 1986 as a Delaware corporation and has since established a position in the animal healthcare industry through both internal growth and by acquisitions. By our twentieth anniversary in 2006 we operated a total of 379 animal hospitals, 33 laboratories, and a supplier of digital radiography and ultrasound imaging equipment. Subsequent to 2006, our company continued to grow by adding, additional laboratories, independent animal hospitals, animal hospital chains and other ancillary businesses, the following of which were noteworthy:

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

On July 1, 2009, we acquired Eklin Medical Systems, Inc. (Eklin), a leading seller of digital radiography, ultrasound and practice management software systems in the veterinary market. We combined the operations of Eklin with our Sound Technologies, Inc (STI) business unit and the resulting combined company is the largest supplier of diagnostic imaging equipment and other medical technology products tailored specifically for the veterinary market.

On July 1 2010, we acquired Pet DRx Corporation (Pet DRx), which operated 23 animal hospitals as of the acquisition date. This acquisition allowed us to expand our animal hospital operations in California.

On July 11, 2011, we acquired BrightHeart Veterinary Centers (BrightHeart) which operated nine animal hospitals, eight of which focus on the delivery of specialty and emergency medicine. The acquisition will increase our level of market recognition in areas where we have an existing market presence.

On August 9, 2011, we acquired Vetstreet, Inc., formerly known as MediMedia Animal Health, LLC (Vetstreet), the nation s largest provider of online communications, professional education and marketing solutions to the veterinary community. The acquisition of Vetstreet expands the breadth of our product offerings to the veterinary community and is expected to provide long-term synergies to our existing businesses.

On January 31, 2012 we expanded our operations into Canada with an increased investment in Associate Veterinary Clinics (1984) Limited, which operates 44 hospitals in three Canadian provinces.

Industry Overview

According to American Pet Products Association, Inc s. (APPA) *2011-2012 APPA National Pet Owners Survey*, the United States population of companion animals is approximately 189 million, including about 165 million dogs and cats. APPA estimates that over $29 billion was spent in the United States on pets in 2011 for veterinary care, supplies, medicine and boarding and grooming. The survey indicated that the ownership of pets is widespread with approximately 73 million, or 62%, of U.S. households owning at least one pet, including companion and other animals. Specifically, 46 million households owned at least one dog and 39 million households owned at least one cat.

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

Even as treatments available in veterinary medicine become more complex, prices for veterinary services typically remain a low percentage of a pet owner s income, facilitating payment at the time of service. Unlike the

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human healthcare industry, providers of veterinary services are not dependent on third-party payers in order to collect fees. As such, providers of veterinary services typically do not have the problems of extended payment collection cycles or pricing pressures from third-party payers faced by human healthcare providers. Outsourced laboratory testing and diagnostic equipment sales are wholesale businesses that collect payments directly from animal hospitals under standard industry payment terms. Fees for services provided in our animal hospitals are due at the time of service. In 2011, over 99% of our animal hospital services were paid at the time of service. In addition, over the past three fiscal years our bad debt expense has averaged less than 1% of total revenue.

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

Animal Hospital Industry

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

According to the American Veterinary Medical Association, the U.S. market for veterinary services is highly fragmented with more than 51,000 veterinarians practicing at the end of 2011. We have estimated that there are over 22,000 companion animal hospitals operating at the end of 2011. Although most animal hospitals are single-site, sole-practitioner facilities, we believe veterinarians are gravitating toward larger, multi-doctor animal hospitals that provide state-of-the-art facilities, treatments, methods and pharmaceuticals to enhance the services they can provide their clients.

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

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

Diagnostic Laboratory Industry

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

Veterinary laboratory tests are performed primarily at veterinary diagnostic laboratories, universities or at animal hospitals using on-site diagnostic equipment. For certain tests, on-site diagnostic equipment can provide more timely results than outside laboratories, but this in-house testing requires the animal hospital or veterinarian to purchase or lease the equipment, maintain and calibrate the equipment periodically to avoid testing errors,

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employ trained personnel to operate it and purchase testing supplies. Conversely, veterinary diagnostic laboratories can provide a wider range of tests than generally are available on-site at most animal hospitals and do not require any up-front investment on the part of the animal hospital or veterinarian. Leading veterinary diagnostic laboratories also employ highly trained individuals who specialize in the detection and diagnosis of diseases and thus are a valuable resource for the veterinarian.

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

We believe that the outsourced laboratory testing market is an integral segment of the animal healthcare industry as a result of:

- the emphasis in veterinary education on diagnostic tests and the trend toward specialization in veterinary medicine, which are causing veterinarians to increasingly rely on tests for more accurate diagnoses;

- the continued technological developments in veterinary medicine, which are increasing the breadth of tests offered; and

- the continued focus on wellness, early detection and monitoring programs in veterinary medicine.

Business Strategy

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

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

- **Leveraging Established Infrastructure to Improve Margins.** We intend to leverage our established Animal Hospital and Laboratory infrastructure to increase our operating margins. Due to our established networks and the fixed cost nature of our business model, we are able to realize high margins on incremental revenue from Animal Hospital and Laboratory customers. For example, given that our nationwide transportation network servicing our Laboratory customers is a relatively fixed cost, we are able to achieve significantly higher margins on most incremental tests ordered by the same customer when picked up by our couriers at the same time.

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

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Pursuing Selected Acquisitions. The fragmentation of the animal hospital industry provides us with significant expansion opportunities in our Animal Hospital segment. Depending upon the attractiveness of the candidates and the strategic fit with our existing operations, we intend to acquire independent animal hospitals each year with aggregate annual revenue of approximately $50 million to $85 million. Our overall acquisition strategy involves the identification of high-quality practices where we can create additional value through the services and scale we can provide. Our typical candidate mirrors the profile of our existing animal hospital base. These acquisitions will be used to both expand existing markets and to enter into new geographic areas. In addition, we also evaluate the acquisition of animal hospital chains, laboratories or related businesses if favorable opportunities are presented. We intend primarily to use cash in our acquisitions but, depending on the timing and amount of our acquisitions, we may use stock or debt.

Business Segments

We report our results of operations through two reportable segments: Animal Hospital and Laboratory. Our Vetstreet and Medical Technology operating segments did not meet the materiality requirements to be presented as separate reportable segments. Accordingly, they are grouped into an All Other category.

Information regarding revenue and operating income, attributable to each of our reportable segments, is included in the *Segment Result*s section within *Management s Discussion and Analysis of Financial Condition and Results of Operations,* and within Note 14, *Lines of Business,* of our *Notes to Consolidated Financial Statements*, which are incorporated herein by reference.

Animal Hospital

At December 31, 2011, we operated 541 animal hospitals serving 41 states. Our Animal Hospital revenue accounted for 77%, 76% and 76% of total consolidated revenue in 2011, 2010 and 2009, respectively.

Services

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

Animal Hospital Network

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

- is located in a 4,000 to 6,000 square-foot, freestanding facility in an attractive location;
- has annual revenue between $1 million and $3 million;
- is supported by three to five veterinarians; and
- has an operating history of over 10 years.

As of December 31, 2011, our network of freestanding, full-service animal hospitals had facilities located in the following states and one Canadian province:

California	106	North Carolina*	7
Texas*	48	Minnesota*	6
Washington*	33	New Mexico	6
Florida	30	Alaska	5
New York*	26	Delaware	4
Massachusetts	25	New Hampshire*	4
Pennsylvania	23	Wisconsin	4
Illinois	19	Hawaii	3
Virginia	18	Missouri	3
Georgia	18	Nebraska*	3
Colorado	17	Rhode Island*	3
Connecticut	16	South Carolina	3
Arizona	14	Louisiana*	2
Indiana	13	Vermont	2
New Jersey*	13	Kansas*	2
Ohio	12	Alabama*	1
Michigan*	11	Kentucky	1
Maryland	11	Tennessee	1
Oregon*	10	Utah	1
Oklahoma	8	West Virginia*	1
Nevada	7		
Alberta, Canada*	1		

* States and Canadian province with laws, rules and regulations which require that veterinary medical practices be owned by licensed veterinarians and that corporations which are not owned by licensed veterinarians refrain from providing, or holding themselves out as providers of, veterinary medical care. In these states/province we provide management and other administrative services to veterinary practices rather than owning such practices or providing such care.

Marketing

We direct our marketing efforts toward increasing the number of annual visits from existing clients through customer education efforts and toward attracting new clients to our network of hospitals through online and offline initiatives. We inform and educate our clients about pet wellness and quality care through mailings of *HealthyPet Magazine*, which focuses on pet care and wellness. We also market through targeted demographic mailings regarding specific pet health issues and collateral health material made available at each animal hospital. With these internal marketing programs, we seek to leverage our existing customer base by increasing the number and intensity of the services received during each visit. We send reminder notices to increase awareness of the advantages of regular, comprehensive veterinary medical care, including preventive care such as early disease detection exams, vaccinations, dental screening and geriatric care. We also have expanded our online capabilities both internally and through our acquisition of VetStreet. Our internal efforts involve offering increased convenience for our clients to book appointments or find detailed health related materials on our hospital websites. We also enter into referral arrangements with local pet shops, humane societies and veterinarians to increase our client base. We seek to obtain referrals from veterinarians by promoting our specialized diagnostic and treatment capabilities to veterinarians and veterinary practices that cannot offer their clients these services. Through our acquisition and integration of VetStreet, we will be able to provide more robust health and wellness information to the pet owning community that we expect will attract additional clients to both VCA and non-VCA hospitals.

Personnel

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

We actively recruit qualified veterinarians and technicians and are committed to supporting continuing education for our professional staff. We operate post-graduate teaching programs for veterinarians at 23 of our facilities, which train approximately 152 veterinarians each year. We believe that these programs enhance our reputation in the veterinary profession and further our ability to continue to recruit the most talented veterinarians.

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

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

Laboratory

We operate a full-service, veterinary diagnostic laboratory network serving all 50 states and certain areas in Canada. Our Laboratory revenue accounted for 18%, 20% and 21% of total consolidated revenue in 2011, 2010 and 2009, respectively. We service a diverse customer base of over 16,000 clients including animal hospitals we operate, which accounted for 14%, 12% and 10% of total Laboratory revenue in 2011, 2010 and 2009, respectively.

Services

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

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

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

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Laboratory Network

At December 31, 2011, we operated 53 veterinary diagnostic laboratories. Our laboratory network includes:

- primary hubs that are open 24 hours per day and offer a full-testing menu;
- secondary laboratories that are open 24 hours per day and offer a wide-testing menu servicing large metropolitan areas; and
- short-term assessment and treatment (STAT) laboratories that service other locations with demand sufficient to warrant nearby laboratory facilities and are open primarily during daytime hours.

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

In 2011, we derived approximately 83% of our Laboratory revenue from major metropolitan areas, where we offer twice-a-day pick-up service and same-day results. In addition, in these areas we generally offer to report results within three hours of pick-up. Outside of these areas, we typically provide test results to veterinarians before 8:00 a.m. the day following pick-up.

Sales, Marketing and Client Service

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

Personnel

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

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

Systems

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

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

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Competition

The companion animal healthcare industry is highly competitive and subject to continual change in the manner in which services are delivered and providers are selected. We believe that the primary factors influencing a customer s selection of an animal hospital are convenient location and hours, personal recommendations, reasonable fees and quality of care. Our primary competitors for our animal hospitals in most markets are individual practitioners or small, regional multi-clinic practices. In addition, some national companies in the pet care industry, including the operators of super-stores, are developing networks of animal hospitals in markets that include our animal hospitals. We also compete with sellers of pet-related products and diagnostic services delivered via the Internet. As we progress in our integration of VetStreet we expect to position ourselves and other independent animal hospitals to better compete in the online market.

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

Government Regulation

Certain states and provinces have laws, rules and regulations which require that veterinary medical practices be owned by licensed veterinarians and that corporations which are not owned by licensed veterinarians refrain from providing, or holding themselves out as providers of, veterinary medical care. In these states and provinces, we provide management and other administrative services to veterinary practices rather than owning such practices or providing such care. We provide management and other administrative services to veterinary practices located in these states and provinces. At December 31, 2011, we provided management and administrative services to 170 animal hospitals in 15 states, and 1 animal hospital in 1 Canadian province, under management agreements with these veterinary practices. We consolidate these veterinary practices for financial reporting purposes. Although we have structured our operations to comply with our understanding of the veterinary medicine laws of each state and province in which we operate, interpretive legal precedent and regulatory guidance varies by jurisdiction and is often sparse and not fully developed. A determination that we are in violation of applicable restrictions on the practice of veterinary medicine in any jurisdiction in which we operate could have a material adverse effect on our operations, particularly if we were unable to restructure our operations to comply with the requirements of that jurisdiction.

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

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

Employees

At December 31, 2011 we employed or managed on behalf of the professional corporations to which we provide services approximately 9,900 full-time-equivalent employees. At that date, none of these employees were a party to a collective bargaining agreement.

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

We maintain a website with the address http://investor.vcaantech.com. We are not including the information contained on our website as a part of, or incorporating it by reference into, this annual report on Form 10-K. We

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make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file that material with, or furnish that material to, the SEC.

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

ITEM 1A. RISK FACTORS

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

The current economic environment may continue to cause a decline in our Animal Hospital same-store revenue growth and the rate of our Laboratory internal revenue growth and have a material adverse effect on our profitability.

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

In addition, the economic downturn may exacerbate the effect of the risks discussed below, including the impact on our growth strategy, changes in demand for our products and services, the carrying value of our goodwill and other intangibles, our ability to service our substantial indebtedness and sales of our medical imaging equipment.

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

Our success depends in part on our ability to increase our revenue and operating income through a balanced program of organic growth initiatives and selective acquisitions of established animal hospitals, laboratories and related businesses. If we cannot implement or effectively execute on this strategy, our results of operations will be adversely affected. Even if we effectively implement our growth strategy, we may not achieve the economies of scale that we have experienced in the past or that we anticipate occurring in the future. We experienced a decline in same-store revenue growth in our animal hospitals for ten consecutive quarters, which ended during 2011, when we experienced an increase in same-store revenue growth in our third and fourth quarters. Our Laboratory growth has also been affected and became negative during certain quarters of the three year period ending December 31, 2011. Our Animal Hospital same-store revenue, adjusted for differences in business days, has fluctuated between a decline of 3.2% and growth of 5.2% for 2007 through 2011. Our Laboratory internal revenue growth, adjusted for differences in billing days, has fluctuated between 0% and 13.5% over the same years. Our internal growth may continue to fluctuate and may be below our historical rates. Any reduction in the rate of our internal growth may cause our revenue and operating income to decrease. Investors should not assume that our historical growth rates are reliable indicators of results in future periods.

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

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

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

A substantial portion of our expense, particularly rent and personnel costs, are fixed and are based in part on expectations of revenue. We may be unable to reduce spending in a timely manner to compensate for any significant fluctuations in our revenue. Accordingly, shortfalls in revenue may adversely affect our gross profit, operating income and margins.

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

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

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

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

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

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Difficulties integrating new acquisitions may impose increased costs, loss of customers and a decline in operating margins and profitability and other risks that we may not anticipate.

Our success depends in part on our ability to timely and cost-effectively acquire, and integrate into our business, additional animal hospitals, laboratories and related businesses. In 2011, we acquired 27 animal hospitals, including nine with the acquisition of BrightHeart, one laboratory and Vetstreet. In 2010, we acquired 50 animal hospitals, including 23 with the acquisition of Pet DRx. In 2009, we acquired 27 animal hospitals, two laboratories and Eklin. We expect to continue our animal hospital acquisition program and, if presented with favorable opportunities, we may acquire animal hospital chains, laboratories or related businesses. Our expansion into new territories and new business segments creates the risk that we will be unsuccessful in the integration of the acquired businesses that are new to our operations. Any difficulties in the integration process could result in increased expense, loss of customers and a decline in operating margins and profitability. In some cases, we have experienced delays and increased costs in integrating acquired businesses, particularly where we acquire a large number of animal hospitals in a single region at or about the same time. We also could experience delays in converting the systems of acquired businesses into our systems, which could result in increased staff and payroll expense to collect our results as well as delays in reporting our results, both for a particular region and on a consolidated basis. Further, the legal and business environment prevalent in new territories and with respect to new businesses may pose risks that we do not anticipate and adversely impact our ability to integrate newly acquired operations. In addition, our field management may spend a greater amount of time integrating these new businesses and less time managing our existing businesses. During these periods, there may be less attention directed to marketing efforts or staffing issues, which could affect our revenue and expense. For all of these reasons, our historical success in integrating acquired businesses is not a reliable indicator of our ability to do so in the future.

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

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

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

Some national companies in the pet care industry, including the operators of super-stores, are developing networks of animal hospitals in markets that include our animal hospitals; this may cause us to reduce prices to remain competitive. Reducing prices may have an adverse effect on our Animal Hospital revenue, alternatively not reducing prices may cause us to lose market share.

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

Our medical technology business is a leader in the market for medical imaging equipment in the animal healthcare industry. Our primary competitors are companies that are much larger than us and have substantially greater capital, manufacturing, marketing and research and development resources than we do, including companies such as Siemens Medical Systems, Philips Medical Systems and Canon Medical Systems. The success of

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our medical technology business, in part, is due to its focus on the veterinary market, which allows it to differentiate its products and services to meet the unique needs of this market. If this market receives more focused attention from these larger competitors, we may find it difficult to compete and as a result our revenues and operating margins from this business could decline.

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

At December 31, 2011, our consolidated balance sheet reflected $1.2 billion of goodwill and $92.4 million of other intangible assets, constituting a substantial portion of our total assets of $2.0 billion at that date. We expect that the aggregate amount of goodwill and other intangible assets on our consolidated balance sheet will increase as a result of future acquisitions. We continually evaluate whether events or circumstances have occurred that suggest that the fair value of our other intangible assets or each of our reporting units are below their respective carrying values. The determination that the fair value of our intangible assets or one of our reporting units is less than its carrying value would result in an impairment write-down. The impairment write-down would be reflected as expense and could have a material adverse effect on our results of operations during the period in which we recognize the expense. During the quarter ended December 31, 2011, we recorded a $21.3 million impairment charge related to our Medical Technology reporting unit.

Our estimated fair values are calculated in accordance with generally accepted accounting principles related to fair value and utilize valuation methods consisting primarily of discounted cash flow techniques, and market comparables, where applicable. These valuation methods involve the use of significant assumptions and estimates such as forecasted growth rates, valuation multiples, the weighted-average cost of capital, and risk premiums, which are based upon the best available market information and are consistent with our long-term strategic plans. We provide no assurance that forecasted growth rates, valuation multiples, and discount rates will not deteriorate. We will continue to analyze changes to these assumptions in future periods.

We require a significant amount of cash to service our debt and expand our business as planned.

We have, and will continue to have, a substantial amount of debt. Our substantial amount of debt requires us to dedicate a significant portion of our cash flow from operations to service interest and principal payments on our debt, thereby reducing the funds available for use for working capital, capital expenditures, acquisitions and general corporate purposes.

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

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

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

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

- limit our ability to borrow additional funds or to obtain other financing in the future for working capital, capital expenditures, acquisitions, investments and general corporate purposes;
- limit our ability to dispose of our assets, create liens on our assets or to extend credit;
- make us more vulnerable to economic downturns and reduce our flexibility in responding to changing business and economic conditions;

limit our flexibility in planning for, or reacting to, changes in our business or industry;

place us at a competitive disadvantage to our competitors with less debt; and

restrict our ability to pay dividends, repurchase or redeem our capital stock or debt, or merge or consolidate with another entity.

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

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

We do not develop or manufacture the medical imaging equipment that we distribute, except for the software component of our digital radiography machines. Our business in large part is dependent upon distribution agreements with the manufacturers of the equipment, the ability of those manufacturers to produce desirable equipment and to keep pace with advances in technology, our ability to develop cost-effective, functional, and user-friendly software for the digital radiography machines, and the overall rate of new development within the industry. If the distribution agreements terminate or are not renewed, if the manufacturers breach their covenants under these agreements, if the equipment manufactured by these manufacturers or our software becomes less competitive or if there is a general decrease in the rate of new development within the industry, demand for our products and services would decrease.

Manufacturing flaws, component failures, design defects, or inadequate disclosure of product-related information could result in an unsafe condition or injury. These problems could result in product liability claims and lawsuits alleging that our products have resulted or could result in an unsafe condition or injury. In addition, an adverse event involving one of our products could result in reduced market acceptance and demand for all of our products, and could harm our reputation and our ability to market our products in the future. Any of the foregoing problems could disrupt our business and have a material adverse effect on our business, results of operations, financial condition and cash flows.

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

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

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

If we are unable to retain an adequate number of skilled veterinarians, we may lose customers, our revenue may decline and we may need to sell or close animal hospitals. At December 31, 2011, there were 28 veterinary schools in the country accredited by the American Veterinary Medical Association. These schools graduate approximately 2,500 veterinarians per year. From time to time we experience shortages of skilled veterinarians in some regional markets in which we operate animal hospitals. During shortages in these regions, we may be unable to hire enough qualified veterinarians to adequately staff our animal hospitals, in which event we may lose market share and our revenue and profitability may decline.

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

Certain states and provinces have laws, rules and regulations which require that veterinary medical practices be owned by licensed veterinarians and that corporations which are not owned by licensed veterinarians refrain from providing, or holding themselves out as providers of, veterinary medical care. At December 31, 2011, we provided management and administrative services to 170 animal hospitals in 15 states and 1 animal hospital in 1 Canadian province, under management agreements with these veterinary practices, including 48 practices in Texas, 33 in Washington, 26 in New York. We may experience difficulty in expanding our operations into other states or provinces with similar laws, rules and regulations. Although we have structured our operations to comply with our understanding of the veterinary medicine laws of each state and province in which we operate, interpretive legal precedent and regulatory guidance varies by jurisdiction and is often sparse and not fully developed. A determination that we are in violation of applicable restrictions on the practice of veterinary medicine in any jurisdiction in which we operate, could have a material adverse effect on us, particularly if we are unable to restructure our operations to comply with the requirements of that jurisdiction.

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

MediMedia USA, Inc. provides services to us pursuant to the Transition Services Agreement. When that Agreement terminates, we will be required to replace MediMedia s services internally or through third parties on terms that may be less favorable to us.

Under the terms of the Transition Services Agreement that we entered into with MediMedia in connection with our acquisition of Vetstreet, MediMedia is providing to us, for a fee, specified support services for the Vetstreet business relating to finance and accounting, information technology and communications, human resources and facilities for periods of up to 12 months following the date of acquisition. When the Transition Services Agreement terminates, MediMedia will no longer be obligated to provide any of these services to us or pay us, and we will be required to either enter into a new agreement with MediMedia or another services provider, or assume the responsibility for these functions ourselves. At that time, the economic terms of the new arrangement may be less favorable than the arrangement with MediMedia under the Transition Services Agreement, which may have a material adverse effect on our business, results of operations and financial condition.

Fluctuations in foreign currency exchange rates could adversely affect our business, financial condition, operating results and cash flows.

We are exposed to foreign currency fluctuation risk in Canada as we recently expanded our animal hospital operations and now operate over 40 animal hospitals in three provinces, and operate four laboratories, that create market risk associated with changes in the value of the Canadian dollar. Currency exchange rates fluctuate on a daily basis as a result of a number of factors and cannot easily be predicted. To date, we have not hedged against foreign currency fluctuations; however, we may pursue hedging alternatives in the future. Our business, financial condition, operating results and cash flows therefore could be materially adversely affected by fluctuations in the exchange rate between the Canadian dollar and the U.S. dollar.

Our international operations may result in additional market risks, which may harm our business.

We operate over 40 animal hospitals and four laboratories in Canada as of February 29, 2012. As these operations grow, they may require greater management and financial resources. Internal operations require the integration of personnel with varying cultural and business backgrounds and an understanding of the relevant differences in the cultural, legal and regulatory environments. Our results may be increasingly affected by the risks of our international operations, including:

- Fluctuations in currency exchange rates;
- Changes in internal staffing and employment issues,
- Failure to understand the local culture and market, and
- The burden of complying with foreign laws, including tax laws and financial accounting standards.

Changes in regulations or user concerns regarding privacy and protection of user data could adversely affect our business.

Vetstreet offers e-commerce services to veterinary practices through the Pro Pet Portal, and engages in e-commerce through the vetstreet.com website. Federal, state and international laws and regulations may govern the collection, use, retention, sharing and security of data that we receive from customers, visitors to the websites of our customers, and others. In addition, we have and post on our website our own privacy policy concerning the collection, use and disclosure of user data. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any privacy-related laws, government regulations or directives, or industry self-regulatory principles could result in damage to our reputation, or proceedings or actions against us by governmental entities or otherwise, which could potentially have an adverse effect on our business.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters and principal executive offices are located in Los Angeles, California, in approximately 50,000 square feet of leased space. At February 29, 2012, we leased or owned facilities at 639 other locations that house our animal hospitals, laboratories, our medical technology business, and our Vetstreet business. We own 140 facilities and the remainder are leased. We believe that our real property facilities are adequate for our current needs.

ITEM 3. LEGAL PROCEEDINGS

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

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

	High	Low
Fiscal 2011 by Quarter		
Fourth	$ 21.55	$ 14.73
Third	$ 22.09	$ 15.00
Second	$ 25.57	$ 19.05
First	$ 26.29	$ 22.44
Fiscal 2010 by Quarter		
Fourth	$ 24.04	$ 19.88
Third	$ 26.03	$ 19.12
Second	$ 29.28	$ 24.63
First	$ 28.09	$ 23.52

At February 23, 2012, there were 291 holders of record of our common stock.

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The following graph sets forth the percentage change in cumulative total stockholder return on our common stock from December 31, 2006 to December 31, 2011. These periods are compared with the cumulative returns of the NASDAQ Stock Market (U.S. Companies) Index and the Russell 2000 Index. The comparison assumes $100 was invested on December 31, 2006 in our common stock and in each of the foregoing indices. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

	12/06	12/07	12/08	12/09	12/10	12/11
VCA Antech, Inc.	**100.00**	**137.40**	**61.76**	**77.42**	**72.35**	**61.35**
NASDAQ Composite	**100.00**	**110.26**	**65.65**	**95.19**	**112.10**	**110.81**
Russell 2000	**100.00**	**98.43**	**65.18**	**82.89**	**105.14**	**100.75**

Dividends

We have not paid cash dividends on our common stock, and we do not anticipate paying cash dividends in the foreseeable future. In addition, our senior credit facility places limitations on our ability to pay cash dividends in respect of our common stock. Specifically, our senior credit facility dated August 16, 2011 prohibits us from declaring, ordering, paying, or setting apart any sum for any dividends or other distributions on account of any shares of any class of stock, other than dividends payable solely in shares of stock to holders of such class of stock. Any future determination as to the payment of dividends on our common stock will be restricted by these limitations, will be at the discretion of our Board of Directors and will depend on our results of operations, financial condition, capital requirements and other factors deemed relevant by the Board of Directors, including the General Corporation Law of the State of Delaware, which provides that dividends are only payable out of surplus or current net profits.

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Transactions in Our Equity Securities

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

ITEM 6. SELECTED FINANCIAL DATA

The following table provides our selected consolidated financial data as of and for each of the years in the five- year period ended December 31, 2011. The income statement and cash flow data and the other data for each of the three years ended December 31, 2011, and the balance sheet data as of December 31, 2011 and 2010 has been derived from our financial statements included elsewhere in this Form 10-K. The other periods presented were derived from our financial statements that are not included in this Form 10-K.

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

	December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except per share amounts)				
Income Statement Data:					
Animal Hospital revenue(2)(4)	$ 1,150,120	$ 1,052,462	$ 994,215	$ 959,395	$ 844,344
Laboratory revenue	316,797	310,654	310,057	306,891	297,690
All Other revenue(1)(7)	80,430	64,013	48,557	49,238	44,828
Intercompany revenue	(61,986)	(45,661)	(38,322)	(38,054)	(30,717)
Total revenue	1,485,361	1,381,468	1,314,507	1,277,470	1,156,145
Direct costs	1,146,904	1,050,304	973,275	934,996	835,462
Gross profit	338,457	331,164	341,232	342,474	320,683
Selling, general and administrative expense(5)	121,112	123,541	95,669	90,564	86,139
Goodwill impairment(3)	21,310				
Net loss on sale of assets(8)	382	374	4,035	234	1,323
Operating income(3)(5)(8)	195,653	207,249	241,528	251,676	233,221
Interest expense, net	16,884	13,630	21,466	28,559	29,503
Debt retirement costs	2,764	2,131			
Other expense (income)	118	(772)	(104)	(212)	220
Income before provision for income taxes	175,887	192,260	220,166	223,329	203,498
Provision for income taxes(6)	76,027	78,102	84,580	86,219	78,636
Net income	99,860	114,158	135,586	137,110	124,862
Net income attributable to noncontrolling interests	4,455	3,915	4,158	4,126	3,850
Net income attributable to VCA Antech, Inc	$ 95,405	$ 110,243	$ 131,428	$ 132,984	$ 121,012
Basic earnings per share	$ 1.10	$ 1.28	$ 1.54	$ 1.57	$ 1.44
Diluted earnings per share	$ 1.09	$ 1.27	$ 1.53	$ 1.55	$ 1.41
Weighted-average shares outstanding for basic earnings per share	86,606	86,049	85,077	84,455	83,893

Weighted-average shares outstanding for diluted earnings per share	87,394	87,051	86,097	85,700	85,716

	2011	2010	December 31, 2009	2008	2007
			(in thousands, except percentages)		
Other Financial Data:					
Consolidated gross margin	22.8%	24.0%	26.0%	26.8%	27.7%
Animal Hospital gross margin	15.6%	16.4%	18.5%	19.2%	19.3%
Laboratory gross margin	45.4%	45.8%	46.3%	46.6%	48.1%
All Other gross margin	26.1%	30.1%	32.6%	35.6%	33.6%
Consolidated operating margin(3)(5)(8)	13.2%	15.1%	18.4%	19.7%	20.2%
Animal Hospital operating margin	13.5%	14.1%	16.3%	16.9%	16.6%
Laboratory operating margin	36.6%	37.3%	38.9%	39.9%	41.5%
All Other operating margin(3)	(24.2)%	7.3%	6.1%	10.8%	9.3%
Cash Flow Data:					
Net cash provided by operating activities	$ 191,051	$ 168,073	$ 183,471	$ 197,308	$ 173,764
Net cash used in investing activities(9)	$ (271,310)	$ (150,174)	$ (130,760)	$ (210,713)	$ (270,560)
Net cash provided by (used in) financing activities(9)	$ 47,004	$ (66,142)	$ 3,467	$ (8,400)	$ 162,558
Capital expenditures	$ (63,485)	$ (61,951)	$ (50,801)	$ (55,045)	$ (48,714)
Balance Sheet Data (at period end):					
Cash and cash equivalents	$ 63,651	$ 97,126	$ 145,181	$ 88,959	$ 110,866
Goodwill	$ 1,237,607	$ 1,092,480	$ 985,674	$ 922,057	$ 821,967
Total assets	$ 1,995,368	$ 1,776,422	$ 1,627,404	$ 1,449,038	$ 1,286,711
Long-term debt	$ 618,853	$ 527,036	$ 545,055	$ 552,631	$ 560,180
Total stockholders equity	$ 1,107,878	$ 998,924	$ 875,047	$ 710,989	$ 568,384

(1) On August 9, 2011, we acquired Vetstreet, a provider of online communications, professional education and marketing solutions to the veterinary community.

(2) On July 11, 2011, we acquired BrightHeart Veterinary Centers (BrightHeart), which operated nine animal hospitals as of the acquisition date.

(3) In 2011, our operating income and operating margin was unfavorably impacted by a $21.3 million non-cash goodwill impairment charge, related to our medical technology business. The charge impacted our 2011 operating margin by 1.4%.

(4) On July 1, 2010, we acquired Pet DRx Corporation, which operated 23 animal hospitals as of the acquisition date.

(5) In 2010, our SG&A, operating income and operating margin were unfavorably impacted by $14.5 million in consulting and SERP expenses to be paid in accordance with consulting and SERP agreements entered into on June 30, 2010.

(6) The 2010 provision for income taxes includes the recognition of $5.4 million, or $3.5 million net of tax, related to additional state tax payments required as a result of a tax settlement reached.

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

(8)

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

(9) We have reclassed cash paid for partnership buyouts and earnouts from investing cash flows to financing cash flows for years 2007 through 2010, to conform to the current year s presentation. The amounts were not material.

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

The following discussion should be read in conjunction with our consolidated financial statements provided under Part II, Item 8 of this annual report on Form 10-K. We have included herein statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We generally identify forward-looking statements in this report using words like believe, intend, seek, expect, estimate, may, plan, should plan, project, contemplate, anticipate, predict, potential, continue, or similar expressio of these statements below and elsewhere in this report. These forward-looking statements are not historical facts and are inherently uncertain and outside of our control. Any or all of our forward-looking statements in this report may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in our discussion in this report will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may vary materially. Factors that may result in these forward-looking statements in being different than reflected in this report are described throughout this annual report and particularly in Risk Factors Part I, Item 1A of this annual report on Form 10-K.

The forward-looking information set forth in this annual report on Form 10-K is as of February 29, 2012, and we undertake no duty to update this information. Shareholders and prospective investors can find information filed with the SEC after February 29, 2012, at our website at http://investor.vcaantech.com or at the SEC s website at www.sec.gov.

Overview

We are a leading national animal healthcare company. We provide veterinary services and diagnostic testing services to support veterinary care and we sell diagnostic imaging equipment and other medical technology products and related services to veterinarians. We also provide both online and printed communications, education and information, and analytical based marketing solutions to the veterinary community.

Our reportable segments are as follows:

Our Animal Hospital segment operates the largest network of freestanding, full-service animal hospitals in the nation. Our animal hospitals offer a full range of general medical and surgical services for companion animals. We treat diseases and injuries, offer pharmaceutical and retail products and perform a variety of pet wellness programs, including health examinations, diagnostic testing, routine vaccinations, spaying, neutering and dental care. At December 31, 2011, our animal hospital network consisted of 541 animal hospitals in 41 states and 1 Canadian province.

Our Laboratory segment operates the largest network of veterinary diagnostic laboratories in the nation. Our laboratories provide sophisticated testing and consulting services used by veterinarians in the detection, diagnosis, evaluation, monitoring, treatment and prevention of diseases and other conditions affecting animals. At December 31, 2011, our laboratory network consisted of 53 laboratories serving all 50 states and certain areas in Canada.

Our All Other category includes the results of our Medical Technologies and VetStreet operating segments. Each of these segments did not meet the materiality thresholds to be reported individually.

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

Our revenue has been adversely impacted by the current economic recession. We are unable to forecast the timing or degree of any economic recovery. Further, trends in the general economy may not be reflected in our

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business at the same time or in the same degree as in the general economy. The timing and degree of any economic recovery, and its impact on our business, are among the important factors that could cause our actual results to differ from our forward-looking information.

Executive Overview

The slow economic recovery continues to have an adverse impact on our organic revenue and our profitability. Consumer spending habits, including spending for pet healthcare, are affected by, among other things, prevailing economic conditions, levels of employment, salaries and wage rates, consumer confidence and consumer perception of economic conditions. These factors continue to impact consumer spending and may continue to cause levels of spending to remain depressed for the foreseeable future. Additionally, these factors may cause pet owners to elect to defer expensive treatment options or to forgo treatment for their pet s altogether. During 2009, continuing through 2011, we experienced a decline in the number of visits to our animal hospitals and the number of orders placed, as well as, a decline in the number of our Laboratory requisitions. These factors resulted in a decline in our Animal Hospital same-store revenue and related profit margin. Improvement in our Laboratory internal revenue growth, in spite of the decline in requisitions, was offset by increased transportation costs resulting in a decline in our profit margin. Our consolidated profit margin was further eroded by lower profit margins initially experienced with our acquired businesses.

We believe that our ability to maintain or increase margins in 2012 will be dependent on organic revenue growth rates. We plan to continue our growth strategy of acquiring individual animal hospitals and maintain our strong emphasis on expense management. However, our ability to return to our historical margins will be dependent on increases in same-store revenue growth in our animal hospitals, greater increases in internal revenue growth in our laboratories and successful integration of our acquired businesses.

Refinancing Transactions

On August 16, 2011, we amended and restated our existing senior credit facility to allow for additional senior term notes in the amount of $100 million and an additional $25.0 million aggregate principal amount of revolving commitments. The funds borrowed from the additional senior term notes were used to repay in full, amounts borrowed in connection with the August 9, 2011 acquisition of Vetstreet. Both the senior term notes and the revolving credit facility are priced at LIBOR plus 175 basis points, a 50 basis point decrease from our previous credit facility, see Note 6, *Long-Term Obligations*, in our consolidated financial statements of this annual report on Form 10-K, for a more detailed discussion of applicable interest rates on our new debt. In connection with the amendment we incurred $2.9 million in financing costs, of which approximately $865,000 were recognized as part of income from continuing operations and approximately $2.0 million were capitalized as deferred financing costs. In addition, we expensed $1.1 million of previously capitalized financing costs associated with lenders who exited the syndicate on the amendment date or those that were determined to be extinguished.

Goodwill Impairment

As a result of our October 31, 2011 annual impairment test, we recorded a goodwill impairment charge in our Medical Technology reporting unit of $21.3 million, or $0.24 per diluted share. Our determination of goodwill impairment in the current period was triggered by actual results not meeting expectations. This caused us to revise our forecasted cash flows for this reporting unit, which resulted in a reduction in the estimated fair value of the reporting unit and its goodwill.

Acquisitions

Our annual growth strategy includes the acquisition of independent animal hospitals. In addition, we also evaluate the acquisition of animal hospital chains, laboratories or related businesses if favorable opportunities are presented. In 2011, we acquired 18 independent animal hospitals with annual revenue of $36.9 million and a chain of nine animal hospitals with annual revenue of $53.4 million. The following table summarizes the changes in the number of facilities operated by our Animal Hospital and Laboratory segments:

	For the Years Ended December 31,		
	2011	**2010**	**2009**
Animal hospitals:			
Beginning of period	528	489	471
Acquisitions, excluding BrightHeart(1) in 2011 and Pet DRx(1) in 2010	18	27	27
BrightHeart	9		
Pet DRx		23	
Acquisitions relocated into our existing animal hospitals	(3)	(2)	(5)
Sold, closed or merged	(11)	(9)	(4)
End of period	541	528	489
Laboratories:			
Beginning of period	50	47	44
Acquisitions	1		2
Acquisitions relocated into our existing laboratories			(2)
New facilities	2	4	3
Closed or merged		(1)	
End of period	53	50	47

(1) BrightHeart Veterinary Centers (BrightHeart) was acquired on July 11, 2011 and Pet DRx Corporation (Pet DRx) was acquired on July 1, 2010.

BrightHeart Acquisition

On July 11, 2011, we acquired 100% of the membership interests of BrightHeart for approximately $50 million in cash. BrightHeart operates nine animal hospitals, eight of which focus on the delivery of specialty and emergency medicine. The acquisition will increase our level of market recognition in areas where we have an existing market presence. At the time of the acquisition BrightHeart had annualized revenue of approximately $53.4 million. Our consolidated financial statements reflect the operating results of BrightHeart since July 11, 2011.

Pet DRx Acquisition

On July 1, 2010, we acquired a 70.4% interest in Pet DRx, a provider of veterinary primary care and specialized services to companion animals. Pet DRx operated 23 animal hospitals in California at the time of its acquisition. The acquisition expands our presence in the California market. We acquired the remaining interest in Pet DRx on November 1, 2010. The aggregate purchase price for both steps was $41.3 million. Our consolidated financial statements reflect the operating results of Pet DRx since July 1, 2010.

Vetstreet, Inc., formerly known as MediMedia Animal Health, LLC (Vetstreet)

On August 9, 2011, we acquired Vetstreet, a provider of online communications, professional education and marketing solutions to the veterinary community. The acquisition of Vetstreet expands the breadth of our product offerings to the veterinary community and is expected to provide long-term synergies to our existing businesses. We acquired Vetstreet for a preliminary purchase price of $146.4 million, net of cash acquired. At the time of the acquisition Vetstreet had annualized revenue of approximately $23.0 million. Our consolidated financial statements reflect the operating results of Vetstreet since August 9, 2011.

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Critical Accounting Policies and Estimates

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

Revenue

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

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

The accounting for the sale of equipment and the sale of software licenses and related items is substantially governed by the requirements of the FASB s general revenue recognition rules. The determination of the amount of software license, maintenance and professional service revenue to be recognized in each accounting period requires us to exercise judgment and use estimates. In determining whether or not to recognize revenue, we evaluate each of these criteria:

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

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

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

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

Digital Radiography Imaging Equipment

We sell our digital radiography imaging equipment with multiple elements, including hardware, software licenses and/or services. Tangible products containing software components and nonsoftware components that function together to deliver the tangible product s essential functionality are accounted for under the FASB s accounting guidance pertaining to multiple-deliverable revenue arrangements.

Under the guidance sales arrangement consideration is allocated at the inception of the arrangement to all deliverables using the relative selling price method, whereby any discount in the arrangement is allocated

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proportionally to each deliverable on the basis of each deliverable s selling price. The selling price for each deliverable is based on vendor-specific objective evidence (VSOE) if available, third-party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. For elements where VSOE is available, VSOE of fair value is based on the price for those products and services when sold separately by us or the price established by management with the relevant authority. TPE of selling price is the price of our, or any of our competitor s, largely interchangeable products or services in stand-alone sales to similarly situated customers. We do not currently have VSOE for our DR imaging equipment as units are not sold on a stand-alone basis without the related support packages. As this is also true for our competitors, TPE of selling price is also unavailable. We therefore use the ESP to allocate the arrangement consideration related to our DR imaging equipment.

We recognize revenue when the services are provided or at the time of delivery or installation and customer acceptance. Generally, at the time of delivery and installation of equipment the only undelivered item is the post-contract customer support (PCS). This obligation is contractually defined in both terms of scope and period. For the PCS, we recognize the revenue for these services on a straight-line basis over the period of support and we expense the costs of these services as they are incurred.

Ultrasound Imaging Equipment

We sell our ultrasound imaging equipment on a stand-alone basis and with multiple elements, including hardware, software, licenses and/or services. We account for the sale of ultrasound imaging equipment on a stand-alone basis under the requirements of the FASB s general revenue recognition rules and recognize revenue upon delivery. We account for the sale of ultrasound imaging equipment with related computer hardware and software pursuant to the the requirements of the FASB s Revenue Recognition Multiple-Element Arrangements guidance.

Digital Radiography and Ultrasound Imaging Equipment Sold Together

In certain transactions we sell our ultrasound imaging equipment and related services together with our digital radiography imaging equipment and related services. In these transactions, each element is accounted for pursuant to the FASB s Revenue Recognition Multiple-Element Arrangements guidance.

Other Services

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

Valuation of Goodwill and Other Intangible Assets

Goodwill

We allocate a significant portion of the purchase price for our acquired businesses to goodwill. Our goodwill represents the excess of the cost of an acquired entity over the net of the amounts assigned to identifiable assets acquired and liabilities assumed. The total amount of our goodwill at December 31, 2011 was $1.2 billion, consisting of $1.0 billion for our Animal Hospital reporting unit, $96.8 million for our Laboratory reporting unit, $8.2 million for our Medical Technology reporting unit, and $97.2 million for our Vetstreet reporting unit.

We test our goodwill for impairment annually, or sooner if circumstances indicate impairment may exist, in accordance with goodwill guidance. We adopted the end of October as our annual impairment testing date, which allows us time to accurately complete our impairment testing process in order to incorporate the results in our annual financial statements and timely file those statements with the Securities and Exchange Commission (SEC) in accordance with our accelerated filing requirements. There were no impairment charges resulting from the October 31, 2010 or 2009 impairment tests. As a result of the October 31, 2011 goodwill impairment testing, we determined that the goodwill related to our Medical Technology reporting unit was impaired.

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Accordingly, we recorded a $21.3 million goodwill impairment charge for the fiscal year ended December 31, 2011. No events have occurred subsequent to the 2011 testing date which would indicate any further impairment may have occurred in any of our reporting units.

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

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

If we identify a potential impairment in the first step, we are then required to measure the amount of impairment. The amount of the impairment is determined by allocating the estimated fair value of the reporting unit as determined in step one to the reporting unit s net assets based on fair value as would be done in an acquisition. In this hypothetical acquisition, the residual estimated fair value after allocation to the reporting units identifiable net assets is the estimated fair value of goodwill. If the estimated fair value of goodwill is less than the carrying amount of goodwill, goodwill is considered impaired and written down to the estimated fair value with a corresponding charge to earnings. However, if the estimated fair value of goodwill is greater than the carrying amount of goodwill, goodwill is not considered impaired and is not adjusted to the estimated fair value. Determining the fair value of the net assets of our reporting units under this step requires significant estimates.

Our estimated fair values are calculated in accordance with generally accepted accounting principles related to fair value and utilize generally accepted valuation techniques consisting primarily of discounted cash flow techniques and market comparables, where applicable. These valuation methods involve the use of significant assumptions and estimates such as forecasted growth rates, valuation multiples, the weighted-average cost of capital, and risk premiums, which are based upon the best available market information and are consistent with our long-term strategic plans. In 2010 and 2009, we determined that the estimated fair value of each of our reporting units exceeded their respective net book value, resulting in a conclusion that none of the goodwill of our reporting units was impaired. It was noted however, that changes in our estimates, such as, forecasted cash flows, could affect the estimated fair value of our reporting units and could have resulted in a goodwill impairment charge particularly for our Animal Hospital and Medical Technology reporting units.

In 2011, we recorded an impairment charge in our Medical Technology reporting unit reflecting changes in our estimate of forecasted cash flows. This reporting unit s remaining goodwill is $8.2 million. Our Animal Hospital reporting unit, which has $1.0 billion of goodwill, marginally exceeded its carrying value and our Laboratory reporting unit exceeded its carrying value by a substantial margin. The recent acquisition of Vetstreet resulted in reporting unit goodwill of $97.2 million. Negative changes in the undiscounted cash flows related to variables such as revenue growth rates, margins, or the discount rate could result in a decrease in the estimated fair value of our reporting units and could ultimately result in a substantial goodwill impairment charge. The performance of our reporting units, and in turn the risk of goodwill impairment, is subject to a number of risks and uncertainties, some of which are outside of our control.

Other Intangible Assets

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

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

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

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

Capitalized Software Costs

We capitalize certain software costs in accordance with FASB s guidance on internal-use software. In accordance with the capitalization criteria of the accounting guidance, we capitalize external direct costs of materials and services consumed in developing and obtaining internal-use computer software and the payroll-related costs of employees who devote time to the internal use computer software project during the application development stage. Management s judgment is required in determining the point at which various projects enter the stages at which costs may be capitalized, in assessing the ongoing value of the capitalized costs, and in determining the estimated useful lives over which the costs are amortized. We typically estimate a useful life of three years for our internal-use software.

Income Taxes

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

We make judgments in assessing our ability to realize future benefits from our deferred tax assets, which include operating and capital loss carryforwards. We believe that our earnings during the periods when the temporary differences become deductible will be sufficient to realize the related future tax benefits. Should we determine that we would not be able to realize all or a portion of our deferred tax assets, an adjustment would be made to the carrying amount through a valuation allowance.

Also, our net deductible temporary differences and tax carryforwards are recorded using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax liability or asset is expected to be settled or realized. At December 31, 2011, we have a net deferred tax liability of $74.9 million. Should the expected applicable tax rates change in the future, an adjustment to the net deferred tax liability would be credited or charged, as appropriate, to income in the period such determination was made. For example, an increase of 1.0% in our income tax rate would cause us to increase our net deferred tax liability balance by $1.9 million with a corresponding charge to earnings.

We also assess differences between our tax bases, which are more likely than not to be realized, and the as-filed tax bases of certain assets and liabilities. We account for unrecognized tax benefits in accordance with the FASB s accounting guidance on income taxes, which prescribe a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation, based solely on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. We did not have any unrecognized tax benefits on December 31, 2011.

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Self-Insured Liabilities

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

Workers Compensation Insurance

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

Under our workers compensation insurance policies, we are responsible for the first $250,000 in claim liability per individual occurrence and we are also subject to an aggregate limit. We use an internal review process to estimate claim liability based on actual and expected claims incurred and the estimated ultimate cost to settle the claims. Periodically, we review our assumptions and valuations to determine the adequacy of our self-insured liabilities. During the fourth quarter of 2010 and 2009, based upon our internal review, we revised our estimate of our claims liability resulting in a $514,000 and $1.2 million favorable impact to our net earnings, respectively.

Beginning with the 2008 policy year we changed our coverage from a self-insured retention policy to a guaranteed policy. However, in 2011, we once again adopted a self-insured retention policy due to more favorable terms.

Health Insurance

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

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Consolidated Results of Operations

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

	For the Years Ended December 31, 2011	2010	2009
Revenue:			
Animal Hospital	77.4%	76.2%	75.6%
Laboratory	21.3	22.5	23.6
All Other	5.5	4.6	3.7
Intercompany	(4.2)	(3.3)	(2.9)
Total revenue	100.0	100.0	100.0
Direct costs	77.2	76.0	74.0
Gross profit	22.8	24.0	26.0
Selling, general and administrative expense	8.2	8.9	7.3
Goodwill impairment	1.4		
Net loss on sale of assets			0.3
Operating income	13.2	15.1	18.4
Interest expense, net	1.2	1.0	1.7
Debt retirement costs	0.2	0.2	
Other income		(0.1)	
Income before provision for income taxes	11.8	14.0	16.7
Provision for income taxes	5.1	5.7	6.4
Net income	6.7	8.3	10.3
Net income attributable to noncontrolling interests	0.3	0.3	0.3
Net income attributable to VCA Antech, Inc	6.4%	8.0%	10.0%

Revenue

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

	For the Years Ended December 31, 2011 $	2011 % of Total	2010 $	2010 % of Total	2009 $	2009 % of Total	% Change 2011	% Change 2010
Animal Hospital	$ 1,150,120	77.4%	$ 1,052,462	76.2%	$ 994,215	75.6%	9.3%	5.9%
Laboratory	316,797	21.3%	310,654	22.5%	310,057	23.6%	2.0%	0.2%
All Other	80,430	5.5%	64,013	4.6%	48,557	3.7%	25.6%	31.8%
Intercompany	(61,986)	(4.2)%	(45,661)	(3.3)%	(38,322)	(2.9)%	35.8%	19.2%
Total revenue	$ 1,485,361	100.0%	$ 1,381,468	100.0%	$ 1,314,507	100.0%	7.5%	5.1%

Consolidated revenue increased $103.9 million in 2011 as compared to 2010. The increase in revenue was primarily attributable to revenue from acquired animal hospitals and the acquisition of Vetstreet, as well as, an increase in our Laboratory revenue due to internal growth. Our Animal Hospital same-store revenue declined 0.7% in 2011. Our Laboratory internal revenue growth was 2.0% in 2011.

Consolidated revenue increased $67.0 million in 2010 as compared to 2009. The increase in revenue was primarily attributable to the combination of revenue from acquired animal hospitals, including Pet DRx acquired

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on July 1, 2010, and increased revenue from our other businesses. The increase was partially offset by a decline in Animal Hospital same-store revenue. Our Animal Hospital same-store revenue growth, adjusted for differences in business days declined 2.5% in 2010. Our Laboratory internal revenue growth was flat in 2010.

Gross Profit

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

	For the Years Ended December 31,							
	2011		2010		2009		% Change	
	$	Gross Margin	$	Gross Margin	$	Gross Margin	2011	2010
Animal Hospital	$ 179,810	15.6%	$ 172,390	16.4%	$ 183,698	18.5%	4.3%	(6.2)%
Laboratory	143,790	45.4%	142,196	45.8%	143,492	46.3%	1.1%	(0.9)%
All Other	20,971	26.1%	19,277	30.1%	15,836	32.6%	8.8%	21.7%
Intercompany	(6,114)		(2,699)		(1,794)			
Total gross profit	$ 338,457	22.8%	$ 331,164	24.0%	$ 341,232	26.0%	2.2%	(3.0)%

Consolidated gross profit increased $7.3 million in 2011 as compared to 2010. The increase was primarily due to gross profit from our acquisitions and to a lesser extent internal revenue growth at our Laboratory segment, partially offset by a decrease in gross profit from our same-store animal hospitals, due to decreased same-store revenue.

Consolidated gross profit decreased $10.1 million in 2010 as compared to 2009. The decrease was primarily due to the decline in Animal Hospital gross profit. Animal Hospital gross profit in 2010 was impacted by a decrease in gross margins as compared to 2009. This decrease was primarily attributable to a decline in same-store Animal Hospital gross margins due to the decline in Animal Hospital same-store revenue and to a lesser extent lower margins of acquired animal hospitals. Consolidated gross profit was also impacted to a lesser extent by a decline in Laboratory gross margins.

Segment Results

Animal Hospital Segment

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

	For the Years Ended December 31,			% Change	
	2011	2010	2009	2011	2010
Revenue	$ 1,150,120	$ 1,052,462	$ 994,215	9.3%	5.9%
Gross profit	$ 179,810	$ 172,390	$ 183,698	4.3%	(6.2)%
Gross margin	15.6%	16.4%	18.5%		

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Animal Hospital revenue increased $97.7 million in 2011 as compared to 2010, and $58.2 million in 2010 as compared to 2009. The components of the increases are summarized in the following table (in thousands, except percentages and average price per order):

	2011 Comparative Analysis			2010 Comparative Analysis		
	For the Years Ended December 31,					
	2011	2010	% Change	2010	2009	% Change
Animal Hospital Revenue:						
Same-store facility:						
Orders(1)(2)	6,176	6,427	(3.9)%	6,040	6,317	(4.4)%
Average revenue per order(3)	$ 159.52	$ 154.42	3.3%	$ 154.56	$ 151.58	2.0%
Same-store revenue(1)	$ 985,200	$ 992,418	(0.7)%	$ 933,555	$ 957,524	(2.5)%
Business day adjustment(4)				2,124		
Net acquired revenue(5)	164,920	60,044		116,783	36,691	
Total	$ 1,150,120	$ 1,052,462	9.3%	$ 1,052,462	$ 994,215	5.9%

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

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

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

(4) The 2010 business day adjustment reflects the impact of one additional business day in 2010 as compared to 2009.

(5) Net acquired revenue represents the revenue from those animal hospitals acquired, net of revenue from those animal hospitals sold or closed, on or after the beginning of the comparable period, which was January 1, 2010 for the 2011 Comparative Analysis and January 1, 2009 for the 2010 Comparative Analysis. Fluctuations in net acquired revenue occur due to the volume, size and timing of acquisitions and dispositions during the periods from this date through the end of the applicable period.

Contributing to the decline in our volume of same-store orders is the continued impact of the current economic environment and the wide availability of many pet-related products traditionally sold in our animal hospitals, in retail stores, and other distribution channels such as the Internet.

Our business strategy is to place a greater emphasis on comprehensive wellness visits and advanced medical procedures, which typically generate higher priced orders. The migration of lower priced orders from our animal hospitals to other distribution channels mentioned above and our emphasis on comprehensive wellness visits has over the past several years resulted in a decrease in lower priced orders and an increase in higher priced orders.

However, for both the years ended December 31, 2011 and 2010 this trend did not continue, as we experienced a decrease in the number of both lower and higher priced orders, which we believe is primarily a consequence of current economic conditions in the United States, and the impact of changes in our overall business environment on the mix of tests performed.

Price increases contributed to the increase in the average revenue per order. Prices at each of our hospitals are reviewed regularly and adjustments are made based on market considerations, demographics and our costs. These adjustments historically have approximated 3% to 6% on most services at the majority of our animal hospitals and are typically implemented in February of each year; however, price increases in 2011 have generally ranged between 3% and 4%.

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

Our Animal Hospital gross margin in 2011, 2010 and 2009 was 15.6%, 16.4% and 18.5%, respectively. In 2011 and 2010 the gross margin declined as a result of a decline in our same-store revenue and to a lesser extent lower gross margins from our acquired hospitals.

Our Animal Hospital same-store gross margin in 2011, 2010 and 2009 was 16.0%, 17.1% and 19.4%, respectively. The 2011 and 2010 decrease was primarily attributable to deleveraging as a result of the aforementioned decline in same-store revenue.

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

Laboratory Segment

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

	For the Years Ended December 31,			% Change	
	2011	2010	2009	2011	2010
Revenue	$ 316,797	$ 310,654	$ 310,057	2.0%	0.2%
Gross profit	$ 143,790	$ 142,196	$ 143,492	1.1%	(0.9)%
Gross margin	45.4%	45.8%	46.3%		

Laboratory revenue increased $6.1 million in 2011 as compared to 2010, and $597,000 in 2010 as compared to 2009. The components of the increase in Laboratory revenue are detailed below (in thousands, except percentages and average price per requisition):

	2011 Comparative Analysis			2010 Comparative Analysis		
	For the Years Ended December 31,					
	2011	2010	% Change	2010(4)	2009(4)	% Change
Laboratory Revenue:						
Internal growth:						
Number of requisitions(1)	12,396	12,391	0.0%	12,370	12,649	(2.2)%
Average revenue per requisition(2)	$ 25.55	$ 25.07	1.9%	$ 25.07	$ 24.51	2.3%
Total internal revenue(1)	$ 316,715	$ 310,654	2.0%	$ 310,118	$ 310,057	0.0%
Acquired revenue(3)	82			536		
Total	$ 316,797	$ 310,654	2.0%	$ 310,654	$ 310,057	0.2%

(1) Internal revenue and requisitions were calculated using Laboratory operating results, adjusted to exclude the operating results of acquired laboratories for the comparable periods that we did not own them in the prior year and adjusted for the impact resulting from any differences in the number of billing days in comparable periods.

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

(3) Acquired revenue in both the 2011 and 2010 Comparative Analyses represents the revenue of the laboratories acquired in each of those respective years.

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(4) Prior year amounts have been adjusted to conform to the current year presentation. The changes were not material.
Laboratory revenue in 2011 increased as compared to 2010 due to an increase in internal revenue, which was primarily attributable to an increase in average revenue per requisition.

Historically, requisitions have been driven by an ongoing trend in veterinary medicine to focus on the importance of laboratory diagnostic testing in the diagnosis, early detection and treatment of diseases, and the migration of certain tests to outside laboratories that have historically been performed in animal hospitals. While these factors have resulted in significant increases in requisitions in the past, the economic downturn, slow economic recovery, and the effects of increased competition continue to impact requisitions in the current year.

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

The average revenue per requisition increased slightly in 2011 due to price increases which ranged from 3% to 4% in both February 2011 and February 2010. The average revenue per requisition was also impacted by various factors including changes in the mix, performing lower-priced tests historically performed at the animal hospitals and a decrease in higher-priced tests as a result of the current economic environment.

Laboratory gross profit is calculated as Laboratory revenue less Laboratory direct costs. Laboratory direct costs are comprised of all costs of laboratory services, including but not limited to, salaries of veterinarians, specialists, technicians and other laboratory-based personnel, transportation and delivery costs, facilities rent, occupancy costs, depreciation and amortization and supply costs.

Our Laboratory gross margin decreased slightly in 2011 as compared to 2010 due to an increase in certain costs, primarily transportation costs. The decrease in Laboratory gross margin in 2010 compared to 2009 was primarily due to the combination of the decline in the rate of our revenue growth, relative to increasing costs including transportation and repairs and maintenance.

Intercompany Revenue

Laboratory revenue in 2011, 2010 and 2009 included intercompany revenue of $44.3 million, $37.0 million and $32.5 million, respectively, that was generated by providing laboratory services to our animal hospitals. All Other revenue in 2011, 2010 and 2009 included intercompany revenue of $17.7 million, $8.6 million and $5.8 million, respectively, that was generated by providing products and services to our animal hospitals and laboratories. For purposes of reviewing the operating performance of our operating segments, all intercompany transactions are generally accounted for as if the transaction was with an independent third party at current market prices. For financial reporting purposes, intercompany transactions are eliminated as part of our consolidation.

Selling, General and Administrative Expense

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

	For the Years Ended December 31,							
	2011		2010		2009		% Change	
	$	% of Revenue	$	% of Revenue	$	% of Revenue	2011	2010
Animal Hospital	$ 24,342	2.1%	$ 23,539	2.2%	$ 21,174	2.1%	3.4%	11.2%
Laboratory	27,864	8.8%	26,243	8.4%	22,895	7.4%	6.2%	14.6%
All Other	19,136	23.8%	14,507	22.7%	12,885	26.5%	31.9%	12.6%
Corporate	49,770	3.4%	59,252	4.3%	38,715	2.9%	(16.0)%	53.0%
Total SG&A	$ 121,112	8.2%	$ 123,541	8.9%	$ 95,669	7.3%	(2.0)%	29.1%

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Consolidated SG&A expense decreased $2.4 million in 2011 as compared to 2010 and increased $27.9 million in 2010 as compared to 2009.

The decreased SG&A in 2011 as compared to 2010 was due to: decreased SG&A at Corporate primarily due to the prior year accrual of consulting and SERP expenses mentioned below; offset by increases in share based compensation and increased SG&A in other operating segments primarily due to growth in those segments as a result of acquisitions.

The increased SG&A in 2010 as compared to 2009 was due to: increased SG&A at Corporate, which included $14.5 million in consulting and SERP expenses to be paid in accordance with agreements entered into on June 30, 2010 and $3.6 million in transaction costs related to the Pet DRx acquisition; increased SG&A in our Animal Hospital segment primarily due to growth in the segment as a result of acquisitions; and increased Laboratory SG&A due to research and development costs and costs incurred to support the efforts of the sales team.

Operating Income

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

	For the Years Ended December 31,							
	2011		2010		2009		% Change	
	$	% of Revenue	$	% of Revenue	$	% of Revenue	2011	2010
Animal Hospital	$ 155,141	13.5%	$ 148,578	14.1%	$ 161,872	16.3%	4.4%	(8.2)%
Laboratory	115,905	36.6%	115,931	37.3%	120,586	38.9%	(0.0)%	(3.9)%
All Other	(19,502)	(24.2)%	4,699	7.3%	2,940	6.1%	(515.0)%	59.8%
Corporate	(49,777)		(59,260)		(42,076)		(16.0)%	40.8%
Eliminations	(6,114)		(2,699)		(1,794)		126.5%	50.4%
Total operating income	$ 195,653	13.2%	$ 207,249	15.1%	$ 241,528	18.4%	(5.6)%	(14.2)%

The decrease in our consolidated operating income in 2011 as compared to 2010 was due to the non-cash goodwill impairment charge recorded in our medical technology business. The decrease was partially offset by a decrease in our overall SG&A and the increase in gross profit.

Consolidated operating income decreased $34.3 million in 2010 as compared to 2009. The decrease was primarily due to the decline in Animal Hospital margins and an increase in SG&A as a percentage of revenue.

Write-down and Loss on Sale of Assets

In 2011, 2010 and 2009, we sold assets, and wrote down certain assets for net losses of $382,000, $374,000 and $4.0 million, respectively. The loss in 2009 was primarily related to the abandonment of an internally-developed software project.

Interest Expense, Net

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

	For the Years Ended December 31,		
	2011	2010	2009
Interest expense:			
Senior term notes	$ 12,239	$ 10,672	$ 9,883
Interest rate swap agreements		382	9,784
Capital leases and other	3,801	2,515	2,329
Amortization of debt costs	1,445	862	486
	17,485	14,431	22,482

Interest income	601	801	1,016
Total interest expense, net of interest income	$ 16,884	$ 13,630	$ 21,466

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The increase in net interest expense in 2011 as compared to 2010 was primarily attributable to an increase in the average debt balance due to the amendment of our existing credit and guaranty facility to provide for a $100 million increase in our senior term notes and the related increase in debt amortization costs due to the capitalization of additional debt amendment fees. See Note 6, Long-Term Obligations, in our consolidated financial statements of this annual report on Form 10-K for a more detailed discussion, including applicable interest rates on our debt, which was amended in August 2011.

The decrease in interest expense in 2010 as compared to 2009 was primarily attributable to a decrease in the overall weighted average effective interest rate primarily due to the gradual expiration of all our higher cost fixed-rate swap agreements during 2010.

Provision for Income Taxes

The effective rate for 2011, 2010 and 2009 was 44.3%, 41.5% and 39.2%, respectively.

The effective rate for 2011 was impacted by a nondeductible charge related to goodwill impairment. The effective rate for 2010 was impacted by tax expense of $3.5 million, related to settlement of taxes on 2004 through 2007 taxable income.

Net Income Attributable to Noncontrolling Interests

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

Inflation

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

Related Party Transactions

ThinkPets Inc. (formerly known as Zoasis Corporation)

On February 1, 2012, we acquired all of the outstanding capital stock of ThinkPets, Inc. for $21.0 million, payable by delivery of 473,389 shares of VCA common stock and $10.5 million in cash. The shares of VCA common stock were valued based on the daily volume weighted average closing sales price of the VCA common stock for the 10 consecutive trading days ending on the trading day immediately preceding the acquisition. At the time of the acquisition, Bob Antin, our CEO and Chairman of the Board, owned 54% of the common stock of ThinkPets, and served as a director of ThinkPets, and Art Antin, our Chief Operating Officer, owned 8% of the common stock of ThinkPets. In accordance with its charter, our Audit Committee is responsible for reviewing and approving all related-party transactions. Both the Audit Committee and our Board of Directors unanimously approved the acquisition. Due to the related party nature of the acquisition, Bob Antin recused himself from all Board meetings wherein the acquisition was discussed and did not vote in connection with the acquisition.

In addition, we incurred marketing expense for vaccine reminders and other direct mail services provided by ThinkPets, Inc., (ThinkPets). We purchased services of $3.4 million, $2.8 million and $2.7 million in 2011, 2010 and 2009, respectively. Although we receive certain discounts on these services the aggregate amount of the discounts is not material to the financial statements.

Related Party Vendors

Frank Reddick joined our company as a director in February 2002 and is a partner in the law firm of Akin Gump Strauss Hauer & Feld, LLP (Akin). Akin provided legal services to us during 2011, 2010 and 2009. The amount paid by our company to Akin for these legal services was $1.6 million, $2.3 million and $1.3 million in 2011, 2010 and 2009, respectively.

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Liquidity and Capital Resources

Introduction

We generate cash primarily from payments made by customers for our veterinary services, payments from animal hospitals and other clients for our laboratory services, and from proceeds received from the sale of our imaging equipment, other related services and 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 and acquisitions. Cash outflows fluctuate with the amount and timing of the settlement of these transactions.

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

At December 31, 2011, our consolidated cash and cash equivalents totaled $63.7 million, representing a decrease of $33.5 million as compared to the prior year, primarily due to the cash used for the Vetstreet acquisition. Cash flows generated from operating activities totaled $191.1 million in 2011, representing an increase of $23.0 million as compared to the prior year. We spent $271.3 million on acquisitions, investments and capital expenditures during the year.

We have historically funded our working capital requirements, capital expenditures and investment in individual acquisitions primarily from internally-generated cash flows and we expect to do so in the future. During 2011, we amended and restated our existing credit and guaranty agreement to allow for an additional $100 million of senior term debt and an increase to our revolving credit facility of $25 million. The amended and restated credit facility bears interest based on the interest rate offered to our administrative agent on the London Interbank market or LIBOR plus a margin of 1.75%. We have access to an unused $125 million revolving credit facility mentioned above, which expires August 2016. Historically, we have accessed the capital markets to fund acquisitions that could not be funded out of cash flow. The availability of financing in the form of debt or equity however is influenced by many factors including our profitability, operating cash flows, debt levels, debt ratings, contractual restrictions and market conditions. Consequently, there is no assurance that we will be able to obtain financing on favorable terms in the future.

Future Cash Flows

Short-term

Other than our acquisitions of animal hospital chains, we historically have funded our working capital requirements, capital expenditures and investments in animal hospital acquisitions from internally-generated cash flow. We anticipate that our cash on hand and net cash provided by operations 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. During January 2012, to fund the investment in Associate Veterinary Clinics (1981) LTD, (AVC), we borrowed $50 million from our revolver, which was repaid shortly thereafter with $50 million from our incremental term loan facility, permitted under our 2011 Credit and Guaranty Agreement. The credit agreement was subsequently amended, to allow for an additional $50 million of available borrowing capacity under the incremental loan facilities, see Note 16, Subsequent Events, in our consolidated financial statements of this annual report on Form 10-K, for details. In addition, during February 2012 we acquired ThinkPets, Inc. for $21 million, of which $10.5 million was paid in cash and the remainder in VCA common stock. If we consummate additional significant acquisitions of animal hospital chains during this period, we may seek additional debt or equity financing.

In 2012, we expect to spend $50 million to $85 million for the acquisition of independent animal hospitals. The ultimate number of acquisitions is largely dependent upon the attractiveness of the candidates and the strategic fit with our existing operations. From January 1, 2012 through February 29, 2012, we spent $84.4 million in

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connection with the acquisition of 50 animal hospitals and one laboratory, which includes $80.8 million in connection with the AVC acquisition, which operated 44 hospitals at the date of the acquisition. In addition, we expect to spend approximately $80 million in 2012 for both property and equipment additions and capital expenditures necessary to maintain our existing facilities.

Long-term

Our long-term liquidity needs, other than those related to the day-to-day operations of our business, including commitments for operating leases, generally are comprised of scheduled principal and interest payments for our outstanding long-term indebtedness, capital expenditures related to the expansion of our business and acquisitions in accordance with our growth strategy. The scheduled payments on our long-term obligations are included in our contractual obligations table below.

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 on our company. Our management cannot make any assurances that such refinancing or amendments, if necessary, will be available on attractive terms, if at all.

Debt Related Covenants

Our senior credit facility contains certain financial covenants pertaining to fixed charge coverage and leverage ratios. In addition, our senior credit facility has restrictions pertaining to capital expenditures, acquisitions and the payment of cash dividends. As of December 31, 2011, we were in compliance with these covenants, including the two covenant ratios, the fixed charge coverage ratio and the leverage ratio.

At December 31, 2011, we had a fixed charge coverage ratio of 1.78 to 1.00, which was in compliance with the required ratio of no less than 1.20 to 1.00. The senior credit facility defines the fixed charge coverage ratio as that ratio that is calculated on a last 12-month basis by dividing pro forma earnings before interest, taxes, depreciation and amortization, as defined by the senior credit facility (pro forma earnings), by fixed charges. Fixed charges are defined as cash interest expense, scheduled principal payments on debt obligations, capital expenditures, and provision for income taxes. Pro forma earnings include 12 months of operating results for businesses acquired during the period.

At December 31, 2011, we had a leverage ratio of 2.14 to 1.00, which was in compliance with the required ratio of no more than 3.00 to 1.00. The senior credit facility defines the leverage ratio as that ratio which is calculated as total debt divided by pro forma earnings.

Historical Cash Flows

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

	For the Years Ended December 31,		
	2011	**2010**	**2009**
Cash provided by (used in):			
Operating activities	$ 191,051	$ 168,073	$ 183,471
Investing activities	(271,310)	(150,174)	(130,760)
Financing activities	47,004	(66,142)	3,467
Effect of currency exchange rate charges on cash and cash equivalents	(220)	188	44
(Decrease) increase in cash and cash equivalents	(33,475)	(48,055)	56,222
Cash and cash equivalents at beginning of year	97,126	145,181	88,959
Cash and cash equivalents at end of year	$ 63,651	$ 97,126	$ 145,181

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Cash Flows from Operating Activities

Net cash provided by operating activities increased $23.0 million in 2011, as compared to 2010. Operating cash flow for the year ended December 31, 2011 included $99.9 million of net income and net non-cash expenses of $117.6 million, partially offset by net cash used as a result of changes in operating assets and liabilities of $26.4 million. The changes in operating assets and liabilities included a $14.1 million increase in trade accounts receivable, a $12.3 million increase in inventory, prepaid expense and other assets and a $5.4 million decrease in accounts payable and other accrued liabilities, partially offset by a $4.6 million increase in accrued payroll and related liabilities. The increase in accounts receivable was primarily due to an increase in net revenues from our acquired animal hospitals and other businesses. The increase in inventory, prepaid expense and other assets was primarily due to the build-up of inventory, increases due to new products and an increase in lease receivables as a result of executing additional contracts. The decrease in accounts payable and other accrued liabilities and the increase in accrued payroll and related liabilities were all a result of timing of payment obligations.

Net cash provided by operating activities decreased $15.4 million in 2010, as compared to 2009. Cash provided by operating activities of $168.1 million for the year ended December 31, 2010 consisted of $114.2 million of net income and net non-cash expenses of $78.4 million, partially offset by net cash used as a result of changes in operating assets and liabilities of $24.4 million. The changes in operating assets and liabilities primarily included a $12.6 million decrease in income taxes, a $11.9 million increase in inventory, prepaid expenses and other assets, a $7.0 million increase in trade accounts receivable, partially offset by a $7.5 million increase in accounts payable and other accrued liabilities. The decrease in income taxes and the increase in accounts payable and other accrued liabilities were primarily due to the timing of payment obligations. The increase in inventory, prepaid expenses and other assets was primarily due to the build-up of inventory and an increase in service agreements and lease receivables due to increased marketing efforts. The increase in trade accounts receivable was primarily due to an increase in net revenues.

Cash Flows from Investing Activities

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

	For the Years Ended December 31,			Variance	
	2011	2010	2009	2011	2010
Investing Cash Flows:					
Acquisition of independent animal hospitals and laboratories(1)	$ (34,243)	$ (68,624)	$ (56,796)	$ 34,381	$ (11,828)
Acquisition of BrightHeart	(23,490)			(23,490)	
Acquisition of Pet DRx		(7,670)		7,670	(7,670)
Acquisition of Vetstreet	(146,420)			(146,420)	
Acquisition of Eklin			(12,504)		12,504
Other	(1,641)	(3,557)	(5,267)	1,916	1,710
Total cash used for acquisitions(1)(2)	(205,794)	(79,851)	(74,567)	(125,943)	(5,284)
Property and equipment additions(3)	(63,485)	(61,951)	(50,801)	(1,534)	(11,150)
Real estate acquired with acquisitions(4)	(1,900)	(9,289)	(4,894)	7,389	(4,395)
Proceeds from sale of assets(5)	465	939	151	(474)	788
Other	(596)	(22)	(649)	(574)	627
Net cash used in investing activities(1)	$ (271,310)	$ (150,174)	$ (130,760)	$ (121,136)	$ (19,414)

(1) In conformance with the current year presentation, we have reclassed prior year cash paid for partnership buyouts and cash paid for earn-out payments to the cash flows from financing.

(2)

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

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

(4) Due to the lower return on investment realized on acquired real estate we are highly selective in our decision to acquire real estate. The decrease in cash used to acquire real estate is due to less real estate purchased in connection with the acquisition of animal hospitals.

(5) The increase in proceeds from sale of assets in 2010, compared to 2009, was due to the sale of one of our animal hospitals.

Cash Flows from Financing Activities

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

	For the Years Ended December 31,			Variance	
	2011	2010	2009	2011	2010
Financing Cash Flows:					
Repayment of long-term obligations(1)	$ (98,990)	$ (555,529)	$ (7,936)	$ 456,539	$ (547,593)
Proceeds from long-term obligations(1)	150,000	500,000		(350,000)	500,000
Proceeds from revolving credit facility	50,000			50,000	
Repayment of revolving credit facility	(50,000)			(50,000)	
Payment of financing costs(1)	(2,944)	(9,112)		6,168	(9,112)
Distributions to noncontrolling interest partners(2)	(3,277)	(4,247)	(4,189)	970	(58)
Proceeds from stock options exercises(3)	3,999	5,510	15,297	(1,511)	(9,787)
Excess tax benefits from stock options	1,708	378	866	1,330	(488)
Stock repurchases(4)	(2,673)	(2,310)	(561)	(363)	(1,749)
Other	(819)	(832)	(10)	13	(822)
Net cash provided by (used in) financing activities	$ 47,004	$ (66,142)	$ 3,467	$ 113,146	$ (69,609)

(1) In 2011, we repaid $50 million borrowed from our incremental facilities, as stated below, as permitted under our August 19, 2010 credit and guaranty agreement. Additionally, we repaid $22.5 million of debt related to scheduled payments and we repaid approximately $26 million of debt related to the BrightHeart acquisition. The proceeds from issuance of long-term obligations received in 2011 included $50 million of new term loans borrowed pursuant to our incremental facilities and $100 million of additional borrowings received in accordance with the amended and restated credit and guaranty agreement, dated August 16, 2011. The payment of financing costs in 2011 were related to the August 16, 2011 debt amendment, see Note 6, Long-Term Obligations, of this annual report on Form 10-K.

The repayment of debt for 2010 was primarily attributable to the August 19, 2010 debt refinance and the payoff of debt related to the Pet DRx acquisition. The proceeds from issuance of long-term obligations in 2010 were related to the debt refinance, mentioned above. The payment of financing costs in 2010 were related to the August 19, 2010 refinance of our credit and guaranty agreement.

(2) The distributions to noncontrolling interest partners represent cash payments to noncontrolling interest partners for their portion of the partnerships excess cash.

(3) The number of stock option exercises decreased in 2010 compared to 2009 due to the increase in the market price of our stock during 2009 and the nearing expiration of certain stock options in that year.

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

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Future Contractual Cash Requirements

The following table sets forth the scheduled principal, interest and other contractual cash obligations due by us for each of the years indicated as of December 31, 2011 (in thousands):

	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations:					
Long-term debt	$ 574,330	$ 29,372	$ 76,325	$ 468,633	$
Capital lease obligations	44,523	3,199	6,804	7,020	27,500
Operating leases	992,192	59,024	117,604	117,533	698,031
Fixed cash interest expense	18,568	2,889	5,163	4,207	6,309
Variable cash interest expense Term A(1)	47,223	11,543	21,113	14,567	
Purchase obligations(2)	26,170	18,129	6,471	1,570	
Other long-term liabilities(3)	27,453	3,113	5,228	4,325	14,787
Earn-out payments(4)	825	725	100		
	$ 1,731,284	$ 127,994	$ 238,808	$ 617,855	$ 746,627

(1) The interest payments on our variable-rate senior term notes are based on rates effective as of December 31, 2011.

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

(3) Includes future payments under our Supplemental Executive Retirement Program and Consulting Agreements.

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

Off-Balance Sheet Financing Arrangements

Other than operating leases, which are included in the Contractual Obligations table listed above as of December 31, 2011, we do not have any off-balance sheet financing arrangements.

Description of Indebtedness

Senior Credit Facility

At December 31, 2011, we had $574.0 million principal amount outstanding under our senior term notes and no borrowings outstanding under our revolving credit facility.

We pay interest on our senior term notes and revolving credit facility based on the interest rate offered to our administrative agent on LIBOR plus a margin determined by reference to the Leverage Ratio in effect from time to time as set forth in the table in Note 6, Long-Term Obligations*,* of this annual report on Form 10-K, which ranges from of 1.25% 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 as set forth in the table mentioned above, which ranges from 0.20% to 0.50%.

The senior term notes and the revolving credit facility mature in August 2016.

Other Debt and Capital Lease Obligations

At December 31, 2011, we had seller notes secured by assets of certain animal hospitals and capital leases that totaled $44.9 million, which are included in long-term debt in our consolidated balance sheet of this annual

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report on Form 10-K. Our seller notes have various maturities through 2013 and various interest rates ranging from 9.0% to 10.0%. Our capital leases have various maturities through 2030 and various interest rates ranging from 1.4% to 9.9%.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At December 31, 2011, we had borrowings of $574.0 million under our senior credit facility with fluctuating interest rates based on market benchmarks such as LIBOR. Changes in interest rates could adversely affect the market value of our variable-rate debt. To mitigate our exposure to increasing interest rates we have historically entered into interest rate swap agreements that effectively convert a certain amount of our variable-rate debt to fixed-rate debt. As of December 31, 2011 we have no interest rate swap agreements. In the future, we may enter into new interest rate strategies to hedge against the risk of increasing interest rates as well as to maintain an appropriate mix of fixed-rate and variable-rate debt. However, we have not yet determined what those strategies will be or their possible impact.

If LIBOR increases or decreases 1% from December 31, 2011 the additional annual interest expense or savings will amount to $5.6 million.

If LIBOR increases or decreases 1% from December 31, 2010 the additional annual interest expense or savings will amount to $4.8 million, net of the effect of the swap agreement mentioned below. To reduce the risk of increasing interest rates, we had entered into the following interest rate swap agreement:

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

VCA Antech, Inc. and Subsidiaries

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MANAGEMENT S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our management has carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our internal control over financial reporting as of December 31, 2011. In performing this evaluation, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on our assessment of internal control over financial reporting, our management has concluded that, as of December 31, 2011, our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company acquired MediMedia Animal Health, LLC (Vetstreet) during 2011, and management excluded from its assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2011, Vetstreet s internal control over financial reporting associated with total assets of $149.9 million and total revenue of $11.2 million included in the consolidated financial statements of the Company and subsidiaries as of and for the year ended December 31, 2011.

The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which is included below.

February 29, 2012

/s/ ROBERT L. ANTIN
Robert L. Antin

Chairman of the Board, President and

Chief Executive Officer

/s/ TOMAS W. FULLER
Tomas W. Fuller

Chief Financial Officer, Principal Accounting Officer,

Vice President and Secretary

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

VCA Antech, Inc.:

We have audited the accompanying consolidated balance sheets of VCA Antech, Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2011. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedules of condensed financial information of registrant and valuation and qualifying accounts. These consolidated financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of VCA Antech, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), VCA Antech, Inc. and subsidiaries internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2012, expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California

February 29, 2012

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

VCA Antech, Inc.:

We have audited VCA Antech, Inc. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management s Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, VCA Antech, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company acquired MediMedia Animal Health, LLC (Vetstreet) during 2011, and management excluded from its assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2011, Vetstreet s internal control over financial reporting associated with total assets of $149.9 million, and total revenues of $11.2 million included in the consolidated financial statements of the Company as of and for the year ended December 31, 2011. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Vetstreet.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of VCA Antech, Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2011, and our report dated February 29, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Los Angeles, California

February 29, 2012

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VCA Antech, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except par value)

	December 31, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 63,651	$ 97,126
Trade accounts receivable, less allowance for uncollectible accounts of $14,978 and $13,801 at December 31, 2011 and 2010, respectively	58,279	49,224
Inventory	48,661	40,760
Prepaid expenses and other	21,883	21,138
Deferred income taxes	26,310	19,019
Prepaid income taxes	18,373	19,047
Total current assets	237,157	246,314
Property and equipment, net	370,646	331,687
Goodwill	1,237,607	1,092,480
Other intangible assets, net	92,403	46,986
Notes receivable, net	6,202	6,429
Deferred financing costs, net	5,435	6,700
Other	45,918	35,826
Total assets	$ 1,995,368	$ 1,766,422
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt	$ 32,571	$ 28,101
Accounts payable	37,797	31,970
Accrued payroll and related liabilities	42,658	35,754
Other accrued liabilities	43,968	45,769
Total current liabilities	156,994	141,594
Long-term debt, less current portion	586,282	498,935
Deferred income taxes	101,229	82,131
Other liabilities	25,947	28,478
Total liabilities	870,452	751,138
Commitments and contingencies		
Redeemable noncontrolling interests	6,964	5,799
Preferred stock, par value $0.001, 11,000 shares authorized, none outstanding		
VCA Antech, Inc. stockholders equity:		
Common stock, par value $0.001, 175,000 shares authorized, 86,796 and 86,179 shares outstanding as of December 31, 2011 and December 31, 2010, respectively	87	86
Additional paid-in capital	361,715	347,848
Retained earnings	745,658	650,253
Accumulated other comprehensive income	418	737
Total VCA Antech, Inc. stockholders equity	1,107,878	998,924
Noncontrolling interests	10,074	10,561

Total equity	1,117,952	1,009,485
Total liabilities and equity	$ 1,995,368	$ 1,766,422

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

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VCA Antech, Inc. and Subsidiaries

Consolidated Income Statements

(In thousands, except per share amounts)

	For the Years Ended December 31, 2011	2010	2009
Revenue	$ 1,485,361	$ 1,381,468	$ 1,314,507
Direct costs	1,146,904	1,050,304	973,275
Gross profit	338,457	331,164	341,232
Selling, general and administrative expense	121,112	123,541	95,669
Goodwill impairment	21,310		
Net loss on sale of assets	382	374	4,035
Operating income	195,653	207,249	241,528
Interest expense	17,485	14,431	22,482
Interest income	601	801	1,016
Debt retirement costs	2,764	2,131	
Other expense (income)	118	(772)	(104)
Income before provision for income taxes	175,887	192,260	220,166
Provision for income taxes	76,027	78,102	84,580
Net income	99,860	114,158	135,586
Net income attributable to noncontrolling interests	4,455	3,915	4,158
Net income attributable to VCA Antech, Inc	$ 95,405	$ 110,243	$ 131,428
Basic earnings per share	$ 1.10	$ 1.28	$ 1.54
Diluted earnings per share	$ 1.09	$ 1.27	$ 1.53
Weighted-average shares outstanding for basic earnings per share	86,606	86,049	85,077
Weighted-average shares outstanding for diluted earnings per share	87,394	87,051	86,097

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

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VCA Antech, Inc. and Subsidiaries

Consolidated Statements of Stockholders Equity

(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests	Total
Balances, December 31, 2008	84,633	$ 85	$ 308,674	$ 408,582	$ (6,352)	$ 8,318	$ 719,307
Net income (excludes $632 and $485 related to redeemable and mandatorily redeemable noncontrolling interests, respectively)				131,428		3,041	134,469
Foreign currency translation adjustment					684		684
Unrealized gain on foreign currency, net of tax					344		344
Unrealized loss on hedging instruments, net of tax					(815)		(815)
Losses on hedging instruments reclassified to income, net of tax					5,976		5,976
Formation of noncontrolling interests						3,106	3,106
Distribution to noncontrolling interests						(3,036)	(3,036)
Restricted stock unit grant			1,941				1,941
Share-based compensation			7,951				7,951
Issuance of common stock under stock incentive plans	951	1	15,296				15,297
Stock repurchases			(561)				(561)
Excess tax benefit from stock options			866				866
Tax benefit and other from stock options and awards			947				947
Balances, December 31, 2009	85,584	86	335,114	540,010	(163)	11,429	886,476
Net income (excludes $757 and $419 related to redeemable and mandatorily redeemable noncontrolling interests, respectively)				110,243		2,739	112,982
Foreign currency translation adjustment					482		482
Unrealized gain on foreign currency, net of tax					186		186
Unrealized loss on hedging instruments, net of tax					(1)		(1)
Losses on hedging instruments reclassified to income, net of tax					233		233
Distribution to noncontrolling interests						(3,123)	(3,123)
Purchase of noncontrolling interests						(484)	(484)
Share-based compensation			9,340				9,340
Issuance of common stock under stock incentive plans	595		5,510				5,510
Stock repurchases			(2,310)				(2,310)
Excess tax benefit from stock options			378				378
Tax shortfall and other from stock options and awards			(184)				(184)
Balances, December 31, 2010	86,179	86	347,848	650,253	737	10,561	1,009,485
Net income (excludes $1,555 and $450 related to redeemable and mandatorily redeemable noncontrolling interests, respectively)				95,405		2,450	97,855
Foreign currency translation adjustment					(160)		(160)
Unrealized loss on foreign currency, net of tax					(159)		(159)
Distribution to noncontrolling interests						(1,952)	(1,952)
Purchase of noncontrolling interests			263			(985)	(722)
Share-based compensation			10,773				10,773
Issuance of common stock under stock incentive plans	617	1	3,998				3,999
Stock repurchases			(2,673)				(2,673)
Excess tax benefit from stock options			1,708				1,708
Tax shortfall and other from stock options and awards			(202)				(202)

Balances, December 31, 2011	86,796	$	87	$	361,715	$	745,658	$	418	$	10,074	$ 1,117,952

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

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VCA Antech, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

(In thousands)

	For the Years Ended December 31, 2011	2010	2009
Net income(1)	$ 99,860	$ 114,158	$ 135,586
Other comprehensive income:			
Foreign currency translation adjustments			