

VCA INC  
Form 10-Q  
November 07, 2016

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

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FORM 10-Q

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

For the quarterly period ended September 30, 2016

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

Commission File Number: 001-16783

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: common stock, \$0.001 par value, 81,138,143 shares as of November 1, 2016.

VCA Inc. and Subsidiaries  
 Form 10-Q  
 September 30, 2016  
 Table of Contents

	Page Number
<u>Part I. Financial Information</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	
<u>Condensed, Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015</u>	<u>1</u>
<u>Condensed, Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2016 and 2015</u>	<u>2</u>
<u>Condensed, Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2016 and 2015</u>	<u>3</u>
<u>Condensed, Consolidated Statements of Equity for the Nine Months Ended September 30, 2016 and 2015</u>	<u>4</u>
<u>Condensed, Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015</u>	<u>5</u>
<u>Notes to Condensed, Consolidated Financial Statements</u>	<u>7</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>30</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>49</u>
<u>Item 4. Controls and Procedures</u>	<u>49</u>
<u>Part II. Other Information</u>	
<u>Item 1. Legal Proceedings</u>	<u>50</u>
<u>Item 1A. Risk Factors</u>	<u>51</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>51</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>52</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>52</u>
<u>Item 5. Other Information</u>	<u>52</u>
<u>Item 6. Exhibits</u>	<u>53</u>
<u>Signature</u>	<u>54</u>



## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 72,914	\$ 98,888
Trade accounts receivable, less allowance for uncollectible accounts of \$22,569 and \$21,775 at September 30, 2016 and December 31, 2015, respectively	82,166	76,634
Inventory	60,811	51,523
Prepaid expenses and other	33,905	30,521
Prepaid income taxes	—	24,598
Total current assets	249,796	282,164
Property and equipment, net	582,840	507,753
Goodwill	2,063,494	1,517,650
Other intangible assets, net	209,095	97,377
Notes receivable	2,142	2,194
Other	101,695	93,994
Total assets	\$ 3,209,062	\$ 2,501,132
Liabilities and Equity		
Current liabilities:		
Current portion of long-term debt	\$ 32,512	\$ 33,623
Accounts payable	54,150	52,337
Accrued payroll and related liabilities	70,213	75,519
Income tax payable	8,359	—
Other accrued liabilities	85,607	70,828
Total current liabilities	250,841	232,307
Long-term debt, net	1,246,122	832,718
Deferred income taxes, net	127,104	131,478
Other liabilities	39,509	36,084
Total liabilities	1,663,576	1,232,587
Commitments and contingencies		
Redeemable noncontrolling interests	12,079	11,511
Preferred stock, par value \$0.001, 11,000 shares authorized, none outstanding	—	—
VCA Inc. stockholders' equity:		
Common stock, par value \$0.001, 175,000 shares authorized, 81,075 and 80,764 shares outstanding as of September 30, 2016 and December 31, 2015, respectively	81	81
Additional paid-in capital	32,958	19,708
Retained earnings	1,443,715	1,275,207
Accumulated other comprehensive loss	(41,028)	(50,034)
Total VCA Inc. stockholders' equity	1,435,726	1,244,962
Noncontrolling interests	97,681	12,072
Total equity	1,533,407	1,257,034
Total liabilities and equity	\$ 3,209,062	\$ 2,501,132

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

1

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenue	\$656,854	\$551,717	\$1,873,782	\$1,599,955
Direct costs	500,277	414,051	1,416,477	1,207,580
Gross profit	156,577	137,666	457,305	392,375
Selling, general and administrative expense	49,343	44,860	147,661	133,743
Business interruption insurance gain	—	(4,523)	—	(4,523)
Net loss (gain) on sale or disposal of assets	236	250	528	(234)
Operating income	106,998	97,079	309,116	263,389
Interest expense, net	9,300	5,455	24,262	15,396
Debt retirement costs	—	—	1,600	—
Other (income) expense	(121)	59	(985)	88
Income before provision for income taxes	97,819	91,565	284,239	247,905
Provision for income taxes	37,040	35,097	109,312	95,961
Net income	60,779	56,468	174,927	151,944
Net income attributable to noncontrolling interests	2,548	1,614	6,419	4,490
Net income attributable to VCA Inc.	\$58,231	\$54,854	\$168,508	\$147,454
Basic earnings per share	\$0.72	\$0.68	\$2.08	\$1.80
Diluted earnings per share	\$0.71	\$0.67	\$2.06	\$1.78
Weighted-average shares outstanding for basic earnings per share	80,924	80,815	80,845	81,700
Weighted-average shares outstanding for diluted earnings per share	81,812	81,795	81,695	82,744

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income <sup>(1)</sup>	\$60,779	\$56,468	\$174,927	\$151,944
Other comprehensive income:				
Foreign currency translation adjustments	(3,389 )	(14,005 )	9,241	(25,274 )
Other comprehensive (loss) income	(3,389 )	(14,005 )	9,241	(25,274 )
Total comprehensive income	57,390	42,463	184,168	126,670
Comprehensive income attributable to noncontrolling interests <sup>(1)</sup>	2,360	1,187	6,654	3,728
Comprehensive income attributable to VCA Inc.	\$55,030	\$41,276	\$177,514	\$122,942

<sup>(1)</sup> Includes approximately \$3.1 million and \$2.5 million of net income related to redeemable and mandatorily redeemable noncontrolling interests for the nine months ended September 30, 2016 and 2015, respectively.

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

3

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VCA 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, 2014	82,937	\$ 83	\$155,802	\$1,064,158	\$ (19,397 )	\$ 10,975	\$1,211,621
Net income (excludes \$1,392 and \$1,088 related to redeemable and mandatorily redeemable noncontrolling interests, respectively)	—	—	—	147,454	—	2,010	149,464
Other comprehensive loss (excludes \$338 related to mandatorily redeemable noncontrolling interests)	—	—	—	—	(24,512 )	(424 )	(24,936 )
Formation of noncontrolling interests	—	—	—	—	—	2,661	2,661
Distributions to noncontrolling interests	—	—	—	—	—	(1,784 )	(1,784 )
Purchase of noncontrolling interests	—	—	(217 )	—	—	(473 )	(690 )
Share-based compensation	—	—	12,086	—	—	—	12,086
Issuance of common stock under stock incentive plans	633	1	1,570	—	—	—	1,571
Stock repurchases	(3,003 )	(3 )	(161,114 )	—	—	—	(161,117 )
Excess tax benefit from share-based compensation	—	—	8,008	—	—	—	8,008
Balances, September 30, 2015	80,567	\$ 81	\$16,135	\$1,211,612	\$ (43,909 )	\$ 12,965	\$1,196,884
Balances, December 31, 2015	80,764	\$ 81	\$19,708	\$1,275,207	\$ (50,034 )	\$ 12,072	\$1,257,034
Net income (excludes \$1,852 and \$1,220 related to redeemable and mandatorily redeemable noncontrolling interests, respectively)	—	—	—	168,508	—	3,347	171,855
Other comprehensive income (excludes \$117 related to mandatorily redeemable noncontrolling interests)	—	—	—	—	9,006	118	9,124
Formation of noncontrolling interests	—	—	—	—	—	86,951	86,951
Distributions to noncontrolling interests	—	—	—	—	—	(2,667 )	(2,667 )
Purchase of noncontrolling interests	—	—	(2,075 )	—	—	(2,066 )	(4,141 )

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Share-based compensation	—	—	13,669	—	—	—	13,669
Issuance of common stock under stock incentive plans	458	—	3,949	—	—	—	3,949
Stock repurchases	(147 )	—	(9,887 )	—	—	—	(9,887 )
Excess tax benefit from share-based compensation	—	—	7,588	—	—	—	7,588
Other	—	—	6	—	—	(74 )	(68 )
Balances, September 30, 2016	81,075	\$ 81	\$32,958	\$1,443,715	\$ (41,028 )	\$ 97,681	\$1,533,407

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

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

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 174,927	\$ 151,944
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74,072	60,634
Amortization of debt issue costs	1,247	1,306
Provision for uncollectible accounts	4,949	6,723
Debt retirement costs	1,600	—
Net loss (gain) on sale or disposal of assets	528	(234 )
Share-based compensation	13,669	12,086
Excess tax benefits from share-based compensation	(7,588 )	(8,008 )
Other	7,668	(431 )
Changes in operating assets and liabilities:		
Trade accounts receivable	(8,033 )	(20,568 )
Inventory, prepaid expenses and other assets	(11,684 )	(931 )
Accounts payable and other accrued liabilities	11,142	(2,451 )
Accrued payroll and related liabilities	(7,783 )	18,892
Income taxes	36,168	28,054
Net cash provided by operating activities	290,882	247,016
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(599,655 )	(119,336 )
Property and equipment additions	(90,546 )	(61,470 )
Proceeds from sale or disposal of assets	1,699	6,469
Other	(7,634 )	(434 )
Net cash used in investing activities	(696,136 )	(174,771 )
Cash flows from financing activities:		
Repayment of long-term obligations	(1,263,394 )	(20,174 )
Proceeds from issuance of long-term obligations	1,255,000	—
Proceeds from revolving credit facility	465,000	97,000
Repayment of revolving credit facility	(65,000 )	—
Payment of financing costs	(3,817 )	—
Distributions to noncontrolling interests	(4,752 )	(3,810 )
Purchase of noncontrolling interests	(4,239 )	(1,493 )
Proceeds from issuance of common stock under stock incentive plans	3,949	1,571
Excess tax benefits from share-based compensation	7,588	8,008
Stock repurchases	(9,887 )	(161,117 )
Other	(1,310 )	2,210
Net cash provided by (used in) financing activities	379,138	(77,805 )
Effect of currency exchange rate changes on cash and cash equivalents	142	(831 )
Decrease in cash and cash equivalents	(25,974 )	(6,391 )
Cash and cash equivalents at beginning of period	98,888	81,383
Cash and cash equivalents at end of period	\$ 72,914	\$ 74,992

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

5

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

	Nine Months Ended September 30, 2016    2015	
Supplemental disclosures of cash flow information:		
Interest paid	\$17,847	\$13,674
Income taxes paid	\$68,748	\$67,814

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

6

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VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements  
September 30, 2016  
(Unaudited)

### 1. Nature of Operations

Our company, VCA Inc. ("VCA") is a Delaware corporation formed in 1986 and is based in Los Angeles, California. We are an animal healthcare company with the following four operating segments: animal hospitals ("Animal Hospital"), veterinary diagnostic laboratories ("Laboratory"), veterinary medical technology ("Medical Technology"), and Camp Bow Wow Franchising, Inc. (f/k/a D.O.G. Enterprises, LLC ("Camp Bow Wow"). Our operating segments are aggregated into two reportable segments: Animal Hospital and Laboratory. Our Medical Technology and Camp Bow Wow operating segments are combined in our All Other category. See Note 10, Lines of Business within these notes to unaudited condensed, consolidated financial statements.

Our Animal Hospitals offer a full range of general medical and surgical services for companion animals. Our Animal Hospitals treat diseases and injuries, provide pharmaceutical products and perform a variety of pet-wellness programs, including health examinations, diagnostic testing, vaccinations, spaying, neutering and dental care. At September 30, 2016, we operated or managed 776 animal hospitals throughout 43 states and five Canadian provinces.

We operate a full-service veterinary diagnostic laboratory network serving all 50 states and certain areas in Canada. Our Laboratory network provides sophisticated testing and consulting services used by veterinarians in the detection, diagnosis, evaluation, monitoring, treatment and prevention of diseases and other conditions affecting animals. At September 30, 2016, we operated 60 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 Camp Bow Wow business franchises a premier provider of pet services including dog day care, overnight boarding, grooming and other ancillary services at specially designed pet care facilities, principally under the trademark Camp Bow Wow®. As of September 30, 2016, there were 128 Camp Bow Wow franchise locations operating in 34 states and one Canadian province.

On December 31, 2015, our company sold substantially all of the assets of Vetstreet Inc. ("Vetstreet") to a subsidiary of Henry Schein, Inc.. Concurrent with the sale of Vetstreet, we purchased a 19.9% interest in the continuing Vetstreet business. Prior to the sale of Vetstreet, its results of operations were included in our "All Other" category.

On May 1, 2016, we acquired an 80% ownership interest in Companion Animal Practices, North America ("CAPNA"). CAPNA, founded in 2010, and at the time of acquisition, operated a network of 56 free standing animal hospitals in 18 states. CAPNA's results of operations are included in our Animal Hospital segment.

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

### 2. Basis of Presentation

Our accompanying unaudited, condensed, consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information and in accordance with the rules and regulations of the United States Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements as permitted under applicable rules and regulations. In the opinion of management, all normal recurring adjustments considered necessary for a fair presentation have been included. The results of operations for the nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year ending December 31, 2016. The year end condensed balance sheet data was derived from audited financial statements, but does not include

all disclosures required by GAAP. For further information, refer to our audited consolidated financial statements and notes thereto included in our 2015 Annual Report on Form 10-K.

VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2016  
(Unaudited)

2. Basis of Presentation, continued

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.

3. Goodwill and Other Long-Lived Assets

Goodwill

The following table presents the changes in the carrying amount of our goodwill for the nine months ended September 30, 2016 (in thousands):

	Animal Hospital	Laboratory	All Other	Total
Balance as of December 31, 2015				
Goodwill	\$1,402,106	\$ 101,269	\$ 144,332	\$1,647,707
Accumulated impairment losses	—	—	(130,057 )	(130,057 )
Subtotal	1,402,106	101,269	14,275	1,517,650
Goodwill acquired	536,060	—	941	537,001
Foreign translation adjustment	6,657	24	—	6,681
Other <sup>(1)</sup>	2,162	—	—	2,162
Balance as of September 30, 2016				
Goodwill	1,946,985	101,293	145,273	2,193,551
Accumulated impairment losses	—	—	(130,057 )	(130,057 )
Subtotal	\$1,946,985	\$ 101,293	\$ 15,216	\$2,063,494

<sup>(1)</sup> "Other" consists primarily of measurement period adjustments.

Other Intangible Assets

Our acquisition related amortizable intangible assets at September 30, 2016 and December 31, 2015 are as follows (in thousands):

	As of September 30, 2016			As of December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Non-contractual customer relationships	\$214,050	\$ (61,153 )	\$152,897	\$116,082	\$ (48,821 )	\$67,261
Covenants not-to-compete	22,613	(6,997 )	15,616	12,435	(4,779 )	7,656
Favorable lease assets	9,457	(5,751 )	3,706	9,441	(5,440 )	4,001
Technology	1,377	(748 )	629	1,377	(589 )	788
Trademarks	29,525	(6,604 )	22,921	10,551	(4,086 )	6,465
Franchise rights	11,730	(2,444 )	9,286	11,730	(1,564 )	10,166
Total	\$288,752	\$ (83,697 )	\$205,055	\$161,616	\$ (65,279 )	\$96,337





VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2016  
(Unaudited)

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Aggregate amortization expense	\$10,682	\$5,811	\$26,709	\$17,195

The estimated amortization expense related to acquisition related intangible assets for the remainder of 2016 and each of the succeeding years thereafter, as of September 30, 2016, is as follows (in thousands):

Finite-lived intangible assets:	
Remainder of 2016	\$11,109
2017	40,011
2018	36,554
2019	33,544
2020	28,711
Thereafter	55,126
Total	\$205,055
Indefinite-lived intangible assets:	
Trademarks	4,040
Total intangible assets	\$209,095

### 4. Acquisitions

The table below reflects the activity related to the acquisitions and dispositions of our animal hospitals and laboratories during the nine months ended September 30, 2016 and 2015, respectively:

	Nine Months Ended September 30, 2016 2015	
Animal Hospitals:		
Acquisitions	105	42
Acquisitions, merged	(3 )	(4 )
Sold, closed or merged	(8 )	(7 )
Net increase	94	31
Laboratories:		
Acquisitions	—	1

Acquisitions, merged	—	(1 )
Net increase	—	—

VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2016  
(Unaudited)

4. Acquisitions, continued

Animal Hospital and Laboratory Acquisitions

The purchase price allocations for some of the 2016 animal hospital acquisitions included in the table below are preliminary; however, adjustments, if any, are not expected to be material. The measurement periods for purchase price allocations do not exceed 12 months from the acquisition date. The following table summarizes the aggregate consideration for our independent animal hospitals and labs acquired during the nine months ended September 30, 2016 and 2015, respectively, (in thousands):

	Nine Months Ended September 30,	
	2016	2015
Consideration:		
Cash	\$247,733	\$116,428
Cash acquired	(876 )	(67 )
Cash, net of cash acquired	\$246,857	\$116,361
Assumed debt	2,860	12,402
Holdbacks	6,972	4,497
Earn-outs	4,155	476
Fair value of total consideration transferred	\$260,844	\$133,736
Allocation of the Purchase Price:		
Tangible assets	\$24,761	\$10,060
Identifiable intangible assets <sup>(1)</sup>	32,016	34,130
Goodwill <sup>(2)</sup>	205,394	93,645
Other liabilities assumed	(376 )	(1,424 )
Fair value of assets acquired and liabilities assumed	\$261,795	\$136,411
Noncontrolling interest	(951 )	(2,675 )
Total	\$260,844	\$133,736

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

(2) We expect that \$199.1 million and \$73.5 million of the goodwill recorded for these acquisitions, as of September 30, 2016 and 2015, respectively, will be fully deductible for income tax purposes.

Included in the table above is Antech Diagnostics, Inc.'s March 31, 2015 acquisition of Abaxis Veterinary Reference Laboratory ("AVRL") for total consideration of \$21.0 million.



VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2016  
(Unaudited)

4. Acquisitions, continued

CAPNA Acquisition

On May 1, 2016, we acquired an 80% ownership interest in CAPNA for a purchase price of \$350.4 million. CAPNA, founded in 2010, and at the time of its acquisition, operated a network of 56 free standing animal hospitals in 18 states.

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

Consideration:	
Cash	\$352,829
Cash acquired	(3,405 )
Cash, net of cash acquired	\$349,424
Holdbacks	1,000
Fair value of total consideration transferred	\$350,424
Allocation of the Purchase Price:	
Tangible assets	\$21,118
Identifiable intangible assets <sup>(1)</sup>	102,300
Goodwill <sup>(2)</sup>	330,668
Other liabilities assumed	(17,662 )
Fair value of assets acquired and liabilities assumed	\$436,424
Noncontrolling interest	(86,000 )
Total	\$350,424

Identifiable intangible assets primarily include customer relationships, trademarks and covenants-not-to-compete.

(1) The weighted-average amortization period for the total identifiable intangible assets is approximately seven years.

The amortization periods for customer relationships, trademarks and covenants is seven years, five years and five years, respectively.

(2) As of September 30, 2016, we expect that \$265.8 million of goodwill recorded for this acquisition will be deductible for income tax purposes.

The purchase price allocation for CAPNA is preliminary and is pending the valuation of certain items including, but not limited to, capital leases, operating leases, deferred income taxes and the noncontrolling interest. The final valuation of the net assets acquired, liabilities assumed and noncontrolling interest is expected to be completed as soon as practicable, but no later than one year from the date of acquisition. During the three months ended September 30, 2016, significant measurement period adjustments included the finalization of the valuation of intangible assets, the recording of the preliminary deferred income tax adjustment, as well as the true-up of the noncontrolling interest.

Pro Forma Information

The following pro forma financial information for the three and nine months ended September 30, 2016 and 2015 presents (i) the actual results of operations of our 2016 acquisitions and (ii) the combined results of operations for our

company and our 2016 acquisitions as if those acquisitions had been completed on July 1, 2015 and January 1, 2015, the first day of the comparable prior reporting periods, respectively. The pro forma financial information considers principally (i) our company's financial results, (ii) the historical financial results of our acquisitions, and (iii) select pro forma adjustments to the historical

VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2016  
(Unaudited)

4. Acquisitions, continued

financial results of our acquisitions. Such pro forma adjustments represent principally estimates of (i) the impact of the hypothetical amortization of acquired intangible assets, (ii) the recognition of fair value adjustments relating to tangible assets, (iii) adjustments reflecting the new capital structure, including additional financing or repayments of debt as part of the acquisitions and (iv) the tax effects of the acquisitions and related adjustments as if those acquisitions had been completed on July 1, 2015 and January 1, 2015. The pro forma financial information is not necessarily indicative of what our consolidated results of operations would have been had we completed the acquisition at the beginning of the comparable prior reporting periods.

In addition, the pro forma financial information does not attempt to project the future results of operations of our company:

	Revenue	Net Income
(In thousands):		
Results of acquired businesses included in our three months ended		
September 30, 2016 actuals	\$64,517	\$ 4,661
2016 supplemental pro forma from July 1, 2016 to September 30, 2016 <sup>(1)</sup>	\$662,840	\$ 58,922
2015 supplemental pro forma from July 1, 2015 to September 30, 2015 <sup>(1)</sup>	\$623,568	\$ 59,070
Results of acquired businesses included in our nine months ended		
September 30, 2016 actuals	\$128,710	\$ 9,523
2016 supplemental pro forma from January 1, 2016 to September 30, 2016 <sup>(2)</sup>	\$1,947,799	\$ 172,866
2015 supplemental pro forma from January 1, 2015 to September 30, 2015 <sup>(2)</sup>	\$1,844,007	\$ 154,880

2016 supplemental pro forma net income attributable to VCA was adjusted to exclude \$0.1 million of acquisition-related costs incurred during the three months ended September 30, 2016. 2015 supplemental pro forma net income attributable to VCA was adjusted to include these charges.

2016 supplemental pro forma net income attributable to VCA was adjusted to exclude \$1.3 million of acquisition-related costs incurred during the nine months ended September 30, 2016. 2015 supplemental pro forma net income attributable to VCA was adjusted to include these charges.



VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2016  
(Unaudited)

#### 5. Other Accrued Liabilities

Other accrued liabilities consisted of the following at September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Deferred revenue	\$ 18,647	\$ 14,647
Holdbacks and earn-outs	14,042	9,959
Accrued workers' compensation	7,329	3,212
Accrued other insurance	5,988	5,013
Accrued health insurance	5,702	4,952
Deferred rent	5,469	4,791
Miscellaneous accrued taxes <sup>(1)</sup>	4,867	3,317
Accrued accounting and legal fees	3,143	2,697
Customer deposits	2,393	2,971
Accrued lease payments	2,111	1,536
Other	15,916	17,733
	\$ 85,607	\$ 70,828

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

#### 6. Long-Term Obligations

##### New Senior Credit Facility

On June 29, 2016, we entered into a new senior credit facility with various lenders for approximately \$1.7 billion of senior secured credit facilities with Bank of America, N.A., as the administrative agent, swingline lender and Letter of Credit issuer, and JPMorgan Chase Bank, N.A., Barclays Bank PLC, Suntrust Bank, and Wells Fargo Bank, N.A. as co-syndication agents (the "New Senior Credit Facility"). The New Senior Credit Facility replaced our previous senior credit facility which provided for \$600 million of term notes and an \$800 million revolving credit facility. The New Senior Credit Facility provides for \$880 million of senior secured term notes and an \$800 million senior secured revolving facility, which may be used to borrow, on a same-day notice under a swing line, the lesser of \$25 million and the aggregate unused amount of the revolving credit facility then in effect. In addition to refinancing all outstanding amounts under our previous senior credit facility, borrowings under our New Senior Credit Facility may be used for general corporate purchases, including permitted share repurchases. At June 30, 2016, we had \$375 million in outstanding borrowings under the new senior secured revolving facility, which funds were used together with the proceeds from the \$880 million of new senior secured term notes to refinance amounts outstanding under our previous senior credit facility.

In connection with the New Senior Credit Facility, we incurred \$3.8 million in financing costs, of which approximately \$3.2 million were capitalized as deferred financing costs. The remaining \$0.6 million of financing costs were expensed as debt retirement costs, along with an additional \$1.0 million of previously capitalized deferred financing costs associated with lenders under our previous senior credit facility who are not lenders under our New Senior Credit Facility.

During the current fiscal year, ASU 2015-03 and ASU 2015-15 were adopted. In accordance with ASU 2015-03, the table below presents debt issuance costs as a direct deduction from the face amount of the corresponding notes in the current period and retrospectively in the prior fiscal year end.

VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2016  
(Unaudited)

6. Long-Term Obligations, continued

Long-term obligations consisted of the following at September 30, 2016 and December 31, 2015 (in thousands):

		September 30, 2016	December 31, 2015
Senior term notes	Principal amount	\$ 874,500	\$ 585,000
	Less unamortized debt issuance costs	(2,781)	(2,408)
	Senior term notes less unamortized debt issuance costs, secured by assets, variable interest rate (2.27% and 1.92% at September 30, 2016 and December 31, 2015, respectively) <sup>(1)</sup>	\$ 871,719	\$ 582,592
Revolving credit	Principal amount	\$ 340,000	\$ 232,000
	Less unamortized debt issuance costs	(4,321)	(3,725)
	Revolving line of credit less unamortized debt issuance costs, secured by assets, variable interest rate (2.31% and 1.92% at September 30, 2016 and December 31, 2015, respectively) <sup>(1)</sup>	\$ 335,679	\$ 228,275
Secured seller note	Notes payable matures in 2016, secured by assets and stock of certain subsidiaries, with interest rate of 10.0%	230	230
	Total debt obligations	1,207,628	811,097
	Capital lease obligations and other debt	71,006	55,244
		1,278,634	866,341
	Less — current portion	(32,512)	(33,623)
		\$ 1,246,122	\$ 832,718

Notes payable and the revolving line of credit at September 30, 2016 mature in 2021 under the New Senior Credit (1) Facility. Notes payable and the revolving line of credit at December 31, 2015 were due to mature in 2019 under the previous senior credit facility dated August 27, 2014.

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

- the base rate (as defined below) plus the applicable margin of 0.75% (Pricing Tier 2, see table below) per annum; or
- the Eurodollar rate (as defined below), plus a margin of 1.75% (Pricing Tier 2, see table below) per annum

Each of the aforementioned margins remain applicable until the date of delivery of the compliance certificate and the financial statements, for the period ended September 30, 2016, at which time the applicable margin will be determined by reference to the leverage ratio in effect from time to time as set forth in the following table:



VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2016  
(Unaudited)

## 6. Long-Term Obligations, continued

Pricing Tier	Consolidated Leverage Ratio	Applicable Margin for Eurodollar Loans/Letter of Credit Fees		Applicable Margin for Base Rate Loans		Commitment Fee	
1	≥ 3.50:1.00	2.00	%	1.00	%	0.40	%
2	< 3.50:1.00 and ≥ 2.75:1.00	1.75	%	0.75	%	0.35	%
3	< 2.75:1.00 and ≥ 1.75:1.00	1.50	%	0.50	%	0.30	%
4	< 1.75:1.00 and ≥ 1.00:1.00	1.25	%	0.25	%	0.25	%
5	< 1.00:1.00	1.00	%	—	%	0.25	%

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

**Maturity and Principal Payments.** The senior term notes mature on June 29, 2021. Principal payments on the senior term notes of \$5.5 million are due each calendar quarter from September 30, 2016 to and including June 30, 2017, \$11.0 million are due each calendar quarter from September 30, 2017 to and including June 30, 2019, \$16.5 million are due each calendar quarter from September 30, 2019 to and including June 30, 2020 and \$22.0 million are due each calendar quarter thereafter with a final payment of the outstanding principal balance due upon maturity.

The revolving credit facility has a per annum commitment fee determined by reference to the Leverage Ratio in effect from time to time and is applied to the unused portion of the commitment. The revolving credit facility matures on June 29, 2021. Principal payments on the revolving credit facility are made at our discretion with the entire unpaid amount due at maturity. At September 30, 2016, we had borrowings of \$340.0 million under our revolving credit facility.

The following table sets forth the scheduled principal payments for our senior credit facility (in thousands):

	2016	2017	2018	2019	2020	Thereafter
Senior term notes	\$5,500	\$33,000	\$44,000	\$55,000	\$77,000	\$660,000
Revolving loans	—	—	—	—	—	340,000
	\$5,500	\$33,000	\$44,000	\$55,000	\$77,000	\$1,000,000

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

**Debt Covenants.** The New Senior Credit Facility contains certain financial covenants pertaining to interest coverage and leverage ratios. In addition, the New Senior Credit Facility has restrictions pertaining to the payment of cash dividends on all classes of stock. At September 30, 2016, we had a interest coverage ratio of 16.88 to 1.00, which was in compliance with the required ratio of no less than 3.00 to 1.00, and a leverage ratio of 2.58 to 1.00, which was in

compliance with the required ratio of no more than 4.00 to 1.00.

#### 7. Fair Value

Current fair value accounting guidance includes a hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon their own market assumptions. The current guidance establishes a three-tiered fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

15

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VCA Inc. and Subsidiaries  
 Notes to Condensed, Consolidated Financial Statements (Continued)  
 September 30, 2016  
 (Unaudited)

7. Fair Value, continued

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

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

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

Non-Recurring Financial Measurements

Non-financial assets such as property, plant and equipment, land, goodwill and intangible assets are subject to non-recurring fair value measurements if they are deemed to be impaired. The impairment models used for nonfinancial assets depend on the type of asset and are accounted for in accordance with FASB's guidance on fair value measurement. During the quarter ended September 30, 2016, there were no changes to our non-recurring fair value measurements.

Fair Value of Financial Instruments

The FASB accounting guidance requires disclosure of fair value information about financial instruments, whether or not recognized in the accompanying consolidated balance sheets. Fair value as defined by the guidance is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value estimates of financial instruments are not necessarily indicative of the amounts we might pay or receive in actual market transactions. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash and Cash Equivalents. These balances include cash and cash equivalents with maturities of less than three months. The carrying amount approximates fair value due to the short-term maturities of these instruments.

Receivables, Less Allowance for Doubtful Accounts, Accounts Payable and Certain Other Accrued Liabilities. Due to their short-term nature, fair value approximates carrying value.

Long-Term Debt. The fair value of debt at September 30, 2016 and December 31, 2015 is based upon the ask price quoted from an external source, which is considered a Level 2 input.

The following table reflects the carrying value and fair value of our variable-rate long-term debt (in thousands):

	As of September 30, 2016		As of December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Variable-rate long-term debt	\$ 1,214,500	\$ 1,214,500	\$ 817,000	\$ 817,000

## 8. Share-Based Compensation

### Stock Option Activity

There were no stock options granted during the nine months ended September 30, 2016. The aggregate intrinsic value of our stock options exercised during the three and nine months ended September 30, 2016 was \$8.0 million and \$11.2 million, respectively, and the actual tax benefit realized on options exercised during these periods was \$3.1 million and \$4.4 million, respectively.



VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2016  
(Unaudited)

#### 8. Share-Based Compensation, continued

As of September 30, 2016 we have fully recognized compensation cost for our outstanding options.

The compensation cost charged against income, for stock options for the three months ended September 30, 2016 and 2015, was \$100,000 and \$376,000, respectively. The corresponding income tax benefit recognized was \$39,000 and \$147,000, for the three months ended September 30, 2016 and 2015, respectively.

The compensation cost charged against income, for stock options for the nine months ended September 30, 2016 and 2015, was \$415,000 and \$1.1 million, respectively. The corresponding income tax benefit recognized was \$162,000 and \$436,000, for the nine months ended September 30, 2016 and 2015, respectively.

#### Nonvested Stock Activity

During the nine months ended September 30, 2016, we granted 122,733 shares of nonvested common stock to our directors and our non-executive employees. In April 2016 we granted 4,992 of these shares to our directors. Assuming continued service through each vesting date, the awards granted to our directors will vest in three equal annual installments beginning April 2017 to April 2019. In September 2016, we granted 117,741 shares to our non-executive employees. Assuming continued service through each vesting date, the awards granted to our non-executive employees will vest in four equal annual installments beginning September 2017 to September 2020.

Total compensation cost charged against income related to nonvested stock awards was \$1.5 million and \$1.2 million, for three months ended September 30, 2016 and 2015, respectively. The corresponding income tax benefit recognized in the income statement was \$577,000 and \$454,000, for the three months ended September 30, 2016 and 2015, respectively.

Total compensation cost charged against income related to nonvested stock awards was \$4.6 million and \$4.2 million, for the nine months ended September 30, 2016 and 2015, respectively. The corresponding income tax benefit recognized in the income statement was \$1.8 million and \$1.6 million, for the nine months ended September 30, 2016 and 2015, respectively.

At September 30, 2016, there was \$19.2 million of unrecognized compensation cost related to these nonvested shares, which will be recognized over a weighted-average period of 3.1 years. A summary of our nonvested stock activity for the nine months ended September 30, 2016 is as follows (in thousands, except per share amounts):

	Shares	Grant Date Weighted- Average Fair Value Per Share
Outstanding at December 31, 2015	417	\$ 38.28
Granted	123	\$ 68.49
Vested	(18 )	\$ 27.58
Forfeited/Canceled	(5 )	\$ 39.05
Outstanding at September 30, 2016	517	\$ 45.83

#### Restricted Stock Unit Activity

During the nine months ended September 30, 2016, we granted 228,202 performance based restricted stock units ("RSUs") to our executive and non executive officers representing the right to receive one share of common stock. These RSUs will be earned upon the achievement of applicable performance criteria during the performance periods, from fiscal period 2016 to 2019, as set forth in the 2016 equity performance award agreements. Assuming achievement of the required performance conditions and continued service through each vesting date, these awards

will further vest in four equal annual installments on the later to occur of the certification of the applicable results or the annual anniversary of the grant date.

VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2016  
(Unaudited)

#### 8. Share-Based Compensation, continued

Total compensation cost charged against income related to RSU awards was \$3.0 million and \$2.3 million for the three months ended September 30, 2016 and 2015, respectively. The corresponding income tax benefit recognized in the income statement was \$1.2 million and \$892,000, for the three months ended September 30, 2016 and 2015, respectively.

Total compensation cost charged against income related to RSU awards was \$8.6 million and \$6.8 million for the nine months ended September 30, 2016 and 2015, respectively. The corresponding income tax benefit recognized in the income statement was \$3.4 million and \$2.7 million, for the nine months ended September 30, 2016 and 2015, respectively.

At September 30, 2016, there was \$20.2 million of unrecognized compensation cost related to these RSUs, which will be recognized over a weighted-average period of 3.5 years. A summary of our restricted stock unit activity for the nine months ended September 30, 2016 is as follows (in thousands, except per share amounts):

	Shares	Grant Date Weighted- Average Fair Value Per Share
Outstanding at December 31, 2015	747	\$ 37.91
Granted	228	\$ 56.01
Paid Out	(216 )	\$ 25.81
Forfeited/Canceled	(1 )	\$ 21.04
Outstanding at September 30, 2016	758	\$ 46.82

#### 9. Calculation of Earnings per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income attributable to VCA Inc.	\$58,231	\$54,854	\$168,508	\$147,454
Weighted-average common shares outstanding:				
Basic	80,924	80,815	80,845	81,700
Effect of dilutive potential common shares:				
Stock options	270	338	287	338
Non-vested shares and units	618	642	563	706
Diluted	81,812	81,795	81,695	82,744
Basic earnings per common share	\$0.72	\$0.68	\$2.08	\$1.80
Diluted earnings per common share	\$0.71	\$0.67	\$2.06	\$1.78



VCA Inc. and Subsidiaries

Notes to Condensed, Consolidated Financial Statements (Continued)

September 30, 2016

(Unaudited)

9. Calculation of Earnings per Share,  
continued

For the three months ended September 30, 2016, there were 10,256 potential common shares excluded from the computation of diluted earnings per share because their inclusion would have had an antidilutive effect. There were no potential common shares excluded from the computation of diluted earnings per share for the three months ended September 30, 2015.

For the nine months ended September 30, 2016, there were 18,739 potential common shares excluded from the computation of diluted earnings per share because their inclusion would have had an antidilutive effect. For the nine months ended September 30, 2015, there were 24,735 potential common shares excluded from the computation of diluted earnings per share because their inclusion would have had an antidilutive effect.

VCA Inc. and Subsidiaries

Notes to Condensed, Consolidated Financial Statements (Continued)

September 30, 2016

(Unaudited)

10. Lines of Business

Our Animal Hospital and Laboratory business segments are each considered reportable segments in accordance with the FASB's guidance related to Segment Reporting. Our Animal Hospital segment provides veterinary services for companion animals and sells related retail and pharmaceutical products. Our Laboratory segment provides diagnostic laboratory testing services for veterinarians, both associated with our animal hospitals and those independent of us. Our other operating segments included in the "All Other" category in the following tables are our Medical Technology business, which sells digital radiography and ultrasound imaging equipment, related computer hardware, software and ancillary services to the veterinary market, and our Camp Bow Wow business, which primarily franchises a premier provider of pet services including dog day care, overnight boarding, grooming and other ancillary services at specially designed pet care facilities. These operating segments do not meet the quantitative requirements for reportable segments. Our operating segments are strategic business units that have different services, products and/or functions. The segments are managed separately because each is a distinct and different business venture with unique challenges, risks and rewards. We also operate a corporate office that provides general and administrative support services for each of our segments.

The accounting policies of our segments are the same as those described in the summary of significant accounting policies included in our 2015 Annual Report on Form 10-K. We evaluate the performance of our segments based on gross profit and operating income. For purposes of reviewing the operating performance of our segments, all intercompany sales and purchases are generally accounted for as if they were transactions with independent third parties at current market prices.



VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2016  
(Unaudited)

## 10. Lines of Business, continued

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

	Animal Hospital	Laboratory	All Other	Corporate	Eliminations	Total
Three Months Ended						
September 30, 2016						
External revenue	\$553,378	\$ 84,970	\$17,450	\$—	\$ 1,056	\$656,854
Intercompany revenue	—	20,170	5,537	—	(25,707)	) —
Total revenue	553,378	105,140	22,987	—	(24,651)	) 656,854
Direct costs	459,242	50,934	14,066	—	(23,965)	) 500,277
Gross profit	94,136	54,206	8,921	—	(686)	) 156,577
Selling, general and administrative expense	15,541	9,728	6,064	18,010	—	49,343
Operating income (loss) before sale or disposal of assets	78,595	44,478	2,857	(18,010)	(686)	) 107,234
Net loss (gain) on sale or disposal of assets	304	1	1	(70)	) —	236
Operating income (loss)	\$78,291	\$ 44,477	\$2,856	\$(17,940)	\$ (686)	) \$106,998
Depreciation and amortization	\$23,363	\$ 2,826	\$848	\$679	\$ (622)	) \$27,094
Property and equipment additions	\$24,917	\$ 4,953	\$383	\$2,794	\$ (1,315)	) \$31,732
Three Months Ended						
September 30, 2015						
External revenue	\$441,924	\$ 84,129	\$24,544	\$—	\$ 1,120	\$551,717
Intercompany revenue	—	16,180	6,294	—	(22,474)	) —
Total revenue	441,924	100,309	30,838	—	(21,354)	) 551,717
Direct costs	366,983	48,901	19,077	—	(20,910)	) 414,051
Gross profit	74,941	51,408	11,761	—	(444)	) 137,666
Selling, general and administrative expense	10,677	9,542	7,660	16,981	—	44,860
Operating income (loss) before charges	64,264	41,866	4,101	(16,981)	(444)	) 92,806
Business interruption insurance gain	—	—	(4,523)	) —	—	(4,523)
Net loss on sale or disposal of assets	175	—	72	3	—	250
Operating income (loss)	\$64,089	\$ 41,866	\$8,552	\$(16,984)	\$ (444)	) \$97,079
Depreciation and amortization	\$16,520	\$ 2,731	\$1,181	\$588	\$ (549)	) \$20,471
Property and equipment additions	\$19,429	\$ 5,735	\$127	\$2,773	\$ (1,115)	) \$26,949





VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2016  
(Unaudited)

## 10. Lines of Business, continued

	Animal Hospital	Laboratory	All Other	Corporate	Eliminations	Total
Nine Months Ended September 30, 2016						
External revenue	\$1,552,377	\$267,475	\$50,560	\$—	\$3,370	\$1,873,782
Intercompany revenue	—	56,452	15,237	—	(71,689)	) —
Total revenue	1,552,377	323,927	65,797	—	(68,319)	) 1,873,782
Direct costs	1,290,145	152,458	41,049	—	(67,175)	) 1,416,477
Gross profit	262,232	171,469	24,748	—	(1,144)	) 457,305
Selling, general and administrative expense	41,903	29,726	17,385	58,647	—	147,661
Operating income (loss) before sale or disposal of assets	220,329	141,743	7,363	(58,647)	(1,144)	) 309,644
Net loss (gain) on sale or disposal of assets	747	(34)	) 4	(189)	) —	528
Operating income (loss)	\$219,582	\$141,777	\$7,359	\$(58,458)	\$(1,144)	) \$309,116
Depreciation and amortization	\$62,811	\$8,446	\$2,635	\$1,985	\$(1,805)	) \$74,072
Property and equipment additions	\$68,947	\$14,355	\$2,475	\$7,981	\$(3,212)	) \$90,546
Nine Months Ended September 30, 2015						
External revenue	\$1,270,326	\$252,645	\$73,895	\$—	\$3,089	\$1,599,955
Intercompany revenue	—	47,858	19,839	—	(67,697)	) —
Total revenue	1,270,326	300,503	93,734	—	(64,608)	) 1,599,955
Direct costs	1,066,516	144,410	59,160	—	(62,506)	) 1,207,580
Gross profit	203,810	156,093	34,574	—	(2,102)	) 392,375
Selling, general and administrative expense	32,351	27,894	24,088	49,410	—	133,743
Operating income (loss) before charges	171,459	128,199	10,486	(49,410)	(2,102)	) 258,632
Business interruption insurance gain	—	—	(4,523)	) —	—	(4,523)
Net (gain) loss on sale or disposal of assets	(445)	) 41	92	78	—	(234)
Operating income (loss)	\$171,904	\$128,158	\$14,917	\$(49,488)	\$(2,102)	) \$263,389
Depreciation and amortization	\$49,032	\$7,940	\$3,509	\$1,755	\$(1,602)	) \$60,634
Property and equipment additions	\$45,506	\$11,813	\$1,427	\$5,349	\$(2,625)	) \$61,470
At September 30, 2016						
Total assets	\$2,961,074	\$329,694	\$70,923	\$1,349,186	\$(1,501,815)	) \$3,209,062
At December 31, 2015						
Total assets	\$2,186,959	\$306,296	\$73,491	\$471,112	\$(536,726)	) \$2,501,132



VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2016  
(Unaudited)

## 11. Commitments and Contingencies

We have certain commitments including operating leases, purchase agreements and acquisition agreements. These items are discussed in detail in our consolidated financial statements and notes thereto included in our 2015 Annual Report on Form 10-K. We also have contingencies as follows:

### a. Earn-Out Payments

We have contractual arrangements in connection with certain acquisitions, whereby additional cash may be paid to former owners of acquired companies upon fulfillment of specified financial criteria as set forth in the respective agreements. The amount to be paid cannot be determined until the earn-out periods have expired. If the specified financial criteria are satisfied, we will be obligated to pay an additional \$8.5 million.

In accordance with business combination accounting guidance, contingent consideration, such as earn-outs, are recognized as part of the consideration transferred on the acquisition date. A liability is initially recorded based upon its acquisition date fair value. The changes in fair value are recognized in earnings where applicable for each reporting period. The fair value is determined using a contractually stated formula using either a multiple of revenue or Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"). The formulas used to determine the estimated fair value are Level 3 inputs. The changes in fair value were immaterial to our condensed, consolidated financial statements taken as a whole. We recorded \$6.6 million and \$3.5 million in earn-out liabilities as of September 30, 2016 and December 31, 2015, respectively, which are included in other accrued liabilities in our condensed, consolidated balance sheets.

### b. Legal Proceedings

On May 29, 2013, a former veterinary assistant at one of our animal hospitals filed a purported class action lawsuit against us in the Superior Court of the State of California for the County of Los Angeles, titled Jorge Duran vs. VCA Animal Hospitals, Inc., et. al. The lawsuit seeks to assert claims on behalf of current and former veterinary assistants employed by us in California, and alleges, among other allegations, that we improperly failed to pay regular and overtime wages, improperly failed to provide proper meal and rest periods, and engaged in unfair business practices. The lawsuit seeks damages, statutory penalties, and other relief, including attorneys' fees and costs. On May 7, 2014, we obtained partial summary judgment, dismissing four of eight claims of the complaint, including the claims for failure to pay regular and overtime wages. On January 9, 2014, Plaintiff Duran moved to certify a meal period premium class, a rest period premium class and a class under California's Business and Professions Code §§17200 et seq., On June 24, 2015, the Court denied Plaintiff's Motion. Plaintiff is now pursuing his representative claims under the seventh cause of action (Private Attorneys General Act or PAGA). We intend to continue to vigorously defend against the remaining claim in this action. At this time, we are unable to estimate the reasonable possible loss or range of possible loss, but do not believe losses, if any, would have a material effect on our results of operations or financial position taken as a whole.

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

and other relief, including attorneys' fees and costs. In September 2014, the court issued an order staying the La Kimba Bradsbery lawsuit, which stay remains in place. On or about August 23, 2016, the Court lifted the stay and discovery is proceeding. We intend to vigorously defend against the Bradsbery action. At this time, we are unable to estimate the reasonably possible loss or range of possible loss, but do not believe losses, if any, would have a material effect on our results of operations or financial position taken as a whole.

On July 12, 2013, an individual who provided courier services with respect to our laboratory clients in California filed a purported class action lawsuit against us in the Superior Court of the State of California for the County of Santa Clara - San Jose Branch, titled Carlos Lopez vs. Logistics Delivery Solutions, LLC, Antech Diagnostics, Inc., et. al. Logistics Delivery Solutions, LLC, a co-defendant in the lawsuit, is a company with which Antech has contracted to provide courier services in California. The lawsuit sought to assert claims on behalf of individuals who were engaged by Logistics Delivery Solutions, LLC to perform such courier services and alleges, among other allegations, that Logistics Delivery Solutions and Antech

VCA Inc. and Subsidiaries

Notes to Condensed, Consolidated Financial Statements (Continued)

September 30, 2016

(Unaudited)

11. Commitments and Contingencies, continued

Diagnostics improperly classified the plaintiffs as independent contractors, improperly failed to pay overtime wages, and improperly failed to provide proper meal periods. The lawsuit sought damages, statutory penalties, and other relief, including attorneys' fees and costs. The parties agreed to settle the action, on a class-wide basis, for an amount not to exceed \$1,250,000. Logistics Delivery Solutions, LLC, has agreed to pay half of the claim. Accordingly, as of June 30, 2016, we have accrued the remaining fifty percent. The settlement is not an admission of wrongdoing or acceptance of fault by any of the defendants named in the complaint. Antech Diagnostics and Logistics Delivery Solutions agreed to the settlement to eliminate the uncertainties, risk, distraction and expense associated with protracted litigation. The Court granted preliminary approval of the settlement on November 30, 2015 and issued an order granting final approval of the settlement on March 25, 2016. On April 11, 2016, the Court entered the Judgment approving the settlement and the judgment went into effect on June 1, 2016. The final settlement amount was approximately \$900,000, half of which was paid by DSA pursuant to our agreement. Payments to class members were made in early July 2016 and this matter is now closed.

On May 12, 2014, an individual client who purchased goods and services from one of our animal hospitals filed a purported class action lawsuit against us in the United States District Court for the Northern District of California, titled Tony M. Graham vs. VCA Antech, Inc. and VCA Animal Hospitals, Inc. The lawsuit sought to assert claims on behalf of the plaintiff and other individuals who purchased similar goods and services from our animal hospitals and alleged, among other allegations, that we improperly charged such individuals for "biohazard waste management" in connection with the services performed. The lawsuit sought compensatory and punitive damages in unspecified amounts, and other relief, including attorneys' fees and costs. VCA successfully had the venue transferred to the Southern District of California. Plaintiffs filed their motion for class certification on February 12, 2016. In late July 2016, VCA had filed a Summary Judgment Motion. The Honorable Christina Snyder issued her decision on September 12, 2016, denying Plaintiffs' motion for class certification and granting Defendants' summary judgment motion. Plaintiff in this action filed an appeal of this judgment in October 2016. We intend to continue to vigorously defend this action.

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

VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2016  
(Unaudited)

## 12. Noncontrolling Interests

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

### a. Mandatorily Redeemable Noncontrolling Interests

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

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

	Income Statement Impact	Mandatorily Redeemable Noncontrolling Interests	
Balance as of December 31, 2014		\$ 9,405	
Noncontrolling interest expense	\$ 1,088		
Redemption value change	1	1,089	
Purchase of noncontrolling interests		(803	)
Distributions to noncontrolling interests		(1,099	)
Currency translation adjustment		(338	)
Balance as of September 30, 2015		\$ 8,254	
Balance as of December 31, 2015		\$ 8,588	
Noncontrolling interest expense	\$ 1,220		
Redemption value change	80	1,300	
Distributions to noncontrolling interests		(1,088	)
Currency translation adjustment		117	
Balance as of September 30, 2016		\$ 8,917	





VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2016  
(Unaudited)

12. Noncontrolling Interests, continued

b. Redeemable Noncontrolling Interests

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

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

	Income Statement Impact	Redeemable Noncontrolling Interests
Balance as of December 31, 2014		\$ 11,077
Noncontrolling interest expense	\$ 1,021	
Redemption value change	371	1,392
Distributions to noncontrolling interests		(1,196 )
Balance as of September 30, 2015		\$ 11,273
Balance as of December 31, 2015		\$ 11,511
Noncontrolling interest expense	\$ 1,233	
Redemption value change	619	1,852
Purchase of noncontrolling interests		(98 )
Distributions to noncontrolling interests		(1,186 )
Balance as of September 30, 2016		\$ 12,079

VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2016  
(Unaudited)

### 13. Recent Accounting Pronouncements

In October 2016, the FASB issued Accounting Standards Update (ASU) 2016-17, "Consolidation (Topic 810) Interests held through Related Parties That are under Common Control," to amend the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE. The primary beneficiary of a VIE is the reporting entity that has a controlling financial interest in a VIE and, therefore, consolidates the VIE. A reporting entity has an indirect interest in a VIE if it has a direct interest in a related party that, in turn, has a direct interest in the VIE. The effective date and transition requirements of this ASU for public entities are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, with early adoption permitted. Since this update is related to ASU 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis," the amendments should be applied retrospectively if ASU 2015-02 has already been adopted. If not, amendments of both these ASUs should be adopted at the same time, with the same transition method elected for ASU 2015-02. We are currently evaluating the impact of the adoption of this ASU on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 710) Intra-Entity Transfers of Assets Other Than Inventory," to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. While current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party, this ASU requires the entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments in this Update are part of the Board's Simplification initiative and align the recognition of income tax consequences for intra-entity transfers of assets other than inventory with International Financial Reporting Standards (IFRS). The effective date and transition requirements of this ASU for public entities are effective for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods, with early adoption permitted. The amendments should be applied using a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We are currently evaluating the impact of the adoption of this ASU on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," to provide guidance on eight specific cash flow issues where current GAAP is unclear or does not have specific guidance. The cash flow issues covered by this ASU are: 1) debt prepayment or debt extinguishment costs; 2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; 3) contingent consideration payments made after a business combination; 4) proceeds from the settlement of insurance claims; 5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; 6) distributions received from equity method investees; 7) beneficial interests in securitization transactions; and 8) separately identifiable cash flows and application of the predominance principle. The effective date and transition requirements of this ASU for public entities are effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted. The amendments should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. We are currently evaluating the impact of the adoption of this ASU on our consolidated financial statements.

In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," to improve the guidance on Topic 606 in assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The effective date and transition requirements of this ASU are the same as ASU 2014-09. Since the effective date of ASU 2014-09 was deferred by ASU 2015-14 by one year, ASU 2014-09 and ASU 2016-10 are effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted only as of annual periods beginning after December 15, 2016, including interim periods within that reporting period. We are currently evaluating the impact of the adoption of this ASU on our consolidated financial statements.

VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2016  
(Unaudited)

### 13. Recent Accounting Pronouncements, continued

In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," to clarify some issues on Topic 606 that arose on the identifying performance obligations and the licensing implementation guidance. The effective date and transition requirements of this ASU are the same as ASU 2014-09. Since the effective date of ASU 2014-09 was deferred by ASU 2015-14 by one year, ASU 2014-09 and ASU 2016-10 are effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted only as of annual periods beginning after December 15, 2016, including interim periods within that reporting period. We are currently evaluating the impact of the adoption of this ASU on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting," as part of the Board's Simplification Initiative. The areas for simplification in this Update involves several aspects of share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for annual periods beginning after December 15, 2016, including interim periods within those annual periods, with early adoption permitted. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. We are currently evaluating the impact of the adoption of ASU 2016-09 on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)." The amendments in this Update affect the guidance in Accounting Standards Update 2014-09, "Revenue from Contracts with Customers (Topic 606)," which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements of Update 2014-09.

In March 2016, the FASB issued ASU 2016-07, "Investments-Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting." The amendments in this Update eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments in this Update require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier adoption is permitted. No additional disclosures are required at transition. We do not expect this adoption to have a significant impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842) Section A-Leases: Amendments to the FASB Accounting Standards Codification®; Section B-Conforming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification®; Section C-Background Information and Basis for Conclusions.” The amendments in this Update affect any entity that enters into a lease with some specified scope exemptions and supersedes Topic 840, Leases. The main difference between previous GAAP and Topic 842 is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP which did not require lease assets and lease liabilities to be recognized for most leases. The lease assets and lease liabilities arising from operating leases should be recognized in the statement of financial position. A lessee should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. When measuring

VCA Inc. and Subsidiaries  
Notes to Condensed, Consolidated Financial Statements (Continued)  
September 30, 2016  
(Unaudited)

### 13. Recent Accounting Pronouncements, continued

assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease.

The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." An entity should present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk if the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. For public business entities, this Update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. We do not expect this adoption to have a significant impact on our consolidated financial statements.

### 14. Subsequent Events

Subsequent to September 30, 2016, we acquired 11 hospitals for an estimated total consideration of \$58.0 million, with acquired revenues of \$30.7 million; the total consideration includes \$7.5 million for the purchase of real property in connection with one of the hospital acquisitions.

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

	Page
<u>Introduction</u>	<u>31</u>
<u>Executive Overview</u>	<u>32</u>
<u>Critical Accounting Policies</u>	<u>33</u>
<u>Consolidated Results of Operations</u>	<u>34</u>
<u>Segment Results</u>	<u>36</u>
<u>Liquidity and Capital Resources</u>	<u>44</u>

## Introduction

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

The forward-looking information set forth in this Quarterly Report on Form 10-Q is as of November 7, 2016, and we undertake no duty to update this information unless required by law. Shareholders and prospective investors can find information filed with the SEC after November 7, 2016 at our website at <http://investor.vca.com> or at the SEC’s website at [www.sec.gov](http://www.sec.gov).

We are a leading North American animal healthcare company. We provide veterinary services and diagnostic testing services to support veterinary care and we sell diagnostic imaging equipment and other medical technology products and related services to veterinarians. We also franchise a premier provider of pet services including dog day care, overnight boarding, grooming and other ancillary services at specially designed pet care facilities.

Our reportable segments are as follows:

Our Animal Hospital segment operates the largest network of freestanding, full-service animal hospitals in the nation. Our animal hospitals offer a full range of general medical and surgical services for companion animals. We treat diseases and injuries, offer pharmaceutical and retail products and perform a variety of pet wellness programs, including health examinations, diagnostic testing, routine vaccinations, spaying, neutering and dental care. At September 30, 2016, our animal hospital network consisted of 776 animal hospitals in 43 states and in five Canadian provinces.

Our Laboratory segment operates the largest network of veterinary diagnostic laboratories in the nation. Our laboratories provide sophisticated testing and consulting services used by veterinarians in the detection, diagnosis, evaluation, monitoring, treatment and prevention of diseases and other conditions affecting animals. At September 30, 2016, our laboratory network consisted of 60 laboratories serving all 50 states and certain areas in Canada.

For the three and nine months ended September 30, 2016, our “All Other” category includes the results of our Medical Technology and Camp Bow Wow operating segments. For the comparable prior periods in 2015, our “All Other” category included the results of operations of our Vetstreet operating segment, which we sold in December 2015. Each of these segments did not meet the materiality thresholds to be considered reportable segments.

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



## Use of Supplemental Non-GAAP Financial Measures

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

### Executive Overview

During the three and nine months ended September 30, 2016, we experienced increases in consolidated revenue, gross profit and operating income. The increases were primarily driven by revenue from our acquisitions and organic growth in our Animal Hospital and Laboratory segments. Our Animal Hospital same-store revenue increased 5.4% and 6.5% for the three and nine months ended September 30, 2016, respectively, as compared to the same periods in the prior year. Our Laboratory internal revenue increased 5.5% and 6.6% for the three and nine months ended September 30, 2016, respectively, as compared to the same periods in the prior year. Our consolidated operating income increased 10.2% and 17.4% for the three and nine months ended September 30, 2016, respectively, as compared to the same periods in the prior year. Our consolidated operating margin decreased by 130 basis points and remained flat for the three and nine months ended September 30, 2016, respectively, as compared to the same periods in the prior year. Our Non-GAAP consolidated operating income, which excludes the impact of intangible asset amortization associated with acquisitions, and other discrete items, increased 19.8% and 22.8% for the three and nine months ended September 30, 2016, respectively, as compared to the same periods in the prior year. Our Non-GAAP consolidated operating margins increased by 10 basis points and 80 basis points for the three and nine months ended September 30, 2016, respectively, as compared to the same periods in the prior year. The increase in Non-GAAP consolidated operating income was primarily due to improved results from our Animal Hospital and Laboratory business segments.

### Share Repurchase Program

In April 2013, our Board of Directors authorized a share repurchase for up to \$125 million of our common shares, which was completed in August 2014. In August 2014, our Board of Directors authorized the continuance of that share repurchase program, authorizing us to repurchase up to an additional \$400 million of our common shares. These repurchases may be made from time to time in open market transactions, pursuant to trading plans established in accordance with SEC rules, through privately negotiated transactions, block trades or accelerated share repurchases. The timing and number of shares repurchased will depend on a variety of factors, including price, capital availability, legal requirements and economic and market conditions. As of September 30, 2016, we had repurchased \$298.9 million of our common shares pursuant to our current share repurchase program. Accordingly, \$101.1 million remains available for future repurchases. The Company is not obligated to purchase any shares under the repurchase program, and repurchases may be suspended or discontinued at any time without prior notice. During the three and nine months ended September 30, 2016, no share repurchases were made since we elected to deploy our capital to fund acquisitions. Our share repurchase program has no expiration date. The repurchases have been and will continue to be funded by existing cash balances and by our revolving credit facility. Refer to Item 2. Unregistered Sales of Equity Securities and the Use of Proceeds in Part II of this report.

### Recent Developments

On May 1, 2016, we acquired an 80% ownership interest in CAPNA for approximately \$350.4 million. CAPNA, founded in 2010, and operated at the time of its acquisition, a network of 56 free standing animal hospitals in 18 states.

On June 29, 2016, we entered into a new senior credit facility with various lenders for approximately \$1.7 billion of senior secured credit facilities. The New Senior Credit Facility replaced our previous senior credit facility which provided for \$600 million of term notes and a \$800 million revolving credit facility. The New Senior Credit Facility provides for \$880 million of senior secured term notes and an \$800 million senior secured revolving facility, which may be used to borrow, on a same-day notice under a swing line, the lesser of \$25 million and the aggregate unused amount of the revolving credit facility then in effect. Refer to Note 6, Long-Term Obligations to the Unaudited Condensed, Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

### Acquisitions

Our annual growth strategy includes the acquisition of independent animal hospitals. We also evaluate the acquisition of animal hospital chains, laboratories and related businesses if favorable opportunities are presented. For the nine months ended September 30, 2016, we acquired \$145.5 million and \$178.3 million of annualized Animal Hospital revenue for independent animal hospitals and CAPNA, respectively.

The following table summarizes the changes in the number of facilities operated by our Animal Hospital and Laboratory segments during the nine months ended September 30, 2016 and 2015, respectively:

	Nine Months Ended September 30, 2016 2015	
Animal Hospitals:		
Beginning of period	682	643
Acquisitions	49	42
CAPNA acquisition	56	—
Acquisitions, merged	(3 )	(4 )
Sold, closed or merged	(8 )	(7 )
End of period	776	674
Laboratories:		
Beginning of period	60	59
Acquisitions	—	1
Acquisitions, merged	—	(1 )
End of period	60	59

### Critical Accounting Policies

Our condensed, consolidated financial statements have been prepared in accordance with GAAP, which require management to make estimates and assumptions that affect reported amounts. The estimates and assumptions are based on historical experience and on other factors that management believes to be reasonable. Actual results may differ from those estimates. Critical accounting policies represent the areas where more significant judgments and estimates are used in the preparation of our condensed, consolidated financial statements. A discussion of such critical accounting policies, which include revenue recognition, goodwill, other intangible assets, and income taxes, can be found in our 2015 Annual Report on Form 10-K. There have been no material changes to the policies noted above as of this Quarterly Report on Form 10-Q for the period ended September 30, 2016.

### Recent Accounting Pronouncements

A discussion of recent accounting pronouncements is included in Note 13, Recent Accounting Pronouncements to the Unaudited Condensed, Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

## Consolidated Results of Operations

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

	Three Months Ended		Nine Months Ended	
	September 30, 2016		September 30, 2015	
Revenue:				
Animal Hospital	84.2 %	80.1 %	82.8 %	79.4 %
Laboratory	16.0	18.2	17.3	18.8
All Other	3.5	5.6	3.5	5.9
Intercompany	(3.7 )	(3.9 )	(3.6 )	(4.1 )
Total revenue	100.0	100.0	100.0	100.0
Direct costs	76.2	75.0	75.6	75.5
Gross profit	23.8	25.0	24.4	24.5
Selling, general and administrative expense	7.5	8.1	7.9	8.4
Business interruption insurance gain	—	(0.8 )	—	(0.3 )
Net gain (loss) on sale or disposal of assets	—	0.1	—	(0.1 )
Operating income	16.3	17.6	16.5	16.5
Interest expense, net	1.4	1.0	1.3	1.0
Debt retirement costs	—	—	0.1	—
Income before provision for income taxes	14.9	16.6	15.1	15.5
Provision for income taxes	5.6	6.4	5.8	6.0
Net income	9.3	10.2	9.3	9.5
Net income attributable to noncontrolling interests	0.4	0.3	0.3	0.3
Net income attributable to VCA Inc.	8.9 %	9.9 %	9.0 %	9.2 %

## Revenue

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

	Three Months Ended					Nine Months Ended				
	September 30, 2016		2015		% Change	September 30, 2016		2015		% Change
\$	% of Total	\$	% of Total	\$		% of Total	\$	% of Total		
Animal Hospital	\$553,378	84.2 %	\$441,924	80.1 %	25.2 %	\$1,552,377	82.8 %	\$1,270,326	79.4 %	22.2 %
Laboratory	105,140	16.0 %	100,309	18.2 %	4.8 %	323,927	17.3 %	300,503	18.8 %	7.8 %
All Other	22,987	3.5 %	30,838	5.6 %	(25.5)%	65,797	3.5 %	93,734	5.9 %	(29.8)%
Intercompany	(24,651 )	(3.7 )%	(21,354 )	(3.9 )%	(15.4)%	(68,319 )	(3.6 )%	(64,608 )	(4.1 )%	(5.7 )%
Total revenue	\$656,854	100.0 %	\$551,717	100.0 %	19.1 %	\$1,873,782	100.0 %	\$1,599,955	100.0 %	17.1 %

Consolidated revenue increased \$105.1 million and \$273.8 million for the three and nine months ended September 30, 2016, respectively, as compared to the same periods in the prior year. The increases in revenue were primarily attributable to revenue from animal hospitals acquired since the beginning of the comparable periods in the prior year. Excluding the impact of acquisitions, revenue increased \$17.3 million and \$66.5 million for the three and nine months ended September 30, 2016, respectively, primarily due to organic growth in our Animal Hospital and Laboratory segments. The increases were partially offset by the impact of foreign currency translation and the sale of Vetstreet at the end of the prior fiscal year. Our Animal Hospital same-store revenue increased 5.4% and 6.5% for the three and nine months ended September 30, 2016, respectively, as compared to the same periods in the prior



year. Our Laboratory internal revenue growth was 5.5% and 6.6% for the three and nine months ended September 30, 2016, respectively, as compared to the same periods in the prior year.

#### Direct Costs

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

	Three Months Ended September 30, 2016			2015			Nine Months Ended September 30, 2016			2015		
	\$	% of Revenue	%	\$	% of Revenue	% Change	\$	% of Revenue	%	\$	% of Revenue	% Change
Animal Hospital	\$459,242	83.0 %		\$366,983	83.0 %	25.1 %	\$1,290,145	83.1 %		\$1,066,516	84.0 %	21.0 %
Laboratory	50,934	48.5 %		48,901	48.8 %	4.2 %	152,458	47.1 %		144,410	48.1 %	5.6 %
All Other	14,066	61.1 %		19,077	61.9 %	(26.3)%	41,049	62.4 %		59,160	63.1 %	(30.6)%
Intercompany	(23,965 )	(3.7 )%		(20,910 )	(3.8 )%	(14.6)%	(67,175 )	(3.6 )%		(62,506 )	(3.9 )%	(7.5 )%
Total direct costs	\$500,277	76.2 %		\$414,051	75.0 %	20.8 %	\$1,416,477	75.6 %		\$1,207,580	75.5 %	17.3 %

Consolidated direct costs increased \$86.2 million and \$208.9 million for the three and nine months ended September 30, 2016, respectively, as compared to the same periods in the prior year. The increases were primarily attributable to animal hospitals acquired since the beginning of the comparable periods in the prior year. Excluding the impact of animal hospital acquisitions and the sale of Vetstreet, the increases in direct costs were primarily due to compensation related costs, supplies, and rent, predominately in the animal hospital segment and discussed further under Segment Results.

#### Gross Profit

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

	Three Months Ended September 30, 2016			2015			Nine Months Ended September 30, 2016			2015		
	\$	Gross Margin	%	\$	Gross Margin	% Change	\$	Gross Margin	%	\$	Gross Margin	% Change
Animal Hospital	\$94,136	17.0 %		\$74,941	17.0 %	25.6 %	\$262,232	16.9 %		\$203,810	16.0 %	28.7 %
Laboratory	54,206	51.6 %		51,408	51.2 %	5.4 %	171,469	52.9 %		156,093	51.9 %	9.9 %
All Other	8,921	38.8 %		11,761	38.1 %	(24.1)%	24,748	37.6 %		34,574	36.9 %	(28.4)%
Intercompany	(686 )			(444 )			(1,144 )			(2,102 )		
Consolidated gross profit	\$156,577	23.8 %		\$137,666	25.0 %	13.7 %	\$457,305	24.4 %		\$392,375	24.5 %	16.5 %
Intangible asset amortization associated with acquisitions	9,369			5,750			24,784			17,013		
Non-GAAP consolidated gross profit and Non-GAAP gross margin <sup>(1)</sup>	\$165,946	25.3 %		\$143,416	26.0 %	15.7 %	\$482,089	25.7 %		\$409,388	25.6 %	17.8 %

<sup>(1)</sup> Non-GAAP consolidated gross profit and Non-GAAP gross margin are not measurements of financial performance prepared in accordance with GAAP. See Non-GAAP Financial Measures below for information

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

Consolidated gross profit increased \$18.9 million and \$64.9 million for the three and nine months ended September 30, 2016, respectively, as compared to the same periods in the prior year. Non-GAAP consolidated gross profit, which excludes the impact of intangible asset amortization associated with acquisitions, increased \$22.5 million and \$72.7 million for the three and nine months ended September 30, 2016, respectively, as compared to the same periods in the prior year. The increase in Non-GAAP consolidated gross profit was primarily attributable to acquisitions and organic revenue growth in our Animal Hospital and Laboratory business segments. The increase in Non-GAAP consolidated gross profit included \$16.9 million and \$39.9 million of gross profit related to acquisitions consummated since the beginning of the comparable periods in the prior year for the three and nine months ended September 30, 2015, respectively.

#### Segment Results

##### Animal Hospital Segment

##### Revenue

Animal Hospital revenue increased \$111.5 million and \$282.1 million for the three and nine months ended September 30, 2016, respectively, as compared to the same periods in the prior year. The components of the increase are summarized in the following table (in thousands, except percentages and average revenue per order):

	Three Months Ended			Nine Months Ended				
	September 30, 2016	2015	% Change	September 30, 2016	2015	% Change		
Same-store facilities:								
Orders <sup>(1)</sup>	2,550	2,524	1.0 %	7,158	7,035	1.7 %		
Average revenue per order <sup>(2)</sup>	\$180.14	\$172.70	4.3 %	\$183.78	\$175.62	4.6 %		
Same-store revenue <sup>(1)</sup>	\$459,363	\$435,892	5.4 %	\$1,315,486	\$1,235,514	6.5 %		
Business-day adjustment <sup>(3)</sup>	—	—		4,386	—			
Acquisitions	93,710	3,512		235,622	25,039			
Closures	176	2,520		3,603	9,773			
Net acquired revenue <sup>(4)</sup>	\$93,886	\$6,032		\$239,225	\$34,812			
Foreign currency impact	129	—		(6,720)	—			
Total	\$553,378	\$441,924	25.2 %	\$1,552,377	\$1,270,326	22.2 %		

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

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

(3) The 2016 Business-day adjustment reflects the impact of the one additional day in 2016 as compared to 2015.

Net acquired revenue represents the revenue from animal hospitals acquired, net of revenue from animal hospitals

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

During the three and nine months ended September 30, 2016, as compared to the same periods in the prior year, our volume of same-store orders increased primarily due to the combination of positive trends in the companion animal health care industry and the impact of certain previously implemented marketing initiatives in our animal hospitals.

Our business strategy is to place a greater emphasis on comprehensive wellness visits and advanced medical procedures, which typically generate higher-priced orders. During the three months ended September 30, 2016, we experienced an increase in the number of higher-priced orders partially offset by a slight decrease in the number of lower-priced orders. During the nine months ended September 30, 2016, we experienced an increase in the number of higher-priced orders and in the number of lower-priced orders.





Price increases, as well as the mix in year over year growth rates of low to high-priced orders contributed to the overall increase in the average revenue per order. Prices at each of our animal hospitals are reviewed regularly and adjustments are made based on market considerations, demographics and our costs. These adjustments historically approximated an increase of 3% to 6% on most services at the majority of our animal hospitals and are typically implemented in November of each year; however, price increases in November 2015 generally ranged between 4% and 6%.

#### Direct Costs

Animal Hospital direct costs increased \$92.3 million for the three months ended September 30, 2016, as compared to the same period in the prior year. The increase was primarily due to an increase in compensation related expenses of \$54.4 million, medical supplies of \$14.9 million, depreciation and amortization of \$5.5 million and rent of \$4.4 million. The remainder of the increase was attributed to other categories, all of which were individually immaterial. The increase in compensation related-costs and medical supplies generally are related to revenue growth and acquisitions. The increase in depreciation and amortization is related to acquired animal hospitals.

Animal Hospital direct costs increased \$223.6 million for the nine months ended September 30, 2016, as compared to the same period in the prior year. The increase was primarily due to an increase in compensation related expenses of \$133.2 million, medical supplies of \$37.1 million, depreciation and amortization of \$11.9 million and rent of \$10.4 million. The remainder of the increase was attributed to other categories, all of which were individually immaterial. The increase in compensation related-costs and medical supplies generally are related to revenue growth and acquisitions. The increase in depreciation and amortization is related to acquired animal hospitals.

#### Gross Profit

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

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

	Three Months Ended			Nine Months Ended		
	September 30,		% Change	September 30,		% Change
	2016	2015		2016	2015	
Gross profit	\$94,136	\$74,941	25.6 %	\$262,232	\$203,810	28.7 %
Intangible asset amortization associated with acquisitions	8,482	4,658		21,917	13,895	
Non-GAAP gross profit <sup>(1)</sup>	\$102,618	\$79,599	28.9 %	\$284,149	\$217,705	30.5 %
Gross margin	17.0 %	17.0 %		16.9 %	16.0 %	
Non-GAAP gross margin <sup>(1)</sup>	18.5 %	18.0 %		18.3 %	17.1 %	
Same-store gross profit	\$80,589	\$74,026	8.9 %	\$231,292	\$201,309	14.9 %
Intangible asset amortization associated with acquisitions	3,979	4,537		10,946	12,970	
Non-GAAP same-store gross profit <sup>(1)</sup>	\$84,568	\$78,563	7.6 %	\$242,238	\$214,279	13.0 %
Same-store gross margin	17.5 %	17.0 %		17.5 %	16.3 %	
Non-GAAP same-store gross margin <sup>(1)</sup>	18.4 %	18.0 %		18.4 %	17.3 %	

(1) Non-GAAP gross profit and Non-GAAP gross margin and the same measures expressed on a same store basis, are not measurements of financial performance prepared in accordance with GAAP. See Non-GAAP Financial Measures below for information about these Non-GAAP financial measures, including our reasons for including the measures, material

limitations with respect to the usefulness of the measures, and a reconciliation of each Non-GAAP financial measure to the most directly comparable GAAP financial measure.

Consolidated Animal Hospital gross profit increased \$19.2 million and \$58.4 million for the three and nine months ended September 30, 2016, respectively, as compared to the same periods in the prior year. Non-GAAP gross profit, which excludes the impact of intangible asset amortization associated with acquisitions, increased \$23.0 million and \$66.4 million for the three and nine months ended September 30, 2016, respectively, as compared to the same periods in the prior year. The increase in Non-GAAP consolidated gross profit was primarily attributable to additional gross profit from acquired animal hospitals of \$17.0 million and \$37.7 million for the three and nine months ended September 30, 2016, respectively, and same-store revenue growth.

Over the last several years, we have acquired a significant number of animal hospitals. Many of these newly acquired animal hospitals had lower gross margins at the time of acquisition than those previously operated by us. We have improved these lower gross margins, in the aggregate, subsequent to the acquisition primarily through cost efficiencies.

#### Laboratory Segment

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Revenue	\$105,140	\$100,309	4.8 %	\$323,927	\$300,503	7.8 %
Gross profit	\$54,206	\$51,408	5.4 %	\$171,469	\$156,093	9.9 %
Gross margin	51.6 %	51.2 %		52.9 %	51.9 %	

Laboratory revenue increased \$4.8 million and \$23.4 million for the three and nine months ended September 30, 2016, respectively, as compared to the same periods in the prior year. The components of the increase in Laboratory revenue are detailed below (in thousands, except percentages and average revenue per requisition):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
Internal growth:						
Number of requisitions <sup>(1)</sup>	3,495	3,384	3.3 %	10,614	10,231	3.7 %
Average revenue per requisition <sup>(2)</sup>	\$30.08	\$29.45	2.1 %	\$30.18	\$29.37	2.8 %
Total internal revenue <sup>(1)</sup>	\$105,140	\$99,662	5.5 %	\$320,332	\$300,503	6.6 %
Billing-day adjustment <sup>(3)</sup>	—	647		695	—	
Acquired revenue <sup>(4)</sup>	—	—		2,900	—	
Total	\$105,140	\$100,309	4.8 %	\$323,927	\$300,503	7.8 %

Internal revenue and requisitions were calculated using Laboratory operating results, which are adjusted (i) to exclude the operating results of acquired laboratories we recognized during the current year period that we did not own them in the prior year, and (ii) for the impact resulting from any differences in the number of billing days in the comparable period, if applicable.

<sup>(2)</sup> Computed by dividing internal revenue by the number of requisitions.

<sup>(3)</sup> The business day adjustment for the three months ended September 30, 2015 reflects the impact of an additional half day as compared to 2016. The 2016 business day adjustment for the nine months ended September 30, 2016,

reflects the impact of an additional half day as compared to 2015.

- (4) Acquired revenue represents the revenue we recognized from our acquired laboratories during the current year period that we did not own them in the prior year.

The increase in Laboratory revenue for the three and nine months ended September 30, 2016, as compared to the same periods in the prior year, was due to an increase in the number of requisitions and an increase in the average revenue per requisition. The change in the average revenue per requisition was impacted by price increases in February 2016 and changes in product mix.

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

Our Laboratory gross margin increased to 51.6% and 52.9% for the three and nine months ended September 30, 2016, respectively, as compared to 51.2% and 51.9% for the same periods in the prior year. The improvement in gross margins is primarily attributable to leverage on our fixed costs, including transportation costs.

#### Intercompany Revenue

Laboratory revenue for the three and nine months ended September 30, 2016 included intercompany revenue of \$20.2 million and \$56.5 million, respectively, generated by providing laboratory services to our animal hospitals, as compared to \$16.2 million and \$47.9 million for the respective prior year periods. All Other revenue for the three and nine months ended September 30, 2016 included intercompany revenue of \$5.5 million and \$15.2 million, respectively, generated by providing products and services to our animal hospitals and laboratories, as compared to \$6.3 million and \$19.8 million for the respective prior year periods. For purposes of reviewing the operating performance of our segments, all intercompany transactions are accounted for as if the transaction was with an independent third party at current market prices. For financial reporting purposes, intercompany transactions are eliminated as part of our consolidation.

#### Selling, General and Administrative (SG&A) Expense

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

	Three Months Ended September 30, 2016				September 30, 2015				Nine Months Ended September 30, 2016				September 30, 2015			
	\$	% of Revenue	%	Change	\$	% of Revenue	%	Change	\$	% of Revenue	%	Change	\$	% of Revenue	%	Change
Animal Hospital <sup>(1)</sup>	\$15,541	2.8	%	45.6	\$10,677	2.4	%		\$41,903	2.7	%		\$32,351	2.5	%	29.5
Laboratory	9,728	9.3	%	1.9	9,542	9.5	%		29,726	9.2	%		27,894	9.3	%	6.6
All Other	6,064	26.4	%	(20.8)	7,660	24.8	%		17,385	26.4	%		24,088	25.7	%	(27.8)
Corporate	18,010	2.7	%	6.1	16,981	3.1	%		58,647	3.1	%		49,410	3.1	%	18.7
Total SG&A	\$49,343	7.5	%	10.0	\$44,860	8.1	%		\$147,661	7.9	%		\$133,743	8.4	%	10.4
Intangible asset amortization associated with acquisitions	1,313				61				1,925				182			
Non-GAAP Consolidated SG&A <sup>(2)</sup>	\$48,030				\$44,799				\$145,736				\$133,561			

<sup>(1)</sup> Animal Hospital SG&A as a percentage of revenue excluding CAPNA totaled 2.4% and 2.5%, for the three and nine months ended September 30, 2016, respectively. CAPNA SG&A included intangible asset amortization of \$1.3 million and \$1.9 million for the three and nine months ended September 30, 2016, respectively.



- (2) Non-GAAP SG&A is not a measurement of financial performance prepared in accordance with GAAP. See Non-GAAP Financial Measures below for information about this Non-GAAP financial measure, including our reasons for including the measure and material limitations with respect to the usefulness of the measure, and a reconciliation of each Non-GAAP financial measure to the most directly comparable GAAP financial measure.

Consolidated SG&A expense increased \$4.5 million for the three months ended September 30, 2016, as compared to the same period in the prior year. The increase was primarily due to the acquisition of CAPNA during the period. Excluding SG&A related to CAPNA, consolidated SG&A increased \$1.3 million for the three months ended September 30, 2016. The increase in consolidated SG&A expense for the three months ended September 30, 2016, was primarily due to increases in compensation related expenses at Corporate and our Animal Hospital segment of \$0.5 million and \$1.3 million, respectively, related to increased headcount to support our growing operations and to a lesser extent, executive compensation. These increases were slightly offset by a decrease in our All Other SG&A expense as a result of the sale of our Vetstreet business at the end of our prior fiscal year.

Consolidated SG&A expense increased \$13.9 million for the nine months ended September 30, 2016, as compared to the same period in the prior year. Excluding SG&A related to CAPNA, consolidated SG&A increased \$8.3 million for the nine months ended September 30, 2016. The increase in consolidated SG&A expense for the nine months ended September 30, 2016, was primarily due to increases in compensation related expenses at Corporate, and in our Animal Hospital and Laboratory segments of \$5.8 million, \$3.9 million and \$0.6 million, respectively, related to increased headcount to support our growing operations and to a lesser extent, executive compensation. These increases were slightly offset by a decrease in our All Other SG&A expense as a result of the sale of our Vetstreet business at the end of our prior fiscal year.

#### Operating Income

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

	Three Months Ended September 30,					Nine Months Ended September 30,				
	2016		2015		%	2016		2015		%
	\$	% of Revenue	\$	% of Revenue	Change	\$	% of Revenue	\$	% of Revenue	Change
Animal Hospital	\$78,291	14.1 %	\$64,089	14.5 %	22.2 %	\$219,582	14.1 %	\$171,904	13.5 %	27.7 %
Laboratory	44,477	42.3 %	41,866	41.7 %	6.2 %	141,777	43.8 %	128,158	42.6 %	10.6 %
All Other	2,856	12.4 %	8,552	27.7 %	(66.6)%	7,359	11.2 %	14,917	15.9 %	(50.7)%
Corporate	(17,940 )		(16,984 )		(5.6 )%	(58,458 )		(49,488 )		(18.1)%
Eliminations	(686 )		(444 )		(54.5)%	(1,144 )		(2,102 )		45.6 %
Total GAAP consolidated operating income	\$106,998	16.3 %	\$97,079	17.6 %	10.2 %	\$309,116	16.5 %	\$263,389	16.5 %	17.4 %
Impact of business interruption	—		(4,523 )			—		(4,523 )		
insurance gain										
Adjustments to other long-term liabilities	—		—			1,954		—		
Transaction costs related to the CAPNA acquisition	146		—			1,343		—		
Intangible asset amortization	10,682		5,811			26,709		17,195		



associated with  
 acquisitions  
 Non-GAAP  
 consolidated  
 operating income  
 and Non-GAAP  
 consolidated  
 operating margin  
 (1)

\$117,826	17.9 %	\$98,367	17.8 %	19.8 %	\$339,122	18.1 %	\$276,061	17.3 %	22.8 %
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Non-GAAP consolidated operating income and Non-GAAP consolidated operating margin are not measurements of financial performance prepared in accordance with GAAP. See Non-GAAP Financial Measures below for information about these Non-GAAP financial measures, including our reasons for including the measures, material limitations with respect to the usefulness of the measures, and a reconciliation of each Non-GAAP financial measure to the most directly comparable GAAP financial measure.

Consolidated operating income increased by \$9.9 million and \$45.7 million during the three and nine months ended September 30, 2016, respectively, as compared to the same periods in the prior year. Non-GAAP consolidated operating income which excludes the impact of adjustments in the table above, increased by \$19.5 million and \$63.1 million for the three and nine months ended September 30, 2016, respectively, as compared to the same periods in the prior year. The increases in Non-GAAP consolidated operating income for the three and nine months ended September 30, 2016, were primarily related to improved results, as mentioned above in our Animal Hospital and Laboratory segments, partially offset by the decrease in our All Other operating income as a result of the sale of our Vetstreet business at the end of the prior fiscal year.

#### Intangible asset amortization associated with acquisitions

Included in our direct costs and SG&A is amortization expense related to our acquired intangible assets. At acquisition we assign a fair market value to identifiable intangible assets other than goodwill in our purchase price allocation. These assets include non-contractual customer relationships, covenants not-to-compete, trademarks, contracts and technology. For those identified intangible assets that have finite lives, we amortize those values over the estimated useful lives. For the three and nine months ended September 30, 2016, amortization expenses associated with acquired intangible assets were \$10.7 million and \$26.7 million, respectively. For the three and nine months ended September 30, 2015, amortization expenses associated with acquired intangible assets were \$5.8 million, and \$17.2 million, respectively.

#### Interest Expense, Net

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Interest expense:				
Senior term notes and revolver	\$6,920	\$3,535	\$16,891	\$9,839
Capital leases and other	2,084	1,513	5,084	4,351
Amortization of debt costs	384	436	1,248	1,307
Non-GAAP interest expense <sup>(1)</sup>	9,388	5,484	23,223	15,497
Adjustments to other long-term liabilities	—	—	1,398	—
Consolidated interest expense	9,388	5,484	24,621	15,497
Interest income	(88 )	(29 )	(359 )	(101 )
Total consolidated interest expense, net of interest income	\$9,300	\$5,455	\$24,262	\$15,396

<sup>(1)</sup> Non-GAAP interest expense is not a measurement of financial performance prepared in accordance with GAAP.

See Non-GAAP Financial Measures below for information about this financial measure including our reasons for including the measure and material limitations with respect to the usefulness of this measure.

The increase in consolidated net interest expense for the three and nine months ended September 30, 2016, as compared to the same periods in the prior year, was primarily attributable to an increase in the weighted average debt balance of our senior credit facility and a higher effective LIBOR rate applied against our total credit facility. The increase in our weighted average debt balance was primarily related to additional drawings from our revolving credit facility, of which \$345 million was drawn in connection with the acquisition of CAPNA during the three months ended June 30, 2016. Drawings on the revolving credit facility during the nine months ended September 30, 2016 totaled \$465 million. Additionally, an interest expense adjustment related to other long-term liabilities further contributed to increase in consolidated net interest expense for the nine months ended September 30, 2016, as compared to the same period in the prior year.

#### Provision for Income Taxes

The effective tax rate of net income attributable to VCA for the three and nine months ended September 30, 2016 was 38.9% and 39.4%, as compared to 39.1% for the year ended December 31, 2015.



## Inflation

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

## Non-GAAP Financial Measures

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

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

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

Our Non-GAAP financial measures may not be comparable to similarly titled measures of other companies. Other companies, including companies in our industry, may calculate the Non-GAAP financial measures differently than we do, limiting the usefulness of those measures for comparative purposes. In addition, these items can have a material impact on earnings. Our management compensates for the foregoing limitations by relying primarily on our GAAP results and using Non-GAAP financial measures supplementally. The Non-GAAP financial measures are not meant to be considered as indicators of performance in isolation from or as a substitute for consolidated gross profit or gross margin prepared in accordance with GAAP and should be read only in conjunction with financial information presented on a GAAP basis. We have presented reconciliations of each Non-GAAP financial measure to the most comparable GAAP measure for the three and nine months ended September 30, 2016 and encourage you to review the reconciliations in conjunction with the presentation of the Non-GAAP financial measures for each of the periods included in this report. Refer to the tables above in the gross profit, SG&A and operating income sections within Part I, Item 2 of this report for a reconciliation of consolidated gross profit to Non-GAAP gross profit, consolidated SG&A to Non-GAAP SG&A and consolidated operating income to Non-GAAP operating income.

Our Non-GAAP adjustments include the following:

• Adjustments to other long-term liabilities - We recorded a non-cash charge of \$3.4 million, of which \$2.0 million related to compensation and \$1.4 million related to interest accretion.

• Discrete tax items - We recorded a non-cash tax adjustment to our income tax liabilities for \$1.0 million.

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

• Transaction costs related to the CAPNA acquisition - For the three and nine months ended September 30, 2016, we have recorded transaction costs of \$146,000 and \$1.3 million, respectively, related to our acquisition of CAPNA.

Debt retirement costs adjustment - We incurred debt retirement costs of \$1.6 million in connection with our new credit facility.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
GAAP net income	\$58,231	\$54,854	\$168,508	\$147,454
Impact of business interruption insurance gain	—	(4,523 )	—	(4,523 )
Adjustments to other long-term liabilities	—	—	3,352	—
Discrete tax items	—	—	1,045	—
Transaction costs related to CAPNA acquisition	146	—	1,343	—
Debt retirement costs	—	—	1,600	—
Intangible asset amortization associated with acquisitions	9,907	5,811	25,381	17,195
Tax benefit on above adjustments	(3,934 )	(503 )	(12,396 )	(4,959 )
Non-GAAP net income	\$64,350	\$55,639	\$188,833	\$155,167
Non-GAAP diluted earnings per share	\$0.79	\$0.68	\$2.31	\$1.88
Shares used for computing adjusted diluted earnings per share	81,812	81,795	81,695	82,744

## Liquidity and Capital Resources

### Introduction

We generate cash primarily from (i) payments made by customers for our veterinary services, (ii) payments from animal hospitals and other clients for our laboratory services, and (iii) proceeds received from the sale of our imaging equipment and other related services. In addition, prior to its sale in 2015, we generated cash from payments received from participating hospitals for Vetstreet subscriptions and reminder notices. Our business historically has experienced strong liquidity, as fees for services provided in our animal hospitals are due at the time of service and fees for laboratory services are collected under standard industry terms. Our cash disbursements are primarily for payments related to the compensation of our employees, supplies and inventory purchases for our operating segments, occupancy and other administrative costs, interest expense, payments on long-term borrowings, capital expenditures, acquisitions and shares repurchases. Cash outflows fluctuate with the amount and timing of the settlement of these transactions.

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

At September 30, 2016, our consolidated cash and cash equivalents totaled \$72.9 million, representing an decrease of \$26.0 million, compared to December 31, 2015. Cash flows generated from operating activities totaled \$290.9 million for the nine months ended September 30, 2016, representing an increase of \$43.9 million, compared to the nine months ended September 30, 2015.

At September 30, 2016, \$23.5 million of the \$72.9 million of cash and cash equivalents were held by foreign subsidiaries. Our intention is to indefinitely reinvest foreign earnings in our foreign subsidiaries. If these earnings were used to fund domestic operations, they would be subject to additional income taxes upon repatriation.

We have historically funded our working capital requirements, capital expenditures, investments in the acquisition of individual hospitals and laboratories, and other smaller acquisitions primarily from internally generated cash flows. As of September 30, 2016 we had \$460 million available under our revolving credit facility, which allows us to maintain further operating and financial flexibility. In the future, we plan to utilize our revolving credit facility to supplement our internally generated cash flows to fund both our acquisition pipeline and our share repurchase program. See Note 6, Long-Term Obligations, in our condensed, consolidated financial statements of this quarterly report on Form 10-Q for a more detailed discussion.

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

### Future Cash Flows

#### Short-Term

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

In August 2014, our Board of Directors authorized the continuance of our April 2013 share repurchase program, which was completed in August 2014. This plan authorizes us to repurchase up to an additional \$400 million of our common shares from time to time in open market purchases, pursuant to trading plans established in accordance with SEC rules, through privately negotiated transactions, block trades and accelerated share repurchases. The timing and number of shares repurchased will depend on a variety of factors, including price, capital availability, legal requirements and economic and market conditions. As of September 30, 2016, we had repurchased \$298.9 million of our common shares pursuant to our current share repurchase program. Accordingly, \$101.1 million remains available for future repurchases. The Company is not obligated to purchase any shares under the repurchase program, and repurchases may be suspended or discontinued at any time without prior notice. The repurchases have been and will

continue to be funded by existing cash balances and by our revolving credit facility. During the quarter ended September 30, 2016, we did not repurchase any shares under the existing repurchase authorization.

For the year ended 2016, we expect to spend approximately \$105.0 million for both property and equipment additions and capital costs necessary to maintain our existing facilities, of which, \$90.5 million has been incurred through September 30, 2016.



### Long-Term

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

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

### Debt Related Covenants

Our New Senior Credit Facility contains certain financial covenants pertaining to interest coverage and leverage ratios. As of September 30, 2016, we were in compliance with these covenants, including the two covenant ratios, the interest coverage ratio and the leverage ratio.

At September 30, 2016, we had an interest coverage ratio of 16.88 to 1.00, which was in compliance with the required ratio of no less than 3.00 to 1.00. The New Senior Credit Facility defines the interest coverage ratio as that ratio that is calculated on a last 12-month basis by dividing pro forma earnings before interest, taxes, depreciation and amortization, as defined by our New Senior Credit Facility (“pro forma earnings”), by consolidated interest expense. Interest expense is defined as total interest expense with respect to all outstanding indebtedness, including commissions, discounts and other fees charged related to letters of credit. Pro forma earnings include 12 months of operating results for businesses acquired during the period.

At September 30, 2016, we had a leverage ratio of 2.58 to 1.00, which was in compliance with the required ratio of no more than 4.00 to 1.00 from September 30, 2016 until December 31, 2016 as defined under the New Senior Credit facility. The New Senior Credit Facility defines the leverage ratio as that ratio which is calculated as total debt divided by pro forma earnings.

### Historical Cash Flows

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

	Nine Months Ended September 30, 2016	2015
Cash provided by		
(used in):		
Operating activities	\$ 290,882	\$ 247,016
Investing activities	(696,136 )	(174,771 )
Financing activities	379,138	(77,805 )
Effect of currency exchange rate changes on cash and cash equivalents	142	(831 )
Decrease in cash and cash equivalents	(25,974 )	(6,391 )
Cash and cash equivalents at beginning of period	98,888	81,383
Cash and cash equivalents at end	\$ 72,914	\$ 74,992

of period

Cash Flows from Operating Activities

Net cash provided by operating activities increased by \$43.9 million for the nine months ended September 30, 2016, as compared to the prior-year period. Operating cash flows for the nine months ended September 30, 2016 included \$174.9 million of net income, net non-cash expenses of \$96.1 million and net cash provided as a result of changes in operating assets and liabilities of \$19.8 million. The changes in operating assets and liabilities included a \$27.8 million decrease in prepaid income taxes, an \$11.1 million increase in accounts payable and other accrued liabilities, and an \$8.4 million increase in income taxes payable, partially offset by an \$11.7 million increase in inventory, prepaid expenses and other assets, an \$8.0 million increase in trade accounts receivable, and a \$7.8 million decrease in accrued payroll and related liabilities.

The decreases in prepaid income taxes and accrued interest, and the increases in accounts payable and other accrued liabilities and income taxes payable are primarily due to the timing of payment obligations. The increase in trade accounts receivable was primarily due to increased revenues in both our Hospital and Laboratory business segments and is partially being offset by a decrease

in our Medical Technology business segment due to improved collection efforts. The increase in inventory, prepaid expenses and other assets is primarily due to the acquisition of CAPNA. The decrease in accrued payroll and related liabilities is also primarily due to the timing of payment obligations.

Net cash provided by operating activities increased by \$22.0 million for the nine months ended September 30, 2015, as compared to the prior-year period. Operating cash flows for the nine months ended September 30, 2015 included \$151.9 million of net income, net non-cash expenses of \$72.1 million and net cash provided as a result of changes in operating assets and liabilities of \$23.0 million. The changes in operating assets and liabilities included a \$28.1 million decrease in income taxes which consisted of a \$26.2 million decrease in prepaid income taxes and a \$1.8 million increase in income taxes payable, and an \$18.9 million increase in accrued payroll and related liabilities. This was partially offset by a \$20.6 million increase in trade accounts receivable, a \$2.5 million decrease in accounts payable and other accrued liabilities and a \$1.0 million increase in inventory, prepaid expenses and other assets. The decreases in prepaid income taxes and income taxes payable and the increase in accrued payroll and related liabilities was primarily due to timing of payment obligations. The increase in trade accounts receivable was primarily due to an increase in our Laboratory business segment revenue as compared to the prior-year period, as well as increased revenue related to our Hospital business segment. The decrease in accounts payable and other accrued liabilities was also a result of timing of payment obligations. The increase in inventory, prepaid expenses, and other assets was primarily due to increases in service agreements entered into by our Laboratory business segment, and increased medical supplies in relation to the acquired hospitals in 2015, along with new product offerings. These increases were partially offset by the receipt of the insurance payment related to the May 2014 fire at our Medical Technology business and the depletion of certain products.

#### Cash Flows from Investing Activities

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

	Nine Months Ended		
	September 30,		Change
	2016	2015	
<b>Investing Cash Flows:</b>			
Business acquisitions, net of cash acquired	\$(599,655)	\$(119,336)	\$(480,319) <sup>(1)</sup>
Property and equipment additions	(90,546 )	(61,470 )	(29,076 ) <sup>(2)</sup>
Proceeds from sale or disposal of assets	1,699	6,469	(4,770 ) <sup>(3)</sup>
Other	(7,634 )	(434 )	(7,200 ) <sup>(4)</sup>
Net cash used in investing activities	\$(696,136)	\$(174,771)	\$(521,365)

The number of acquisitions will vary from period to period based upon the available pool of suitable candidates, <sup>(1)</sup> however, the increase is primarily attributable to the acquisition of CAPNA during the nine months ended September 30, 2016. A discussion of our acquisitions is provided above in our Executive Overview.

<sup>(2)</sup> The cash used to acquire property and equipment will vary from period to period based on upgrade requirements and expansion of our animal hospitals and laboratory facilities.

<sup>(3)</sup> The proceeds from the sale or disposal of assets in 2015 primarily relates to the sale of a hospital.

<sup>(4)</sup> We paid \$7.2 million in connection with our acquisition holdbacks. Payouts will vary from period to period based on the timing of each acquisition and the acquisition holdback period.



## Cash Flows from Financing Activities

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

	Nine Months Ended		
	September 30, 2016	2015	Change
Financing Cash Flows:			
Repayment of long-term obligations	\$(1,263,394)	\$(20,174)	\$(1,243,220) <sup>(1)</sup>
Proceeds from issuance of long-term obligations	1,255,000	—	1,255,000 <sup>(1)</sup>
Proceeds from revolving credit facility	465,000	97,000	368,000 <sup>(2)</sup>
Repayment of revolving credit facility	(65,000)	—	(65,000) <sup>(3)</sup>
Payment of financing costs	(3,817)	—	(3,817) <sup>(4)</sup>
Distributions to noncontrolling interests	(4,752)	(3,810)	(942)
Purchase of noncontrolling interests	(4,239)	(1,493)	(2,746) <sup>(4)</sup>
Proceeds from issuance of common stock under stock incentive plans	3,949	1,571	2,378 <sup>(5)</sup>
Excess tax benefits from share-based compensation	7,588	8,008	(420)
Stock repurchases	(9,887)	(161,117)	151,230 <sup>(6)</sup>
Other	(1,310)	2,210	(3,520) <sup>(7)</sup>
Net cash provided by (used in) financing activities	\$379,138	\$(77,805)	\$456,943

On June 29, 2016, we entered into a New Senior Credit Facility which resulted in the payoff of our previous senior credit facility in the amount of \$577.5 million and \$667.0 million for our term notes and revolving credit facility, respectively, proceeds of \$880.0 million and \$375.0 million from the issuance of new senior secured term notes and borrowings under our senior secured revolving facility, respectively, and payments of \$3.8 million related to financing costs to creditors and third parties. A discussion of our New Senior Credit Facility is provided above in Note 6, Long-Term Obligations. Additionally, the repayments of long-term obligations also include \$15.9 million in scheduled senior-term note principal and capital lease payments. Our principal payment obligations on our New Senior Credit Facility commenced in September 2016.

<sup>(1)</sup> We borrowed \$435.0 million from our previous revolving credit facility and \$30.0 million from our new revolving credit facility in which the proceeds were primarily used to fund our acquisitions.

The \$97.0 million borrowed from our previous revolving credit facility in 2015 was primarily used to fund stock repurchases under our existing \$400.0 million share repurchase authorization and fund our acquisitions.

<sup>(2)</sup> In August 2016 we made a payment of \$65.0 million to reduce the balance of our new revolving credit facility in an effort to minimize our interest expense and to manage our overall cash balance.

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

<sup>(4)</sup> The proceeds from the issuance of common stock under stock incentive plans increased in 2016 as there were more exercises due to options nearing their expiration.

<sup>(5)</sup> For the nine months ended September 30, 2016, the cash paid for stock repurchases related to income taxes paid on behalf of employees who elected to net settle their tax obligation from option exercises and vested stock.

For the nine months ended September 30, 2015, the cash paid for stock repurchases included both the repurchase of our common shares in accordance with our share repurchase program and income taxes paid on behalf of employees who elected to net settle their tax obligation from option exercises and vested stock.

<sup>(6)</sup> In September 2015, we received \$2.7 million in proceeds from the formation of a noncontrolling interest.



## Future Contractual Cash Requirements

The following table sets forth material changes from the amounts reported in our 2015 Form 10-K to our scheduled principal and interest due by us for each of the years indicated as of September 30, 2016 (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	\$1,214,500	\$27,500	\$93,500	\$1,093,500	\$ —
Variable cash interest expense Term A <sup>(1)</sup>	120,920	27,416	52,243	41,261	—
	\$1,335,420	\$54,916	\$145,743	\$1,134,761	\$ —

<sup>(1)</sup> The interest payments on our variable-rate senior term notes are based on rates effective as of September 30, 2016.

## Off-Balance-Sheet Financing Arrangements

Other than operating leases, as of September 30, 2016, we do not have any off-balance-sheet financing arrangements.

## Description of Indebtedness

## New Senior Credit Facility

We entered into a new senior credit facility on June 29, 2016 and pay interest on our senior term notes and revolving credit facility based on the interest rate offered to our administrative agent on, the Eurodollar rate plus the applicable margin determined by reference to the leverage ratio in effect from time-to-time, ranging from 1.00% to 2.00% per annum, as set forth in the table in Note 6, Long-Term Obligations, of this quarterly report on Form 10-Q. We pay a commitment fee on our revolving credit facility determined by reference to the Leverage Ratio in effect from time-to-time ranging from 0.25% to 0.40% per annum, as set forth in Note 6, Long-Term Obligations, of this quarterly report on Form 10-Q.

At September 30, 2016, we had \$875 million in principal outstanding under our senior term notes and \$340 million borrowings outstanding under our revolving credit facility.

The senior term notes and the revolving credit facility mature in June 2021.

## Other Debt and Capital Lease Obligations

At September 30, 2016, we had a seller note secured by assets of a certain animal hospital, capital leases, and other debt that consisted of \$5.0 million and \$66.2 million included in the current portion and non-current portion of long-term debt, respectively. Our seller note matures in 2016 and has an interest rate of 10.0%. Our capital leases and other debt have various maturities through 2042 and various interest rates ranging from 1.9% to 15.0%.

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

There have been no material changes in our quantitative and qualitative disclosures about market risk from those disclosed in Part II, Item 7A, of our 2015 Annual Report on Form 10-K.

### ITEM 4. CONTROLS AND PROCEDURES

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

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

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



## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

On May 29, 2013, a former veterinary assistant at one of our animal hospitals filed a purported class action lawsuit against us in the Superior Court of the State of California for the County of Los Angeles, titled Jorge Duran vs. VCA Animal Hospitals, Inc., et. al. The lawsuit seeks to assert claims on behalf of current and former veterinary assistants employed by us in California, and alleges, among other allegations, that we improperly failed to pay regular and overtime wages, improperly failed to provide proper meal and rest periods, and engaged in unfair business practices. The lawsuit seeks damages, statutory penalties, and other relief, including attorneys' fees and costs. On May 7, 2014, we obtained partial summary judgment, dismissing four of eight claims of the complaint, including the claims for failure to pay regular and overtime wages. On January 9, 2014, Plaintiff Duran moved to certify a meal period premium class, a rest period premium class and a class under California's Business and Professions Code §§17200 et seq., On June 24, 2015, the Court denied Plaintiff's Motion. Plaintiff is now pursuing his representative claims under the seventh cause of action (Private Attorneys General Act or PAGA). We intend to continue to vigorously defend against the remaining claim in this action. At this time, we are unable to estimate the reasonable possible loss or range of possible loss, but do not believe losses, if any, would have a material effect on our results of operations or financial position taken as a whole.

On July 16, 2014, two additional former veterinary assistants filed a purported class action lawsuit against us in the Superior Court of the State of California for the County of Los Angeles, titled La Kimba Bradsbery and Cheri Brakensiek vs. Vicar Operating, Inc., et. al. The lawsuit seeks to assert claims on behalf of current and former veterinary assistants, kennel assistants, and client service representatives employed by us in California, and alleges, among other allegations, that we improperly failed to pay regular and overtime wages, improperly failed to provide proper meal and rest periods, improperly failed to pay reporting time pay, improperly failed to reimburse for certain business-related expenses, and engaged in unfair business practices. The lawsuit seeks damages, statutory penalties, and other relief, including attorneys' fees and costs. In September 2014, the court issued an order staying the La Kimba Bradsbery lawsuit, which stay remains in place. On or about August 23, 2016, the Court lifted the stay and discovery is proceeding. We intend to vigorously defend against the Bradsbery action. At this time, we are unable to estimate the reasonably possible loss or range of possible loss, but do not believe losses, if any, would have a material effect on our results of operations or financial position taken as a whole.

On July 12, 2013, an individual who provided courier services with respect to our laboratory clients in California filed a purported class action lawsuit against us in the Superior Court of the State of California for the County of Santa Clara - San Jose Branch, titled Carlos Lopez vs. Logistics Delivery Solutions, LLC, Antech Diagnostics, Inc., et. al. Logistics Delivery Solutions, LLC, a co-defendant in the lawsuit, is a company with which Antech has contracted to provide courier services in California. The lawsuit sought to assert claims on behalf of individuals who were engaged by Logistics Delivery Solutions, LLC to perform such courier services and alleges, among other allegations, that Logistics Delivery Solutions and Antech Diagnostics improperly classified the plaintiffs as independent contractors, improperly failed to pay overtime wages, and improperly failed to provide proper meal periods. The lawsuit sought damages, statutory penalties, and other relief, including attorneys' fees and costs. The parties agreed to settle the action, on a class-wide basis, for an amount not to exceed \$1,250,000. Logistics Delivery Solutions, LLC, has agreed to pay half of the claim. Accordingly, as of June 30, 2016, we have accrued the remaining fifty percent. The settlement is not an admission of wrongdoing or acceptance of fault by any of the defendants named in the complaint. Antech Diagnostics and Logistics Delivery Solutions agreed to the settlement to eliminate the uncertainties, risk, distraction and expense associated with protracted litigation. The Court granted preliminary approval of the settlement on November 30, 2015 and issued an order granting final approval of the settlement on March 25, 2016. On April 11, 2016, the Court entered the Judgment approving the settlement and the judgment went into effect on June 1, 2016. The final settlement amount was approximately \$900,000, half of which was paid by DSA pursuant to our agreement. Payments to class members were made in early July 2016 and this matter is now closed.

On May 12, 2014, an individual client who purchased goods and services from one of our animal hospitals filed a purported class action lawsuit against us in the United States District Court for the Northern District of California,

titled Tony M. Graham vs. VCA Antech, Inc. and VCA Animal Hospitals, Inc. The lawsuit sought to assert claims on behalf of the plaintiff and other individuals who purchased similar goods and services from our animal hospitals and alleged, among other allegations, that we improperly charged such individuals for “biohazard waste management” in connection with the services performed. The lawsuit sought compensatory and punitive damages in unspecified amounts, and other relief, including attorneys' fees and costs. VCA successfully had the venue transferred to the Southern District of California. Plaintiffs filed their motion for class certification on February 12, 2016. In late July 2016, VCA had filed a Summary Judgment Motion. The Honorable Christina Snyder issued her decision on September 12, 2016, denying Plaintiffs' motion for class certification and granting Defendants'

summary judgment motion. Plaintiff in this action filed an appeal of this judgment in October 2016. We intend to continue to vigorously defend this action.

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

#### ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A, of our 2015 Annual Report on Form 10-K.

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

##### Transactions in Our Equity Securities

For the period covered by this report, we have not engaged in any transactions involving the sale of our unregistered equity securities that were not disclosed in a Quarterly Report on Form 10-Q or a current report on Form 8-K. We have not engaged in any sales of registered securities for which the use of proceeds is required to be disclosed.

The following table provides information on shares of our common stock we repurchased during the quarter ended September 30, 2016:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan or Program
(1)	(2)	(3)	(4)	(4)
July 1, 2016 to July 31, 2016	99	\$ 67.29	—	\$ 101,058,831
August 1, 2016 to August 31, 2016	52,658	\$ 70.92	—	\$ 101,058,831
September 1, 2016 to September 30, 2016	76,726	\$ 69.11	—	\$ 101,058,831
	129,483	\$ 69.84	—	\$ 101,058,831

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

(2) Consists of shares of our common stock, par value \$0.001 per share. For the quarter ended September 30, 2016, no shares were repurchased in the open market or in block trades pursuant to a previously-announced share repurchase program (see (4) below). The were 129,483 shares of common stock surrendered to us by employees to satisfy exercise cost and minimum statutory withholding tax obligations in connection with the option exercise, vesting of restricted stock and payout of restricted stock units.

(3) The average price of shares surrendered to us by employees to satisfy exercise costs and tax obligations.

(4) In April 2013, our Board of Directors authorized a repurchase program to purchase up to \$125 million in shares of our common stock. As of August 2014, we have completed this program and our Board of Directors authorized a new repurchase program to buyback up to \$400 million in shares of our common stock in open market purchases or

negotiated transactions.

51

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

52

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ITEM 6. EXHIBITS

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

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

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

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

101.INS XBRL Instance Document

101.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Extension Calculation Linkbase

101.DEF XBRL Taxonomy Definition Linkbase

101.LABXBRL Taxonomy Extension Label Linkbase

101.PRE XBRL Taxonomy Extension Presentation Linkbase

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 7, 2016.

By: /s/  
Date: November 7, 2016  
Tomas W.  
Fuller  
Tomas W.  
Fuller  
Chief  
Financial  
Officer,  
Principal  
Accounting  
Officer, and  
Vice  
President  
and  
Secretary

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 101.INS XBRL Instance Document

Exhibit 101.SCH XBRL Extension Schema Document

Exhibit 101.CAL XBRL Extension Calculation Linkbase Document

Exhibit 101.LAB XBRL Extension Label Linkbase Document

Exhibit 101.PRE XBRL Extension Presentation Linkbase Document

Exhibit 101.DEF XBRL Extension Definition Linkbase Document