

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 8716 / June 28, 2006

SECURITIES EXCHANGE ACT OF 1934
Release No. 54061 / June 28, 2006

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 2451 / June 28, 2006

ADMINISTRATIVE PROCEEDING
File No. 3-12346

<hr/>	:	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
In the Matter of	:	
Vedco, Inc. and Craig S. Campbell,	:	
Respondents.	:	
<hr/>	:	

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 Vedco, Inc. (“Vedco”) and Craig S. Campbell.

II.

In anticipation of the institution of these proceedings, Vedco and Campbell 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 Vedco and Campbell admit the Commission’s jurisdiction over them and over the subject matter of these proceedings, Vedco and Campbell 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 Campbell 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

Vedco, a privately owned veterinary buying group based in St. Joseph, Missouri, with approximately \$114 million in annual sales, accounted for 18% and 12% of Virbac Corporation's ("Virbac" or the "Company") net revenues in 2002 and 2001, respectively.³

Campbell, age 52, is the general manager of Vedco and is Virbac's principal Vedco contact.

B. RELATED PARTIES

Virbac, 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

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.

³ During the relevant time period, Vedco was owned by nine veterinary supply companies that use Vedco to achieve economies of scale when purchasing products.

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 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. Elements of the Scheme

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 Vedco to assist in the scheme.⁴ Virbac was one of Vedco's top five suppliers. In order to maintain that relationship, Campbell consented to the transactions requested by Bell and Hubert. Vedco did not derive any direct benefit from its participation in the scheme.

⁴ Vedco accounted for 60% of the invoices that Virbac used to inflate its revenue.

3. Vedco and Campbell's Participation in the Revenue Inflation and Expense Deferral Scheme

a. Virbac's "Loading" Strategy

In early 1999, Virbac began a loading strategy with 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 Vedco 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 very long payment terms—often 180 days or more instead of a more typical 30 days—or even consignment terms to Vedco. On other occasions, various volume discounts and rebates were given to induce large purchases. In many cases, Virbac promised Vedco that it could simply return large quantities of product for full credit, or exchange it for replacement product, at a later date. These return or exchange terms were rarely reflected in Vedco's purchase orders to Virbac. Through these distributor enticements, Virbac improperly recorded revenue in violation of Generally Accepted Accounting Principles ("GAAP").⁵

Virbac's most excessive loading strategy 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). Additionally, Virbac used product launches to accelerate revenue through a scheme in which Vedco was asked to purchase an existing product with the understanding it could be exchanged for a newly launched product when available. For example, Virbac pushed Preventic in the fourth quarter of 2000 in advance of the Preventic Plus launch, and pushed Preventic Plus and other products in the second and third quarters of 2001 in advance of the Iverhart Plus launch. In none of these instances did Vedco's purchase orders reflect the true nature of the transactions.

After initial Preventic Plus sales lagged behind its projections, Virbac created the appearance of a successful product launch by pushing Preventic Plus to Vedco to meet Virbac's second and third quarter 2001 sales and earnings targets. For example, Hubert requested that Campbell issue a Vedco purchase order for "half of his first order of Iverhart Plus in Preventic Plus," with the inducement that the product "could be kept on a trailer until needed." Contrary to their previous practices, Campbell acceded to Hubert's request for the purchase order and caused Vedco to issue a \$351,000 purchase order for Preventic Plus after Hubert granted unusually extended payment terms of 150 days, versus the normal 30 days. Virbac paid for 102 days of storage fees until Campbell, at Hubert's insistence, finally accepted delivery of the collars. Contrary to FAS 48, Virbac recognized revenue, without regard to expected returns, when it invoiced Vedco on September 29, 2001.

⁵ 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").

When the Vedco \$351,000 invoice became due on February 26, 2002, Rougraff and Bell were aware of, or approved, one or more due date extensions, totaling more than a year, through February 28, 2003, in lieu of requiring payment. Vedco viewed this shipment as a consignment, and ultimately paid only \$41,000 for collars it actually sold. The balance of the shipment expired in Vedco's warehouse, and Virbac was forced to issue Vedco a \$308,000 credit in the fourth quarter of 2003. Virbac should not have included the \$351,000 in revenue for the third quarter of 2001, because payment was contingent upon resale by Vedco and because it was probable that the collars would be returned or replaced after they expired. *See* FAS 48. This transaction resulted in a 3% overstatement of actual third quarter 2001 revenues.

In early 2001, Virbac heralded Iverhart Plus as a high-growth opportunity. Due to regulatory delays, however, Virbac did not have the necessary approvals to ship Iverhart Plus until the fourth quarter of 2001. Approximately \$600,000 of Iverhart Plus was shipped to Vedco in the fourth quarter of 2001 with the explicit agreement, approved by Bell and documented in an e-mail between Hubert and Campbell, that any unsold product could be returned in 90 days for full credit.

In an effort to meet Virbac's revenue and earnings targets, Hubert convinced Campbell at the end of the first quarter of 2002 to issue a purchase order for \$1.6 million of Iverhart Plus—all of Virbac's available inventory. Hubert reiterated to Campbell, with Bell's concurrence, that any expired product would be replaced at no cost to Vedco. Although payment terms were stated as 90 days on the invoice, Vedco had no obligation to pay unless, and until, it sold the product.

Because Virbac shipped all remaining Iverhart Plus inventory to Vedco, it had no available inventory to fill other customers' orders at the beginning of the second quarter of 2002. To remedy this problem, Hubert, Bell, and Rougraff decided, with the assistance of Campbell, to ship product from Vedco to other Virbac customers. As a result, Virbac improperly recognized revenue from a second shipment of the same product—from Vedco to another distributor—and sidestepped reversal of the first "sale" to Vedco by shipping "replacement" product at no cost to Vedco. Campbell and Hubert had agreed to this unusual arrangement during the first quarter of 2002. Hubert informed Campbell that he did not want to issue a credit for the Iverhart Plus because it might present a problem with Virbac's auditors. Although Vedco made some payments on Iverhart Plus sales throughout 2002, Virbac was forced to issue \$857,000 of credits to Vedco in the fourth quarter of 2003 for the remainder of this product, which had expired. Virbac further inflated reported earnings by not recording a reserve for anticipated returns of Iverhart Plus.

In its May 2, 2002 earnings release, Virbac announced record revenue and operating income results for the first quarter of 2002. In the release, Bell stated that the Veterinary Division's sales "jumped 72% year-over-year, marked by early impressive sales for newcomers Iverhart Plus and Preventic Plus." Virbac's restated revenues included a \$1.6 million adjustment (due to an 11% overstatement of actual first quarter 2002 sales) to reduce first quarter 2002 Iverhart Plus revenues.

At the end of the second quarter of 2002, Campbell again agreed to issue a Vedco purchase order for \$598,000 of Iverhart Plus, even though Vedco had not sold \$1.4 million of the \$1.6 million of Iverhart Plus it acquired in the prior quarter. Again, Campbell viewed Vedco's obligation to pay as contingent upon resale, despite Vedco's issuance of a purchase order reflecting fixed payment

terms. Vedco was unable to sell any of the product. Virbac recorded a mere \$64,000 reserve for returns of Iverhart Plus at the end of the second quarter of 2002; however, Virbac's management knew that anticipated returns would be higher as a result of the high percentage of inventory at Vedco that would become unmarketable within 90 days and require replacement due to expiration dates. Vedco ultimately made no payments on the second quarter 2002 shipment and Virbac was forced to issue a credit to Vedco for the entire \$598,000 invoice amount in the fourth quarter of 2003.

b. Fraudulent Bill-and-Hold Sale

Virbac improperly recognized \$775,000 of revenue related to the pour-on invoiced to Vedco on December 28, 2001. The transactions were documented as valid bill-and-hold sales.⁶ The sales, however, did not comply with the bill-and-hold criteria spelled out in GAAP for two reasons: 1) Virbac, rather than Vedco, initiated the transactions and 2) they lacked fixed delivery dates. Virbac's auditors were misled into believing that all bill-and-hold criteria had been met as of the date of the transaction. When Virbac's auditors requested third-party confirmation, Campbell approved a subordinate's signing and returning the confirmation, even though Campbell knew, or should have known, that some of the representations were false.

c. Vedco Assisted Virbac in Manipulating Reserves and Accruals

In addition to overstating revenues, Virbac's management also manipulated expenses such as reserves, accruals, and sales credits, and their associated books and records, to maintain the illusion that Virbac was meeting internal and external sales and earnings forecasts. For example, although Virbac emphasized to its distributors that expired product could be returned for full credit or replacement product, Virbac resisted issuing credits in order to lessen the negative impact on its reported earnings. Instead, it promised, but often failed, to ship replacement product. The full extent of expiring or expired product, especially Iverhart Plus, was concealed in schedules provided by Virbac to its auditors for testing the reasonableness of its accruals.

For example, Vedco and Campbell participated in Iverhart Plus reserve manipulation during the fourth quarter of 2002. To avoid increasing Virbac's accrual, Hubert, with the knowledge and consent of Campbell, caused Virbac to invoice Vedco for \$258,000 of product previously shipped to Vedco at no cost as replacement for expired product. Hubert explained to Campbell in January 2003 that he needed this "favor" to help Virbac avoid increasing its Iverhart Plus replacement reserve. Vedco paid the invoice, but was issued a credit for the full amount by Virbac. As a result of this subterfuge, Virbac achieved two positive outcomes. First, Virbac was able to disguise as revenue from a new sale what should have been recognized as an expense. More significantly, however, Virbac was able to mask the true percentage of expired product, which in turn understated Virbac's estimated liability for replacement product.

⁶ SFAC 5 states that revenue should not be recognized until the seller has substantially accomplished what it must do pursuant to the terms of the agreement, which usually occurs upon delivery. A bill-and-hold sale is an exception in that revenue is recognized prior to delivery. *See also*, SAB 101 which lists specific criteria for bill-and-hold sales.

IV. **VIOLATIONS**

Based on the foregoing, the Commission finds that:

A. Vedco 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 Rules 13b2-1 and 13b2-2 thereunder; and

B. Campbell 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 Rules 13b2-1 and 13b2-2 thereunder.

V.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in the Respondents' Offer.⁷

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

A. Respondent Vedco 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, 13b2-1, and 13b2-2 thereunder; and

B. Respondent Campbell 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 Rules 13b2-1, and 13b2-2 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 and 13a-13 thereunder.

By the Commission.

Nancy M. Morris
Secretary

⁷ Campbell has agreed to pay a \$50,000 civil penalty in connection with the parallel civil action.