FARMER BROTHERS CO
Form 8-K
May 23, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): **May 18, 2011**

Farmer Bros. Co.

(Exact Name of Registrant as Specified in Charter)

Delaware	001-34249	95-0725980
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

20333 South Normandie Avenue, Torrance, California	90502
(Address of Principal Executive Offices)	(Zip Code)

(310) 787-5200

(Registrant s telephone number, including area code)

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 1.01. Entry into a Material Definitive Agreement.

Employment Agreements

Jeffrey A. Wahba

On May 18, 2011, Farmer Bros. Co., a Delaware corporation (the Company), and Jeffrey A. Wahba entered into an Amended and Restated Employment Agreement, effective as of April 19, 2011 (the Wahba Employment Agreement), pursuant to which Mr. Wahba will serve as Interim Co-Chief Executive Officer of the Company, reporting to the Audit Committee of the Board of Directors, and Treasurer and Chief Financial Officer of the Company, with oversight responsibility for all financial (including treasury), accounting, legal and compliance functions of the Company, green coffee purchasing and the operations of the Company s Spice Products division. The terms of Mr. Wahba s employment were previously described in the Company s Current Report on Form 8-K filed with the SEC on April 6, 2011 and are incorporated herein by reference, with the exception of the definition of Good Reason which was clarified in the Wahba Employment Agreement to provide that Good Reason will exist if Mr. Wahba is not offered or, if offered does not accept the position of permanent sole CEO or permanent co-CEO, or no permanent CEO has been selected by the Company by January 1, 2012 (each a trigger event), and within six months after the applicable trigger event, he resigns all positions with the Company and its subsidiaries on at least ninety (90) days notice and cooperates reasonably in the transition of his duties. In addition, the equity awards provided in the Wahba Employment Agreement were made on May 19, 2011 as described below in Item 5.02(e). The Wahba Employment Agreement replaces in its entirety the Employment Agreement, dated as of February 25, 2010, by and between the Company and Mr. Wahba, which was filed as Exhibit 10.1 to the Company s Current Report on Form 8-K filed with the SEC on March 3, 2010. The foregoing description does not purport to be complete and is qualified in its entirety by the full text of the Wahba Employment Agreement, which is attached hereto as Exhibit 10.1 and incorporated herein by reference.

Patrick G. Criteser

On May 18, 2011, the Company and Patrick G. Criteser entered into an Employment Agreement, effective as of April 19, 2011 (the Criteser Employment Agreement), pursuant to which Mr. Criteser will serve as Interim Co-Chief Executive Officer of the Company, reporting to the Audit Committee of the Board of Directors, and President and CEO of Coffee Bean International, Inc., a subsidiary of the Company (CBI), with oversight responsibility for all sales and marketing functions of the Company and CBI, including, without limitation, route sales, and for all Company manufacturing and distribution operations other than the Spice Products division operations. The terms of Mr. Criteser s employment were previously described in the Company s Current Report on Form 8-K filed with the SEC on April 6, 2011 and are incorporated herein by reference, with the exception of the definition of Good Reason which was clarified in the same manner as the Wahba Employment Agreement described above. In addition, the equity awards provided in the Criteser Employment Agreement were made on May 19, 2011 as described below in Item 5.02(e). The foregoing description does not purport to be complete and is qualified in its entirety by the full text of the Criteser Employment Agreement, which is attached hereto as Exhibit 10.2 and incorporated herein by reference.

Mark A. Harding

On May 18, 2011, the Company and Mark A. Harding entered into a Letter Agreement, effective as of April 19, 2011 (the Harding Letter Agreement), regarding Mr. Harding s role in the management transition resulting from the retirement of Roger M. Laverty III and the search for a new Chief Executive Officer. Mr. Harding will continue to have oversight responsibilities for the Company s route sales operations (west and east), plant operations, distribution, transportation, purchasing and such other duties consistent with his level of responsibility as are assigned by the Board of Directors or either Interim Co-Chief Executive Officer. The terms of Mr. Harding s employment were previously described in the Company s Current Report on Form 8-K filed with the SEC on April 6, 2011 and are incorporated herein by reference. The equity awards provided in the Harding Letter Agreement were made on May 19, 2011 as described below in Item 5.02(e). The foregoing description does not purport to be complete and is qualified in its entirety by the full text of the Harding Letter Agreement, which is attached hereto as Exhibit 10.3 and incorporated herein by reference.

Indemnification Agreement

In connection with the Criteser Employment Agreement, the Company and Mr. Criteser entered into the Company s standard form of Indemnification Agreement for directors and officers, effective April 19, 2011. Pursuant to the Indemnification Agreement, the Company will, to the extent permitted by applicable law, indemnify and hold harmless Mr. Criteser against all expenses, judgments, fines, penalties and amounts paid in settlement in connection with any threatened, pending or completed proceeding by reason of his status as an officer of the Company. The foregoing description is qualified in its entirety by the full text of the Indemnification Agreement, the form of which was filed as Exhibit 10.29 to the Company s Quarterly Report on Form 10-Q filed with the SEC on May 10, 2011 and incorporated herein by reference.

Change in Control Severance Agreements

In connection with the Criteser Employment Agreement, the Company and Mr. Criteser entered into the Company s standard form of Change in Control Severance Agreement for executive officers, effective April 19, 2011. In addition, on May 18, 2011, the Company and Hortensia R. Gómez, the Company s Vice President and Controller, entered into the same agreement. A brief description of the terms and conditions of the form of Change in Control Severance Agreement was previously filed by the Company in its definitive Proxy Statement pursuant to Section 14(a) of the Securities Exchange Act of 1934, filed with the SEC on October 28, 2010 and incorporated herein by reference. The foregoing description is qualified in its entirety by the full text of the Change in Control Severance Agreement, the form of which is attached hereto as Exhibit 10.4 (to update the schedule of executive officers) and incorporated herein by reference.

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

The disclosure in Item 1.01 above is incorporated herein by reference.

On May 19, 2011, in accordance with the provisions of the Wahba Employment Agreement, Criteser Employment Agreement and Harding Letter Agreement, the Compensation Committee approved grants of non-qualified stock options and restricted stock under the Farmer Bros. 2007 Omnibus Plan (the Omnibus Plan) to Messrs. Wahba, Criteser and Harding, as follows:

Name	Shares of Common Stock Issuable Upon Exercise of Options	Shares of Restricted Stock
Jeffrey A. Wahba	50,000	
Patrick G. Criteser	50,000	10,384
Mark A. Harding	20,000	

The stock options have an exercise price equal to $9.63 per share, which was the closing price of the Company s common stock as reported on the Nasdaq Global Market on May 19, 2011, the date of grant. The stock options have a seven year term expiring on May 19, 2018 and vest on May 19, 2012, provided the executive is still employed by the Company, subject to accelerated vesting in the case of death, permanent incapacity/disability and certain events relating to termination of employment. The stock options were granted under the Omnibus Plan pursuant to the Company s form of Stock Option Grant Notice and Stock Option Agreement, which was previously filed as Exhibit 10.1 to the Company s Current Report on Form 8-K filed with the SEC on February 26, 2008 and incorporated herein by reference.

The shares of restricted stock vest on May 19, 2012, provided Mr. Criteser is still employed by the Company, subject to accelerated vesting in the case of death, permanent incapacity and certain events relating to termination of employment. The awards of restricted stock were granted under the Omnibus Plan pursuant to the Company s form of Restricted Stock Award Grant Notice and Restricted Stock Award Agreement, which was previously filed as

Exhibit 10.2 to the Company s Current Report on Form 8-K filed with the SEC on February 26, 2008 and incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
10.1	Amended and Restated Employment Agreement, effective as of April 19, 2011, by and between Farmer Bros. Co. and Jeffrey A. Wahba.*
10.2	Employment Agreement, effective as of April 19, 2011, by and between Farmer Bros. Co. and Patrick G. Criteser.*
10.3	Letter Agreement, effective as of April 19, 2011, by and between Farmer Bros. Co. and Mark A. Harding.*
10.4	Form of Change in Control Severance Agreement for Executive Officers of the Company (with schedule of executive officers attached).*

* Management contract or compensatory plan or arrangement.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: May 23, 2011

FARMER BROS. CO.

By: /s/ Jeffrey A. Wahba
Jeffrey A. Wahba
Interim Co-Chief Executive Officer,

Treasurer and Chief Financial Officer

EXHIBIT INDEX

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10.4	Form of Change in Control Severance Agreement for Executive Officers of the Company (with schedule of executive officers attached).*

* Management contract or compensatory plan or arrangement.

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-competition agreements of $3.9 million.

Net Interest Expense

Net interest expense decreased $1.9 million, or 5.7%, to $30.5 million for the nine months ended September 30, 2002 from $32.4 million for the nine months ended September 30, 2001.

The decrease in net interest expense primarily was due to the effect of decreasing interest rates on our variable-rate obligations, and the refinancing of a portion of our higher-yield, fixed-rate debt with lower-yield, fixed-rate debt.

Other (Income) Expense

Other (income) expense consisted of non-cash gains or losses on a hedging instrument resulting from changes in the time value of our collar agreement.

Provision for Income Taxes

Our effective income tax rate for each period can vary from the statutory rate primarily due to the non-deductibility for income tax purposes of certain items. In 2001, our effective income tax rate varied from the statutory rate primarily due to the non-deductibility of the amortization of a portion of goodwill, the recognition of non-cash compensation and the write-down of zero-tax-basis assets. In 2002, our effective income tax rate is comparable to the statutory rate.

Minority Interest in Income of Subsidiaries

Minority interest in income of subsidiaries represents our partners proportionate share of net income generated by our subsidiaries that we do not wholly own. The increase in minority interest for the nine months ended September 30, 2002 was the result of a change in the aggregate proportionate ownership percentages of the subsidiaries, primarily due to an increase in the number of partnerships.

Increase in Carrying Amount of Redeemable Preferred Stock

The holders of our series A redeemable preferred stock and our series B redeemable preferred stock were entitled to receive dividends at a rate of 14% and 12%, respectively. The dividends not paid in cash compounded quarterly. The dividends earned during the nine months ended September 30, 2001 were added to the liquidation preference of the preferred stock. In November 2001, we redeemed all of the outstanding series A and series B redeemable preferred stock using proceeds from our initial public offering together with cash on hand.

Extraordinary Loss on Early Extinguishment of Debt

On August 29, 2002 we refinanced our senior credit facility by borrowing $143.1 million in senior term C notes and used these proceeds to pay the entire outstanding principal amount on the senior term A and B notes. In conjunction with that transaction, we wrote off $3.4 million in deferred financing costs as an extraordinary loss on early extinguishment of debt that provided a related tax benefit of $1.4 million.

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Years Ended December 31, 2001, 2000 and 1999

Revenue

The following table summarizes our revenue for the years ended December 31, 2001, 2000 and 1999 (dollars in thousands):

				% Change	
	2001	2000	1999	2001	2000
Laboratory	$ 134,711	$ 119,300	$ 103,282	12.9%	15.5%
Animal hospital	272,113	240,624	217,988	13.1%	10.4%
Other	2,000	925	5,100		
Intercompany	(7,462)	(6,162)	(5,810)		
Total revenue	$ 401,362	$ 354,687	$ 320,560	13.2%	10.6%

Laboratory Revenue

Laboratory revenue increased $15.4 million, or 12.9%, for the year ended December 31, 2001, compared to the year ended December 31, 2000, which increased $16.0 million, or 15.5%, compared to the year ended December 31, 1999. The increase in laboratory revenue for the year ended December 31, 2001, compared to the comparable prior period primarily was due to internal growth of 12.5%. This internal laboratory revenue growth resulted from the increase in the overall number of tests and requisitions and an increase in the average revenue per requisition. These increases were primarily the result of the continued emphasis on selling our pet health and wellness programs and the implementation of a price increase for most tests in February 2001. The increase in laboratory revenue for the year ended December 31, 2000, compared to the comparable prior period primarily was due to internal growth of 12.6%. This internal laboratory revenue growth also resulted from an increase in the overall number of tests and requisitions and an increase in the average revenue per requisition. These increases primarily were due to the development and sale of new programs, the implementation of a price increase for most tests in February 2000 and the continued growth of our Test Express business.

Animal Hospital Revenue

The following table summarizes our animal hospital revenue as reported and the combined revenue of animal hospitals that we owned and managed had we consolidated the operating results of the animal hospitals we manage into our operating results for the years ended December 31, 2001, 2000 and 1999 (dollars in thousands):

				% Change	
	2001	2000	1999	2001	2000
Animal hospital revenue as reported	$ 272,113	$ 240,624	$ 217,988	13.1%	10.4%
Less: Management fees paid to us by veterinary medical groups	(37,770)	(31,133)	(30,202)		
Add: Revenue of animal hospitals managed	71,591	60,380	42,829		
Combined revenue of animal hospitals owned and managed	$ 305,934	$ 269,871	$ 230,615	13.4%	17.0%

Animal hospital revenue increased $31.5 million, or 13.1%, for the year ended December 31, 2001, compared to the year ended December 31, 2000, which increased $22.6 million, or 10.4%, compared to the year ended December 31, 1999. The increase in animal hospital revenue for the year ended December 31, 2001, as compared to the comparable prior period resulted primarily from the acquisition of 21 animal hospitals that we owned, managed or relocated into other hospitals owned by us subsequent to December 31, 2000. Similarly, the increase for the year ended December 31, 2000, as compared to the comparable prior period

resulted primarily from the acquisition of 24 animal

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hospitals that we owned, managed or relocated into other hospitals owned by us subsequent to December 31, 1999. The increase in animal hospital revenue for the year ended December 31, 2001 also was due to same-facility revenue growth of 5.0%, and the increase in animal hospital revenue for the year ended December 31, 2000 also was due to same-facility revenue growth of 7.0%. Same-facility revenue growth in both years primarily was due to increases in the average amount spent per visit and revenue generated by clients referred from our relocated animal hospitals.

Other Revenue

Other revenue increased $1.1 million for the year ended December 31, 2001 compared to the year ended December 31, 2000, which decreased $4.2 million compared to the year ended December 31, 1999. Our consulting agreement with Heinz Pet Products expired February 1, 2000. Under this agreement we had received monthly consulting fees of $425,000 from February 1997 through January 2000. We entered into a new agreement with Heinz Pet Products effective October 1, 2000 that provides for monthly consulting fees of approximately $167,000 over a term of 24 months ending September 2002. Consequently, for the year ended December 31, 2001, other revenue includes consulting fees for the entire year as compared to an aggregate of four months for the year ended December 31, 2000 and for the year ended December 31, 1999.

Direct Costs

The following table summarizes our direct costs and our direct costs as a percentage of applicable revenue for the years ended December 31, 2001, 2000 and 1999 (dollars in thousands):

	2001		2000		1999		% Change	
	$	% of Revenue	$	% of Revenue	$	% of Revenue	2001	2000
Laboratory	$ 81,996	60.9%	$ 72,662	60.9%	$ 64,234	62.2%	12.8%	13.1%
Animal hospital	208,692	76.7%	188,390	78.3%	174,069	79.9%	10.8%	8.2%
Other								
Intercompany	(7,462)		(6,162)		(5,810)			
Total direct costs	$ 283,226	70.6%	$ 254,890	71.9%	$ 232,493	72.5%	11.1%	9.6%

Laboratory Direct Costs

Laboratory direct costs increased $9.3 million, or 12.8%, for the year ended December 31, 2001 compared to the year ended December 31, 2000, which increased $8.4 million, or 13.1%, compared to the year ended December 31, 1999. Laboratory direct costs as a percentage of laboratory revenue was 60.9% for each of the years ended December 31, 2001 and 2000, which decreased from 62.2% for the year ended December 31, 1999. Laboratory direct costs include non-cash compensation of $1.4 million and $103,000 for the years ended December 31, 2001 and 2000. Laboratory direct costs excluding non-cash compensation as a percentage of laboratory revenue decreased to 59.8% for the year ended December 31, 2001 and from 60.8% for the year ended December 31, 2000. The decreases in laboratory direct costs as a percentage of laboratory revenue during these periods primarily were attributable to increases in laboratory revenue combined with operating leverage associated with our laboratory business.

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Animal Hospital Direct Costs

The following table summarizes our animal hospital direct costs as reported and the combined direct costs of animal hospitals that we owned and managed had we consolidated the operating results of the animal hospitals we manage into our operating results for the years ended December 31, 2001, 2000 and 1999 (dollars in thousands):

	2001		2000		1999		% Change	
	$	% of Revenue	$	% of Revenue	$	% of Revenue	2001	2000
Animal hospital direct costs as reported	$ 208,692	76.7%	$ 188,390	78.3%	$ 174,069	79.9%	10.8%	8.2%
Add: Direct costs of animal hospitals managed	71,591		60,380		42,829			
Less: Management fees charged by us to veterinary medical groups	(37,770)		(31,133)		(30,202)			
Combined direct costs of animal hospitals owned and managed	$ 242,513	79.3%	$ 217,637	80.6%	$ 186,696	81.0%	11.4%	16.6%

Animal hospital direct costs increased $20.3 million, or 10.8%, for the year ended December 31, 2001 compared to the year ended December 31, 2000, which increased $14.3 million, or 8.2%, compared to the year ended December 31, 1999. Animal hospital direct costs as a percentage of animal hospital revenue decreased to 76.7% for the year ended December 31, 2001 from 78.3% for the year ended December 31, 2000, which decreased from 79.9% for the year ended December 31, 1999. The decreases in animal hospital direct costs as a percentage of animal hospital revenue during these periods primarily were attributable to the increase in revenue combined with the operating leverage associated with the animal hospital business, as most of the costs associated with this business do not increase proportionately with increases in the volume of services rendered. The decrease in animal hospital direct costs as a percentage of animal hospital revenue for the year ended December 31, 2000 as compared to 1999 was also attributable to a reduction in some of our obligations to the animal hospitals we manage which reduced our costs, together with a corresponding reduction in our management fees.

Selling, General and Administrative Expense

The following table summarizes our selling, general and administrative expense (SG&A) and expense as a percentage of applicable revenue for the years ended December 31, 2001, 2000 and 1999 (dollars in thousands):

	2001		2000		1999		% Change	
	$	% of Revenue	$	% of Revenue	$	% of Revenue	2001	2000
Laboratory	$ 11,434	8.5%	$ 8,122	6.8%	$ 6,775	6.6%	40.8%	19.9%
Animal hospital	12,323	4.5%	9,437	3.9%	6,682	3.1%	30.6%	41.2%
Corporate	14,876	3.7%	9,887	2.8%	10,165	3.2%	50.5%	(2.7)%
Total selling, general and administrative	$ 38,633	9.6%	$ 27,446	7.7%	$ 23,622	7.4%	40.8%	16.2%

Laboratory SG&A

Laboratory SG&A for the year ended December 31, 2001 increased $3.3 million, or 40.8%, compared to the year ended December 31, 2000, which increased $1.3 million, or 19.9%, compared to the year ended December 31, 1999. The increase in laboratory SG&A for the year ended

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December 31, 2001 compared to the comparable prior period primarily was due to $2.9 million of non-cash compensation, as well as an increase in commission payments to sales representatives, which was caused by an increase in sales. Excluding non-cash compensation, laboratory SG&A as a percentage of laboratory revenue was 6.4% and 6.6% in 2001 and 2000. The increase in laboratory SG&A for the year ended December 31, 2000 compared to the comparable prior period primarily was due to an increase in commission payments to sales representatives, which was caused by an increase in sales, and salaries attributable to new sales representatives.

Animal Hospital SG&A

Animal hospital SG&A for the year ended December 31, 2001 increased $2.9 million, or 30.6% compared to the year ended December 31, 2000, which increased $2.8 million, or 41.2%, compared to the year ended December 31, 1999. The increase in animal hospital SG&A for the year ended December 31, 2001 compared to the comparable prior period primarily was due to $2.6 million of non-cash compensation. Excluding non-cash compensation, animal hospital SG&A as a percentage of revenue was 3.6% and 3.8% in 2001 and 2000. The increase in animal hospital SG&A for the year ended December 31, 2000 primarily was attributable to salaries associated with new personnel hired in connection with the expansion of our management and administrative infrastructure to support the additional number of animal hospitals we owned and managed.

Corporate SG&A

Corporate SG&A for the year ended December 31, 2001 increased $5.0 million, or 50.5%, compared to the year ended December 31, 2000. The increase was primarily due to a $1.7 million increase in management fees paid, a $717,000 increase in corporate bonuses, an $845,000 increase in legal expense, a $716,000 increase in non-cash compensation and approximately $400,000 of salary increases at corporate.

Corporate SG&A for the year ended December 31, 2000 decreased $278,000, or 2.7% compared to the year ended December 31, 1999. This decrease was due to efficiencies realized in our information systems, accounting and finance departments that resulted from our systems upgrade.

Excluding non-cash compensation and management fees, corporate SG&A as a percentage of revenue was 2.9% and 2.6% in 2001 and 2000.

Adjusted EBITDA

The following table summarizes our adjusted EBITDA and our adjusted EBITDA as a percentage of applicable revenue for the years ended December 31, 2001, 2000 and 1999 (dollars in thousands):

	2001		2000		1999		% Change	
	$	% of Revenue	$	% of Revenue	$	% of Revenue	2001	2000
Laboratory adjusted EBITDA (1)	$ 45,561	33.8%	$ 38,827	32.5%	$ 32,273	31.2%	17.3%	20.3%
Animal hospital adjusted EBITDA (2)	53,658	19.7%	42,985	17.9%	37,237	17.1%	24.8%	15.4%
Other revenue	2,000		925		5,100			
Corporate selling, general and administrative (3)	(11,832)		(9,211)		(10,165)			
Gain on sale of assets	118							
Total adjusted EBITDA	$ 89,505	22.3%	$ 73,526	20.7%	$ 64,445	20.1%	21.7%	14.1%

(1) Laboratory EBITDA was adjusted to exclude non-cash compensation of $4.3 million and $311,000 for the years ended December 31, 2001 and 2000, respectively.

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(2) Animal hospital EBITDA was adjusted to exclude non-cash compensation of $2.6 million and $188,000 for the years ended December 31, 2001 and 2000, respectively.

(3) Corporate selling, general and administrative expense was adjusted to exclude non-cash compensation of $771,000 and management fees of $2.3 million for the year ended December 31, 2001, and non-cash compensation of $56,000 and management fees of $620,000 for the year ended December 31, 2000.

Depreciation and Amortization

Depreciation and amortization expense increased $6.3 million, or 33.3%, for the year ended December 31, 2001 compared to the year ended December 31, 2000, which increased $2.4 million, or 14.7%, compared to the year ended December 31, 1999. The increases in depreciation and amortization expense primarily were due to the amortization over a three-year period of $15.6 million paid to our executives pursuant to non-competition agreements entered into in September 2000, the purchase of property and equipment and the acquisition of animal hospitals.

As a result of the implementation of SFAS No. 142, we will no longer amortize goodwill in 2002. For a detailed discussion of SFAS No. 142, see New Accounting Pronouncements. This change, in conjunction with the termination of our non-competition agreements with members of senior management, will have the impact of lowering amortization expense in 2002 by approximately $14.4 million.

Recapitalization Costs

We incurred $34.3 million of recapitalization costs for the year ended December 31, 2000 pertaining to our recapitalization in September 2000. These costs consisted of $24.1 million associated with the buy-out of stock options held by employees, $1.2 million paid to our employees for services rendered in connection with our recapitalization, $7.6 million of professional fees and $1.4 million of other expense. We do not expect any similar charges in 2002 or subsequent years.

Agreement Termination Costs

During the year ended December 31, 2001, we terminated non-competition agreements with four members of senior management and recorded a non-cash charge of $9.6 million. In addition, we paid $8.0 million to terminate our management services agreement with Leonard Green & Partners. We do not expect any similar charges in 2002 or subsequent years.

Other Non-Cash Operating Items

Other non-cash operating items consisted of $9.1 million write-down and loss on sale of assets for the year ended December 31, 2001. The write-down of assets primarily was attributable to the relocation of five of our animal hospitals into existing animal hospitals we operated, the determination that goodwill was impaired at one of our existing animal hospitals and the write-down of real property available for sale to fair market value. Other non-cash operating items consisted of $1.9 million reversal of restructuring charges pertaining to our 1996 and 1997 restructuring plans for the year ended December 31, 1999.

Net Interest Expense

Net interest expense increased $23.0 million, or 115.8%, to $42.9 million for the year ended December 31, 2001 from $19.9 million for the year ended December 31, 2000, which represents an increase of $10.5 million, or 110.5%, from $9.4 million for the year ended December 31, 1999. The

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increase in net interest expense in 2001 and 2000 primarily was due to debt we incurred in connection with the recapitalization in September 2000.

Other Expense, Net

Other expense was $168,000 for the year ended December 31, 2001, consisting of a non-cash loss on a hedging instrument pertaining to the changes in the time value of our collar agreement. Other expense was $1.8 million for the year ended December 31, 2000, consisting of a $3.2 million gain on sale of our investment in Veterinary Pet Insurance, Inc. and a $5.0 million loss resulting from the write-down of our investment in Zoasis.com, Inc.

Provision for Income Taxes

Provision for income taxes was $445,000, $2.2 million and $14.4 million for the years ended December 31, 2001, 2000 and 1999. Our effective income tax rate for each year varies from the statutory rate primarily due to the non-deductibility for income tax purposes of the amortization of a portion of goodwill. In 2001, our effective income tax rate also was impacted by the write-down of zero tax basis assets and non-cash compensation.

Minority Interest

Minority interest in income of the consolidated subsidiaries was $1.4 million, $1.1 million and $850,000 for the years ended December 31, 2001, 2000 and 1999, respectively. Minority interest in income represents our partners   proportionate share of net income generated by our subsidiaries that we do not wholly own.

Increase in Carrying Amount of Redeemable Preferred Stock

The holders of our series A redeemable preferred stock and our series B redeemable preferred stock were entitled to receive dividends at a rate of 14% and 12%, respectively. The dividends not paid in cash compounded quarterly. The dividends earned during 2001 and 2000 were added to the liquidation preference of the preferred stock. In November 2001, we redeemed all of the outstanding series A and series B redeemable preferred stock.

Liquidity and Capital Resources

Our cash and cash equivalents increased to $32.4 million at September 30, 2002, from $7.1 million at December 31, 2001. The increase is primarily from $60.8 million provided by operating activities offset by $29.7 million used in investing activities and $5.9 million used in financing activities. Cash and cash equivalents decreased to $7.1 million at December 31, 2001 from $10.5 million at December 31, 2000. The decrease primarily resulted from $57.1 million provided by operating activities offset by $36.2 million used in investing activities and $24.3 million used in financing activities. Cash and cash equivalents decreased to $10.5 million at December 31, 2000 from $10.6 million at December 31, 1999. The decrease primarily resulted from $60.1 million provided by operating activities offset by $47.7 million used in investing activities and $12.5 million used in financing activities.

Net cash provided by operations for the nine months ended September 30, 2002 and 2001 was $60.8 million and $49.3 million, and for the years ended December 31, 2001, 2000 and 1999 was $57.1 million, $60.1 million and $38.5 million. The increases during the nine months ended September 30, 2002 and the year ended December 31, 2000 were primarily attributable to increases in revenue and operating margins. The decrease during the year ended December 31, 2001 was primarily attributable to approximately $4.8 million used in working capital activities.

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Net cash used in investing activities for the nine months ended September 30, 2002 and 2001 was $29.7 million and $30.3 million, and for the years ended December 31, 2001, 2000 and 1999 was $36.2 million, $47.7 million and $13.7 million. In the nine months ended September 30, 2002 and 2001, and in the years ended December 31, 2001, 2000 and 1999, we used cash of $13.4 million, $9.9 million, $13.5 million, $22.6 million and $21.8 million for property and equipment additions. In these same periods, we used $15.1 million to acquire 18 animal hospitals, $18.1 million to acquire 18 animal hospitals, $20.9 million to acquire 21 animal hospitals, $16.5 million to acquire 24 animal hospitals and one laboratory and $15.2 million to acquire 39 animal hospitals and two laboratories. Also in these same periods, we used $2.7 million, $2.5 million, $3.4 million, $1.7 million and $0.9 million for contractual obligations related to prior year acquisitions. In the nine months ended September 30, 2002, we did not purchase any real estate in connection with our acquisitions and in the nine months ended September 30, 2001, and the years ended December 31, 2001, 2000 and 1999, we used $675,000, $675,000, $1.8 million and $4.2 million to purchase real estate in connection with our acquisitions. During the year ended December 31, 2000, we made payments in the aggregate amount of $15.6 million to four of our executives in connection with the recapitalization transaction.

Net cash of $5.9 million used in financing activities during the nine months ended September 30, 2002 is primarily the result of regularly-scheduled debt payments of $2.9 million and payments related to accrued financing costs of $3.4 million. In addition, we borrowed approximately $143.1 million in senior term C notes, and used the proceeds to repay all of our outstanding senior term A and B notes of $143.1 million.

Net cash of $5.9 million used in financing activities during the nine months ended September 30, 2001 is primarily the result of regularly-scheduled debt payments of $3.7 million and payments related to accrued financing costs of $2.1 million.

Net cash of $24.3 million used in financing activities for the year ended December 31, 2001 primarily was related to our initial public offering on November 27, 2001. As a result of the initial public offering and the underwriters exercise of their over-allotment option, we issued 17,370,000 shares of common stock and received net proceeds of approximately $161.5 million. Concurrent with our initial public offering, one of our wholly owned subsidiaries issued $170.0 million of 9.875% senior subordinated notes. We applied the net proceeds from our initial public offering and our wholly owned subsidiary s concurrent note offering, plus cash on hand, as follows:

- redeemed all of our outstanding series A and series B redeemable preferred stock for $173.8 million;
- repaid $100.0 million of our senior term A and B notes;
- repaid $59.1 million in principal of our 15.5% senior notes due 2010, at a redemption price of 110%, plus accrued and unpaid interest;
- repaid $5.0 million in principal of our wholly owned subsidiary s 13.5% senior subordinated notes due 2010, at a redemption price of 110%, plus accrued and unpaid interest; and
- made deferred financing payments in the amount of approximately $4.4 million.

Net cash of $12.5 million used in financing activities for the year ended December 31, 2000 primarily was related to our recapitalization transaction on September 30, 2000. We received $149.2 million from the issuance of preferred stock, $14.4 million from the issuance of common stock, $1.1 million from the issuance of stock warrants and $356.7 million from the issuance of long-term debt. We primarily applied the net proceeds from our recapitalization transaction as follows:

- repaid long-term obligations in the amount of $172.9 million;
- repurchased common stock in the amount of $314.5 million;

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made deferred financing and recapitalization payments in the amount of approximately $44.1 million; and

made non-competition payments in the aggregate amount of $15.6 million to four of our executive officers including: Robert L. Antin, our Chief Executive Officer, President and founder; Arthur J. Antin, our Chief Operating Officer, Senior Vice President and founder; Neil Tauber, our Senior Vice President of Development and founder; and Tomas W. Fuller, our Chief Financial Officer. These payments are included in investing activities.

For the year ended December 31, 1999, cash used in financing activities was $23.1 million, primarily for the repayment of long term debt.

Future Cash Requirements

We expect to fund our liquidity needs primarily from operating cash flows, cash on hand and, if needed, borrowings under our $50.0 million revolving credit facility, $7.5 million of which is outstanding as of December 31, 2002. We believe these sources of funds will be sufficient to continue our operations and planned capital expenditures and satisfy our scheduled principal and interest payments under debt and capital lease obligations for at least the next 12 months. However, a significant portion of our cash requirements will be determined by the pace and size of our acquisitions.

In the fourth quarter of 2002, we used $4.9 million of cash for capital expenditures for land, buildings and equipment. Also in the fourth quarter of 2002, we used $7.4 million of cash for the acquisition of seven animal hospitals and $2.4 million of cash for the acquisition of one laboratory. Estimated future uses of cash for 2003 include capital expenditures for land, buildings and equipment of approximately $18.0 million. In addition, we intend to use available liquidity to continue our growth through the selective acquisition of animal hospitals, primarily for cash. We continue to examine acquisition opportunities in the laboratory field, which may impose additional cash requirements. Our acquisition program contemplates the acquisition of 15 to 25 animal hospitals per year and a planned cash commitment of up to $30.0 million. However, we may purchase either fewer or greater number of facilities depending upon opportunities that present themselves and our cash requirements may change accordingly. In addition, although we intend primarily to use cash in our acquisitions, we may use debt or stock to the extent we deem it appropriate.

In October 2002, we used $25.2 million of cash on hand and incurred additional borrowings of $25.0 million under our senior credit facility to voluntarily repay the entire outstanding principal amount on our 13.5% senior subordinated notes and $30.0 million principal amount of our 15.5% senior notes, plus accrued and unpaid interest and prepayment premiums. See Description of Certain Indebtedness for additional information.

Description of Indebtedness

Senior Credit Facility

In September 2000, we entered into a senior credit facility for $300.0 million of senior secured credit facilities, which included a $50.0 million revolving credit facility as well as senior term A and B notes. On August 29, 2002, we amended our senior credit facility to refinance our existing senior term A and senior term B notes with an equal principal amount of senior term C notes, which bear a lower interest rate than the weighted average interest rate for the senior term A and B notes. In conjunction with the transaction we wrote off $3.4 million in deferred financing costs as extraordinary loss on early extinguishment of debt, which provided a related tax benefit of $1.4 million.

Borrowings under our senior credit facility bear interest, at our option, on either the base rate, which is the higher of the administrative agent s prime rate or the Federal funds rate plus 0.5%, or the

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adjusted eurodollar rate, which is the rate per annum obtained by dividing (1) the rate of interest offered to the administrative agent on the London interbank market by (2) a percentage equal to 100% minus the stated maximum rate of all reserve requirements applicable to any member bank of the Federal Reserve System in respect of eurocurrency liabilities. The base rate margins for the revolving credit facility range from 1.00% to 2.25% per annum and the margin for the senior term C notes is 2.00%. The eurodollar rate margins for the revolving credit facility range from 2.00% to 3.25% per annum and the margin for the senior term C notes is 3.00%.

As of September 30, 2002, we had $142.7 million principal amount outstanding under our senior term C notes and we had not utilized our revolving credit facility. In December 2002, we borrowed $7.5 million under our revolving credit facility. The senior term C notes mature in September 2008 and the revolving credit facility matures in September 2006.

Our senior credit facility contains certain financial covenants pertaining to interest coverage, fixed charge coverage and leverage ratios. In addition, our senior credit facility has restrictions pertaining to capital expenditures, acquisitions and the payment of dividends on all classes of stock. We currently believe the most restrictive covenant is the fixed-charge coverage ratio, which is calculated on a last twelve-month basis by dividing pro forma adjusted EBITDA by fixed charges. Fixed charges are defined as cash interest expense, scheduled principal payments on debt obligations, capital expenditures, management fees paid and provision for income taxes. At September 30, 2002, we had a fixed charge coverage ratio of 1.50 to 1.00. Our senior credit facility requires a fixed-charge coverage ratio of no less than 1.10 to 1.00.

13.5% and 9.875% Senior Subordinated Notes

In September 2000, we issued $20.0 million principal amount of 13.5% senior subordinated notes due on September 20, 2010. As of September 30, 2002, the outstanding principal balance of our 13.5% senior subordinated notes was $15.0 million. On October 24, 2002 we repaid the entire outstanding principal amount of these notes. See October 2002 Debt Prepayment below.

In November 2001, Vicar, our wholly owned subsidiary, issued $170.0 million principal amount of 9.875% senior subordinated notes due December 1, 2009, which were exchanged on June 13, 2002 for substantially similar securities that are registered under the Securities Act. Interest on these senior subordinated notes is 9.875% per annum, payable semi-annually in arrears in cash. As of September 30, 2002, the outstanding principal balance of our 9.875% senior subordinated notes was $170.0 million. We and each existing and future domestic wholly owned restricted subsidiary of Vicar have jointly and severally, fully and unconditionally guaranteed these notes. These guarantees are unsecured and subordinated in right of payment to all existing and future indebtedness outstanding under the credit and guaranty agreement and any other indebtedness permitted to be incurred by Vicar under the terms of the indenture agreement for these notes.

15.5% Senior Notes

In September 2000, we issued $100.0 million principal amount of 15.5% senior notes due September 20, 2010. Interest on our senior notes is 15.5% per annum, payable semi-annually in arrears in cash or by issuance of additional senior notes. We have issued $25.9 million in additional 15.5% senior notes to pay interest since the issue date. As of September 30, 2002, the outstanding principal balance of our 15.5% senior notes was $66.7 million. On October 24, 2002 we repaid $30.0 million principal amount on our 15.5% senior notes, plus accrued and unpaid interest and prepayment premiums. See October 2002 Debt Prepayment below. Upon the consummation of this offering, we intend to repay the entire outstanding principal amount of these notes at a redemption price of 110% of the principal amount, for an aggregate of $40.4 million, plus accrued and unpaid interest.

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Other Debt

We have secured seller notes, unsecured debt and capital leases which total $1.7 million at September 30, 2002.

October 2002 Debt Prepayment

On October 24, 2002 we repaid the entire outstanding principal amount of our 13.5% senior subordinated notes and $30.0 million principal amount of our 15.5% senior notes, plus accrued and unpaid interest and prepayment premiums. We repaid these notes with funds from an additional $25.0 million of senior term C notes issued under our senior credit facility and $25.2 million of cash on hand. For the next twelve months, this net reduction in debt and the lower effective interest rate will result in an estimated net annual pre-tax savings of approximately $5.0 million in interest expense calculated assuming a 5.0% rate on our variable senior term C notes and an opportunity cost of 1.5% for the cash used.

In connection with this repayment we expect to incur approximately $9.6 million of costs, including $4.8 million in prepayment premium and transaction costs, and $4.8 million in non-cash costs pertaining to the write-off of unamortized discount and deferred financing costs associated with the debt retired. These charges will be recognized during the fourth quarter of 2002 as an extraordinary loss in the amount of approximately $5.5 million, net of income tax benefit.

Future Cash Obligations for Long-Term Debt, Interest and Operating Leases

The following table sets forth our scheduled principal, interest and other contractual annual cash obligations due by us for each of the years ending December 31, adjusted to reflect the impact of the no-fee swap agreement with Wells Fargo, which became effective November 29, 2002, the additional senior term C notes borrowed and the voluntary repayment of all of our 13.5% senior subordinated notes and a portion of our 15.5% senior notes, which occurred in October 2002 (dollars in thousands):

	Total (1)	2002	2003	2004	2005(1)	2006(1)	Thereafter (1)
Long-term debt	$ 378,538	$ 3,541	$ 1,894	$ 1,860	$ 4,044	$ 21,487	$ 345,712
Fixed interest	174,720	20,694	19,333	19,134	21,328	22,448	71,783
Variable interest	55,020	7,714	6,966	7,698	10,614	11,313	10,715
Collar agreement	2,340	2,340					
PIK interest	16,610				16,610		
Capital lease obligations	79	79					
Operating leases	192,612	12,247	12,530	12,575	12,285	12,165	130,810
Other long-term obligations	2,424	2,424					
	$ 822,343	$ 49,039	$ 40,723	$ 41,267	$ 64,881	$ 67,413	$ 559,020

(1) We intend to use the proceeds from this offering to repay the entire outstanding principal amount of our 15.5% senior notes. If we repay the entire outstanding principal amount of these notes, our future cash obligations will be reduced by $23.0 million in 2005, $5.3 million in 2006 and $55.9 million thereafter, for an aggregate reduction of $84.2 million.

We have both fixed-rate and variable-rate debt. Our variable-rate debt is based on a variable-rate component plus a fixed margin. Our interest rate on the variable rate component of our debt was approximately 1.89% for 2002. For purposes of the foregoing table, we have estimated the interest rate on the variable rate component of our debt to be 2.50%, 3.00%, 3.50% and 4.00% for years 2003 through 2006, respectively. Our consolidated financial statements included in this prospectus discuss these variable-rate notes in more detail.

Through March 2005, interest on our 15.5% senior notes is payable semi-annually and, at our option, in cash or by issuing additional 15.5% senior notes. After March 2005, interest is payable semi-annually, in cash. Any additional 15.5% senior notes are considered paid-in-kind interest, commonly

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referred to as PIK interest, and are reflected in the above table. These notes have the same terms as the original notes except they mature in September 2005. We have issued additional 15.5% senior notes for all of our historical interest payments on the 15.5% senior notes and intend to continue doing so pending consummation of this offering.

Interest Rate Hedging Agreements

On November 13, 2000, we entered into a no-fee interest rate collar agreement with Wells Fargo Bank effective November 15, 2000 and that expired on November 15, 2002. Our collar agreement was considered a cash flow hedge based on the London interbank offer rate, or LIBOR. Our collar agreement paid out monthly, reset monthly and had a cap and floor notional amount of $62.5 million, with a cap rate of 7.5% and floor rate of 5.9%.

The actual cash paid by us as a result of LIBOR rates falling below the floor of our collar agreement is recorded as a component of earnings. For the nine months ended September 30, 2002, we made payments of $1.9 million that are included in interest expense.

At September 30, 2002, the fair market value of our collar agreement was a net liability to us of $326,000 and is included in other accrued liabilities on our balance sheet.

On November 7, 2002 we entered into a no-fee swap agreement with Wells Fargo Bank effective November 29, 2002 and expiring November 29, 2004. The agreement swaps monthly variable LIBOR rates for a fixed rate of 2.22% on a notional amount of $40.0 million. The agreement qualifies for hedge accounting.

We are considering entering into additional interest rate strategies to take advantage of the current rate environment. We have not yet determined what those strategies will be or their possible impact.

New Accounting Pronouncements

Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board, (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. SFAS No. 142 requires that these assets be reviewed for impairment at least annually, or whenever there is an indication of impairment. Intangible assets with finite lives will continue to be amortized over their estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

SFAS No. 142 requires companies to allocate their goodwill to identifiable reporting units, which are then tested for impairment using a two-step process detailed in the statement. The first step requires comparing the fair value of each reporting unit with its carrying amount, including goodwill. If that fair value exceeds the carrying amount, the second step of the process is not necessary and there are no impairment issues. If that fair value does not exceed that carrying amount, companies must perform the second step that requires a hypothetical allocation of the fair value of the reporting unit to the reporting unit s assets and liabilities as if the unit were just purchased by the company at the fair value price. In this hypothetical purchase, the excess of the fair value of the reporting unit over its re-evaluated, marked-to-market net assets would be the new basis for the reporting unit s goodwill and a write down to this new value would be recognized as an expense.

We adopted SFAS No. 142 on January 1, 2002. In doing so, we determined that we have two reporting units, Laboratory and Animal Hospital. On April 15, 2002, an independent valuation group

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concluded that the fair value of our reporting units exceeded their carrying value and accordingly, as of that date, we concluded there were no goodwill impairment issues. We plan to perform a valuation of our reporting units annually, or upon significant changes in our business environment.

As of September 30, 2002 our goodwill, net of accumulated amortization, was $332.5 million. As a result of the adoption of SFAS No. 142, we recorded no amortization of goodwill for the nine months ended September 30, 2002. We recorded $6.9 million in goodwill amortization for the nine months ended September 30, 2001. We recorded $9.2 million, $8.3 million and $7.5 million in goodwill amortization for the fiscal years ended December 31, 2001, 2000 and 1999, respectively.

Goodwill Impairment Test

In August 2002, the FASB s Emerging Issues Task Force (EITF) issued EITF Issue No. 02-13, Deferred Income Tax Considerations in Applying the Goodwill Impairment Test in FASB No. 142, Goodwill and Other Intangible Assets. EITF Issue No. 02-13 was issued to provide guidance on how to account for deferred tax balances in determining a reporting unit s fair value, a reporting unit s carrying amount and the implied fair value of goodwill. The consensus in this issue will be applied prospectively in performing either the first or second step of the impairment test required by SFAS No. 142 for tests performed after September 12, 2002. We do not expect the adoption of EITF Issue No. 02-13 to have a material impact on our consolidated financial statements.

Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. We will adopt SFAS No. 143 in the first quarter of fiscal year 2003. We do not expect the adoption of SFAS No. 143 to have a material impact on our consolidated financial statements.

Impairment of Long-Lived Assets

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which establishes one accounting model to be used for long-lived assets to be disposed of by sale and broadens the presentation for discontinued operations to include more disposal transactions. SFAS No. 144 supercedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets to be Disposed of by Sale*, and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30 (APB No. 30), *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. We adopted SFAS No. 144 on January 1, 2002 without material impact on our financial statements.

We will continually evaluate whether events, circumstances or net losses at the entity level have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of these assets may not be recoverable. When factors indicate that these assets should be evaluated for possible impairment, we will estimate the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the long-lived assets in question. If that estimate is less than the carrying value of the assets under review, we will recognize an impairment loss equal to that difference.

Gains and Losses from Extinguishment of Debt and Capital Leases

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64*, *Amendment of FASB Statement No. 13, and Technical Corrections*, to be applied in fiscal years beginning after May 15, 2002 with early adoption encouraged.

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Under SFAS No. 145, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria of APB No. 30. Under APB No. 30, events are considered extraordinary only if they possess a high degree of abnormality and are not likely to recur in the foreseeable future. Any gains or losses on extinguishment of debt that do not meet the criteria of APB No. 30 shall be classified as a component of income from recurring operations. In addition, any gains or losses on extinguishment of debt that were classified as an extraordinary item in prior periods presented that do not meet the criteria of APB No. 30 shall be reclassified as a component of income from recurring operations.

We will adopt SFAS No. 145 at the beginning of fiscal year 2003. As detailed in Footnote (5) to our financial statements, Extraordinary Loss on Early Extinguishment of Debt, we recognized extraordinary losses related to the early extinguishment of debt of approximately $3.4 million, before taxes, in August 2002. We also expect to incur an additional extraordinary loss in the fourth quarter of 2002 related to the prepayment of debt in the amount of $9.3 million, before taxes. In addition, we recognized extraordinary losses related to the early extinguishment of debt, before taxes in the amount of approximately $17.2 million and $4.5 million during years 2001 and 2000, respectively. We do not believe these losses on extinguishment of debt meet the criteria of APB No. 30 as we have historically participated in and may continue to participate in periodic debt refinancing. As a result of adopting SFAS No. 145, we will reclassify the losses on extinguishment of debt from extraordinary losses to a component of income from recurring operations for filings subsequent to January 1, 2003. This reclassification will not impact net income.

SFAS No. 145 also amends SFAS No. 13, *Accounting for Leases*. Under SFAS No. 145, if a capital lease is modified such that it becomes an operating lease, a gain or loss must be recognized similar to the accounting used for sale-leaseback transactions as provided in SFAS No. 28 and No. 98. At September 30, 2002, we had capital lease obligations of $43,000. Although the Company may enter into more capital leases, management does not expect SFAS No. 145 to have a material impact on its financial statements.

Costs Associated with Exit or Disposal of Activities

In June 2002, FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.* SFAS No. 146 requires that liabilities associated with exit or disposal activities be recognized when a company is committed to future payment of those liabilities under a binding, legal obligation. SFAS No. 146 nullifies Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*, which required that exit and disposal costs be recognized as liabilities when a company formalized its plan for exiting or disposing of an activity even if no legal obligation had been established.

SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, however early adoption is encouraged. Currently, we have no plans to exit or dispose of any of our business activities that would require the use of SFAS No. 146 nor do we anticipate that SFAS No. 146 will change any of our business practices.

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Quarterly Results

The following tables set forth selected unaudited quarterly results for the eleven quarters commencing January 1, 2000, and ending September 30, 2002. The quarterly financial data as of each period presented below have been derived from our unaudited consolidated financial statements for those periods. Results for these interim periods are not necessarily indicative of our results for a full year s operations. The quarterly financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, Results of Operations and our consolidated financial statements and related notes included elsewhere in this prospectus.

In dollars (in thousands, except per share amounts):

	2002 Quarter Ended			2001 Quarter Ended				2000 Quarter Ended			
	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Revenue:											
Laboratory	$ 38,650	$ 40,604	$ 37,657	$ 32,856	$ 33,471	$ 35,707	$ 32,677	$ 28,469	$ 30,105	$ 31,921	$ 28,805
Animal hospital	78,118	78,621	68,644	64,448	70,531	72,780	64,354	57,908	63,449	63,472	55,795
Other	500	500	500	500	500	500	500	500			425
Intercompany	(2,296)	(2,500)	(2,106)	(1,807)	(1,866)	(1,938)	(1,851)	(1,471)	(1,558)	(1,459)	(1,674)
Total revenue	114,972	117,225	104,695	95,997	102,636	107,049	95,680	85,406	91,996	93,934	83,351
Adjusted EBITDA	29,163	31,682	23,485	18,613	24,599	27,112	19,181	15,986	20,334	21,980	15,226
Operating income (loss)	26,135	28,543	20,322	(5,974)	16,024	8,393	9,263	9,681	(19,075)	17,524	11,075
Net income (loss)	7,035	10,495	5,635	(20,638)	2,024	(5,820)	(2,989)	(6,526)	(16,713)	8,436	6,392
Diluted earnings (loss) per share	$ 0.19	$ 0.28	$ 0.15	$ (0.97)	$ (0.19)	$ (0.63)	$ (0.46)	$ (0.65)	$ (0.06)	$ 0.02	$ 0.02

In percentages of revenue:

	2002 Quarter Ended			2001 Quarter Ended				2000 Quarter Ended			
	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Revenue:											
Laboratory	33.6%	34.6%	36.0%	34.2%	32.6%	33.3%	34.1%	33.3%	32.7%	34.0%	34.6%
Animal hospital	68.0%	67.1%	65.5%	67.1%	68.7%	68.0%	67.3%	67.8%	69.0%	67.6%	66.9%
Other	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.6%			0.5%
Intercompany	(2.0)%	(2.1)%	(2.0)%	(1.8)%	(1.8)%	(1.8)%	(1.9)%	(1.7)%	(1.7)%	(1.6)%	(2.0)%
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Adjusted EBITDA	25.4%	27.0%	22.4%	19.4%	24.0%	25.3%	20.0%	18.7%	22.1%	23.4%	18.3%
Operating income (loss)	22.7%	24.3%	19.4%	(6.2)%	15.6%	7.8%	9.7%	11.3%	(20.7)%	18.7%	13.3%
Net income (loss)	6.1%	9.0%	5.4%	(21.5)%	2.0%	(5.4)%	(3.1)%	(7.6)%	(18.2)%	9.0%	7.7%

Although not readily detectable because of the impact of acquisitions, our operations are subject to seasonal fluctuation. In particular, our revenue historically has been greater in the second and third quarters than in the first and fourth quarters.

The demand for our veterinary services are significantly higher during warmer months because pets spend a greater amount of time outdoors, where they are more likely to be injured and are more susceptible to disease and parasites. In addition, use of veterinary services may be affected by levels of infestation of fleas, heartworms and ticks and the number of daylight hours. A substantial portion of our costs are fixed and do not vary with the level of demand. Consequently, our EBITDA, Adjusted EBITDA and operating income, as well as our EBITDA, Adjusted EBITDA and operating margins, generally have been higher for the second

and third quarters than that experienced in the first and fourth quarters.

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Quantitative and Qualitative Disclosures About Market Risk

We have certain debt obligations that are exposed to market risk associated with variable interest rates. As of September 30, 2002, we had borrowings of $142.7 million under our senior credit facility with variable interest rates based on market benchmarks such as LIBOR. To reduce the risk of increasing interest rates, we entered into a no-fee interest rate collar agreement that expired on November 15, 2002. This collar agreement had a cap and floor notional amount of $62.5 million, a cap rate of 7.5% and a floor rate of 5.9%, both based on LIBOR.

Accordingly, for the period January 1, 2002 to November 15, 2002:

- if the benchmark rate is below 5.9% and a change in the rate does not cause the benchmark to exceed 5.9%, every one-half percent increase in the benchmark rate will cause interest expense to increase by $445,000, while a one-half percent decrease will cause interest expense to decrease by $445,000;

- if the benchmark rate is equal to or between 5.9% and 7.5% and a change in the rate does not cause the benchmark to exceed 7.5% or drop below 5.9%, every one-half percent increase in the benchmark rate will cause interest expense to increase by $718,000, while a one-half percent decrease will cause interest expense to decrease by $718,000; and

- if the benchmark rate is above 7.5% and a change in the rate does not cause the benchmark to drop below 7.5%, every one-half percent increase in the benchmark rate would cause interest expense to increase by $445,000, while a one-half percent decrease would cause interest expense to decrease by $445,000.

On October 24, 2002 we repaid the entire outstanding principal amount of our 13.5% senior subordinated notes and $30.0 million principal amount of our 15.5% senior notes, plus accrued and unpaid interest and prepayment premiums. Funds used to repay these notes and related fees and transaction costs were derived from an additional $25.0 million of senior term C notes issued under our senior credit facility and $25.2 million of cash on hand. As a result of this transaction we increased the amount of our debt subject to variable interest rates from $142.7 million at September 30, 2002 to $167.7 million.

On November 7, 2002 we entered into a no-fee swap agreement with Wells Fargo Bank effective November 29, 2002 and expiring November 29, 2004. The agreement swaps monthly variable LIBOR rates for a fixed rate of 2.22% on a notional amount of $40.0 million.

On December 23, 2002, we borrowed $7.5 million under our revolving credit facility, which is subject to variable interest rates based on market benchmarks such as LIBOR.

For fiscal 2003, $135.2 million of our debt obligations are subject to the risk of variable interest rates. Based on this amount, for every 1% increase or decrease in interest rates, our annual interest expense will increase or decrease by $1.4 million.

We are considering entering into additional interest rate strategies to take advantage of the current rate environment. We have not yet determined what those strategies may be or their possible impact.

Inflation

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

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BUSINESS

General

We are a leading animal health care services company and operate the largest networks of veterinary diagnostic laboratories and free-standing, full-service animal hospitals in the United States. Our network of veterinary diagnostic laboratories provides sophisticated testing and consulting services to the veterinarian comparable to that provided by the human diagnostic laboratory to the physician. Veterinarians use these services in the detection, diagnosis, evaluation, monitoring, treatment and prevention of diseases and other conditions affecting animals. With the only nationwide veterinary laboratory network serving all 50 states, we provide diagnostic testing for an estimated 13,000 animal hospitals. Our network of animal hospitals offers a full range of general medical and surgical services for companion animals, as well as specialized treatments including advanced diagnostic services, internal medicine, oncology, ophthalmology, dermatology and cardiology. In addition, we provide pharmaceutical products and perform a variety of pet wellness programs including routine vaccinations, health examinations, diagnostic testing, spaying, neutering and dental care. The more than 750 veterinarians supporting our 225 animal hospitals had over three million patient visits in 2002.

Industry Overview

The U.S. population of companion animals has reached approximately 188 million, including about 141 million dogs and cats. Industry data shows that over $11 billion was spent on animal health care services in 1996, with an annual growth rate of over 9.5% from 1991 through 1996 for spending on dogs and cats.

The ownership of pets is widespread, with over 62% of U.S. households owning at least one pet, including companion and other animals. Pet ownership is highest among households with children under 18 and empty-nesters whose pets have become their new children.

Among this expanding number of pet owners is a growing awareness of pet health and wellness, including the benefits of preventive care and specialized services. As technology continues to migrate from the human healthcare sector into the practice of veterinary medicine, more sophisticated treatments and diagnostic tests are becoming available to treat companion animals. These new and increasingly complex procedures, diagnostic tests and pharmaceuticals are gaining wider acceptance as pet owners are exposed to these previously unconsidered treatment programs through literature and marketing programs sponsored by large pharmaceutical and pet nutrition companies. We believe this is evidenced by an industry survey revealing that 70% of pet owners view their animals as important members of the family and are willing to pay for more veterinary services to promote the good health and extend the life of their pet.

Even as treatments available in veterinary medicine become more complex, prices for veterinary services typically remain a low percentage of a pet-owner s income, facilitating payment at the time of service. Unlike the human health care industry, providers of veterinary services are not dependent on third-party payors in order to collect fees. As a consequence, providers of veterinary services do not have the problems of extended payment collection cycles or pricing pressures from third party-payors faced by human health care providers. Outsourced laboratory testing is a wholesale business that collects payments directly from animal hospitals, generally on terms requiring payment within 30 days of the date the charge is invoiced. Fees for animal hospital services are due at the time of the service. For example, over 95% of our animal hospital services are paid for in cash or by credit card at that time. In addition, over the past three fiscal years, our bad debt expense has averaged only 1% of total revenue.

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

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

Veterinary laboratory tests are performed primarily at free-standing veterinary diagnostic laboratories, universities or animal hospitals using on-site diagnostic equipment. For particular types of tests, on-site diagnostic equipment can provide more timely results than outside laboratories, but this in-house testing requires the animal hospital or veterinarian to purchase or lease the equipment, maintain and calibrate the equipment periodically to avoid testing errors, and employ trained personnel to operate it. Conversely, veterinary diagnostic laboratories can provide a wider range of tests than generally are available on-site at most animal hospitals and do not require any up-front investment on the part of the animal hospital or veterinarian. Also, leading veterinary diagnostic laboratories employ highly trained individuals who specialize in the detection and diagnosis of diseases and thus are a valuable resource for the veterinarian.

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

We believe that the outsourced laboratory testing market is one of the fastest growing segments of the animal health care services industry, and expect continued growth as a result of:

the increased focus on wellness and monitoring programs in veterinary medicine, which is increasing the overall number of tests being performed;

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

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

the trend toward outsourcing tests because of the relative low cost, the high accuracy rates and the diagnostic support provided by specialists employed by the laboratory.

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

The U.S. market for veterinary services is highly fragmented, with more than 35,000 veterinarians practicing at over 18,000 companion animal hospitals. Although most animal hospitals are single site,

sole practitioner facilities, we believe veterinarians are increasingly gravitating toward animal hospitals that provide state-of-the-art facilities, treatments, methods and pharmaceuticals to enhance the services they can provide their clients.

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

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

Competitive Strengths

We believe that we are well-positioned for profitable growth due to the following competitive strengths:

Market Leader. We are a market leader in each of the business segments in which we operate. We maintain the only veterinary diagnostic laboratory network serving all 50 states, which is supported by the largest group of consulting veterinary specialists in the industry. Our network of animal hospitals and veterinarians is the largest in the United States. We believe that it would be difficult, time consuming and expensive for new entrants or existing competitors to assemble a comparable nationwide laboratory or animal hospital network.

Compelling Business Model. We believe our business model enables us to generate consistent growth and increasing cash flows. The fixed cost nature of our business allows us to generate strong margins, particularly on incremental revenues. In each quarter since 1999, we have generated positive laboratory internal revenue growth. The growth in our laboratory revenue, combined with greater utilization of our infrastructure, has enabled us to improve our laboratory operating margin from 27.1% in 1999 to 33.8% for the twelve months ended September 30, 2002, and our laboratory adjusted EBITDA margin from 31.2% to 36.1% over the same period. In each quarter since 1999, we have generated positive animal hospital same-facility revenue growth. Due to the operating leverage associated with our animal hospital business, the increase in animal hospital revenue has enabled us to improve our animal hospital operating margin from 12.3% in 1999 to 17.3% for the twelve months ended September 30, 2002, and our animal hospital adjusted EBITDA margin from 17.1% to 20.7% over the same period. These high margins, combined with our modest working capital needs and low maintenance capital expenditures, provide cash that we can use for acquisitions or to reduce indebtedness.

Leading Team of Specialists. We believe our laboratories are a valuable diagnostic resource for veterinarians. Due to the trend towards offering specialized services in veterinary medicine, our network of 83 specialists, which includes veterinarians, chemists and other scientists with expertise in fields such as pathology, internal medicine, oncology, cardiology,

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dermatology, neurology and endocrinology, provides us with a significant competitive advantage. These specialists are available to consult with our laboratory clients, providing a compelling reason for them to use our laboratories rather than those of our competitors, most of whom offer no comparable service. Our team of specialists represents the largest interactive source for readily available diagnostic advice in the veterinary industry and interact with animal health care professionals over 90,000 times a year.

High Quality Service Provider. We believe that we have built a reputation as a trusted animal health brand among veterinarians and pet owners alike. In our laboratories, we maintain rigorous quality assurance programs to ensure the accuracy of reported results. We calibrate our laboratory equipment several times daily with test specimens of known concentration or reactivity to assure accuracy and use only qualified personnel to perform testing. Further, our specialists review all test results outside of the range of established norms. As a result of these measures, we believe our diagnostic accuracy rate is over 99%. In our animal hospitals, we provide continuing education programs, promote the sharing of professional knowledge and expertise and have developed and implemented a program of best practices to promote quality medical care.

Shared Expertise Among Veterinarians. We believe our group of animal hospitals and veterinarians provide us with a competitive advantage through our collective expertise and experience. Our veterinarians consult with other veterinarians in our network to share information regarding the practice of veterinary medicine, which continues to expand our collective knowledge. We maintain an internal continuing education program for our veterinarians and have an established infrastructure for the dissemination of information on new developments in diagnostic testing, procedures and treatment programs.

Business Strategy

Our business strategy is to continue to expand our market leadership in animal health care services through our diagnostic laboratories and animal hospitals. Key elements of our strategy include:

Capitalizing on our Leading Market Position to Generate Revenue Growth. Our leading market position in each of our business segments positions us to capitalize on favorable growth trends in the animal health care services industry. In our laboratories, we seek to generate revenue growth by taking advantage of the growing number of outsourced diagnostic tests and by increasing our market share. We continually educate veterinarians on new and existing technologies and test offerings available to diagnose medical conditions. Further, we leverage the knowledge of our specialists by providing veterinarians with extensive client support in promoting and understanding these diagnostic tests. In our animal hospitals, we seek to generate revenue growth by capitalizing on the growing emphasis on pet health and wellness.

Leveraging Established Infrastructure to Improve Margins. We intend to leverage our established laboratory and animal hospital infrastructure to continue to increase our operating margins. Due to our established networks and the fixed cost nature of our business model, we are able to realize high margins on incremental revenues from both laboratory and animal hospital clients. For example, given that our nationwide transportation network servicing our laboratory clients is a relatively fixed cost, we are able to achieve significantly higher margins on most incremental tests ordered by the same client when picked up by our couriers at the same time. We estimate that in most cases, we realize an operating and EBITDA margin between 60% and 75% on these incremental tests.

Utilizing Enterprise-Wide Systems to Improve Operating Efficiencies. In 2001, we completed the migration of our animal hospital operations to an enterprise-wide management

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information system. This common system has enabled us to effectively manage the key operating metrics that drive our business. We use this system to help standardize our pricing, implement and monitor the effectiveness of targeted marketing programs, expand the services provided by our veterinarians and capture unbilled services.

Pursuing Selected Acquisitions. Although we have substantially completed our laboratory infrastructure, we may make selective, strategic laboratory acquisitions, with any new operations likely to be merged into existing facilities. Additionally, the fragmentation of the animal hospital industry provides us with significant expansion opportunities in our animal hospital segment. Depending on the attractiveness of the candidates and the strategic fit with our existing operations, we intend to acquire approximately 15 to 25 animal hospitals per year primarily using internally generated cash.

Diagnostic Laboratories

We operate the only full-service, veterinary diagnostic laboratory network serving all 50 states. In 2001, we performed approximately 18.3 million tests and handled roughly 6.9 million requisitions in our state-of-the-art, automated diagnostic laboratories. Our laboratory network services a diverse client base of over 13,000 animal hospitals, and non-affiliated animal hospitals generated approximately 95% of our laboratory revenue in 2001.

Services. Our diagnostic spectrum includes over 300 different tests in the areas of chemistry, pathology, endocrinology, hematology, and microbiology, as well as tests specific to particular diseases. The average revenue per requisition is approximately $21. We do not conduct experiments on animals and are not engaged in animal research.

Although modified to address the particular requirements of the species tested, the tests performed in our veterinary laboratories are similar to those performed in human clinical laboratories and utilize similar laboratory equipment and technologies. The growing concern for animal health, combined with the movement of veterinary medicine toward increasing specialization, should spur the migration of additional areas of human testing into the veterinary field. For example, we now provide cancer testing for household pets whereas several years ago, these tests were not available.

Given the recent advancements in veterinary medical technology and the increased breadth and depth of knowledge required for the practice of veterinary medicine, many veterinarians solicit the knowledge and experience of our 83 specialists to interpret test results, consult on the diagnosis of illnesses and suggest treatment programs. This resource includes veterinarians, chemists, and other scientists with expertise in pathology, internal medicine, oncology, cardiology, dermatology, neurology and endocrinology. This depth of experience and expertise enables our specialists to suggest additional testing or provide diagnostic advice that assists the veterinarian in developing an appropriate treatment plan.

Together with our specialist support, we believe the quality of our service further distinguishes our laboratory services. We maintain quality assurance programs to ensure that specimens are collected and transported properly, that tests are performed accurately and that client, patient and test information is reported and billed correctly. Our quality assurance programs include quality control testing of specimens of known concentration or reactivity to ensure accuracy and precision, routine checks and preventive maintenance of laboratory testing equipment, and personnel standards ensuring that only qualified personnel perform testing. As a result, we believe that our accuracy rate is over 99%.

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Laboratory Network. At September 30, 2002, we operated 19 full-service laboratories. Our laboratory network includes:

primary hubs that are open 24 hours per day and offer a full testing menu;

secondary laboratories that service large metropolitan areas, are open 24 hours per day and offer a wide testing menu; and

STAT laboratories that service other locations with demand sufficient to warrant nearby laboratory facilities and are open primarily during daytime hours.

We connect our laboratories to our clients with what we believe is the industry s largest transportation network, which picks up an average of 20,000 to 25,000 requisitions daily through an extensive network of drivers and independent couriers. In the nine months ended September 30, 2002, we derived approximately 70.1% of our laboratory revenue from major metropolitan areas, where we offer twice-a-day pick-up service and same-day results. In addition, in these areas, we generally offer to report results within three hours of pick-up. Outside of these areas, we typically provide test results to veterinarians before 8:00 a.m. the following day.

Veterinarian clients located outside the areas covered by our transportation network are serviced using our Test Express service. Users of the Test Express service send patient specimens by Federal Express to our laboratory just outside of Memphis, the proximity of which to the Federal Express primary sorting facility permits speedy and cost-efficient testing.

Sales, Marketing and Client Service. We employ over 45 full-time sales and field service representatives who market laboratory services and maintain relationships with existing clients. The sales force is commissioned-based and organized along geographic regions. We support our sales efforts by strengthening our industry-leading team of specialists, developing marketing literature, attending trade shows, participating in trade associations and providing educational services to veterinarians. In addition, we employ over 85 client service representatives who respond to client inquiries, provide test results and, when appropriate, introduce the client to other services offered by the laboratory.

Given the high margins we enjoy on many of our incremental tests, our sales force is compensated primarily on its success in maximizing the amount of business from existing clients as well as adding new clients.

Personnel. At September 30, 2002, we employed a staff of approximately 1,100 full-time-equivalent employees in our laboratory network. At that same date, we employed on average 325 employees at each of our primary laboratories, 73 employees at each of our secondary laboratories and 13 employees at each of our STAT laboratories. We employ some of our specialists and enter into consulting arrangements with others. Our laboratory network consists of an eastern and western division and we employ a vice president to manage each region. We employ a manager at each of our laboratories and supervisors for each department within the laboratories.

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Animal Hospitals

At September 30, 2002, we operated 225 animal hospitals in 33 states that were supported by over 750 veterinarians. Our nationwide network of free-standing, full-service animal hospitals has facilities located in the following states:

State	Number	State	Number
California	45	Delaware	4
New York*	21	Connecticut	3
Florida	17	New Mexico	3
Illinois	17	Minnesota*	2
Michigan	13	Nebraska*	2
Texas*	12	North Carolina*	2
Pennsylvania	11	Utah	2
New Jersey*	9	Washington*	2
Maryland	8	Wisconsin	2
Indiana	7	Alabama*	1
Massachusetts	7	Georgia	1
Virginia	6	Hawaii	1
Alaska	5	Louisiana*	1
Nevada	5	Missouri	1
Ohio *	5	South Carolina	1
Arizona	4	West Virginia*	1
Colorado	4		

* States in which we manage animal hospitals owned by veterinary medical groups.

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

- is located in a 4,000 to 6,000 square foot, free-standing facility in an attractive location;
- has annual revenue between $1.0 million and $2.0 million;
- is supported by three to five veterinarians; and
- has an operating history of over ten years.

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

As part of the growth strategy of our hospital business, we intend to continue our disciplined acquisition strategy by identifying high quality practices that may have value to be unlocked through the services and scale we can provide. We contemplate the acquisition of 15 to 25 animal hospitals per year. Our typical candidate mirrors the profile of our existing hospital base. Acquisitions will be used to both expand in existing markets and enter new geographical areas. We intend primarily to use cash in our acquisitions, but we may use debt or stock to the extent we deem appropriate. By undertaking prudent acquisitions, we are able to grow our hospital business without diluting the local market for veterinary services. As of December 20, 2002, we had identified and were in negotiations to acquire six animal hospitals.

Personnel. Our animal hospitals generally employ a staff of between 10 to 30 full-time equivalent employees, depending upon the facility s size and client base. The staff includes administrative and technical support personnel, three to five veterinarians, an office manager who

supervises the day-to-day activities of the facility, and a small office staff. We employ a relatively small corporate staff to provide centralized administrative services to all of our animal hospitals.

We actively recruit highly qualified veterinarians and technicians and are committed to supporting continuing education for our professional staff. We operate post-graduate teaching programs for veterinarians at eight of our facilities, which train approximately 40 veterinarians each year. We believe that these programs enhance our reputation in the veterinary profession and further our ability to continue to recruit the most talented veterinarians.

We seek to establish an environment that supports the veterinarian in the delivery of quality medicine and fosters professional growth through increased patient flow and a diverse case mix, continuing education, state-of-the-art equipment and access to specialists. We believe our hospitals offer attractive employment opportunities to veterinarians because of this professional environment, competitive compensation programs, management opportunities, employee benefits not generally available to a sole practitioner, scheduling flexibility to accommodate personal lifestyles and the ability to relocate to different regions of the country. Further, we permit some of our veterinarians to participate with us in the ownership and operation of selected animal hospitals. In these circumstances, the veterinarian purchases an equity position in our animal hospital and is our partner in its operation. As of September 30, 2002, we operated 25 hospitals under a partnership structure. Typically, the salary of the veterinarian partner is based on a percentage of the revenue of the animal hospital that is generated by the veterinarian. The operating income of the partnership that is distributed to the veterinarian partner is based on the veterinarian partner s percentage interest in the partnership, which is typically between 10% and 25%.

We have established a Medical Advisory Board to support our operations. The Medical Advisory Board s function, under the direction of our Chief Medical Officer, is to recommend medical standards for our network of animal hospitals. The committee is comprised of leading veterinarians representing both the different geographic regions in which we operate and the medical specialties practiced by our veterinarians. Currently, four members of the Medical Advisory Board are faculty members at leading veterinary colleges in the United States. These members serve as medical consultants to us.

Marketing. Our marketing efforts are primarily directed towards our existing clients through client education efforts. We inform and educate our clients about pet wellness and quality care through mailings of the Healthy Pet Magazine, a magazine focused on pet care and wellness published by an affiliate of ours, targeted demographic mailings regarding specific pet health issues and collateral health material available at each animal hospital. With these internal marketing programs, we seek to leverage our existing client base by increasing the number of visits of existing clients and intensity of the services used during each visit. Further, reminder notices are used to increase awareness of the advantages of regular, comprehensive veterinary medical care, including preventive care such as vaccinations, dental screening and geriatric care.

We also enter into referral arrangements with local pet shops and humane societies to increase our client base. In addition, we seek to obtain referrals from veterinarians by promoting our specialized diagnostic and treatment capabilities to veterinarians and veterinary practices that cannot offer their clients these services.

Ownership Limitations. Some states have laws that prohibit business corporations from providing veterinary services through the direct employment of veterinarians. At September 30, 2002, we operated 58 animal hospitals in 11 states with these types of ownership restrictions. In these states, instead of owning an animal hospital, we provide management services to veterinary medical groups. We do not consolidate the operating results of these hospitals for financial statement purposes. We provide our management services pursuant to long-term management agreements with the veterinary

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medical groups, ranging from 10 to 40 years, with non-binding renewal options where allowable. Pursuant to the management agreements, the veterinary medical groups are each solely responsible for all aspects of the practice of veterinary medicine, as defined by their respective state. We are responsible for providing the following services:

- availability of all facilities and equipment;
- day-to-day financial and administrative supervision and management;
- maintenance of patient records;
- recruitment of veterinarians and animal hospital staff;
- marketing; and
- malpractice and general insurance.

As compensation for these services, we receive management fees, which are included in animal hospital revenue.

Systems

We maintain a nationwide management information system to support our veterinary laboratories. In 2001, we completed the migration of our animal hospital operations onto an enterprise-wide management information system. Substantially all of our animal hospitals utilize consistent patient accounting/point-of-sale software, and we are able to track the performance of hospitals on a per service, per veterinarian basis. Laboratory technicians and specialists are able to electronically access test results from remote testing sites, enabling our specialists from varying fields of veterinary medicine to assist in the interpretation of test results and help structure potential treatment programs. In addition, we can provide diagnostic test results to veterinarian clients online and via electronic mail, a service which we believe provides additional tools for veterinarians in their practice and solidifies our relationship with these clients. We expect that this operational visibility will lead to increases in laboratory, veterinarian and hospital productivity.

We continue to upgrade and integrate our management information systems. We currently are implementing an upgrade to the management information systems for our animal hospitals which will improve our ability to track performance data on a per client basis. We expect this upgrade and integration to be substantially complete in early 2003.

Competition

The companion animal health care services industry is highly competitive and subject to continual change in the manner in which services are delivered and providers are selected. We believe that the primary factors influencing a client s selection of an animal hospital are convenient location, recommendation of friends, reasonable fees, quality of care and convenient hours. Our primary competitors for our animal hospitals in most markets are individual practitioners or small, regional multi-clinic practices. In addition, some national companies in the pet care industry, including the operators of super-stores, are developing multi-regional networks of animal hospitals in markets that include our animal hospitals. Among veterinary diagnostic laboratories, we believe that quality, price, specialist support and the time required to report results are the major competitive factors. Although there are many individual clinical laboratories that provide a broad range of diagnostic testing services in the same markets serviced by us, few outsourced laboratory companies compete on a national level. Our client base is twice that of our primary competitor in the laboratory business. In addition to competing with dedicated veterinary laboratories, we face competition from several providers of on-site diagnostic equipment that allow veterinarians to perform their own laboratory tests.

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Government Regulation

The laws of many states prohibit business corporations from providing, or holding themselves out as providers of, veterinary medical care. These laws vary from state to state and are enforced by the courts and by regulatory authorities with broad discretion. At September 30, 2002, we operated 58 hospitals in 11 states with these laws. Although we seek to structure our operations to comply with veterinary medicine laws of each state in which we operate, given the varying and uncertain interpretations of these laws, we may not be in compliance with restrictions on the corporate practice of veterinary medicine in all states. A determination that we are in violation of applicable restrictions on the practice of veterinary medicine in any state in which we operate could have a material adverse effect on us, particularly if we were unable to restructure our operations to comply with the requirements of that state.

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

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

Employees

At September 30, 2002, we had approximately 3,500 full-time-equivalent employees, including approximately 620 licensed veterinarians. At September 30, 2002, none of our employees were a party to a collective bargaining agreement with the exception of 45 employees whom we employ as courier drivers in the State of New York. These employees are subject to a collective bargaining agreement expiring on July 10, 2003 with the Teamsters Local Union 813.

Properties

Our corporate headquarters and principal executive offices are located in West Los Angeles, California, in approximately 30,000 square feet of leased space. As of September 30, 2002, we maintained leased and owned facilities at 244 other locations that house our animal hospitals and laboratories. We own 63 facilities and the remainder are leased. We believe that our real property facilities are adequate for our current needs.

Legal Proceedings

The Ohio Attorney General s office filed a lawsuit on December 14, 1998, in the Franklin County Court of Common Pleas in the State of Ohio in which the state alleged that our management of a veterinary medical group licensed to practice veterinary medicine in that state violates the Ohio statute prohibiting business corporations from providing, or holding themselves out as providers of, veterinary medical care. On March 20, 2001, the trial court in the case entered summary judgment in favor of the State of Ohio and issued an order enjoining us from operating in the State of Ohio in a manner that is in violation of the state statute. Since that time, we have been engaged in discussions with the Attorney General s office to restructure our operations. We have reached an agreement with the Attorney General s office that our management services agreement, as amended, does not constitute the practice of veterinary medicine by a corporation. We have filed our agreement with the court, which completes our settlement with the State of Ohio.

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On November 30, 2001, two majority stockholders of a company that merged with Zoasis.com, Inc. in June 2000 filed a civil complaint against VCA, Zoasis.com, Inc. and Robert Antin. In the merger, the two stockholders received a less than 10% interest in Zoasis. At the same time, VCA acquired a less than 20% interest in Zoasis.com, Inc. for an investment of $5.0 million. Robert Antin, VCA s Chief Executive Officer, President and Chairman of the Board, is the majority stockholder of Zoasis.com and serves on its board of directors. The complaint alleges securities fraud under California law, common law fraud, negligent misrepresentation and declaratory judgment arising from the plaintiffs investment in Zoasis.com. On December 31, 2001, we filed a demurrer to the complaint. On February 25, 2002, the plaintiffs filed an opposition to our demurrer, and on March 1, 2002, we filed our reply to plaintiffs opposition. On March 7, 2002, our demurrer was denied. On March 22, 2002, we filed an answer to plaintiffs complaint denying all allegations in the complaint, and Zoasis.com, Inc. filed a counter claim alleging breach of contract and claim and delivery. We have completed the discovery process. A status conference was held on May 9, 2002 at which the judge ordered the parties to participate in mediation. Mediation occurred on August 7, 2002, and no settlement was reached. On August 30, 2002, plaintiffs filed a first amended complaint stating the same causes of action. On December 17, 2002, we filed a motion for summary judgment. Mediation occurred on December 18, 2002, and no settlement was reached. On December 20, 2002, we answered plaintiffs first amended complaint. Our motion for summary judgment will be heard on February 6, 2003. The court has scheduled a final status conference for February 6, 2003, and a trial date of February 14, 2003. If we reach a settlement in the action or if damages are awarded to the plaintiffs at trial, it may result in a charge to earnings in the fourth quarter of fiscal 2002 or the first quarter of fiscal 2003. We do not expect any such settlement or judgment to have a material adverse impact on our financial condition.

We are a party to various other legal proceedings that arise in the ordinary course of business. Although we cannot determine the ultimate disposition of these proceedings, we can use judgment to reasonably estimate our liability for legal settlement costs that may arise as a result of these proceedings. Based on our prior experience, the nature of the current proceedings and our insurance policy coverage for such matters, we have accrued a minimal amount for legal settlements as part of other accrued liabilities.

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MANAGEMENT

Directors and Executive Officers

As of January 10, 2003, the following persons are our directors:

Directors	Age	Present Position
Robert L. Antin	52	Chairman of the Board
Arthur J. Antin	55	Director
John M. Baumer	35	Director
John G. Danhakl	46	Director
John A. Heil	48	Director
Peter J. Nolan	44	Director
Frank Reddick	49	Director

As of January 10, 2003, the following persons are our executive officers and key employees:

Executive Officers	Age	Present Position
Robert L. Antin	52	President and Chief Executive Officer
Arthur J. Antin	55	Chief Operating Officer, Senior Vice President and Secretary
Neil Tauber	51	Senior Vice President of Development
Tomas W. Fuller	45	Chief Financial Officer, Vice President and Assistant Secretary
Key Employee		
Dawn R. Olsen	44	Vice President and Controller

Our executive officers are appointed by and serve at the discretion of our board of directors. Robert L. Antin and Arthur J. Antin are brothers. There are no other family relationships between any of our directors and/or any of our executive officers.

Robert L. Antin, one of our founders, has served as our Chief Executive Officer, President and Chairman of the Board since our inception in 1986. From September 1983 until our founding, Mr. Antin was President, Chief Executive Officer, a director and co-founder of AlternaCare Corp., a publicly held company that owned, operated and developed freestanding out-patient surgical centers. From July 1978 until September 1983, Mr. Antin was employed as an officer by American Medical International, Inc., an owner and operator of health care facilities. While at American Medical International, Inc., Mr. Antin initially served as Director of Marketing of Professional Hospital Services, then as Director of New Business Development responsible for non-hospital related acquisitions and development, and then as a Vice President of American Medical International, Inc. and President of AMI Ambulatory Center, Inc., a subsidiary of American Medical International, Inc. operating a chain of ambulatory care centers. Mr. Antin received his MBA with a certification in hospital and health administration from Cornell University.

Arthur J. Antin, one of our founders, has served as our Chief Operating Officer, Senior Vice President, Secretary and director since our inception. From October 1983 to September 1986, Mr. Antin served as Director of Marketing/Investor Relations of AlternaCare Corp. At AlternaCare Corp., Mr. Antin developed and implemented marketing strategies for a network of outpatient surgical centers. Mr. Antin received an MA in Community Health from New York University.

Neil Tauber, one of our founders, has served as our Senior Vice President of Development since our inception. From 1984 to 1986, Mr. Tauber served as the Director of Corporate Development at AlternaCare. At AlternaCare, Mr. Tauber was responsible for the acquisition of new businesses and syndication to hospitals and physician groups. From 1981 to 1984, Mr. Tauber served as Chief

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Operating Officer of MDM Services, a wholly owned subsidiary of Mediq, a publicly held health care company, where he was responsible for operating and developing a network of retail dental centers and industrial medical clinics. Mr. Tauber holds an MBA from Wagner College.

Tomas W. Fuller joined us in January 1988 and served as Vice President and Controller until November 1990 when he became Chief Financial Officer, Vice President and Assistant Secretary. From 1980 to 1987, Mr. Fuller worked at Arthur Andersen LLP, the last two years of which he served as audit manager. Mr. Fuller received his BA in business/economics from the University of California at Los Angeles.

Dawn R. Olsen joined us in January 1997 as Vice President, Controller. From April 1996 to December 1996, Ms. Olsen worked as an independent consultant at the Rand Corporation. From November 1993 to March 1996, Ms. Olsen served as Senior Vice President, Controller of Optel, Inc., a privately held telecommunications company. From 1987 to 1993, Ms. Olsen served as Assistant Controller and later as Vice President, Controller of Qintex Entertainment, Inc., a publicly held television film distribution and production company. From 1981 to 1987, Ms. Olsen worked at Arthur Andersen LLP, the last year of which she served as audit manager. Ms. Olsen is a certified public accountant and received her BS in business/accounting from California State University, Northridge.

John M. Baumer has served as our director since September 2000. Mr. Baumer is a partner of Leonard Green & Partners, where he has been employed since May 1999. Prior to joining Leonard Green & Partners, he served as a Vice President in the Corporate Finance Division of Donaldson, Lufkin & Jenrette Securities Corporation, or DLJ in Los Angeles. Prior to joining DLJ in 1995, Mr. Baumer worked at Fidelity Investments and Arthur Andersen. Mr. Baumer currently serves on the boards of directors of Intercontinental Art, Inc., Communication & Power Industries, Inc., Leslie s Poolmart, Inc., Phoenix Scientific, Inc. and Petco Animal Supplies, Inc. Mr. Baumer is a 1990 graduate of the University of Notre Dame. He received his MBA from the Wharton School at the University of Pennsylvania.

John G. Danhakl has served as our director since September 2000. Mr. Danhakl is a partner of Leonard Green & Partners. Prior to becoming a partner of Leonard Green & Partners in 1995, Mr. Danhakl was a Managing Director at DLJ and had been with DLJ since 1990. Prior to joining DLJ, Mr. Danhakl was a Vice President at Drexel Burnham Lambert from 1985 to 1990. Mr. Danhakl presently serves on the boards of directors of The Arden Group, Inc., Big 5 Holding Corp., Communications & Power Industries, Inc., TwinLab Corporation, Diamond Triumph Auto Glass, Inc., Liberty Group Publishing, Inc., Leslie s Poolmart, Inc. and Petco Animal Supplies, Inc., and on the board of managers of AsianMedia Group LLC. Mr. Danhakl is a graduate of the University of California at Berkeley. He received his MBA from the Harvard Business School.

John A. Heil joined us as a director in February 2002 and served as a director for us from May 1995 to September 2000. Mr. Heil currently serves as President and Chief Executive Officer of United Pet Group, Inc., a manufacturer of pet products. Prior to joining United Pet Group, Mr. Heil spent twenty-four years with the H. J. Heinz Company in various general management and sales/marketing positions including President and Managing Director of Heinz Pet Products, President of Heinz Specialty Pet Foods and Vice President Sales/Marketing of StarKist Seafood. Mr. Heil holds a BA in economics from Lycoming College.

Peter J. Nolan has served as our director since September 2000. Mr. Nolan became a partner of Leonard Green & Partners in April 1997. Mr. Nolan previously served as Managing Director and Co-Head of DLJ s Los Angeles Investment Banking Division since 1990. Prior to that, Mr. Nolan had been a First Vice President in corporate finance at Drexel Burnham Lambert since 1986. Before 1986, Mr. Nolan was a Vice President at Prudential Securities, Inc. where he had worked from 1982 to 1986,

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after working as an Associate at the Manufacturers Hanover Trust. He presently serves on the boards of directors of Liberty Group Publishing, Inc., Contractors Source, Inc., White Cap Industries, Inc., AsianMedia Group LLC, and M2 Automotive. Mr. Nolan is a graduate of Cornell University with a BS in Agricultural Economics and Finance. He received his MBA from Cornell University.

Frank Reddick joined us as a director in February 2002. Mr. Reddick is a member of the California Bar and a partner in the Los Angeles office of Akin Gump Strauss Hauer & Feld LLP, where he has served as chair of the Los Angeles corporate practice group since January 2001. Before joining Akin Gump Strauss Hauer & Feld LLP, Mr. Reddick served as chair of the corporate practice group and managing partner of the Los Angeles-based law firm of Troop Steuber Pasich Reddick & Tobey, LLP. Mr. Reddick is principally engaged in the practice of corporate and securities law, with a concentration on corporate finance, mergers and acquisitions, joint ventures and other strategic alliances. Mr. Reddick holds a JD from the University of California, Hastings College of the Law.

Board of Directors and Committees

Our board of directors consists of eight members. In accordance with the provisions of our certificate of incorporation, the terms of office of our board of directors are divided into three classes. As a result, a portion of our board of directors will be elected each year. The division of the three classes and their respective election dates are as follows:

the class I directors term will expire at our annual meeting of stockholders to be held in 2003;

the class II directors term will expire at our annual meeting of stockholders to be held in 2004; and

the class III directors term will expire at our annual meeting of stockholders to be held in 2005.

At each annual meeting of our stockholders, the successors to directors whose terms will then expire will be elected to serve from the time of election and qualification until the third annual meeting following election. In addition, our bylaws provide that the authorized number of directors may be changed by resolution duly adopted by the board of directors. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the total number of directors.

We pay our non-employee directors who are not affiliated with Leonard Green & Partners, L.P. $1,000 for each Board meeting attended in person or committee meeting attended in person which is not held on the same day as a Board meeting, including reimbursement for out-of-pocket expenses incurred in attending. Upon appointment to the Board, each non-employee director receives an initial grant of ten-year options to purchase 15,000 shares of common stock at the fair market value of the common stock on the date of grant, which options vest in two equal annual installments on the anniversary date of the grant. In addition, each non-employee director receives an annual automatic grant of ten-year options to purchase 5,000 shares of common stock at the fair market value of the common stock on the date of grant, which options vest one year after the date of grant.

The Board of Directors held three meetings during fiscal 2001. The Board of Directors has an Audit Committee and a Compensation Committee. It currently does not have a Nominating Committee.

The Audit Committee currently consists of John Baumer, John Heil and Frank Reddick. The Audit Committee engages and oversees our independent auditor, approves the compensation payable to our independent auditor, pre-approves all audit and non-audit services provided by any independent auditor, reviews and determines the scope of the audit to be conducted by the independent auditor, reviews and approves all related party transactions and periodically meets separately with the independent auditor and our Chief Financial Officer to review matters relating to our financial

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statements, our critical accounting policies, the judgments which members of our management make in applying those critical accounting policies and our system of internal accounting controls, and reports its recommendations as to the approval of our financial statements to the Board of Directors. The role and responsibilities of the Audit Committee are more fully set forth in a written Charter adopted by the Board of Directors. The Audit Committee was formed and its members appointed in February 2002. Therefore, the Audit Committee did not hold any meetings during fiscal 2001.

The Compensation Committee currently consists of John M. Baumer and Frank Reddick. The Compensation Committee is responsible for considering and making recommendations to the Board of Directors or its other committees regarding executive compensation. Following review and approval by the committee, determinations pertaining to executive compensation will be submitted to the full Board of Directors for approval. In connection with its deliberations, the committee will seek, and will be significantly influenced by, the views of the Chief Executive Officer with respect to appropriate compensation levels of the other officers. The Compensation Committee was formed and its members appointed in April 2002. Therefore, the Compensation Committee did not hold any meetings during fiscal 2001.

All directors attended 75% or more of all the meetings of the Board of Directors during fiscal 2001.

Compensation Committee Interlocks and Insider Participation

During the last fiscal year, none of our executive officers served as a member of the board of directors or compensation committee of any entity that has or has had one or more executive officers serving as a member of our board of directors or compensation committee.

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PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth information regarding beneficial ownership of our common stock as of November 30, 2002, prior to and after giving effect to this offering, with respect to:

each of our directors;

each of our executive officers;

all of our directors and executive officers as a group;

all other stockholders known by us to beneficially own more than 5% of our outstanding common stock; and

the selling stockholders.

Beneficial ownership is determined in accordance with the rules of the Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options held by that person that are currently exercisable or exercisable within 60 days of the date as of which this information is provided, and not subject to repurchase as of that date, are deemed outstanding. These shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person.

Except as indicated in the notes to this table, and except pursuant to applicable community property laws, each stockholder named in the table has sole voting and investment power with respect to the shares shown as beneficially owned by them. Percentage ownership is based on 36,765,273 shares of common stock outstanding on November 30, 2002, and 40,065,273 shares of common stock outstanding after the completion of this offering. This table assumes no exercise of the underwriter s over-allotment option. Unless otherwise indicated, the address for each of the stockholders listed below is c/o VCA Antech, Inc., 12401 West Olympic Boulevard, Los Angeles, California 90064.

	Shares of Common Stock Beneficially Owned Prior to Offering			Shares of Common Stock Beneficially Owned After Offering (1)	
	Number of Shares	Percent of Class	Shares Being Offered	Number of Shares	Percent of Class
Green Equity Investors III, L.P. (2) 11111 Santa Monica Boulevard, Suite 2000 Los Angeles, California 90025	10,508,139	28.6 %	1,708,543	8,799,596	22.0%
California Public Employees Retirement System 400 P. Street Lincoln Plaza, Suite 3492 Sacramento, CA 95814-2749	2,109,680	5.7	1,054,840	1,054,840	2.6
Federated Investors, Inc. Federated Investors Tower 1001 Liberty Avenue Pittsburgh, PA 15222-3779	1,839,700	5.0		1,839,700	4.6
Robert L. Antin (3)	1,851,880	5.0	100,000	1,751,880	4.4
Arthur J. Antin (4)	731,902	2.0		731,902	1.8
Tomas W. Fuller (5)	212,743	*		212,743	*
Neil Tauber (6)	69,995	*		69,995	*
Dawn R. Olsen (7)	25,362	*		25,362	*
John M. Baumer (8)	10,508,139	28.6	1,708,543	8,799,596	22.0
John G. Danhakl (8)	10,508,139	28.6	1,708,543	8,799,596	22.0
John A. Heil		*			*
Peter J. Nolan (8)	10,508,139	28.6	1,708,543	8,799,596	22.0

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	Shares of Common Stock Beneficially Owned Prior to Offering			Shares of Common Stock Beneficially Owned After Offering (1)	
	Number of Shares	Percent of Class	Shares Being Offered	Number of Shares	Percent of Class
Frank Reddick (9)	4,167	*		4,167	*
Capital d Amerique CDPQ, Inc. 2001 McGill College Avenue 6th Floor Montreal, Quebec H3A 1G1	949,349	2.6	474,675	474,674	1.2
Procific P.O. Box 7106 125 Corniche Street Abu Dhabi United Arab Emirates	949,349	2.6	474,675	474,674	1.2
Northwestern Mutual 720 East Wisconsin Avenue Milwaukee, WS 53202	623,241	1.7	623,241		*
TCW/Crescent Mezzanine, LLC (10) 11100 Santa Monica Boulevard, Suite 2000 Los Angeles, California 90025	359,622	*	359,622		*
The TCW Group, Inc. (11) 865 S. Figueroa Street, Suite 1800 Los Angeles, California 90017	89,913	*	89,913		*
GS Mezzanine Partners II, L.P.	624,147	1.7	624,147		*
GS Mezzanine Partners II Offshore, L.P. c/o Goldman, Sachs & Co. 85 Broad Street, 10th Floor New York, New York 10004	190,345	*	190,345		*
All directors and executive officers as a group (11 persons) (12)	13,404,188	36.5 %	1,808,543	11,595,645	28.9 %

* Indicates less than one percent.

(1) The selling stockholders have granted to the underwriters an option to purchase additional shares to cover the over-allotment of shares as follows:

Green Equity Investors III, L.P.: 750,000

Robert L. Antin: 100,000

(2) Green Equity Investors III, L.P. is managed by Leonard Green & Partners, L.P.

(3) Includes: (a) 250,000 shares held by family trusts established for the benefit of Mr. Robert L. Antin s family, and for which Mr. Robert L. Antin disclaims beneficial ownership; (b) 60,000 shares held by Mr. Arthur J. Antin for the benefit of Mr. Robert L. Antin s minor children pursuant to the California Uniform Gifts to Minors Act, and for which Mr. Robert L. Antin disclaims beneficial ownership; and (c) 10,000 shares of common stock reserved for issuance upon exercise of stock options which are or will become exercisable on or before January 29, 2003.

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(4) Includes: (a) 250,000 shares held by Mr. Arthur J. Antin as trustee of family trusts established for the benefit of Mr. Robert L. Antin s family, and for which Mr. Arthur J. Antin disclaims beneficial ownership; (b) 60,000 shares held by Mr. Arthur J. Antin as custodian for Mr. Robert L. Antin s minor children pursuant to the California Uniform Gifts to Minors Act, and for which Mr. Arthur J. Antin disclaims beneficial ownership; and (c) 21,897 shares of common stock reserved for issuance upon exercise of stock options which are or will become exercisable on or before January 29, 2003.

(5) Includes 13,333 shares of common stock reserved for issuance upon exercise of stock options which are or will become exercisable on or before January 29, 2003.

(6) Includes 20,000 shares of common stock reserved for issuance upon exercise of stock options which are or will become exercisable on or before January 29, 2003.

(7) Includes 5,367 shares of common stock reserved for issuance upon exercise of stock options which are or will become exercisable on or before January 29, 2003.

(8) Each of John M. Baumer, John G. Danhakl and Peter J. Nolan is a partner of Leonard Green & Partners, L.P. As such, Messrs. Baumer, Danhakl and Nolan may be deemed to have shared voting and investment power with respect to all shares held by Leonard Green & Partners, L.P. These individuals disclaim beneficial ownership of the securities held by Leonard Green & Partners, L.P., except to the extent of their respective pecuniary interests therein.

(9) Consists of 4,167 shares of common stock reserved for issuance upon exercise of stock options which are or will become exercisable on or before January 29, 2003.

(10) Consists of 359,622 shares held by TCW/Crescent Mezzanine Partners II, L.P. and TCW/Crescent Mezzanine Trust II. The managing owner of the investment advisor to these two entities, and the general partner and managing owner of these entities, is TCW/Crescent Mezzanine, LLC. The business, property and affairs of TCW/Crescent Mezzanine, LLC are managed exclusively by its board of directors, which consists of the following individuals: Mark L. Attanasio, Robert D. Beyer, Jean-Marc Chapus, Jack D. Furst, Thomas O. Hicks, William C. Sonneborn and Mark I. Stern.

(11) Consists of 89,913 shares held by the following entities: TCW Leveraged Income Trust, L.P., TCW Leveraged Income Trust II, L.P. and TCW Leveraged Income Trust IV, L.P. The general partner of TCW Leveraged Income Trust, L.P. is TCW Advisers (Bermuda) Ltd. and the investment adviser to TCW Leveraged Income Trust, L.P. is TCW Investment Management Company. TCW Advisers (Bermuda) Ltd. is the general partner of the general partner of TCW Leveraged Income Trust II, L.P. and TCW Investment Management Company is the investment advisor to TCW Leveraged Income Trust II, L.P. TCW Asset Management Company is the managing member of the general partner of TCW Leveraged Income Trust IV, L.P. and the investment adviser to TCW Leveraged Income Trust IV, L.P. TCW Advisers (Bermuda) Ltd., TCW Investment Management Company and TCW Asset Management Company are wholly owned subsidiaries of The TCW Group, Inc. The TCW Group, Inc. together with its direct and indirect subsidiaries collectively constitute The TCW Group business unit. Société Générale Asset Management, S.A. owns a controlling interest in The TCW Group, Inc. Société Générale Asset Management, S.A., in turn, is a wholly owned subsidiary of Société Générale, S.A. a company incorporated under the Laws of France.

(12) Includes 74,764 shares of common stock reserved for issuance upon exercise of options which are or will become exercisable on or before January 29, 2003.

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DESCRIPTION OF CAPITAL STOCK

This prospectus contains a summary of the material terms of our capital stock. The following description of our capital stock is subject to, and qualified in its entirety by, our certificate of incorporation and bylaws, which are included as exhibits to the registration statement of which this prospectus forms a part, and by the provisions of applicable Delaware law.

Our authorized capital stock consists of 75,000,000 shares of common stock, par value $.001 per share, and 11,000,000 shares of preferred stock, par value $.001 per share. As of December 31, 2002, 36,765,739 shares of our common stock are outstanding and held of record by approximately 97 holders of record and no shares of our preferred stock are outstanding.

Common Stock

Voting Rights. The holders of common stock are entitled to one vote per share on all matters submitted to a vote of our stockholders. The common stock does not have cumulative voting rights.

Dividends. Subject to preferences that may be applicable to any preferred stock outstanding at the time, the holders of outstanding shares of common stock are entitled to receive ratably any dividends out of assets legally available therefor as our board of directors may from time to time determine. For a description of our dividend policy, please refer to the information in this prospectus under the heading Dividend Policy.

Liquidation and Dissolution. Upon our liquidation, dissolution or winding up, holders of our common stock are entitled to share ratably in all assets remaining after payment of all liabilities and the liquidation preference of any then outstanding shares of preferred stock.

No Preemptive or Similar Rights. Holders of our common stock have no preemptive rights or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock.

Holders of shares of the common stock are not required to make additional capital contributions. All outstanding shares of common stock are fully paid and nonassessable.

Registration Rights

Upon the consummation of this offering, under our stockholders agreement, the holders of 10,880,155 shares of common stock or their transferees, as well as certain other holders or their transferees, will be entitled to register these shares under the Securities Act. The provisions of the stockholders agreement provide that the holders may demand that we file a registration statement under the Securities Act covering some or all of the holder s registrable securities. The stockholder agreement limits the number of demand registrations that we are required to make on behalf of the holders. In an underwritten offering, the managing underwriter has the right, subject to specified conditions, to limit the number of registrable securities.

In addition, holders have piggyback registration rights. If we propose to register any of our equity securities under the Securities Act other than pursuant to demand registration right noted above or specified excluded registrations, holders may require us to include all or a portion of their registrable securities in the registration and in any related underwriting. In an underwritten offering, the managing underwriter, if any, has the right, subject to specified conditions, to limit the number of registrable securities.

In general, we will bear all fees, costs and expenses of registrations, other than underwriting discounts and commissions.

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Anti-Takeover Provisions of Delaware Law

We are subject to Section 203 of the Delaware General Corporation Law. Section 203 provides that specified persons who, together with affiliates and associates, own, or within three years did own, 15% or more of the outstanding voting stock of a corporation cannot engage in specified business combinations with the corporation for a period of three years after the date on which the person became an interested stockholder, unless:

- prior to the date, our board of directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of our voting stock of the corporation outstanding at the time the transaction commenced, excluding those shares owned by persons who are directors and also officers, and employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- on or subsequent to the date, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines business combination to include:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition involving the interested stockholder of 10% or more of the assets of the corporation;
- subject to exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

Anti-Takeover Provisions of Our Charter

Our bylaws provide that candidates for director may be nominated only by the board of directors or by a stockholder who gives written notice to us no later than 90 days prior nor earlier than 120 days prior to the first anniversary of the last annual meeting of stockholders. The board of directors may consist of one or more members to be determined from time to time by the board of directors. The board of directors currently consists of eight members divided into three different classes. As a result, only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective terms. Between stockholder meetings, the board of directors may appoint new directors to fill vacancies or newly created directorships.

Our certificate of incorporation requires that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and may not be effected by a consent in writing. Our certificate of incorporation also provides that the authorized number of directors may be changed only by resolution of the board of directors. Delaware law and these charter provisions may have the effect of deterring hostile takeovers or delaying changes in control of our management, which could depress the market price of our common stock.

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Indemnification of Directors and Officers and Limitation of Liability

Our certificate of incorporation and bylaws allow us to eliminate the personal liability of our directors and to indemnify directors and officers to the fullest extent permitted by the Delaware General Corporation law.

We also entered into indemnity agreements with each of our directors and officers, which provide for mandatory indemnity of an officer or director made party to a proceeding by reason of the fact that he or she is or was a director of ours, if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to our best interests. These agreements also obligate us to advance expenses to a director provided that he or she will repay advanced expenses in the event he or she is not entitled to indemnification. Directors are also entitled to partial indemnification, and indemnification for expenses incurred as a result of acting at our request as a director, officer or agent of an employee benefit plan or other partnership, corporation, joint venture, trust or other enterprise owned or controlled by us.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the above statutory provisions or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission that indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is U.S. Stock Transfer Corporation.

Listing

Our common stock is quoted on The Nasdaq Stock Market s National Market under the symbol WOOF.

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DESCRIPTION OF CERTAIN INDEBTEDNESS

Amended Senior Credit Facility

We, through our wholly owned subsidiary, have a senior secured credit facility, dated as of September 20, 2000, with the lenders party thereto, Goldman Sachs Credit Partners, L.P., as syndication agent, and Wells Fargo Bank, N.A., as administrative agent. On August 29, 2002, we amended our senior credit facility to refinance our existing senior term A and senior term B notes with an equal principal amount of senior term C notes which bear a lower interest rate than the weighted average interest rate for the senior term A and B notes. On October 24, 2002, we issued $25.0 million principal amount of additional senior term C notes to repay existing debt.

Structure. As amended, the senior credit facility consists of a revolving facility and senior term C notes. Under the revolving facility, up to $50.0 million may be borrowed and the lesser of (1) $5.0 million or (2) the aggregate unused amount of the revolving facility then in effect may be borrowed under a swing line facility on same-day notice to the lenders. In December 2002, we borrowed $7.5 million under our revolving credit facility, which remains outstanding.

Maturity. We are required to repay the amounts borrowed under our senior term C notes in quarterly installments. The aggregate scheduled principal payments are $420,000, $1.7 million, $1.7 million, $1.7 million, $21.4 million, $80.5 million and $60.4 million for the fourth quarter ended December 31, 2002 and the years 2003 through 2008, respectively. Our senior term C notes mature on September 30, 2008.

The entire outstanding principal amount under the revolving facility is due on September 20, 2006.

Mandatory prepayments under our senior term C notes are applied pro rata to each required quarterly payment, subject to a lender s ability to waive a senior term C note payment and have it applied to other facilities. Our senior term C notes and revolving facility may be voluntarily prepaid in whole or in part without premium or penalty.

As of September 30, 2002, the outstanding principal amount due under our senior credit facility is $142.7 million.

Guarantees and Security. Our obligations under the senior credit facility are guaranteed by us and our wholly owned, consolidated subsidiaries. The borrowings under the senior credit facility and the subsidiary guarantees are secured by substantially all of our consolidated assets. In addition, borrowings under the senior credit facility are secured by a pledge of substantially all of the capital stock, or similar equity interests, of our wholly owned, consolidated subsidiaries.

Interest Rate. In general, borrowings under the senior credit facility bear interest based, at our option, on either:

- the base rate (as defined below) plus a margin ranging from 1.00% to 2.25% per annum for the revolving facility and a margin of 2.00% per annum for the senior term C notes; or

- the adjusted eurodollar rate (as defined below) plus a margin ranging from 2.00% to 3.25% per annum for the revolving facility and a margin of 3.00% per annum for the senior term C notes.

The base rate is the higher of Wells Fargo s prime rate or the federal funds rate plus 0.5%. The adjusted eurodollar rate is defined as the rate per annum obtained by dividing (1) the rate of interest offered to Wells Fargo on the London interbank market by (2) a percentage equal to 100% minus the

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stated maximum rate of all reserve requirements applicable to any member bank of the Federal Reserve System in respect of eurocurrency liabilities.

Swing line borrowings bear interest at the base rate, plus a margin ranging from 1.00% to 2.25%.

Covenants. The senior credit facility contains financial covenants that require us to satisfy, on a consolidated basis, specified quarterly financial tests, including:

- a minimum consolidated interest expense coverage ratio;
- a minimum fixed charge coverage ratio;
- a maximum consolidated senior leverage ratio; and
- a maximum consolidated total leverage ratio.

The senior credit facility also contains a number of other customary covenants that restrict our ability to:

- dispose of assets;
- incur additional debt;
- prepay other debt, subject to specified exceptions, or amend specified debt instruments;
- pay dividends;
- create liens on assets;
- make investments, loans or advances;
- make acquisitions;
- engage in mergers or consolidations;
- change the business conducted by us;
- engage in sale and leaseback transactions;
- purchase shares of the outstanding common stock of our wholly owned subsidiary;

make capital expenditures or engage in transactions with affiliates; and

- otherwise undertake various corporate activities.

Events of Default. The senior credit facility also contains customary events of default, including defaults based on:

- nonpayment of principal, interest or fees when due, subject to specified grace periods;
- cross-defaults to other debt;
- breach of specified covenants;
- material inaccuracy of representations and warranties;
- specified other defaults under other credit documents;
- events of bankruptcy and insolvency;
- material judgments;
- dissolution and liquidation;

specified occurrences relating to subordinated debt;

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change in control; and

invalidity of any guaranty or security interest.

Change of Control. A change of control will trigger an event of default and permit the acceleration of the senior credit facility debt. A change of control will occur if:

certain specified persons, including Leonard Green & Partners, its affiliated co-investors and management investors, collectively cease to own and control at least 35% on a fully diluted basis of the voting interests in our capital stock;

any person or group has acquired ownership of a percentage greater than that owned by Leonard Green & Partners, its affiliated co-investors and management investors collectively, on a fully diluted basis of the voting interests in our capital stock;

any person or group has obtained the power to elect a majority of the members of our board of directors;

Leonard Green & Partners and its affiliated co-investors collectively cease to beneficially own and control on a fully diluted basis a percentage of the voting interests in our capital stock greater than any other person or group;

we cease to beneficially own and control 100% of the capital stock of our wholly owned subsidiary;

the majority of the seats on the board of directors of our wholly owned subsidiary cease to be occupied by persons who either were members of its board of directors on September 20, 2000, or were nominated for election by its board of directors, a majority of whom were directors on September 20, 2000, or whose election or nomination for election was previously approved by a majority of these directors; or

any change of control has occurred under our outstanding 15.5% senior notes.

We are currently negotiating an amendment to our change of control provision. The change of control provision, as amended, will not be triggered by this offering.

15.5% Senior Notes

On September 20, 2000, we issued $100.0 million principal amount of 15.5% senior notes due 2010 pursuant to an indenture of the same date with Chase Manhattan Bank and Trust Company, National Association, as trustee.

Interest Rate. Interest on the 15.5% senior notes is payable semi-annually in arrears in cash, commencing March 31, 2001, at the rate of 15.5% per annum; provided that on any semi-annual interest payment date prior to September 20, 2005, we have the option to pay all or any portion of the interest payable on said date by issuing additional 15.5% senior notes in a principal amount equal to the interest we elect not to pay in cash on that date; and further provided, however, that if we fail timely to meet specified obligations to holders of the 15.5% senior notes as set forth in a registration rights agreement dated as of September 20, 2000, interest on the 15.5% senior notes may increase by up to 1% per annum. As of September 30, 2002, we have issued an aggregate of $25.9 million in additional 15.5% senior notes to pay interest.

Guarantee. The 15.5% senior notes are general unsecured and unsubordinated obligations that mature on September 20, 2010.

Redemption. The 15.5% senior notes have the following specified optional redemption provisions:

An aggregate principal amount of at least $5 million of the 15.5% senior notes may be prepaid, at our option in whole or in part, at any time on or after September 20, 2003, initially at 107.5%

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of their principal amount at maturity and declining in annual increments to 101.55% of that principal amount on and after September 20, 2009, in each case plus accrued interest.

The 15.5% senior notes may be prepaid, at our option, in their entirety, concurrently with the consummation of a public offering of our common stock or a change of control, on or after September 20, 2002 and prior to September 20, 2003, at a price of 110% of the principal amount plus accrued interest.

In 2001, upon the consummation of our initial public offering and our wholly owned subsidiary s concurrent debt offering, and the underwriters exercise of their over-allotment option, we used $66.6 million to repay approximately $59.1 million of the outstanding principal amount of our 15.5% senior notes at a redemption price of 110% of the principal amount, plus accrued and unpaid interest. As of September 30, 2002, the principal amount outstanding under our 15.5% senior notes was $66.7 million. On October 24, 2002, we used the funds acquired from additional borrowings under our senior credit facility, together with cash on hand, to repay $30.0 million of the remaining outstanding principal amount of our 15.5% senior notes at a redemption price of 110% of the principal amount, plus accrued and unpaid interest. This repayment reduced the outstanding principal amount of these notes to $36.7 million. Upon the consummation of this offering, we intend to repay the entire outstanding principal amount of our 15.5% senior notes at a redemption price of 110% of the principal amount, for an aggregate of $40.4 million, plus accrued and unpaid interest.

The 15.5% senior notes are also subject to partial mandatory redemption, without premium, on any interest payment date occurring after September 20, 2005, in an aggregate amount equal to the difference, if any, between

the aggregate amount which would be includable in the holders gross income for federal income tax purposes with respect to the 15.5% senior notes before that interest payment date, and

the sum of the following:

the aggregate amount of interest paid in cash under the 15.5% senior notes before that interest payment date, and

the product of the issue price of all of the 15.5% senior notes (as determined under United States Treasury Regulations Sections 1.1273-2(a)) multiplied by 17.25%.

Any such partial mandatory redemption has been expressly subordinated in time and right of payment by the holders of the 15.5% senior notes to the prior payment in full of all obligations under the credit facility, as it may be supplemented, replaced, restructured, refinanced or otherwise modified from time to time.

Covenants. The indenture contains a number of covenants, including a provision regarding a change of control. A change of control will occur upon:

the sale, lease, transfer, conveyance or other disposition of substantially all of our assets and those of our subsidiaries to a person other than persons affiliated with Leonard Green & Partners, specified equity investors and management investors;

the adoption of a plan relating to our liquidation or dissolution or the liquidation or dissolution of our wholly owned subsidiary;

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- the consummation of any transaction as result of which,
  - prior to the 15.5% senior notes being registered or exchanged for registered notes,
    - persons, including Leonard Green & Partners, its affiliated co-investors and management investors, collectively own less than 35.0% of the voting interests in our capital stock; or
    - Leonard Green & Partners and its affiliates own less than 20% of the voting interests in our capital stock; or
  - we cease to own directly 100% of the outstanding equity of our wholly owned subsidiary; or
  - any person or group, other than Leonard Green & Partners, its affiliated co-investors and management investors has acquired beneficial ownership of 35% or more on a fully diluted basis of the aggregate voting interest attributable to all of our outstanding capital stock and Leonard Green & Partners, its affiliated co-investors and management investors have less voting power than that person or group; or
- the first day on which a majority of our board of directors are not directors who were directors on September 20, 2000 or whose election or nomination was previously approved by a majority of those directors.

In the event of a change of control event, or in the event of specified dispositions of the assets by us or our subsidiaries, the proceeds of which are neither used to repay the senior credit facility, the 15.5% senior notes or to acquire long term assets, we are required to offer to repurchase the 15.5% senior notes at a purchase price equal to 101% (in the case of a specified change of control) or 100% (in the case of a specified disposition of assets) of the principal amount thereof, in each case plus accrued interest.

The indenture governing the 15.5% senior notes also contains covenants that restrict our ability to:

- incur additional debt;
- incur specified liens on our assets;
- pay dividends on stock or repurchase stock;
- make investments;
- engage in specified transactions with affiliates;
- create or permit to exist specified dividend or payment restrictions affecting subsidiaries;
- engage in specified sale/lease-back transactions;
- sell all or substantially all of their assets or merge with or into other companies; and
- engage in business activities unrelated to activities engaged in at the original date of issuance of the 15.5% senior notes.

Events of Default. The indenture governing the 15.5% senior notes also provides for various defaults, including:

- failure to pay interest on the 15.5% senior notes when due after a specified grace period;
- failure to pay any principal on the 15.5% senior notes when the same becomes due at maturity, upon redemption or otherwise;
- failure to observe or perform any other covenant or agreement in the indenture governing the 15.5% senior notes where that failure continues for 30 days after actual knowledge thereof by a senior officer; and
- failure to pay at final maturity or other default leading to actual acceleration with respect to other indebtedness having an aggregate principal amount of $7.5 million or more.

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9.875% Senior Subordinated Notes

On November 27, 2001, we, through our wholly owned subsidiary, issued $170.0 million principal amount of 9.875% senior subordinated notes due 2009 pursuant to an indenture of the same date with Chase Manhattan Bank and Trust Company, National Association, as trustee. On June 13, 2002, we completed an exchange offer in which these notes were exchanged for notes registered under the Securities Act.

Interest Rate. Interest on the 9.875% senior subordinated notes is payable in cash, semi-annually in arrears, commencing June 1, 2002, at the rate of 9.875% per annum; provided, however, that if we fail timely to meet specified obligations to holders of the 9.875% senior subordinated notes, as set forth in a registration rights agreement dated as of November 27, 2001, interest on the 9.875% senior subordinated notes may increase by up to 1% per annum.

Guarantee. The 9.875 % senior subordinated notes are general unsecured and subordinated obligations, and are guaranteed by our wholly owned, consolidated subsidiaries, that mature on December 1, 2009. The 9.875% senior subordinated notes rank junior in right of payment to our senior credit facility, our 15.5% senior notes and all of our other existing and future senior indebtedness and that of our subsidiaries. The 9.875% senior subordinated notes rank senior in right of payment solely to future indebtedness which is expressly subordinated to the 9.875% senior subordinated notes.

Redemption. The 9.875% senior subordinated notes have specified optional redemption provisions:

in whole or in part, at any time on or after December 1, 2005, initially at 104.938% of their principal amount at maturity and declining in annual increments to 100.0% of that principal amount on and after December 1, 2008, in each case plus accrued interest; or

up to 35% of the aggregate principal amount of the 9.875% senior subordinated notes, at any time prior to November 1, 2004, from the proceeds of a public offering of our common stock and within 90 days of the closing of that public offering, at a price of 109.875% of the principal amount plus accrued interest; provided that, after giving effect to the prepayment, at least 65% of the original principal amount of the senior subordinated notes issued on November 27, 2001, remains outstanding.

As of September 30, 2002, the outstanding principal amount due under our 9.875% senior subordinated notes was $170.0 million.

Covenants. The indenture contains a number of covenants, including a provision regarding a change of control. A change of control will occur upon:

the sale, lease, transfer, conveyance or other disposition of substantially all of our assets and our subsidiaries to a person other than specified persons affiliated with Leonard Green & Partners, specified equity investors and management investors;

the adoption of a plan relating to our liquidation or dissolution or the liquidation or dissolution of our wholly owned subsidiary;

we cease to own directly 100% of the outstanding equity of our wholly owned subsidiary;

any person or group, other than Leonard Green & Partners, its affiliated co-investors and management investors, has acquired beneficial ownership of 35% or more on a fully diluted basis of the aggregate voting interest attributable to all of our outstanding capital stock and Leonard Green & Partners, its affiliated co-investors and management investors have less voting power than that person or group; or

the first day on which a majority of our board of directors are not directors who were directors on September 20, 2000, or whose election or nomination was previously approved by a majority of these directors.

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In the event of a change of control event, or in the event of specified dispositions of assets by us or our subsidiaries, the proceeds of which are neither used to repay the senior credit facility, the 15.5% senior notes or to acquire long term assets, we are required to offer to repurchase the 9.875% senior subordinated notes at a purchase price equal to 101% (in the case of a specified change of control) or 100% (in the case of a specified disposition of assets) of the principal amount thereof, in each case plus accrued interest.

The indenture governing the 9.875% senior subordinated notes also contains covenants that restrict the ability of our wholly owned subsidiary and our other indirect wholly owned subsidiaries to:

- incur additional debt;
- incur specified liens on our assets;
- pay dividends on stock or repurchase stock;
- make investments;
- engage in specified transactions with affiliates;
- create or permit to exist specified dividend or payment restrictions affecting subsidiaries;
- engage in specified sale/lease-back transactions;
- sell all or substantially all of their assets or merge with or into other companies; and
- engage in business activities unrelated to activities engaged in at the original date of issuance of the 9.875% senior subordinated notes.

Events of Default. The indenture governing the 9.875% senior subordinated notes also provides for various defaults, including:

- failure to pay interest on the 9.875% senior subordinated notes when due (after a specified grace period);
- failure to pay any principal on the 9.875% senior subordinated notes when the same becomes due at maturity, upon redemption or otherwise;
- failure to observe or perform any other covenant or agreement in the indenture governing the 9.875% senior subordinated notes where that failure continues for 30 or 60 days after actual knowledge thereof by a senior officer, depending on the nature of the covenant; and
- failure to pay at final maturity or other default leading to actual acceleration with respect to other indebtedness having an aggregate principal amount of $10.0 million or more.

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UNDERWRITING

We, the selling stockholders and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered in this offering. Subject to certain conditions, each underwriter has severally agreed to purchase the number of shares indicated in the following table. Credit Suisse First Boston Corporation, Goldman, Sachs & Co., Banc of America Securities LLC, Salomon Smith Barney Inc., Jefferies & Company, Inc. and Wells Fargo Securities, LLC are the representatives of the underwriters.

Underwriters	Number of Shares
Credit Suisse First Boston Corporation	
Goldman, Sachs & Co.	
Banc of America Securities LLC	
Salomon Smith Barney Inc.	
Jefferies & Company, Inc.	
Wells Fargo Securities, LLC	
Total	9,000,000

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

If the underwriters sell more shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 1,350,000 shares from us and the selling stockholders to cover such sales. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by us and the selling stockholders. Such amounts are shown assuming both no exercise and full exercise of the underwriters option to purchase 1,350,000 additional shares.

Paid by us

	No Exercise	Full Exercise
Per Share	$	$
Total	$	$

Paid by the selling stockholders

	No Exercise	Full Exercise
Per Share	$	$
Total	$	$

Shares sold by the underwriters to the public will initially be offered at the initial price to public set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the initial price to public. Any such securities dealers may resell any shares purchased from the underwriters to certain other brokers or dealers at a discount of up to $ per share from the initial price to public. If all the shares are not sold at the initial price to public, the representatives may change the offering price and the other selling terms.

We, our directors, our executive officers and the selling stockholders have agreed with the underwriters not to dispose of or hedge any shares of common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 90 days after the date of this prospectus, except with the prior written consent of Goldman, Sachs & Co. This agreement does not apply to any existing employee benefit plans.

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the common stock while the offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

These activities by the underwriters may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected on the Nasdaq National Market, in the over-the-counter market or otherwise.

We estimate that the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately $674,754.

We and the selling stockholders have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

The offering is being conducted in accordance with the applicable provisions of Rule 2710(c)(8) of the National Association of Securities Dealers, Inc. Conduct Rules because affiliates of Goldman, Sachs & Co., one of the representatives, will receive more than 10% of the net proceeds from this offering.

As of December 31, 2002, GS Mezzanine Partners II, L.P. and GS Mezzanine Partners II Offshore, L.P., affiliates of Goldman, Sachs & Co., held an aggregate principal amount of $34.3 million of our 15.5% senior notes and an aggregate of 814,492 shares of our common stock. In October 2002, we repaid the entire outstanding principal amount of our 13.5% senior subordinated notes and $30.0 million in principal of our 15.5% senior notes. GS Mezzanine Partners II, L.P. and GS Mezzanine Partners II Offshore, L.P. received approximately $46.8 million, in the aggregate, in connection with the repayment of such debt. In addition, GS Mezzanine Partners II, L.P. and GS Mezzanine Partners II Offshore, L.P. are offering to sell an aggregate of 814,492 shares of common stock in this offering.

Melina Higgins served as one of our directors until January 9, 2003, and she is the Chief Financial Officer of GS Mezzanine Partners II, L.P. and GS Mezzanine II Offshore, L.P.

Some of the representatives or their affiliates have provided investment banking and advisory services for us from time to time for which they have received customary fees and reimbursements of expenses and may in the future provide additional services. In connection with our recapitalization, an affiliate of Goldman, Sachs & Co. acted as sole lead arranger and sole syndication agent for our senior

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credit facility and received customary fees in connection therewith. In addition, Credit Suisse First Boston Corporation and Jefferies & Company, Inc. provided advisory services in connection with our recapitalization and received customary fees for those services. Credit Suisse First Boston Corporation, Goldman, Sachs & Co., Banc of America Securities LLC, Jefferies & Company, Inc. and Wells Fargo Securities, LLC acted as representatives of the underwriters in connection with our initial public offering. In November 2001, Goldman, Sachs & Co. also acted as sole initial purchaser in connection with our wholly owned subsidiary s offering of $170.0 million aggregate principal amount of 9.875% senior subordinated notes due 2009. Credit Suisse First Boston Corporation and Goldman, Sachs & Co. received customary fees and commissions for their services.

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U.S. TAX CONSEQUENCES TO NON-U.S. HOLDERS

Overview

The following general discussion summarizes the material U.S. federal income and estate tax aspects of the acquisition, ownership and disposition of our common stock applicable to beneficial owners that are non-U.S. holders purchasing our common stock pursuant to this offering and that will hold our common stock as a capital asset (generally, property held for investment). In general, a non-U.S. holder is a beneficial owner of our common stock who is an individual or entity other than:

- a citizen or resident of the U.S.;
- a corporation (including any entity taxable as a corporation) or partnership created or organized in or under the laws of the U.S. or any of its political subdivisions;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source;
- a trust if a U.S. court is able to exercise primary supervision over administration of the trust and one or more of the individuals or entitites described above have authority to control all substantial decisions of the trust; or
- a trust that has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

This discussion is based upon the Internal Revenue Code of 1986, as amended, U.S. Treasury regulations, Internal Revenue Service rulings and pronouncements, judicial decisions and other applicable authorities, all as now in effect, all of which are subject to change (possibly on a retroactive basis). The discussion does not address aspects of U.S. federal taxation other than income and estate taxation and does not address all aspects of U.S. federal income and estate taxation, that may be relevant to non-U.S. holders that may be subject to special treatment under such law, such as insurance companies, tax-exempt organizations, financial institutions, dealers in securities or currencies, partnerships, holders whose functional currency is not the U.S. dollar, holders of securities held as part of a straddle, hedge or conversion transaction, U.S. expatriates, controlled foreign corporations, passive foreign investment companies or foreign personal holding companies. The discussion also does not address U.S. state or local or foreign tax consequences. We have not sought, and will not seek, any ruling from the IRS with respect to the tax consequences discussed in this prospectus, and there can be no assurance that the IRS will not take a position contrary to the tax consequences discussed below or that any positions taken by the IRS would not be sustained.

INVESTORS CONSIDERING THE PURCHASE OF OUR COMMON STOCK ARE URGED TO CONSULT THEIR TAX ADVISORS CONCERNING THE APPLICATION OF U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS, AS WELL AS ANY TAX CONSEQUENCES ARISING UNDER THE FEDERAL ESTATE OR GIFT TAX RULES OR UNDER THE LAWS OF ANY STATE, LOCAL OR FOREIGN TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

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Dividends

Subject to the discussion below under Income or Gains Effectively Connected With a U.S. Trade or Business, if any dividend is paid on our common stock, the gross amount of such dividends paid to a non-U.S. holder generally will be subject to withholding of U.S. federal income tax at a 30% rate, or a lower rate prescribed by an applicable tax treaty.

A non-U.S. holder who wishes to claim the benefit of an applicable treaty rate (and avoid backup withholding as discussed below) will be required to satisfy applicable certification and other requirements. If a non-U.S. holder holds our common stock through a foreign partnership or a foreign intermediary, the foreign partnership or foreign intermediary will also be required to comply with certain certification requirements. A non-U.S. holder who is eligible for a reduced rate of U.S. withholding tax under an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the Internal Revenue Service.

Disposition of Common Stock

A non-U.S. holder generally will not be subject to U.S. federal income tax (including by way of withholding) on gains recognized on the sale, exchange or other disposition of our common stock unless (1) such non-U.S. holder is an individual who is present in the U.S. for 183 days or more in the taxable year of the sale, exchange or other disposition, and other required conditions are met; (2) such gain is effectively connected with the conduct by the non-U.S. holder of a trade or business in the U.S. and, if an applicable income tax treaty requires, is attributable to a U.S. permanent establishment maintained by the non-U.S. holder.

Unless an applicable treaty provides otherwise, a non-U.S. holder described in clause (1) above will be subject to a flat 30% U.S. federal income tax on the gain realized on the sale, which may be offset by U.S. source capital losses. Gain described in clause (2) above will be subject to the U.S. federal income tax in the manner discussed below under Income or Gains Effectively Connected With A U.S. Trade or Business.

Income or Gains Effectively Connected With a U.S. Trade or Business

If a non-U.S. holder is engaged in a trade or business in the U.S. and if dividends on our common stock or gain realized on the sale, exchange or other disposition of our common stock is effectively connected with the non-U.S. holder s conduct of such trade or business (and, if an applicable tax treaty requires, is attributable to a U.S. permanent establishment maintained by the non-U.S. holder in the U.S.), the non-U.S. holder, although exempt from withholding tax (provided that the certification requirements discussed in the next sentence are met), will generally be subject to U.S. federal income tax on such dividends or gain on a net income basis in the same manner as if it were a U.S. holder. The non-U.S. holder will be required, under currently effective Treasury Regulations, to provide a properly executed Internal Revenue Service form W-8ECI or successor form in order to claim an exemption from U.S. withholding tax. In addition, if such non-U.S. holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or such lower rate provided by an applicable U.S. income tax treaty) of a portion of its effectively connected earnings and profits for the taxable year.

Estate Tax

Common stock owned, or treated as owned, by an individual non-U.S. holder at the time of death will be includable in the individual s gross estate for U.S. federal estate tax purposes and may be subject to U.S. federal estate tax, unless an applicable treaty provides otherwise.

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Backup Withholding and Information Reporting

A non-U.S. holder may have to comply with specific certification procedures to establish that the holder is not a U.S. person in order to avoid backup withholding tax requirements with respect to our payments of dividends on the common stock. The backup withholding tax rate currently is 30% (reduced to 29% for 2004 and 2005 and 28% for 2006 and later years). We must report annually to the Internal Revenue Service and to each non-U.S. holder the amount of any dividends paid to such holder and the tax withheld with respect to such dividends, regardless of whether any tax was actually withheld. Copies of these information returns may also be made available under the provisions of a specific treaty or agreement to the tax authorities of a country in which the non-U.S. holder resides.

Information reporting and backup withholding will generally not apply to payments of proceeds of a sale or other taxable disposition of our common stock effected outside the U.S. by a foreign office of a foreign broker. Both information reporting and backup withholding will apply, however, to payments of proceeds of a sale or other taxable disposition of our common stock effected outside the U.S. by a foreign office of a U.S. broker or a foreign broker with certain types of relationships to the U.S., unless the broker has documentary evidence in its records that the holder is a non-U.S. holder and certain conditions are met, or the holder otherwise establishes an exemption. Payment of the proceeds from a sale, exchange or other disposition by a non-U.S. holder made by or through the U.S. office of a broker is generally subject to information reporting and backup withholding unless the non-U.S. holder certifies as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption from information reporting and backup withholding.

Any amounts withheld under the backup withholding rules from a payment to a non-U.S. holder of common stock will be allowed as a refund or credit against such holder s U.S. federal income tax provided that the required information is furnished to the Internal Revenue Service in a timely manner.

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LEGAL MATTERS

The validity of the common stock will be passed upon for us by our legal counsel, Akin Gump Strauss Hauer & Feld LLP, Los Angeles, California. Skadden, Arps, Slate, Meagher & Flom, LLP, Los Angeles, California, is acting as legal counsel for the underwriters.

EXPERTS

Our consolidated financial statements and schedules as of December 31, 2001 and 2000, and for each of the years in the three-year period ended December 31, 2001, have been included in this registration statement in reliance upon the report of KPMG LLP, independent accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

We are incorporating by reference certain documents we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information in the documents incorporated by reference is considered to be part of this prospectus. Information in documents that we file with the SEC after the date of this prospectus will automatically update and supersede information in this prospectus. We incorporate by reference the documents listed below and any future filings we may make with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus.

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2001, filed with the SEC on March 29, 2002, as amended by our Form 10-K/A filed with the SEC on April 30, 2002;

Our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2002, filed with the SEC on May 15, 2002;

Our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2002, filed with the SEC on August 14, 2002;

Our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2002, filed with the SEC on November 14, 2002;

Our Current Reports on Form 8-K filed with the SEC on February 22, 2002; April 26, 2002; May 14, 2002; June 13, 2002; June 19, 2002; July 26, 2002; September 3, 2002; October 25, 2002 and November 14, 2002; and

The description of our common stock contained in our Form 8-A filed with the SEC on November 15, 2001, as amended by our Form 8-A/A filed with the SEC on November 16, 2001.

Information contained in this prospectus supplements, modifies or supercedes, as applicable, the information contained in earlier-dated documents incorporated by reference. Information contained in later-dated documents incorporated by reference supplements, modifies or supersedes, as applicable, the information contained in this prospectus or in earlier-dated documents incorporated by reference.

We have filed a registration statement on Form S-3 with the Securities and Exchange Commission regarding this offering. The registration statement of which this prospectus is a part contains additional relevant information about us and our capital stock and you should refer to the registration statement and its exhibits to read that information. References in this prospectus to any of our contracts or other documents are not necessarily complete, and you should refer to the exhibits attached to the registration statement for copies of the actual contract or document.

You may read and copy the registration statement, the related exhibits and the other material we file with the Securities and Exchange Commission at the Securities and Exchange Commission s

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Public Reference Room at 450 Fifth Street, N.W., Washington D.C. 20549. You can also request copies of those documents, upon payment of a duplication fee, by writing to the Securities and Exchange Commission. Please call the Securities and Exchange Commission at (800) SEC-0330 for further information on the operation of the public reference rooms. The Securities and Exchange Commission also maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file with the Securities and Exchange Commission. The site s address is www.sec.gov.

We also will provide to you a copy of these filings at no cost. You may request copies of these filings by writing or telephoning us as follows: 12401 West Olympic Boulevard, Los Angeles, California 90064-1022, Attention, Chief Financial Officer, or 310-571-6500. In addition, you may access these filings at our website. Our website s address is www.vcaantech.com. The foregoing website references are inactive textual references only.

You should rely only on the information contained in this prospectus, including information incorporated by reference as described above, or any prospectus supplement or that we have specifically referred you to. We have not authorized anyone else to provide you with different information. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of those documents or that any document incorporated by reference is accurate as of any date other than its filing date. You should not consider this prospectus to be an offer or solicitation relating to the securities in any jurisdiction in which such an offer or solicitation relating to the securities is not authorized. Furthermore, you should not consider this prospectus to be an offer or solicitation relating to the securities if the person making the offer or solicitation is not qualified to do so, or if it is unlawful for you to receive such an offer or solicitation.

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VCA ANTECH, INC. AND SUBSIDIARIES

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Report of Independent Public Accountants

To The Board of Directors of VCA Antech, Inc.:

We have audited the consolidated financial statements of VCA Antech, Inc. and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express and opinion on these consolidated financial statements and financial statement schedules based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of VCA Antech, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG LLP

Los Angeles, California

August 16, 2002, except for Note 16,
as to which the date is November 7, 2002.

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VCA ANTECH, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

As of December 31, 2001 and 2000
(In thousands, except par value)

	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,103	$ 10,519
Trade accounts receivable, less allowance for uncollectible accounts of $5,241 and $4,110 at December 31, 2001 and 2000, respectively	18,036	15,450
Inventory	4,501	5,773
Prepaid expense and other	2,378	3,424
Deferred income taxes	7,364	4,655
Prepaid income taxes	2,782	9,402
Total current assets	42,164	49,223
Property and equipment, net	89,244	86,972
Other assets:		
Goodwill, net	317,262	310,185
Covenants not to compete, net	4,827	19,549
Notes receivable, net	2,672	2,178
Deferred financing costs, net	11,380	13,373
Other	972	1,590
Total assets	$ 468,521	$ 483,070
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term obligations	$ 5,159	$ 5,756
Accounts payable	7,313	8,393
Accrued payroll and related liabilities	11,717	8,335
Accrued interest	2,254	1,622
Accrued recapitalization costs	1,322	3,459
Other accrued liabilities	15,029	11,606
Total current liabilities	42,794	39,171
Long-term obligations, less current portion	379,173	356,993
Deferred income taxes	1,684	8,484
Other liabilities		1,500
Minority interest	5,106	3,610
Series A Redeemable Preferred Stock, at redemption value		77,875
Series B Redeemable Preferred Stock, at redemption value		76,747
Stockholders equity (deficit):		
Common stock, par value $0.001 and $0.01, 75,000 and 24,000 shares authorized, 36,736 and 17,524 shares outstanding as of December 31, 2001 and 2000, respectively	37	175
Additional paid-in capital	188,840	19,053
Accumulated deficit	(146,594)	(100,020)
Accumulated comprehensive loss unrealized loss on investment	(1,855)	
Notes receivable from stockholders	(664)	(518)
Total stockholders equity (deficit)	39,764	(81,310)

Total liabilities and stockholders equity	$ 468,521	$ 483,070

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

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VCA ANTECH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2001, 2000 and 1999
(In thousands, except per share amounts)

	2001	2000	1999
Revenue	$ 401,362	$ 354,687	$ 320,560
Direct costs (includes non-cash compensation of $1,412 and $103 for the years ended December 31, 2001 and 2000, respectively; excludes operating depreciation of $8,345, $6,872 and $6,853 for the years ended December 31, 2001, 2000 and 1999, respectively)	283,226	254,890	232,493
	118,136	99,797	88,067
Selling, general and administrative (includes non-cash compensation of $6,199 and $452, for the years ended December 31, 2001 and 2000, respectively)	38,633	27,446	23,622
Depreciation and amortization	25,166	18,878	16,463
Agreement termination costs	17,552		
Write-down and loss on sale of assets	9,079		
Recapitalization costs		34,268	
Year 2000 remediation expense			2,839
Reversal of restructuring charges			(1,873)
Operating income	27,706	19,205	47,016
Interest income	669	850	1,194
Interest expense	43,587	20,742	10,643
Other expense, net	168	1,800	
Income (loss) before minority interest, provision for income taxes and extraordinary item	(15,380)	(2,487)	37,567
Minority interest in income of subsidiaries	1,439	1,066	850
Income (loss) before provision for income taxes and extraordinary item	(16,819)	(3,553)	36,717
Provision for income taxes	445	2,199	14,360
Income (loss) before extraordinary item	(17,264)	(5,752)	22,357
Extraordinary loss on early extinguishment of debt (net of income tax benefit of $7,059 and $1,845 for the years ended December 31, 2001 and 2000, respectively)	10,159	2,659	
Net income (loss)	(27,423)	(8,411)	22,357
Increase in carrying amount of Redeemable Preferred Stock	19,151	5,391	
Net income (loss) available to common stockholders	$ (46,574)	$ (13,802)	$ 22,357
Basic earnings (loss) per common share:			
Income (loss) before extraordinary item	$ (1.87)	$ (0.05)	$ 0.07
Extraordinary loss on early extinguishment of debt	(0.52)	(0.01)	
Earnings (loss) per common share	$ (2.39)	$ (0.06)	$ 0.07
Diluted earnings (loss) per common share:			
Income (loss) before extraordinary item	$ (1.87)	$ (0.05)	$ 0.07
Extraordinary loss on early extinguishment of debt	(0.52)	(0.01)	

Earnings (loss) per common share	$ (2.39)	$ (0.06)	$ 0.07
Shares used for computing basic earnings (loss) per share	19,509	234,055	315,945
Shares used for computing diluted earnings (loss) per share	19,509	234,055	329,775

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

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VCA ANTECH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

For the Years Ended December 31, 2001, 2000 and 1999
(In thousands)

	Common Stock		Additional Paid-In Capital	Treasury Shares		Notes Receivable from Stockholders	Retained Earnings (Deficit)	Accumulated Comprehensive Loss	Total
	Shares	Amount		Shares	Amount				
Balances, December 31, 1998	312,240	$ 3,122	$ 199,748	(3,405)	$ (2,480)	$ (617)	$ 3,380	$ (468)	$ 202,685
Net income							22,357		22,357
Unrealized loss on investments								(218)	(218)
Recognized loss on investments								325	325
Exercise of stock options	750	8	527						535
Exercise of warrants	45								
Interest on notes						(37)			(37)
Business acquisitions	8,820	88	8,740						8,828
Conversion of convertible debt	150	2	72						74
Restricted stock bonus	3,615	36	1,405						1,441
Purchase of treasury shares				(5,895)	(4,761)				(4,761)
Balances, December 31, 1999	325,620	3,256	210,492	(9,300)	(7,241)	(654)	25,737	(361)	231,229
Net loss							(8,411)		(8,411)
Unrealized loss on investments								(219)	(219)
Recognized loss on investments								580	580
Exercise of stock options	1,830	18	905						923
Restricted stock bonus	3,060	31	1,071						1,102
Interest on notes						(34)			(34)
Purchase of treasury shares				(7,715)	(3,323)				(3,323)
Issuance of common stock	14,865	149	14,716			(518)			14,347
Issuance of warrants			1,149						1,149
Write-off of notes receivable from stockholders						688			688
Increase in carrying amount of Redeemable Preferred Stock							(5,391)		(5,391)
Repurchase and retirement of common stock	(327,851)	(3,279)	(209,835)	17,015	10,564		(111,955)		(314,505)
Non-cash compensation			555						555
Balances, December 31, 2000	17,524	175	19,053			(518)	(100,020)		(81,310)
Net loss							(27,423)		(27,423)
Cumulative effect of change to a new accounting principle								(525)	(525)

Unrealized loss on investments								(1,498)	(1,498)
Recognized loss on investments								168	168
Non-cash compensation			7,611						7,611
Interest on notes						(46)			(46)
Exercise of stock options	692	7	543			(100)			450
Increase in carrying amount of Redeemable Preferred Stock							(19,151)		(19,151)
Change in par value of common stock		(163)	163						
Issuance of common stock	17,370	17	161,471						161,488
Exercise of stock warrants	1,150	1	(1)						
Balances, December 31, 2001	36,736	$ 37	$ 188,840		$	$ (664)	$ (146,594)	$ (1,855)	$ 39,764

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

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VCA ANTECH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

For the Years Ended December 31, 2001, 2000 and 1999
(In thousands)

	2001	2000	1999
Net income (loss)	$ (27,423)	$ (8,411)	$ 22,357
Other comprehensive income:			
Cumulative effect of change to new accounting principle	(525)		
Unrealized loss on investments and hedging instruments	(1,498)	(219)	(218)
Recognized loss on investments and hedging instruments	168	580	325
Other comprehensive income (loss)	(1,855)	361	107
Net comprehensive income (loss)	$ (29,278)	$ (8,050)	$ 22,464
Accumulated comprehensive loss at beginning of year	$	$ (361)	$ (468)
Other comprehensive income (loss)	(1,855)	361	107
Accumulated comprehensive loss at end of year	$ (1,855)	$	$ (361)

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

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VCA ANTECH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2001, 2000 and 1999
(In thousands)

	2001	2000	1999
Cash flows from operating activities:			
Net income (loss)	$ (27,423)	$ (8,411)	$ 22,357
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	25,166	18,878	16,463
Amortization of deferred financing costs and debt discount	2,153	836	241
Provision for uncollectible accounts	3,973	3,105	2,515
Extraordinary loss on early extinguishment of debt	17,218	4,504	
Recapitalization costs		34,268	
Non-cash compensation	7,611	555	
Interest paid in kind on senior subordinated notes	14,528	4,306	
Gain on sale of investment in VPI		(3,200)	
Loss recognized on investment in Zoasis		5,000	
Agreement termination costs	9,552		
Write down of assets	8,531		
Loss on sale of assets	548		
Minority interest in income of subsidiaries	1,439	1,066	850
Distributions to minority interest partners	(1,635)	(1,400)	(926)
Increase in accounts receivable	(6,386)	(3,362)	(5,535)
Decrease (increase) in inventory, prepaid expenses and other assets	2,348	2,006	(761)
Increase (decrease) in accounts payable and accrued liabilities	1,959	5,932	(1,383)
Decrease (increase) in prepaid income taxes	7,031	(5,416)	1,054
Increase in deferred income tax asset	(2,709)	(442)	(102)
Increase (decrease) in deferred income tax liability	(6,800)	1,829	3,694
Net cash provided by operating activities	57,104	60,054	38,467
Cash flows from investing activities:			
Business acquisitions, net of cash acquired	(24,306)	(18,183)	(16,079)
Real estate acquired in connection with business acquisitions	(675)	(1,800)	(4,241)
Property and equipment additions, net	(13,481)	(22,555)	(21,803)
Investments in marketable securities		(129,992)	(58,258)
Proceeds from sales or maturities of marketable securities		135,666	86,410
Proceeds from sale of assets	1,705		
Payment for covenants not to compete		(15,630)	
Net proceeds from sale of investment in VPI		8,200	
Investment in Zoasis		(5,000)	
Other	555	1,615	295
Net cash used in investing activities	(36,202)	(47,679)	(13,676)
Cash flows from financing activities:			
Repayment of long-term obligations including prepayment penalty	(175,530)	(172,854)	(18,922)
Proceeds from the issuance of long-term debt	170,000	356,670	
Payment of deferred financing costs and recapitalization	(6,503)	(44,114)	
Proceeds from issuance of common stock under stock option plans		923	535
Proceeds from issuance (repayment) of redeemable preferred stock	(173,773)	149,231	
Proceeds from issuance of common stock	161,488	14,350	
Proceeds from issuance of stock warrants		1,149	
Repurchase of common stock		(314,508)	
Purchase of treasury stock		(3,323)	(4,761)
Net cash used in financing activities	(24,318)	(12,476)	(23,148)

Increase (decrease) in cash and cash equivalents	(3,416)	(101)	1,643
Cash and cash equivalents at beginning of year	10,519	10,620	8,977
Cash and cash equivalents at end of year	$ 7,103	$ 10,519	$ 10,620

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

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VCA ANTECH, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

For the Years Ended December 31, 2001, 2000 and 1999
(In thousands)

	2001	2000	1999
Supplemental disclosures of cash flow information:			
Interest paid	$ 26,274	$ 15,237	$ 10,517
Income taxes paid	2,782	4,337	9,603
Supplemental schedule of non-cash investing and financing activities:			
In connection with acquisitions, assets acquired and liabilities assumed were as follows:			
Fair value of assets acquired	$ 24,424	$ 27,816	$ 48,968
Less compensation given:			
Cash paid and acquisition costs	(20,899)	(16,430)	(15,256)
Cash paid in settlement of assumed liabilities and notes payable	(749)	(1,262)	(517)
Common stock issued			(8,828)
Notes payable and assumed liabilities	$ 2,776	$ 10,124	$ 24,367

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

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VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001, 2000 and 1999

1. The Company

Based in Los Angeles, California, VCA Antech, Inc. (VCA), a Delaware corporation, is an animal health care service company with positions in two core businesses, veterinary diagnostic laboratories (Laboratory) and animal hospitals (Animal Hospital). In 2000, the Company established a new legal structure comprised of a holding company and an operating company. VCA is the holding company. Vicar Operating, Inc. (Vicar) is wholly owned by VCA and owns the capital stock of all of the Company s subsidiaries. Collectively, VCA and Vicar are referred to as the Company. Prior to September 24, 2001, VCA was known as Veterinary Centers of America, Inc.

The Company operates a full-service, veterinary diagnostic laboratory network serving all 50 states. The 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.

As of December 31, 2001, the Company operated 16 full-service laboratories. The laboratory network includes primary hubs that are open 24 hours per day and offer a full testing menu, secondary laboratories that service large metropolitan areas, that are open 24 hours per day and offer a wide testing menu and ten STAT laboratories that service other locations with demand sufficient to warrant nearby laboratory facilities and are open primarily during daytime hours.

Animal Hospitals offer a full range of general medical and surgical services for companion animals. Animal Hospitals treat diseases and injuries, provide pharmaceutical products and perform a variety of pet wellness programs, including routine vaccinations, health examinations, spaying, neutering and dental care.

At December 31, 2001, the Company owned or operated 214 animal hospitals throughout 33 states, as follows:

California	44	Connecticut	3
New York (a)	21	New Mexico	3
Florida	17	Arizona	2
Illinois	16	Minnesota (a)	2
Michigan	12	Nebraska (a)	2
Pennsylvania	11	North Carolina (a)	2
Texas (a)	9	Utah	2
New Jersey (a)	9	Alabama (a)	1
Maryland	8	Georgia	1
Indiana	7	Hawaii	1
Massachusetts	7	Louisiana (a)	1
Virginia	6	Missouri	1
Nevada	5	South Carolina	1
Ohio (a)	5	Washington (a)	1
Alaska	4	West Virginia (a)	1
Colorado	4	Wisconsin	1
Delaware	4		

(a) states where the Company manages animal hospitals under long-term management agreements.

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VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company was formed in 1986 and during the 1990s, established a position in the veterinary diagnostic laboratory and animal hospital markets through both internal growth and acquisitions. By 1997, the Company had had built a laboratory network of 12 laboratories servicing animal hospitals in all 50 states and operated a total of 160 animal hospitals.

On September 20, 2000, the Company completed a recapitalization transaction (the Recapitalization) with certain investors who are affiliated with Leonard Green & Partners. The Company purchased 99% of its outstanding shares of common stock for $1.00 per share for a total consideration of $314.5 million, and such shares were subsequently retired. The Company then issued 14,350,005 new common shares to certain investors in exchange for an 80% controlling interest in the Company. An additional 517,995 shares of common stock were issued to certain members of management. In connection with the Recapitalization, the Company also authorized and issued redeemable preferred stock for which it received approximately $149.2 million and entered into various debt agreements through which it received approximately $356.7 million in cash.

The Recapitalization did not result in a change in the historical cost basis of the Company s assets and liabilities because certain management shareholders retained their ownership of the Company common stock, which amounted to approximately 20% of the Company s outstanding common stock following the Recapitalization. The Company incurred $34.3 million of Recapitalization costs for the year ended December 31, 2000, which consisted of $24.1 million associated with the buy-out of stock options held by employees, $1.2 million paid to employees for services rendered in connection with the Recapitalization, $7.6 million in professional fees and $1.4 million of other expenses. Additionally, the Company paid $15.6 million out of the Recapitalization proceeds for covenants not to compete to the following executive officers: Robert Antin, Chief Executive Officer; Arthur Antin, Chief Operating Officer; Tomas Fuller, Chief Financial Officer; and Neil Tauber, Senior Vice President of Development. The payments made for the covenants not to compete were being amortized over a three-year period commencing on September 20, 2000. Following the closing of the Company s initial public offering of its common stock in November 2001 (described below), the Company terminated the non-competition agreements with certain members of management and recorded a non-cash charge of $9.6 million.

On November 27, 2001, the Company completed an initial public offering of its common stock (the IPO). As a result of this offering and the underwriters exercise of its over-allotment, the Company issued 17,370,000 shares of common stock and received net proceeds of $161.5 million. Concurrent with the IPO, the Company issued $170.0 million of 9.875% senior subordinated notes due 2009. The Company applied the net proceeds from the IPO and the sale of the notes, plus cash on hand, as follows:

- redeemed all of the outstanding series A and series B redeemable preferred stock;
- repaid $100.0 million under the senior subordinated credit facilities;
- repaid $59.1 million in principal of the Company s 15.5% senior notes due 2010, at a redemption price of 110%, plus accrued and unpaid interest; and
- repaid $5.0 million in principal of the Company s 13.5% senior subordinated notes due 2010, at a redemption price of 110%, plus accrued and unpaid interest.

Affiliates of Leonard Green & Partners and Robert Antin, CEO, President and Chairman of the Board of the Company, purchased 2,000,000 and 40,000 additional shares of common stock, respectively, in the IPO.

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VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies

a. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all those majority-owned subsidiaries where the Company has control. Significant intercompany transactions and balances have been eliminated.

The Company provides management services to certain veterinary medical groups in states with laws that prohibit business corporations from providing veterinary services through the direct employment of veterinarians. As of December 31, 2001, the Company operated in eleven of these states. In these states, instead of owning an animal hospital, the Company provides management services to veterinary medical groups. The Company provides management services pursuant to long-term management agreements (the Management Agreements) with the veterinary medical groups, ranging from 10 to 40 years with non-binding renewal options, where allowable. Pursuant to the Management Agreements, the veterinary medical groups are each solely responsible for all aspects of the practice of veterinary medicine, as defined by their respective state. The Company is responsible for providing the following services:

availability of all facilities and equipment

day-to-day financial and administrative supervision and management

maintenance of patient records

recruitment of veterinary and hospital staff

marketing

malpractice and general insurance

The Company does not consolidate the operations of the veterinary medical groups since it has no control over the practice of veterinary medicine at these hospitals. As compensation for the Company s services, it receives management fees which are included in revenue and were $37.8 million, $31.1 million and $30.2 million for the years ended December 31, 2001, 2000 and 1999, respectively.

b. Cash and Cash Equivalents

For purposes of the balance sheets and statements of cash flows, the Company considers only highly liquid investments to be cash equivalents.

Cash and cash equivalents at December 31 consisted of (in thousands):

	2001	2000
Cash	$ 7,103	$ 3,443
Money market funds		7,076
	$ 7,103	$ 10,519

c. Marketable Securities

During the year ending December 31, 2000, the Company realized a loss on the sale of an investment of $1.3 million and had previously recorded unrealized losses of $727,000 on this investment in years prior to 2000.

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VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

d. Property and Equipment

Property and equipment is recorded at cost. Equipment held under capital leases is recorded at the lower of the present value of the minimum lease payments or the fair value of the equipment at the beginning of the lease term.

Depreciation and amortization are provided for on the straight-line method over the following estimated useful lives:

Buildings and improvements	5 to 40 years
Leasehold improvements	Lesser of lease term or 15 years
Furniture and equipment	5 to 7 years
Property held under capital leases	5 to 30 years

Property and equipment at December 31, consisted of (in thousands):

	2001	2000
Land	$ 20,008	$ 19,788
Building and improvements	33,668	33,920
Leasehold improvements	19,000	17,565
Furniture and equipment	49,565	43,771
Equipment held under capital leases	1,533	1,533
Construction in progress	5,292	1,293
Total fixed assets	129,066	117,870
Less Accumulated depreciation and amortization	(39,822)	(30,898)
	$ 89,244	$ 86,972

Accumulated depreciation on equipment held under capital leases amounted to $1.5 million and $1.3 million at December 31, 2001 and 2000, respectively.

During 2001, the Company performed an analysis of the fair market value of certain properties and determined that five properties value had been impaired and recorded an impairment charge of approximately $1.4 million. In addition, the Company sold four properties during 2001 with a carrying value of approximately $1.2 million.

During 2001, the Company sold two animal hospitals with a fixed asset carrying value of approximately $52,000. In addition, the Company closed one animal hospital and relocated thirteen animal hospitals operated by the Company during 2001. As a result, the Company disposed of certain fixed assets with a carrying value of approximately $230,000.

e. Goodwill

Goodwill relating to acquisitions represents the purchase price paid and liabilities assumed in excess of the fair market value of net assets acquired.

The Company continually evaluates whether events, circumstances or net losses on the entity level have occurred that indicate the remaining estimated useful life of goodwill may warrant revision or that the remaining balance of goodwill may not be recoverable. When factors indicate that goodwill should be evaluated for possible impairment, the Company uses an estimate of the related facility s

VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

undiscounted, tax adjusted net income over the remaining life of the goodwill to measure whether the goodwill is recoverable. If it is determined that goodwill on a given entity is partially or totally unrecoverable, losses will be recognized to the extent that projected aggregate tax adjusted net income over the life of the goodwill does not cover the goodwill balance at the date of impairment. Accumulated amortization of goodwill was $43.3 million and $35.0 million at December 31, 2001 and 2000, respectively.

As a result of evaluation in 2001, the Company recorded a write-down of goodwill from one hospital of approximately $800,000 and recorded an additional write-down of goodwill of approximately $6.3 million in 2001 from the closure of six animal hospitals.

In accordance with SFAS No. 142 Goodwill and Other Intangibles , goodwill relating to acquisitions effective June 30, 2001 is not amortized and will be evaluated in the future on a periodic basis for impairment. Goodwill acquired prior to June 30, 2001 was amortized through December 31, 2001 on a straight-line basis over the expected period to be benefited, not to exceed 40 years; however, this goodwill will no longer be amortized beginning January 1, 2002, in accordance with SFAS No. 142. See Note 2, section n., *Recent Accounting Pronouncements*, for additional information.

f. Covenants Not to Compete

Covenants not to compete are amortized on a straight-line basis over the term of the agreements, usually three to ten years. Accumulated amortization of covenants not to compete was $6.5 million and $6.6 million at December 31, 2001 and 2000, respectively.

g. Notes Receivable

Notes receivable are not market traded financial instruments. The amounts recorded approximate fair value and are shown net of valuation allowances of $63,000 as of December 31, 2001 and 2000. The notes bear interest at rates varying from 7% to 10% per annum.

h. Deferred Revenue

As part of a partnership with Heinz Pet Products (HPP), the Company agreed to provide certain consulting and management services for a three-year period that commenced on February 1, 1997 and ended on February 1, 2000. The agreement was for an aggregate fee of $15.3 million payable in semi-annual installments over a five-year period.

In October of 2000, after the expiration of the above-mentioned consulting and management services agreement, HPP bought out the Company s interest in the partnership and entered into a two-year consulting agreement with the Company. The agreement called for an aggregate fee of $5.0 million, $4.0 million of which will be recognized as revenue ratably over the life of the agreement and $1.0 million will be used for certain marketing obligations under the agreement.

Fees earned under these agreements are included in revenue and amounted to $2.0 million, $925,000 and $5.1 million for the years ended December 31, 2001, 2000 and 1999, respectively. The Company had liabilities related to the two-year consulting agreement of $1.5 million and $3.5 million at December 31, 2001 and 2000, respectively.

i. Deferred Financing Costs

In connection with the issuance of long-term debt in 2001 and 2000, the Company incurred $4.4 million and $14.0 million of deferred financing costs, respectively. These deferred financing costs are shown net of accumulated amortization of $1.6 million and $586,000 in the consolidated balance

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VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

sheets at December 31, 2001 and 2000, respectively. The deferred financing costs are amortized using the effective interest method over the life of the related debt.

j.   Investment in VPI and Zoasis

During portions of 2000 and 1999, the Company had investments in Veterinary Pet Insurance, Inc. (VPI) and Zoasis.com, Inc. (Zoasis), both of which were accounted for on the cost basis. See Footnote 4, *Joint Ventures and Investments*, for a description of these investments.

k.   Fair Value of Financial Instruments and Concentration of Credit Risk

The carrying amount reported in the consolidated balance sheets for cash, accounts receivable, accounts payable and accrued liabilities approximates fair value because of the immediate or short-term maturity of these financial instruments. Concentration of credit risk with respect to accounts receivable are limited due to the diversity of the Company s customer base.

l.   Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

m.   Cash Flow Hedge

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133, which as amended is for fiscal years which began after June 15, 2000, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities, (collectively referred to as   derivatives). It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value.

Under the provisions of the Credit and Guaranty Agreement, dated September 20, 2000, the Company was required to enter into an arrangement to hedge interest rate exposure for a minimum notional amount of $62.0 million and a minimum term of two years. On November 13, 2000, the Company entered into a no fee interest rate collar agreement with Wells Fargo Bank effective November 15, 2000 and expiring November 15, 2002, (the   Collar Agreement). The Collar Agreement is based on the London interbank offer rate (LIBOR), which resets monthly, and has a cap and floor notional amount of $62.5 million, with a cap and floor interest rate of 7.5% and 5.9%, respectively. During 2001, the Company has made payments under this agreement amounting to $1.2 million resulting from LIBOR rates being below the floor interest rate of 5.9%. These payments have been reported as part of interest expense for 2001. The Company made no such payments during 2000.

The Collar Agreement is accounted for as a cash flow hedge that requires the Company report the market value of the Collar Agreement in the consolidated balance sheet.

The Company adopted SFAS No. 133 effective January 1, 2001. At December 31, 2001, the Company reported a liability from interest rate hedging activities of $2.0 million, $1.8 million of which has been recognized in comprehensive income and $168,000 of which has been recognized in other

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

expense, net. The valuation is determined by Wells Fargo Bank. As the result of adopting SFAS No. 133 in 2001, the Company recorded a cumulative adjustment to other comprehensive income of approximately $525,000 in 2001.

With the exception of the Collar Agreement, management does not intend to enter into derivative contracts in the future.

n. Recent Accounting Pronouncements

Goodwill and Other Intangible Assets

In June 2001, the FASB issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. SFAS No. 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. SFAS No. 142 requires that these assets be reviewed for impairment at least annually, or whenever there is an indication of impairment. Intangible assets with finite lives will continue to be amortized over their estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

SFAS No. 142 requires companies to allocate their goodwill to identifiable reporting units, which are then tested for impairment using a two-step process detailed in the statement. The first step requires comparing the fair value of each reporting unit with its carrying amount, including goodwill. If that fair value exceeds the carrying amount, the second step of the process is not necessary and there are no impairment issues. If that fair value does not exceed that carrying amount, companies must perform the second step that requires a hypothetical allocation of the fair value of the reporting unit to the reporting unit s assets and liabilities as if the unit were just purchased by the company at the fair value price. In this hypothetical sale, the excess of the fair value of the reporting unit over its re-evaluated, marked-to-market net assets would be the new basis for the reporting unit s goodwill and a write down to this new value would be recognized as an expense.

The Company will adopt SFAS No. 142 on January 1, 2002. In doing so, it determined that it had two reporting units, Laboratory and Animal Hospitals. On April 15, 2002, an independent valuation group concluded that the fair value of the Company s reporting units exceeded it s carrying value and accordingly, as of that date, there were no goodwill impairment issues. The Company plans to perform a valuation of its reporting units annually, or upon significant changes in the Company s business environment.

As of December 31, 2001, the Company s goodwill balance was $317.3 million. For the years ended December 31, 2001, 2000 and 1999, the Company reported goodwill amortization of $9.2 million, $8.3 million and $7.5 million, respectively.

Goodwill Impairment Test

In August 2002, the FASB s Emerging Issues Task Force (EITF) issued EITF Issue No. 02-13, *Deferred Income Tax Considerations in Applying the Goodwill Impairment Test in FASB No. 142, Goodwill and Other Intangible Assets*. EITF Issue No. 02-13 was issued to provide guidance on how to account for deferred tax balances in determining a reporting unit s fair value, a reporting unit s carrying amount and the implied fair value of goodwill. The consensus in this issue will be applied prospectively

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

in performing either the first or second step of the impairment test required by SFAS No. 142 for tests performed after September 12, 2002. The Company has not determined yet what impact EITF Issue No. 02-17 will have on its consolidated financial statements.

Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company will adopt SFAS No. 143 in the first quarter of fiscal year 2003. The Company is evaluating the impact the adoption of SFAS No. 143 will have on its consolidated financial statements.

Impairment of Long-Lived Assets

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which establishes one accounting model to be used for long-lived assets to be disposed of by sale and broadens the presentation for discontinued operations to include more disposal transactions. SFAS No. 144 supercedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets to be Disposed of by Sale*, and the accounting and reporting provisions relating to the impairment or disposal of long-lived assets of Accounting Principles Board Opinion No. 30 (APB No. 30), *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. The Company will adopt SFAS No. 144 on January 1, 2002, with no material impact to its financial statements.

Gains and Losses from Extinguishment of Debt and Capital Leases

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44, and 64*, *Amendment of FASB Statement No. 13, and Technical Corrections*, to be applied in fiscal years beginning after May 15, 2002, with early adoption encouraged.

Under SFAS No. 145, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria of APB No. 30. Under APB No. 30, events are considered extraordinary only if they possess a high degree of abnormality and are not likely to recur in the foreseeable future. Any gains or losses on extinguishment of debt that do not meet the criteria of APB No. 30 shall be classified as a component of income from recurring operations. In addition, any gains or losses on extinguishment of debt that were classified as an extraordinary item in prior periods presented that do not meet the criteria of APB No. 30 shall be reclassified as a component of income from recurring operations.

The Company will adopt SFAS No. 145 at the beginning of fiscal year 2003. The Company recognized extraordinary losses related to the early extinguishment of debt, before taxes in the amount of approximately $17.2 million and $4.5 million during years 2001 and 2000, respectively. The Company does not believe these losses on extinguishment of debt meet the criteria of APB No. 30 as the Company has historically participated in periodic debt refinancing. As a result of adopting SFAS No. 145, the Company will reclassify the losses on extinguishment of debt from extraordinary losses to a component of income from recurring operations. This reclassification will not impact net income.

VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SFAS No. 145 also amends SFAS No. 13, *Accounting for Leases*. Under SFAS No. 145, if a capital lease is modified such that it becomes an operating lease, a gain or loss must be recognized similar to the accounting used for sale-leaseback transactions as provided in SFAS No. 28 and No. 98. At December 31, 2001, the Company had capital lease obligations of $79,000. Although the Company may enter into more capital leases, management does not expect SFAS No. 145 to have a material impact on its consolidated financial statements.

Costs Associated with Exit or Disposal of Activities

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 requires that liabilities associated with exit or disposal activities be recognized when a company is committed to future payment of those liabilities under a binding, legal obligation. SFAS No. 146 nullifies Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring),* which required that exit and disposal costs be recognized as liabilities when a company formalized its plan for exiting or disposing of an activity even if no legal obligation had been established.

SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002, however early adoption is encouraged. Costs associated with exit or disposal activities will be recognized in income from continuing operations before income taxes, unless these are costs associated with discontinued operations, which would require disclosure as part of discontinued operations, net of taxes. The Company has no plans to exit or dispose of any of its business activities under the definition of SFAS No. 146, nor does the Company anticipate that SFAS No. 146 will change any of its business practices.

o. Reclassifications

Certain prior year balances have been reclassified to conform with the 2001 financial statement presentation.

p. Revenue Recognition

Revenue is recognized only after the following criteria are met: (i) there exists adequate evidence of the transactions; (ii) delivery of goods has occurred or services have been rendered; (iii) the price is not contingent on future activity; and (iv) collectibility is reasonably assured.

q. Marketing and Advertising

Marketing and advertising production costs are expensed as incurred or the first time the advertisement is run. Media (primarily print) placement costs are expensed in the month the advertising appears. Total marketing and advertising expense is included in direct costs and amounted to $5.0 million, $5.6 million, $4.3 million for the years ended December 31, 2001, 2000 and 1999, respectively.

r. Workers Compensation Liability

On October 8, 2001, the Company entered into a one-year workers compensation insurance policy with a $250,000 per-occurrence deductible and a stop-loss aggregate deductible of $4.7 million. Management has determined that $3.0 million is a reasonable estimate of expected claims losses under this policy and is accruing for these losses ratably over the twelve month period ending September 30, 2002. In determining this estimate, in conjunction with the insurance carrier,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

management reviewed the Company s five-year history of claims losses, ratio of losses to premiums paid, payroll growth and the current risk control environment. The Company is pre-funding estimated claims losses to the insurance carrier of approximately $2.9 million. If the Company were accruing the maximum possible claims losses for the three months the policy was effective in 2001, it would have recorded an additional $430,000 of expense for the year ended December 31, 2001. The policies in place for 2000 and 1999 did not have large deductibles and the Company has accrued for the maximum possible expense under these policies.

3. Related Party Transactions

Management believes, based on reasonable judgment, but without further investigation, that the terms of each of the following transactions or arrangements between the Company and its affiliates, officers, directors or stockholders which were parties to the transactions were, on an overall basis, at least as favorable to the Company as could then have been obtained from unrelated parties.

a. Acquisitions

As part of an often-used acquisition strategy, the Company hires the selling doctor upon purchase of their practice. The Company may lease facilities from the selling doctor; the related lease agreements are negotiated at prevailing market rates as part of the acquisition before the doctor is hired. These lease arrangements are not contingent upon the current or future employment of the doctors.

b. Recapitalization

On September 20, 2000, the Company completed the Recapitalization with an entity controlled by Leonard Green & Partners. In the Recapitalization, each outstanding share of our common stock, other than shares retained by management and employees, was canceled and converted into the right to receive $1.00. The Recapitalization was financed by:

the contribution of $155.0 million by a group of investors led by Leonard Green & Partners;

the issuance of an aggregate of $20.0 million of senior subordinated notes;

the borrowing of $250.0 million under our $300.0 million senior credit facility; and

the issuance of an aggregate of $100.0 million of senior notes.

Upon the completion of the Recapitalization, Robert Antin, Arthur Antin, Neil Tauber, Tom Fuller, other stockholders and a group of investors led by Leonard Green & Partners acquired 17,524,335 shares of common stock at a purchase price of $1.00 per share. Goldman Sachs Credit Partners L.P. is a lender under the Company s senior credit facility. GS Mezzanine Partners II, L.P. and GS Mezzanine II Offshore, L.P., affiliates of Goldman, Sachs & Co., purchased portions of the Company s securities for an aggregate purchase price of $85.0 million. Melina Higgins, one of the Company s directors, is the Chief Financial Officer of GS Mezzanine Partners II, L.P. and GS Mezzanine Partners II Offshore, L.P. The following partners of Leonard Green & Partners also serve on the Company s board of directors: John Baumer, John Danhakl and Peter Nolan.

c. Stockholders Agreement

On September 20, 2000, the Company entered into a stockholders agreement with each of its stockholders. Under the stockholders agreement, each party to the stockholders agreement has call rights with respect to shares of common stock and stock options held by members of management in

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VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the event of termination of employment for any reason. The call rights permit the Company to repurchase callable shares at $1.00 per share. In connection with the IPO, the stockholders agreement was amended such that effective October 1, 2001:

Call rights expired on one-half of Robert Antin s shares that initially were subject to the stockholders agreement. Of the remaining shares, call rights will expire ratably over a six-month period commencing on October 1, 2001;

Call rights expired on one-half of Arthur Antin s, Neil Tauber s and Tomas Fuller s shares that initially were subject to the stockholders agreement. Of the amount remaining, call rights will expire on one-half of those shares on April 1, 2002, and on the remaining one-half on October 1, 2002; and

Call rights expired on one-half of the other employees shares that initially were subject to the stockholders agreement. Of the remaining shares, call rights will expire ratably over a 12-month period commencing May 1, 2002.

The stockholders agreement also provided for the discharge of $580,000 and $108,000 of indebtedness owed to the Company by Robert Antin and Arthur Antin, respectively, including interest accrued thereon. This indebtedness was forgiven as part of the Recapitalization.

d. Notes Receivable from Stockholders

In 2001, certain employees exercised their options to purchase shares of the Company s common stock. As consideration for the exercise of their options, the Company received notes with an aggregate value of approximately $100,000. Each note earns interest at the rate of 10.125% per annum and is due and payable on August 1, 2004. These notes are collateralized by the Company s common stock that was purchased by the stockholders and are an unconditional obligation of the employee. The total outstanding principal and interest of these notes at December 31, 2001 was approximately $104,000.

Concurrent with the Recapitalization, the Company sold 518,000 common shares to certain non-executive employees of the Company. As consideration for the issuance of common stock, the Company received notes with an aggregate value approximating $518,000. Each note earns interest at the rate of 6.2% per annum, is compounded annually and is due and payable on September 16, 2007. The notes are collateralized by the Company s common stock that was purchased by the stockholders. The total outstanding principal and interest of these notes at December 31, 2001 and 2000 was $560,000 and $518,000, respectively.

e. Management Services Agreement

On September 20, 2000, the Company entered into a 10-year management services agreement with Leonard Green & Partners. The agreement provides that Leonard Green & Partners would provide general investment-banking services, management, consulting and financial planning services and transaction-related financial advisory and investment banking services to the Company. The Company paid a one-time structuring fee of $7.5 million to Leonard Green & Partners in September 2000 under the agreement. Leonard Green & Partners received annual fees as compensation for the general services and normal and customary fees for transaction-related services. In the years ended

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2001 and 2000, the Company paid management fees in an aggregate amount of $2.3 million and $620,000, respectively. Upon the consummation of the IPO, the parties agreed to terminate the management services agreement. In connection with the termination the Company paid Leonard Green & Partners $8.0 million.

f. Non-Competition Agreements

On September 20, 2000, Robert Antin, Arthur Antin, Neil Tauber and Tomas Fuller each entered into non-competition agreements with the Company for a term of three years.

In consideration for the execution of the non-competition agreements, the Company paid approximately $6.2 million, $4.0 million, $2.7 million and $2.5 million to Robert Antin, Arthur Antin, Neil Tauber and Tomas Fuller, or their affiliates, respectively. Upon the consummation of the IPO, these non-competition agreements were terminated.

g. Investment in and Transactions with Zoasis

During the year ended December 31, 2000, the Company made a $5.0 million investment in Zoasis, an internet start-up company, majority owned by Robert Antin, the Company s Chief Executive Officer and Chairman of the Board. In December 2000, the Company determined that the value of this investment was impaired and, as a result, recognized a loss of $5.0 million on the write-down of its investment in Zoasis.

The Company incurred marketing expense for vaccine reminder services provided by Zoasis of $709,000 and $81,000 for the years ended December 31, 2001 and 2000. The pricing of these services is comparable to prices paid by the Company to independent third parties.

In 2001, the Company began development of software that can gather data in order to be able to automatically fax diagnostic laboratory results to the laboratory clients. The Company initially used an independent outside contractor to begin programming this software but now intends to use an in-house programmer working in conjunction with Zoasis. Zoasis will not be paid for this programming effort but will be able to use and amend the software to market it to other veterinary hospitals and laboratories. In relation to this project, Zoasis is also working with the Company to facilitate the collection and delivery of laboratory results to its clients.

h. Related Party Vendors

Patricia Antin, wife of the Company s Chief Operating Officer Arthur Antin, is an independent sales representative for Citi Print and Westpro Graphics, both local printing companies. The Company used these companies services to print forms and marketing materials for the Company s hospitals nationwide. Transactions are based on arms-length market prices and the Company has no, nor has the Company ever had, any contractual obligation binding the Company to their services. The Company paid Citi Print $345,000, $321,000 and $339,000 for the years ended December 31, 2001, 2000 and 1999, respectively. The Company paid Westpro Graphics $7,000, $17,000 and $106,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

i. Investment in Vet s Choice and the Wisdom Group, L.P.

In September 2000, the Company sold its entire equity interest in Vet s Choice, which had zero-cost basis, to HPP. VCA received $500,000 in proceeds from the sale. At the time of the sale, one of the Company s directors, Mr. John Heil, served as president of an affiliate of HPP. In connection with the sale, HPP also paid VCA $1.0 million which was transferred to the Wisdom Group, L.P. and used

VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

to redeem the limited partnership interests in the Wisdom Group, L.P. Members of the Company s executive management had a 30.5% ownership interest in the Wisdom Group, L.P. as limited partners and one of the Company s subsidiaries owned a 1% ownership interest as the general partner. The Wisdom Group, L.P. was dissolved in November 2000 upon redemption of all the partnership interests. The nature of the business of the Wisdom Group, L.P. was to provide consulting services to Vet s Choice with respect to the development, marketing and sale of premium pet food products.

j. Receipt of Proceeds from the Initial Public Offering and Debt Issuance

Prior to the IPO on November 27, 2001, affiliates of Leonard Green & Partners owned 2,826,000 shares of 14% series A redeemable preferred stock and 2,800,000 shares of 12% series B redeemable stock. Affiliates of Goldman, Sachs & Co. owned 122,123 shares of 14% series A redeemable preferred stock and 121,000 shares of 12% series B redeemable preferred stock and held approximately $82.5 million aggregate principal amount of senior notes and approximately $14.2 million aggregate principal amount of the senior subordinated notes, and warrants to purchase 814,575 shares of common stock at an exercise price of $0.0007 per share. An affiliate of Goldman, Sachs & Co. was the syndication agent and a lender under the senior credit facility. The proceeds from the IPO and debt issuance were used to repay $100.0 million of borrowings under the senior credit facility, $59.1 million aggregate principal amount of the senior notes, $5.0 million aggregate principal amount of the senior subordinated notes and the redemption value of all of the shares of preferred stock.

k. Purchase of Common Stock

Affiliates of Leonard Green & Partners purchased 2,000,000 shares of the Company s common stock at the IPO price of $10.00 per share. These shares are subject to lock-up agreements under which these affiliates of Leonard Green & Partners agree not to offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly any share of common stock or any securities convertible into or exchangeable or exercisable for any shares of common stock without the prior written consent of Credit Suisse First Boston until May 20, 2002.

Robert Antin purchased 40,000 of the 725,000 shares of the Company s common stock reserved by the underwriters for sale to employees and other persons associated with the Company. These shares are subject to lock-up agreements under which Mr. Antin agrees not to offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly any share of common stock or any securities convertible into or exchangeable or exercisable for any shares of common stock without the prior written consent of Credit Suisse First Boston until May 20, 2002.

4. Acquisitions

During 2001, the Company purchased 21 animal hospitals, all of which were accounted for as purchases. Six of the acquired animal hospitals were merged into existing VCA facilities upon acquisition. Including acquisition costs, VCA paid an aggregate consideration of $24.4 million, consisting of $20.9 million cash, $1.0 million in debt, and the assumption of liabilities of $2.5 million. The aggregate purchase price was allocated as follows: $747,000 to tangible assets, $22.5 million to goodwill and $1.2 million to other intangibles.

During 2000, the Company purchased 24 animal hospitals and one veterinary diagnostic laboratory, all of which were accounted for as purchases. Three of the acquired animal hospitals and the laboratory were merged into existing VCA facilities upon acquisition. Including acquisition costs, VCA paid an aggregate consideration of $27.8 million, consisting of $16.5 million in cash, $11.1 million

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

in debt, and the assumption of liabilities totaling $315,000. The aggregated purchase price was allocated as follows: $914,000 to tangible assets, $21.6 million to goodwill and $5.3 million to other intangibles.

During 1999, the Company purchased 24 animal hospitals and two veterinary diagnostic laboratories all of which were accounted for as purchases. Five of the acquired animal hospitals and both laboratories were merged into existing VCA facilities upon acquisition. Including acquisition costs, VCA paid an aggregate consideration of $23.7 million, consisting of $9.8 million in cash, $12.4 million in debt, 70,712 shares of common stock of the Company with a value of $1.1 million, and the assumption of liabilities totaling $369,000. The aggregated purchase price was allocated as follows: $1.4 million to tangible assets, $18.6 million to goodwill and $3.8 million to other intangibles.

In addition, on April 1, 1999, the Company completed the acquisition of AAH Management Corp. (AAH) for a total consideration (including acquisition costs) of $25.3 million, consisting of 517,585 shares of VCA common stock, with a value at the date of acquisition of $7.8 million, $5.4 million in cash, $1.2 million in notes payable and the assumption of $10.9 million in liabilities. AAH operated 15 animal hospitals located in New York and New Jersey. The acquisition of AAH was accounted for as a purchase. The purchase price has been allocated as follows: $2.7 million to tangible assets, $21.9 million to goodwill, and $725,000 to other intangible assets.

The pro forma results listed below are unaudited and reflect purchase price accounting adjustments assuming 2001 and 2000 acquisitions occurred at January 1, 2000. The pro forma results are not necessarily indicative of what actually would have occurred if the acquisitions had been in effect for the entire periods presented. In addition, they are not intended to be a projection of future results and do not reflect any efficiencies that might be achieved from the combined operation.

	For the Years Ended December 31, (In thousands, except per share amounts) (Unaudited)	
	2001	2000
Revenue	$ 412,161	$ 395,505
Net income (loss) available to common stockholders	$ (46,119)	$ (10,666)
Diluted earnings per share	$ (2.36)	$ (0.05)
Shares used for computing diluted earnings per share	19,509	234,055

In connection with certain acquisitions, the Company assumed certain contractual arrangements whereby cash may be issued to former owners of acquired hospitals upon attainment of specified financial criteria over periods of three to five years (Earn-Out Payments), as set forth in the respective agreements (the Earn-Out Arrangements). The Earn-Out Arrangements provide for contingent Earn-Out Payments if the acquired entity achieves or exceeds contractually defined revenue targets during the defined earn-out period. The payments are either fixed in amount or are based on a multiple of revenue. When the contingency is resolved and the additional consideration is distributed, the Company records the consideration issued as an additional cost of the acquired entity. The additional consideration of affected assets, usually goodwill, is amortized over the remaining life of the asset. Earn-Out Payments in 2001, 2000 and 1999 consisted entirely of cash approximating $496,000, $486,000 and $326,000, respectively.

VCA ANTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Joint Ventures and Investments

During fiscal year 2000, the Company invested $5.0 million for convertible preferred stock of Zoasis, an internet start-up business, majority-owned by Robert Antin, the Company s Chief Executive Officer and a director of the Company. Zoasis was to develop and provide services to the veterinary industry such as consumer e-commerce, e-commerce of veterinary supplies for hospitals, internet diagnostic laboratory results, on-line continuing education for veterinarians, hosted web sites for veterinarian clients, and a marketing reminder service. Due to the decline in the market value of many internet companies, Zoasis was not able to raise additional capital to continue its development. Zoasis scaled back its operations significantly. In December 2000, the Company determined that the value of this investment was impaired and, as a result, recognized a loss of $5.0 million on the write-down of its investment in Zoasis.

In September 2000, the Company sold its 50.5% equity interest in Vet s Choice, which had a zero cost basis, to HPP. The Company received $500,000 in the sale. In connection with the sale, the Company also received $1.0 million, which was transferred to the Wisdom Group, L.P. in January 2001.

In December 1997 and January 1998, the Company made a combined $5.0 million investment in Veterinary Pet Insurance, the largest provider of pet health insurance in the United States. The Company sold its investment in VPI and received $8.2 million in cash in February 2000, resulting in a one-time gain of approximately $3.2 million.

6. Long-Term Obligations

Long-term obligations consisted of the following at December 31 (in thousands):

		2001	2000
Senior Term A	Notes payable, maturing in 2006, secured by assets, variable interest rates (weighted average interest rate of 7.4% and 9.9% during 2001 and 2000, respectively)	$ 24,112	$ 50,000
Senior Term B	Notes payable, maturing in 2008, secured by assets, variable interest rates (weighted average interest rate of 7.9% and 10.4% during 2001 and 2000, respectively)	121,242	200,000
13.5% Senior Subordinated Notes	Notes payable, maturing in 2010, unsecured, fixed interest rate of 13.5%	15,000	20,000
9.875% Senior Subordinated Notes	Notes payable, maturing in 2010, unsecured, fixed interest rate of 9.875%	170,000	
Senior Notes	Notes payable, maturing in 2010, unsecured, fixed interest rate of 15.5%	59,670	104,306
Secured seller notes	Notes payable and other obligations, various maturities through 2010, secured by assets and stock of certain subsidiaries, various interest rates ranging from 5.3 to 10.0%	1,182	1,328

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

		2001	2000
Unsecured debt	Notes payable, various maturities through 2008, various interest rates ranging from 7.0% to 9.7%	225	350
	Total debt obligations	391,431	375,984
	Capital lease obligations	79	110
	Less unamortized discount	(7,178)	(13,345)
		384,332	362,749
	Less current portion	(5,159)	(5,756)
		$ 379,173	$ 356,993

The annual aggregate scheduled maturities of debt obligations for the five years subsequent to December 31, 2001 are presented below (in thousands):

2002	$ 5,159
2003	5,456
2004	6,160
2005	22,089
2006	21,971
Thereafter	330,596
	$ 391,431

Interest expense consisted of the following for the year ended December 31, 2001 (in thousands):

			Subordinated Senior Notes						
	Senior Term A	Senior Term B	13.5%	9.875%	Senior Notes	Collar	Amortization of Deferred Financing Costs	Secured Seller Notes & Other	Total
Interest	$ 3,645	$ 15,760	$ 2,654	$ 1,585	$ 16,044	$ 1,176	$ 2,072	$ 651	$ 43,587

The Company has had two major shifts in its capital structure during the last two years. The first shift occurred in 2000 with the Recapitalization. The second shift occurred in 2001 with the Company s IPO and debt offering. The following table summarizes the activity in the Company s long term obligations for the two years ended December 31, 2001 (in thousands):

				Subordinated Senior Notes				
	Senior Term A	Senior Term B	Revolving Credit Facility	13.5%	9.875%	Senior Notes	Secured Seller Notes and Other	Total
Balance at December 31, 1999	$	$	$	$	$	$	$ 161,595	$ 161,595
Recapitalization	50,000	200,000		20,000		100,000	(172,854)	197,146
PIK interest						4,306		4,306
New debt, net of principal payments							12,937	12,937