UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 8717 / June 28, 2006

SECURITIES EXCHANGE ACT OF 1934
Release No. 54062 / June 28, 2006

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 2453 / June 28, 2006

ADMINISTRATIVE PROCEEDING
File No. 3-12347

In the Matter of **Walco International, Inc. and** **James C. Robison,** **Respondents.**	**ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933 AND SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS AND IMPOSING A CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (the "Securities Act") and Section 21C of the Securities Exchange Act of 1934 (the "Exchange Act") against Walco International, Inc. ("Walco") and James C. Robison.

II.

In anticipation of the institution of these proceedings, Walco and Robison have submitted an Offer of Settlement ("Offer") that the Commission has determined to accept.[1] Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings contained herein, except that Walco and Robison admit the Commission's jurisdiction over them and over the subject matter of these proceedings, Walco and Robison consent to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of

[1] Simultaneously with this proceeding, the Commission has filed the following settled action in which Robison is a party: SEC v. Virbac Corp., et al., Civil Action No. 4-06CV-453-A, U.S.D.C. N.D. Tex (hereafter, "the parallel civil action").

1933 and Section 21C of the Securities Exchange Act of 1934, Making Findings and Imposing a Cease-and-Desist Order.

III.
FINDINGS

The Commission makes the following findings[2]:

A. RESPONDENTS

Walco, based in Westlake, Texas, is the largest food animal health products distributor in North America, with over $600 million in annual revenues.

Robison, age 49, has served as chairman, CEO, and president of Walco since May 1997.

B. RELATED PARTIES

Virbac Corporation ("Virbac" or the "Company"), a Delaware corporation headquartered in Fort Worth, Texas, is the result of the March 1999 acquisition of Agri-Nutrition Group Limited ("AGNU"), a publicly held company, by Virbac Inc., a wholly owned subsidiary of Virbac S.A., a French veterinary pharmaceutical manufacturer. Virbac's common stock is registered with the Commission under Section 12(g) of the Exchange Act and trades in the Pink Sheets under the symbol "VBAC" since it was delisted from the NASDAQ National Market on January 23, 2004 for Virbac's failure to file timely its periodic reports.

Thomas L. Bell, age 45, served as president and CEO of Virbac from April 1999, as well as a director from May 2002, until he resigned effective January 27, 2004.

Joseph A. Rougraff, age 46, and a CPA licensed in the state of Indiana, served as vice president, CFO, and corporate secretary of Virbac from May 2000 until he resigned effective January 27, 2004.

Douglas A. Hubert, age 38, joined Virbac in March 1991 as a sales territory manager and served as vice president of the Veterinary Division from April 2000 until his resignation in January 2005.

C. FACTS

1. Background

Shortly after the March 1999 merger of Virbac, Inc. with AGNU, Bell was named Virbac's CEO. Primarily through the introduction of new products, Virbac's revenues grew from $44 million in 1999 to $64 million in 2002. From January 2000 through September 2002, Bell, in

[2] The findings herein are made pursuant to Respondents' Offer and are not binding on any other person or entity in these or any other proceedings.

press releases and conference calls, consistently expressed confidence that the Company would achieve its strategic goal of more than doubling revenues to $100 million by 2004. Together with Rougraff, Bell touted positive earnings results in press releases, investor presentations, and conference calls which they attributed primarily to successful product launches. Virbac's Veterinary Division, the largest of its three reportable segments, which accounted for approximately 50% of Virbac's consolidated revenue, was portrayed as the principal driver of the Company's growth and success.

Virbac's stock price rose in response to the Company's favorable operating results and Bell and Rougraff's upbeat statements—from $1.125 on March 5, 1999 to $8.35 on November 12, 2003. The November 12 price peak immediately preceded Virbac's announcement of delay in filing its third quarter 2003 Form 10-Q. Within two weeks of this announcement, Virbac confirmed it would be restating its financial statements. Virbac's stock price tumbled—from $8.35 per share on November 12, 2003, when Virbac disclosed delays in filing its Form 10-Q, to $2.70 on February 20, 2004, when Virbac disclosed the Commission's investigation.

2. <u>Elements of the Scheme</u>

To foster the illusion of rapid revenue and earnings growth, Virbac orchestrated a multi-pronged scheme to manipulate Virbac's financial statements. The scheme involved, among other things: 1) accelerating revenue recognition on shipments of product that exceeded distributors' current demands (i.e., Virbac's "loading" cycle); 2) recognizing revenue on sham transactions; 3) failing to cut off sales at fiscal period-end; and 4) deferring expenses, principally by manipulating reserves and accruals.

Bell and Hubert were able to convince two distributors, one of which was Walco, to assist in the activity.[3] Walco's primary motivation for assisting Virbac was its ambition to gain Virbac's warehousing and shipping outsourcing business.

3. Walco and Robison's Participation in the Revenue Inflation and <u>Expense Deferral Scheme</u>

In early 1999, Virbac began "loading" its distributors to meet Bell's sales and income targets and to fulfill its mission statement: double-digit earnings growth through successful product launches. Virbac relied heavily upon Walco and another distributor to execute its loading strategy, granting whatever concessions were necessary to make "sales" in excess of distributors' current requirements. In some instances, Virbac offered unusually long payment terms—often 180 days or more instead of a more typical 30 days—or even consignment terms to distributors. On other occasions, various volume discounts and rebates were given to induce large purchases. In many cases, Virbac promised distributors that they could simply return large quantities of product for full credit, or exchange it for replacement product, at a later date. These terms were rarely

[3] The two distributors accounted for 90% of the invoices that Virbac used to inflate its revenue.

reflected in Walco's purchase orders to Virbac. Through these distributor enticements, Virbac improperly recorded revenue in violation of Generally Accepted Accounting Principles ("GAAP").[4]

Virbac's most excessive loading involved new product launches, such as Preventic Plus (flea and tick collar), Iverhart Plus (heartworm medication), and its generic ivermectin pour-on products (cattle de-wormers). During 2001, Virbac entered into development, license, and supply agreements whereby it granted Walco, and two other distributors, exclusive distribution rights to its pour-on product line.[5] In the third quarter of 2001, Virbac recognized $900,000 of revenue from Walco's "purchase" of pour-on which it should not have recognized at that time because it was a consignment sale. Despite this fact, Walco furthered Virbac's activity by submitting a purchase order that disguised this consignment as a sale with fixed payment terms.

At the end of 2001, with Virbac facing a revenue shortfall, Bell convinced Robison to have Walco purchase another $800,000 of pour-on products. Walco's additional purchase of this product was unusual in a number of ways. First, Walco had not sold any of the $900,000 of pour-on shipped at the end of September 2001. Walco, at Bell's request, sent a purchase order with 120-day payment terms while simultaneously entering into an undisclosed side agreement with Bell pursuant to which payments were not required until Walco sold the product. In addition, both Virbac and Walco knew that Walco was contractually unable to sell Virbac's pour-on products, which have a limited shelf life, until it terminated an exclusive distribution agreement with another manufacturer, which did not occur until the second quarter of 2002.

In addition to improperly accelerating revenue recognition on actual transactions, Virbac improperly recognized revenue on sham transactions fabricated by Virbac management. At the end of the fourth quarter of 2002, Bell conceived and implemented a scheme to inflate Virbac's revenue by shipping $560,000 of Iverhart Plus to Paragon Logistics ("Paragon"), a division of Walco. The transaction was falsely documented in Virbac's books and records, as well as in Walco's purchase order, as a sale to Walco. Bell separately negotiated an arrangement with Robison whereby Virbac would have Paragon ship the product to other customers and Virbac would pay Paragon a logistics fee for warehousing and freight costs. By accepting the shipment and improperly documenting the purchase order, Walco and Robison assisted Bell in inflating Virbac's revenue. The Virbac scheme failed; ultimately, the entire shipment expired, no replacement product was shipped, and Virbac was forced to issue a credit to Walco for the entire invoice amount. Bell admitted that not all the terms of the Paragon transaction had been finalized by December 31, 2002. Hubert admitted that Bell's determination to recognize revenue on this "half-baked" transaction was ill-advised because no customer was obligated to purchase the product that Virbac had stuffed into a "logistics" warehouse.

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[4] GAAP requires the following criteria for revenue recognition: 1) persuasive evidence that an arrangement exists; 2) delivery has occurred or services have been rendered; 3) the seller's price to the buyer is fixed or determinable; and 4) collectibility is reasonably assured. *See, e.g.*, Statement of Financial Accounting Standards No. 48 ("FAS 48"); Statements of Financial Accounting Concepts Nos. 2 and 5 ("SFAC 2" and "SFAC 5"); and Accounting Research Bulletin No. 43 ("ARB 43").

[5] Prior to the introduction of the pour-on product line, Virbac focused exclusively on the pet and small companion animal market. Virbac's pour-on products, and its subsequent introduction of other products, marked Virbac's entry into the large animal market. The products are applied externally on cattle—hence the name "pour-on."

By including this sale in its books and records, Bell was able to achieve Virbac's operating income target for 2002, but not its revenue target.

IV. VIOLATIONS

Based on the foregoing, the Commission finds that:

A. Walco caused Virbac's violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act, and Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act, and Rules 12b-20, 13a-1, and 13a-13 thereunder, and also caused Bell, Rougraff, and Hubert's violations of Section 13(b)(5) of the Exchange Act, and Rule 13b2-1 thereunder; and

B. Robison caused Virbac's violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act, and Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act, and Rules 12b-20, 13a-1, and 13a-13 thereunder, and also caused Bell, Rougraff, and Hubert's violations of Section 13(b)(5) of the Exchange Act, and Rule 13b2-1 thereunder.

V.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in the Respondents' Offer.[6]

Accordingly, IT IS HEREBY ORDERED, pursuant to Section 8A of the Securities Act and Section 21C of the Exchange Act, that:

A. Respondent Walco cease and desist from committing or causing any violation and any future violation of Sections 17(a)(2) and 17(a)(3) of the Securities Act, and Sections 13(a), 13(b)(2)(A), 13(b)(2)(B), and 13(b)(5) of the Exchange Act, and Rules 12b-20, 13a-1, 13a-13, and 13b2-1 thereunder; and

B. Respondent Robison cease and desist from committing or causing any violation and any future violation of Sections 17(a)(2) and 17(a)(3) of the Securities Act and Section 13(b)(5) of the Exchange Act, and Rule 13b2-1 thereunder, and from causing any violation and any future violation of Sections 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act, and Rules 12b-20, 13a-1 and13a-13 thereunder.

By the Commission.

Nancy M. Morris
Secretary

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[6] Robison has agreed to pay a $50,000 civil penalty, in connection with the parallel civil action.