

VCA ANTECH INC
Form 10-Q
August 09, 2012

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

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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

Commission File Number: 001-16783

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: common stock, \$0.001 par value, 87,760,371 shares as of August 3, 2012.

VCA Antech, Inc. and Subsidiaries
Form 10-Q
June 30, 2012

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$64,067	\$63,651
Trade accounts receivable, less allowance for uncollectible accounts of \$15,599 and \$14,978 at June 30, 2012 and December 31, 2011, respectively	65,299	58,279
Inventory	54,282	48,661
Prepaid expenses and other	23,923	21,883
Deferred income taxes	27,671	26,310
Prepaid income taxes	21,310	18,373
Total current assets	256,552	237,157
Property and equipment, net	384,704	370,646
Goodwill	1,345,529	1,237,607
Other intangible assets, net	107,927	92,403
Notes receivable, net	6,232	6,202
Deferred financing costs, net	4,868	5,435
Other	45,383	45,918
Total assets	\$2,151,195	\$1,995,368
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt	\$34,974	\$32,571
Accounts payable	34,798	37,797
Accrued payroll and related liabilities	46,857	42,658
Other accrued liabilities	56,270	43,968
Total current liabilities	172,899	156,994
Long-term debt, less current portion	613,181	586,282
Deferred income taxes	116,945	101,229
Other liabilities	35,574	25,947
Total liabilities	938,599	870,452
Commitments and contingencies		
Redeemable noncontrolling interests	6,985	6,964
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, 87,741 and 86,796 shares outstanding as of June 30, 2012 and December 31, 2011, respectively	88	87
Additional paid-in capital	379,624	361,715
Retained earnings	815,223	745,658
Accumulated other comprehensive income	5	418
Total VCA Antech, Inc. stockholders' equity	1,194,940	1,107,878
Noncontrolling interests	10,671	10,074
Total equity	1,205,611	1,117,952

Total liabilities and equity	\$2,151,195	\$1,995,368
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The accompanying notes are an integral part of these condensed, consolidated financial statements.

1

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Revenue	\$438,372	\$376,105	\$847,837	\$731,228
Direct costs	337,765	279,273	653,851	554,618
Gross profit	100,607	96,832	193,986	176,610
Selling, general and administrative expense	38,997	26,663	78,048	52,846
Net loss on sale of assets	112	60	635	149
Operating income	61,498	70,109	115,303	123,615
Interest expense, net	4,364	4,575	8,451	8,594
Business combination adjustment gain	—	—	(5,719)	—
Other income	(148)	(67)	(355)	(9)
Income before provision for income taxes	57,282	65,601	112,926	115,030
Provision for income taxes	21,504	25,536	40,827	44,469
Net income	35,778	40,065	72,099	70,561
Net income attributable to noncontrolling interests	1,458	453	2,534	2,110
Net income attributable to VCA Antech, Inc	\$34,320	\$39,612	\$69,565	\$68,451
Basic earnings per share	\$0.39	\$0.46	\$0.80	\$0.79
Diluted earnings per share	\$0.39	\$0.45	\$0.79	\$0.78
Weighted-average shares outstanding for basic earnings per share	87,589	86,535	87,443	86,445
Weighted-average shares outstanding for diluted earnings per share	88,723	87,304	88,555	87,303

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income ⁽¹⁾	\$35,778	\$40,065	\$72,099	\$70,561
Other comprehensive income:				
Foreign currency translation adjustments	(1,369)	47	(442)	296
Unrealized (loss) gain on foreign currency	(178)	48	47	237
Tax benefit (expense)	70	(19)	(18)	(92)
Other comprehensive (loss) gain	(1,477)	76	(413)	441
Total comprehensive income	34,301	40,141	71,686	71,002
Comprehensive income attributable to noncontrolling interests ⁽¹⁾	(1,458)	(453)	(2,534)	(2,110)
Comprehensive income attributable to VCA Antech, Inc	\$32,843	\$39,688	\$69,152	\$68,892

⁽¹⁾ Includes approximately \$1.3 million and \$1.1 million of net income related to redeemable and mandatorily redeemable noncontrolling interests for the six months ended June 30, 2012 and June 30, 2011, respectively.

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

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests	Total
	Shares	Amount					
Balances, December 31, 2010	86,179	\$ 86	\$347,848	\$650,253	\$ 737	\$ 10,561	\$1,009,485
Net income (excludes \$830 and \$227 related to redeemable and mandatorily redeemable noncontrolling interests, respectively)	—	—	—	68,451	—	1,053	69,504
Other comprehensive income	—	—	—	—	441	—	441
Distribution to noncontrolling interests	—	—	—	—	—	(607)	(607)
Purchase of noncontrolling interests	—	—	263	—	—	(874)	(611)
Share-based compensation	—	—	2,531	—	—	—	2,531
Issuance of common stock under stock incentive plans	416	1	2,455	—	—	—	2,456
Stock repurchases	—	—	(2,337)	—	—	—	(2,337)
Excess tax benefit from stock options	—	—	906	—	—	—	906
Tax shortfall and other from stock options and awards	—	—	(460)	—	—	—	(460)
Balances, June 30, 2011	86,595	\$ 87	\$351,206	\$718,704	\$ 1,178	\$ 10,133	\$1,081,308
Balances, December 31, 2011	86,796	\$ 87	\$361,715	\$745,658	\$ 418	\$ 10,074	\$1,117,952
Net income (excludes \$463 and \$839 related to redeemable and mandatorily redeemable noncontrolling interests, respectively).	—	—	—	69,565	—	1,232	70,797
Other comprehensive loss	—	—	—	—	(413)	—	(413)
Distribution to noncontrolling interests	—	—	—	—	—	(635)	(635)
Share-based compensation	—	—	7,767	—	—	—	7,767
Issuance of common stock under stock incentive plans	472	1	2,190	—	—	—	2,191
Issuance of common stock for acquisitions	473	—	10,500	—	—	—	10,500
Stock repurchases	—	—	(2,805)	—	—	—	(2,805)
Excess tax benefit from stock options	—	—	248	—	—	—	248
Tax benefit and other from stock options and awards	—	—	9	—	—	—	9

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Balances, June 30, 2012	87,741	\$ 88	\$379,624	\$815,223	\$ 5	\$ 10,671	\$1,205,611
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The accompanying notes are an integral part of these condensed, consolidated financial statements.

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

	Six Months Ended	
	June 30,	
	2012	2011
Cash flows from operating activities:		
Net income	\$72,099	\$70,561
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	37,363	26,456
Amortization of debt issue costs	642	774
Provision for uncollectible accounts	2,551	2,492
Business combination adjustment gain	(5,719))
Net loss on sale of assets	635	149
Share-based compensation	7,767	2,531
Deferred income taxes	10,020	10,833
Excess tax benefit from exercise of stock options	(248)	) (906)
Other	(528)	) (202)
Changes in operating assets and liabilities:		
Trade accounts receivable	(6,900)	) (7,813)
Inventory, prepaid expense and other assets	(5,795)	) (5,222)
Accounts payable and other accrued liabilities	(1,805)	) (7,994)
Accrued payroll and related liabilities	1,102	16,021
Income taxes	(2,516)	) 7,940
Net cash provided by operating activities	108,668	115,620
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(75,828)	) (11,804)
Real estate acquired in connection with business acquisitions	—	) (1,900)
Property and equipment additions	(37,165)	) (28,434)
Proceeds from sale of assets	78	140
Other	55	) (493)
Net cash used in investing activities	(112,860)	) (42,491)
Cash flows from financing activities:		
Repayment of debt	(43,318)	) (14,164)
Proceeds from issuance of long-term debt	50,000	—
Proceeds from revolving credit facility	50,000	—
Repayment of revolving credit facility	(50,000)) —
Payment of financing costs	(122)) —
Distributions to noncontrolling interest partners	(1,631)	) (1,141)
Proceeds from issuance of common stock under stock option plans	2,885	2,456
Excess tax benefit from exercise of stock options	248	906
Stock repurchases	(2,770)	) (2,337)
Other	(656)	) (345)
Net cash provided by (used in) financing activities	4,636	) (14,625)
Effect of currency exchange rate changes on cash and cash equivalents	(28)	) 153
Increase in cash and cash equivalents	416	58,657
Cash and cash equivalents at beginning of period	63,651	97,126
Cash and cash equivalents at end of period	\$64,067	\$155,783

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

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

	Six Months Ended	
	June 30,	
	2012	2011
Supplemental disclosures of cash flow information:		
Interest paid	\$7,788	\$8,127
Income taxes paid	\$32,685	\$25,696
Supplemental schedule of noncash investing and financing activities:		
Detail of acquisitions:		
Fair value of assets acquired	\$147,527	\$11,889
Fair value of pre-existing investment in AVC	(11,850) —
Noncontrolling interest	(8,161) —
Cash paid for acquisitions	(75,328	) (11,445)
Cash paid to debt holders	(25,915) —
Issuance of common stock for acquisitions	(10,500) —
Holdbacks	(1,525	) (500)
Liabilities assumed	\$14,248	\$(56)

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

VCA Antech, Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements
June 30, 2012
(Unaudited)

1. Nature of Operations

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

Our animal hospitals offer a full range of general medical and surgical services for companion animals. Our animal hospitals treat diseases and injuries, provide pharmaceutical products and perform a variety of pet-wellness programs, including health examinations, diagnostic testing, vaccinations, spaying, neutering and dental care. At June 30, 2012, we operated 592 animal hospitals throughout 41 states and in Canada.

We operate a full-service veterinary diagnostic laboratory network serving all 50 states and certain areas in Canada. Our laboratory network provides sophisticated testing and consulting services used by veterinarians in the detection, diagnosis, evaluation, monitoring, treatment and prevention of diseases and other conditions affecting animals. At June 30, 2012, we operated 54 laboratories of various sizes located strategically throughout the United States and Canada.

Our Medical Technology business sells digital radiography and ultrasound imaging equipment, provides education and training on the use of that equipment, provides consulting and mobile imaging services, and sells software and ancillary services to the veterinary market.

Our Vetstreet business provides online communications, professional education, marketing solutions and an ecommerce platform for independent animal hospitals. In addition, Vetstreet.com provides a robust selection of products, information and services to the pet-owning community.

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

2. Basis of Presentation

Our accompanying unaudited, condensed, consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) for interim financial information and in accordance with the rules and regulations of the United States Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements as permitted under applicable rules and regulations. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the full year ending December 31, 2012. For further information, refer to our consolidated financial statements and notes thereto included in our 2011 Annual Report on Form 10-K.

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

VCA Antech, Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)
June 30, 2012
(Unaudited)

3. Goodwill and Other Intangible Assets

Goodwill

The following table presents the changes in the carrying amount of our goodwill for the six months ended June 30, 2012 (in thousands):

	Animal Hospital	Laboratory	All Other	Total
Balance as of December 31, 2011	\$1,035,401	\$96,810	\$105,396	\$1,237,607
Goodwill acquired	102,819	8	10,569	113,396
Other ⁽¹⁾	(5,104	) 2	(372	) (5,474
Balance as of June 30, 2012 ⁽²⁾	\$1,133,116	\$96,820	\$115,593	\$1,345,529

⁽¹⁾ Other includes acquisition-price adjustments, which consist primarily of an adjustment related to capital leases, buy-outs and foreign currency translation adjustments.

⁽²⁾ Net of accumulated impairment losses of \$21.3 million recorded in 2011, all related to our medical technology business, included in "All Other" in the above table.

We had no impairment losses during the six months ended June 30, 2012.

Other Intangible Assets

Our amortizable intangible assets at June 30, 2012 and December 31, 2011 are as follows (in thousands):

	As of June 30, 2012			As of December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Noncontractual customer relationships	\$101,683	\$(28,103	) \$73,580	\$82,891	\$(21,147	) \$61,744
Covenants not-to-compete	12,859	(7,020	) 5,839	13,035	(8,067	) 4,968
Favorable lease assets	7,163	(3,568	) 3,595	5,571	(3,210	) 2,361
Trademarks	7,898	(1,995	) 5,903	7,405	(1,686	) 5,719
Contracts	4,062	(437	) 3,625	3,500	(185	) 3,315
Technology	19,183	(3,832	) 15,351	16,589	(2,342	) 14,247
Client lists	84	(50	) 34	84	(35	) 49
Total	\$152,932	\$(45,005	) \$107,927	\$129,075	\$(36,672	) \$92,403

VCA Antech, Inc. and Subsidiaries
Notes to Condensed, Consolidated Financial Statements (Continued)
June 30, 2012
(Unaudited)

3. Goodwill and Other Intangible Assets, continued

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Aggregate amortization expense	\$5,342	\$2,604	\$10,218	\$5,259

The estimated amortization expense related to intangible assets for the remainder of 2012 and each of the succeeding years thereafter, as of June 30, 2012, is as follows (in thousands):

Remainder of 2012	\$10,748
2013	19,710
2014	17,298
2015	15,429
2016	12,201
Thereafter	32,541
Total	\$107,927

4. Other Accrued Liabilities

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

	June 30,	December 31,
	2012	2011
Deferred revenue	\$10,807	\$7,025
Accrued health insurance	5,746	5,553
Deferred rent	4,062	3,626
Accrued consulting fees	2,886	2,886
Holdbacks and earnouts	3,297	2,250
Customer deposits	3,258	2,281
Accrued lab service rebates	289	332
Other	25,925	20,015
	\$56,270	\$43,968

VCA Antech, Inc. and Subsidiaries
 Notes to Condensed, Consolidated Financial Statements (Continued)
 June 30, 2012
 (Unaudited)

5. Long-Term Obligations

Senior Credit Facility

On January 25, 2012, we executed an amendment (the "first amendment") to our Amended and Restated Credit and Guaranty Agreement entered into as of August 16, 2011 (our "senior credit facility"). On January 24, 2012, we issued new term loans in the aggregate principal amount of \$50.0 million, which reduced the amount of uncommitted incremental facilities we could thereafter elect to request from \$100.0 million in the aggregate to \$50.0 million in the aggregate. The aforementioned amendment on January 25, 2012 replenished the aggregate principal amount of uncommitted incremental facilities by \$50.0 million to permit us to request up to an aggregate principal amount of \$100.0 million in uncommitted incremental facilities. The funds borrowed from the Incremental Facility were used to repay in full amounts borrowed to fund an additional investment in Associate Veterinary Clinics (1981) LTD ("AVC") on February 1, 2012. In connection with the first amendment we incurred \$122,300 in financing costs, of which approximately \$47,300 were recognized as part of income from continuing operations and \$75,000 were capitalized as deferred financing costs.

The following table summarizes our long-term obligations at June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012	December 31, 2011
Revolver	\$—	