2015 annual report

Blood Testing • Imaging • Software • Allergy • Vaccines • Preventatives

2015 Heska Corporation Annual Report

This report was finalized on April 14, 2016 and speaks only as of such date or, with respect to historical information (including the financial data included herein), to such earlier date as may be expressly stated. Information contained herein has not been updated for the passage of time or otherwise from such dates.

This report also contains express or implied forward-looking information about the future plans, financial condition and operating performance of Heska Corporation ("Heska") that are not statements of historical fact. These are forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations, and factors that could cause our actual business and financial results to differ materially from those expressed in Heska's forward-looking statements include the following: risks related to relying on historical results to project future performance; uncertainties related to Heska's ability to sell and market its products in an economically sustainable fashion; uncertainties related to the reputation of Heska and its offerings with Heska's customers, Heska's ability to maintain or enhance such reputation and Heska's ability to benefit from such reputation; uncertainties related to product development and commercialization, including the risk that a planned product will not perform as anticipated or a new product will not gain the market acceptance as anticipated; uncertainties related to Heska's ability to enter new market geographies, including uncertainties related to Heska's ability to obtain relevant sales and marketing rights from third parties; uncertainties related to Heska's reliance on third-parties to develop and supply certain of its products, which are substantial; uncertainties related to the future benefit of any investment Heska may choose to make; uncertainties related to Heska's evaluation of or reliance upon the performance of any individual or group of individuals; and the risks and uncertainties set forth in Heska's filings and future filings with the Securities and Exchange Commission, including those articulated in Heska's Annual Report on Form 10-K for the twelve month period ended December 31, 2015. Heska does not undertake any obligation to update any forward-looking statement except as may be required by law.

2015

Dear Shareholder,

Thank you for your interest in the new Heska. We set a new course in 2013 and we reconfirmed our new direction with a strong performance in 2014. Today, I am pleased to write that Heska Corporation has now had a record year in 2015.

Heska has been delighting customers with personalized attention, better products and programs, and greater value than the competition. Customers rewarded Heska in 2015 with a 16% bump in revenues to a record of $104.6 million, a 194% operating income increase, and net income that more than doubled. Heska common stock responded in kind with a 113% advance for our owners. I am pleased with these results and am extremely proud of the 310 dedicated Heska employees who worked hard to deliver them. I hope you are as well.

We enter 2016 focused on optimization and expansion. We will expand our share of existing markets on the strength of our product bundles, multi-year subscription programs, and regulatory experience. We will take these winning ways and expand into new geographies. We will continue to release new imaging, software, and blood analyzer products to gain new customers and refresh current ones. And we will strive to be the best operator in the space by investing in our people, systems, cost controls, relationships, and capabilities.

Heska occupies what many consider to be the prime diagnostics spot within a wonderful veterinary market that is historically and currently healthy. Heska's people are managing strongly and are more committed to customers and to each other than at any other time. Heska's existing products are now refreshed, leading the competition, and favored by a growing share of customers. In light of these positive signals and the large market opportunity still available to us, we will continue to play prudent offense in 2016. We are ready to hit the mark and we are pleased to share our journey with you as we work hard to do so.

Respectfully,

Kevin S. Wilson
Chief Executive Officer and President

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Heska Corporation and Subsidiaries
Loveland, Colorado

We have audited the accompanying consolidated balance sheets of Heska Corporation and Subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 audits provide 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 Heska Corporation and Subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2016, expressed an unqualified opinion.

EKS&H LLLP

March 15, 2016
Boulder, Colorado

HESKA CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	December 31,	
	2014	**2015**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,855	$ 6,890
Accounts receivable, net of allowance for doubtful accounts of $216 and $189, respectively	11,919	16,136
Due from – related parties	892	308
Inventories, net	12,658	16,101
Other current assets	1,587	1,827
Total current assets	32,911	41,262
Property and equipment, net	13,410	17,020
Note receivable – related party	1,466	1,516
Goodwill and other intangibles	21,205	20,966
Deferred tax asset	27,210	25,883
Other long-term assets	642	3,072
Total assets	$ 96,844	$ 109,719
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,897	$ 7,624
Due to – related party	252	—
Accrued liabilities	5,130	5,416
Current portion of deferred revenue	4,584	5,461
Line of credit	48	143
Other short-term borrowings, including current portion of long-term note payable	141	159
Total current liabilities	15,052	18,803
Long-term note payable, net of current portion	227	69
Deferred revenue, net of current portion, and other	12,754	11,572
Total liabilities	28,033	30,444
Commitments and contingencies (Note 10)		
Non-Controlling Interest	15,679	15,747
Stockholders' equity:		
Preferred stock, $.01 par value, 2,500,000 shares authorized, none issued or outstanding	—	—
Common stock, $.01 par value, 7,500,000 shares authorized, none issued or outstanding	—	—
Public common stock, $.01 par value, 7,500,000 shares authorized, 6,342,205 and 6,625,287 shares issued and outstanding, respectively	63	66
Additional paid-in capital	222,297	227,267
Accumulated other comprehensive income	283	187
Accumulated deficit	(169,511)	(163,992)
Total stockholders' equity	53,132	63,528
Total liability and stockholders' equity	$ 96,844	$ 109,719

See accompanying notes to consolidated financial statements.

HESKA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Year Ended December 31,		
	2013	**2014**	**2015**
Revenue:			
Core companion animal health	$ 66,404	$ 72,354	$ 84,249
Other vaccines, pharmaceuticals and products	11,935	17,483	20,348
Total revenue, net	78,339	89,837	104,597
Cost of revenue	47,707	54,122	60,384
Gross profit	30,632	35,715	44,213
Operating expenses:			
Selling and marketing	19,428	19,159	21,339
Research and development	1,500	1,414	1,658
General and administrative	11,134	12,231	12,659
Total operating expenses	32,062	32,804	35,656
Operating income (loss)	(1,430)	2,911	8,557
Interest and other expense (income), net	(37)	(39)	130
Income (loss) before income taxes	(1,393)	2,950	8,427
Income tax expense (benefit):			
Current income tax expense	183	47	1,581
Deferred income tax expense (benefit)	(637)	1,304	1,327
Total income tax expense (benefit)	(454)	1,351	2,908
Net income (loss)	(939)	1,599	5,519
Net income (loss) attributable to non-controlling interest	257	(1,004)	280
Net income (loss) attributable to Heska Corporation	$ (1,196)	$ 2,603	$ 5,239
Basic earnings (loss) per share attributable to Heska Corporation	$ (0.21)	$ 0.44	$ 0.80
Diluted earnings (loss) per share attributable to Heska Corporation	$ (0.21)	$ 0.41	$ 0.74
Weighted average outstanding shares used to compute basic earnings (loss) per share attributable to Heska Corporation	5,755	5,951	6,509
Weighted average outstanding shares used to compute diluted earnings (loss) per share attributable to Heska Corporation	5,755	6,409	7,074

See accompanying notes to consolidated financial statements.

HESKA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Year Ended December 31,		
	2013	2014	2015
Net income (loss)	$ (939)	$ 1,599	$ 5,519
Other comprehensive income (expense):			
Minimum pension liability	182	—	(129)
Unrealized gain on available for sale investments	30	3	44
Foreign currency translation	72	(300)	(11)
Comprehensive income (loss)	(655)	1,302	5,423
Comprehensive income (loss) attributable to non-controlling interest	257	(1,004)	280
Comprehensive income (loss) attributable to Heska Corporation	$ (912)	$ 2,306	$ 5,143

See accompanying notes to consolidated financial statements.

HESKA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances January 1, 2013	5,372	$ 54	$ 218,544	$ 296	$ (170,032)	$ 48,862
Net loss	—	—	—	—	(939)	(939)
Issuance of common stock related to options, ESPP and other	55	—	323	—	—	323
Recognition of stock based compensation	—	—	408	—	—	408
Excess tax benefit from stock-based compensation	—	—	15	—	—	15
Stock issued for Heska Imaging	419	4	3,571	—	—	3,575
Stock issued for Heska Imaging Mark to Market	—	—	(3,405)	—	—	(3,405)
Accretion of non-controlling interest	—	—	(1,868)	—	—	(1,868)
Accrued distribution for Heska Imaging minority	—	—	—	—	(139)	(139)
Minimum pension liability adjustments	—	—	—	182	—	182
Unrealized gain on available for sale investments	—	—	—	30	—	30
Foreign currency translation adjustments	—	—	—	72	—	72
Balances, December 31, 2013	5,846	$ 58	$ 217,588	$ 580	$ (171,110)	$ 47,116
Net income	—	—	—	—	1,599	1,599
Issuance of common stock related to options, ESPP and other	496	5	1,443	—	—	1,448
Recognition of stock based compensation	—	—	1,653	—	—	1,653
Excess tax benefit from stock-based compensation	—	—	228	—	—	228
Stock issued for Heska Imaging	—	—	3,405	—	—	3,405
Stock issued for Heska Imaging Mark to Market	—	—	(2,020)	—	—	(2,020)
Unrealized gain on available for sale investments	—	—	—	3	—	3
Foreign currency translation adjustments	—	—	—	(300)	—	(300)
Balances, December 31, 2014	6,342	$ 63	$ 222,297	$ 283	$ (169,511)	$ 53,132
Net income	—	—	—	—	5,519	5,519
Issuance of common stock related to options, ESPP and other	283	3	1,255	—	—	1,258
Recognition of stock based compensation	—	—	2,269	—	—	2,269
Excess tax benefit from stock-based compensation	—	—	1,514	—	—	1,514
Accretion of non-controlling interest	—	—	(68)	—	—	(68)
Minimum pension liability adjustments	—	—	—	(129)	—	(129)
Unrealized gain on available for sale investments	—	—	—	44	—	44
Foreign currency translation adjustments	—	—	—	(11)	—	(11)
Balances, December 31, 2015	6,625	$ 66	$ 227,267	$ 187	$ (163,992)	$ 63,528

See accompanying notes to consolidated financial statements.

HESKA CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2013	**2014**	**2015**
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Net income (loss)	$ (939)	$ 1,599	$ 5,519
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Depreciation and amortization	2,497	3,712	4,187
Deferred tax (benefit) expense	(637)	1,304	1,327
Stock based compensation	408	1,653	2,269
Unrealized (gain) loss on foreign currency translation	20	(81)	36
Changes in operating assets and liabilities:			
Accounts receivable	(159)	(510)	(4,216)
Inventories	(1,687)	(5,592)	(7,240)
Other current assets	(642)	(73)	(238)
Accounts payable	(2,276)	900	3,059
Accrued liabilities and other	(130)	814	43
Other non-current assets	(179)	(263)	(2,430)
Deferred revenue and other	2,312	2,091	(191)
Net cash provided by (used in) operating activities	(1,412)	5,554	2,125
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:			
Investment in subsidiary	(3,019)	—	—
Purchases of property and equipment	(1,930)	(2,337)	(3,773)
Proceeds from disposition of property and equipment	5,020	6	—
Net cash provided by (used in) investing activities	71	(2,331)	(3,773)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:			
Proceeds from issuance of common stock, net of distributions	323	1,430	1,258
Proceeds from (repayments of) line of credit borrowings, net	2,246	(4,751)	95
Proceeds from other debt	(1,025)	(178)	(141)
Excess tax benefit from stock-based compensation	15	228	1,514
Net cash provided by (used in) financing activities	1,559	(3,271)	2,726
EFFECT OF EXCHANGE RATE CHANGES ON CASH	14	(113)	(43)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	232	(161)	1,035
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,784	6,016	5,855
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 6,016	$ 5,855	$ 6,890

See accompanying notes to consolidated financial statements.

HESKA CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Heska Corporation and its wholly-owned and majority-owned subsidiaries ("Heska", the "Company", "we" or "our") develops, manufactures, markets, sells and supports veterinary products. Heska's core focus is on the canine and feline companion animal health markets.

Basis of Presentation

Our consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries and majority-owned subsidiaries since their respective dates of acquisitions. All intercompany accounts and transactions have been eliminated in consolidation. Where our ownership of a subsidiary is less than 100%, the non-controlling interest is reported on our consolidated balance sheets. The non-controlling interest in our consolidated net income is reported as "Net income (loss) attributable to non-controlling interest" on our consolidated statements of operations. Our consolidated financial statements are stated in United States dollars and have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are required when establishing the allowance for doubtful accounts and the provision for excess/obsolete inventory, in determining the period over which our obligations are fulfilled under agreements to license product rights and/or technology rights, evaluating long-lived and intangible assets for impairment, determining the allocation of purchase price under purchase accounting, estimating the expense associated with the granting of stock options and in determining the need for, and the amount of, a valuation allowance on deferred tax assets.

Concentration of Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk consist of cash and cash equivalents and accounts receivable. We maintain the majority of our cash and cash equivalents with financial institutions that management believes are creditworthy in the form of demand deposits. We have no significant off-balance-sheet concentrations of credit risk such as foreign exchange contracts, options contracts or other foreign currency hedging arrangements. Our accounts receivable balances are due largely from domestic veterinary clinics and individual veterinarians.

One customer represented approximately 12% of our 2015 revenue and 11% of our 2014 revenue and another customer represented approximately 11% of our 2015 revenue, 12% of our 2014 revenue and 13% of our 2013 revenue.

One customer represented approximately 20% of our accounts receivable at December 31, 2015 and another customer represented 13% of accounts receivable at December 31, 2015 and 11% of our accounts receivable at December 31, 2014. No other customers represented 10% or more of revenue for 2013, 2014 or 2015 nor 10% or more of accounts receivable at December 31, 2014 or December 31, 2015. We have established an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at net realizable value. From time to time, our customers are unable to meet their payment obligations. We continuously monitor our customers' credit worthiness and use our judgment in establishing a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and the provisions established, there is no assurance that we will continue to experience the same credit loss rates that we have in the past. A significant change in the liquidity or financial position of our customers could have a material adverse impact on the collectability of accounts receivable and our future operating results.

Changes in allowance for doubtful accounts are summarized as follows (in thousands):

	Years Ended December 31,		
	2013	2014	2015
Balances at beginning of period	$ 155	$ 209	$ 216
Additions - charged to expense	98	143	83
Deductions - write offs, net of recoveries	(44)	(136)	(110)
Balances at end of period	$ 209	$ 216	$ 189

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost, which approximates market value, and include short-term, highly liquid investments with original maturities of less than three months. We valued our Euro and Japanese Yen cash accounts at the spot market foreign exchange rate as of each balance sheet date, with changes due to foreign exchange fluctuations recorded in current earnings. We held 652,110 and 1,779,910 Euros at December 31, 2014 and 2015, respectively. We held 1,252,221 and 1,252,221 Yen at December 31, 2014 and 2015, respectively. We held 166,832 and 127,507 Swiss Francs at December 31, 2014 and 2015, respectively. We held 22,761 and 26,477 Canadian Dollars at December 31, 2014 and 2015, respectively. The majority of our cash and cash equivalents are held at U.S.-based or Swiss-based financial institutions in accounts not insured by governmental entities.

Fair Value of Financial Instruments

Our financial instruments consist of cash and cash equivalents, short-term trade receivables and payables and the Company's revolving line of credit. The carrying values of cash and cash equivalents and short-term trade receivables and payables approximate fair value. The fair value of our line of credit balance is estimated based on current rates available for similar debt with similar maturities and collateral, and at December 31, 2014 and 2015, approximates the carrying value due primarily to the floating rate of interest on such debt instruments.

Inventories

Inventories are stated at the lower of cost or market value using the first-in, first-out method. Inventory we manufacture includes the cost of material, labor and overhead. If the cost of inventories exceeds estimated fair value, provisions are made to reduce the carrying value to estimated fair value.

Inventories, net consist of the following (in thousands):

	December 31,	
	2014	2015
Raw materials	$ 6,298	$ 8,531
Work in process	2,966	2,839
Finished goods	4,949	6,122
Allowance for excess or obsolete inventory	(1,555)	(1,391)
	$ 12,658	$ 16,101

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation. The costs of additions and improvements are capitalized, while maintenance and repairs are charged to expense as incurred. When an item is sold or retired, the cost and related accumulated depreciation is relieved, and the resulting gain or loss, if any, is recognized in the consolidated statements of income. We provide for depreciation primarily using the straight-line method by charges to income in amounts that allocate the cost of property and equipment over their estimated useful lives as follows:

Asset Classification	Estimated Useful Life
Building	10 to 20 years
Machinery and equipment	3 to 15 years
Leasehold and building improvements	7 to 15 years

We capitalize certain costs incurred in connection with developing or obtaining software designated for internal use based on three distinct stages of development. Qualifying costs incurred during the application development stage, which consist primarily of internal payroll and direct fringe benefits and external director project costs, including labor and travel, are capitalized and amortized on a straight-line basis over the estimated useful life of the asset. Costs incurred during the preliminary project and post and post-implementation and operation phases are expensed as incurred. These costs are general and administrative in nature and related primarily to the determination of performance requirements, data conversion and training.

Goodwill, Intangible and Other Long-Lived Assets

We assess goodwill for impairment annually, at the reporting unit level, in the fourth quarter and whenever events or circumstances indicate impairment may exist. In evaluating goodwill for impairment, we have the option to first assess the qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, we determine that is more likely than not that the fair value of a reporting is less than its carrying amount, we would then perform step one of the two-step impairment test; otherwise, no further impairment test would be required. In contrast, we can opt to bypass the qualitative assessment for any reporting unit in any period and proceed directly to step one of the two-step impairment test. Doing so does not preclude us from performing the qualitative assessment in any subsequent period.

In the fourth quarter of 2015, we performed a qualitative assessment of the goodwill residing within the assets of our CCA segment and determined that no indications of impairment existed.

Intangible assets are valued based on estimates of future cash flows and amortized over their estimated useful lives. We continually evaluate whether events and circumstances have occurred that indicate the remaining estimated useful life of intangible assets as well as other long-lived assets may warrant revision, or that the remaining balance of these assets may not be recoverable. When deemed necessary, we complete this evaluation by comparing the carrying amount of the assets with the estimated undiscounted future cash flows associated with them. If such evaluations indicate that the future undiscounted cash flows of amortizable long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their estimated fair values.

The estimation of useful lives and expected cash flows requires us to make significant judgments regarding future periods that are subject to some factors outside of our control. Changes in these estimates can result in significant revisions to our carrying value of these assets and may result in material charges to our results of operations.

Revenue Recognition

We generate our revenue through the sale of products, as well as through licensing of technology product rights, royalties and sponsored research and development. Our policy is to recognize revenue when the applicable revenue recognition criteria have been met, which generally include the following:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services rendered;
- Price is fixed or determinable; and
- Collectability is reasonably assured.

Revenue from the sale of products is recognized after both the goods are shipped to the customer and acceptance has been received, if required, with an appropriate provision for estimated returns and allowances. We do not permit general returns of products sold. Certain of our products have expiration dates. Our policy is to exchange certain outdated, expired product with the same product. We record an accrual for the estimated cost of replacing the expired product expected to be returned in the future, based on our historical experience, adjusted for any known factors that reasonably could be expected to change historical patterns, such as regulatory actions which allow us to extend the shelf lives of our products. Revenue from both direct sales to veterinarians and sales to independent third-party distributors are generally recognized when goods are shipped. Our products are shipped complete and ready to use by the customer. The terms of the customer arrangements generally pass title and risk of ownership to the customer at the time of shipment. Certain customer arrangements provide for acceptance provisions. Revenue for these arrangements is not recognized until the acceptance has been received or the acceptance period has lapsed. We reduce our revenue by the estimated cost of any rebates, allowances or similar programs, which are used as promotional programs.

Recording revenue from the sale of products involves the use of estimates and management judgment. We must make a determination at the time of sale whether the customer has the ability to make payments in accordance with arrangements. While we do utilize past payment history, and, to the extent available for new customers, public credit information in making our assessment, the determination of whether collectability is reasonably assured is ultimately a judgment decision that must be made by management. We must also make estimates regarding our future obligation relating to returns, rebates, allowances and similar other programs.

License revenue under arrangements to sell or license product rights or technology rights is recognized as obligations under the agreement are satisfied, which generally occurs over a period of time. Generally, licensing revenue is deferred and recognized over the estimated life of the related agreements, products, patents or technology. Nonrefundable licensing fees, marketing rights and milestone payments received under contractual arrangements are deferred and recognized over the remaining contractual term using the straight-line method.

Recording revenue from license arrangements involves the use of estimates. The primary estimate made by management is determining the useful life of the related agreement, product, patent or technology. We evaluate all of our licensing arrangements by estimating the useful life of either the product or the technology, the length of the agreement or the legal patent life and defer the revenue for recognition over the appropriate period.

We may enter into arrangements that include multiple elements. Such arrangements may include agreements allowing for the usage of an instrument and a given level of consumables for one monthly payment. In these situations we must determine whether the various elements meet the criteria to be accounted for as separate elements. If the elements cannot be separated, revenue is recognized once revenue recognition criteria for the entire arrangement have been met or over the period that the Company's obligations to the customer are fulfilled, as appropriate. If the elements are determined to be separable, the revenue is allocated to the separate elements based on relative fair value and recognized separately for each element when the applicable revenue recognition criteria have been met. In accounting for these multiple element arrangements, we must make determinations about whether elements can be accounted for separately and make estimates regarding their relative fair values.

In addition to our direct sales force, we utilize distributors to sell our products. Distributors purchase goods from us, take title to those goods and resell them to their customers in the distributors' territory.

Upfront payments we receive under arrangements for product, patent or technology rights in which we retain an interest in the underlying product, patent or technology are initially deferred, and revenue is subsequently recognized over the estimated life of the agreement, product, patent or technology. Similarly, upfront payments we receive under agreements where we are obligated to maintain a product or technology sold to a third party and/or transfer know-how or technology to a third party are initially deferred and revenue is subsequently recognized over the estimated life of the agreement. Milestone payments related to an improvement in a product in which we retain an interest in the product are initially deferred and recognized over the estimated life of the agreement or product. We received upfront and milestone payments totaling $7.0 million and $3.0 million in 2013 and 2014, respectively. We did not receive any such payments in 2015. Revenue from royalties is recognized once we are informed of sales on which we are entitled to royalties.

Stock-Based Compensation

Accounting for stock-based compensation requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. We estimate the fair value of all stock options and awards on the date of grant using the Black-Scholes-Merton pricing model, which is affected by our stock price, as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the estimated term of the awards, the estimated term of the awards, which is dependent in part on employee option exercise behaviors, risk free interest rates and expected dividends. Our expected volatility assumption is based on the historical closing prices of our stock over a period equivalent to the expected life of the options.

Advertising Costs

We expense advertising costs as incurred and are included in sales and marketing expenses. Advertising expenses were $0.4 million, $0.1 million and $0.1 million for the years ended December 31, 2013, 2014 and 2015, respectively.

Income Taxes

The Company records a current provision for income taxes based on estimated amounts payable or refundable on tax returns filed or to be filed each year. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates, in each tax jurisdiction, expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date. The overall change in deferred tax assets and liabilities for the period measures the deferred tax expense or benefit for the period. Deferred tax assets are reduced by a valuation allowance based on a judgmental assessment of available evidence if the Company is unable to conclude that it is more likely than not that some or all of the deferred tax assets will be realized.

Foreign Currency Translation

The functional currency of our Swiss subsidiary is the Swiss Franc. Assets and liabilities of our Swiss subsidiary are translated using the exchange rate in effect at the balance sheet date. Revenue and expense accounts and cash flows are translated using an average of exchange rates in effect during the period. Cumulative translation gains and losses are shown in the consolidated balance sheets as a separate component of stockholders' equity. Exchange gains and losses arising from transactions denominated in foreign currencies (i.e., transaction gains and losses) are recognized as a component of other income (expense) in current operations, as are exchange gains and losses on intercompany transactions expected to be settled in the near term.

Taxes Collected from Customers

In the course of doing business we collect various taxes from customers including, but not limited to, sales taxes. It is our policy to record revenue net of taxes collected from customers in our consolidated statements of operations.

Shipping and Handling Costs

Amounts billed to customers for shipping and handling are recorded in sales. Shipping and handling costs incurred by us for the delivery of products to customers are included in cost of sales.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02 "Leases," which supersedes ASC 840 "Leases" and creates a new topic, ASC 842 "Leases." This update requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The update also expands the required quantitative and qualitative disclosures surrounding leases. This update is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with earlier application permitted. This update will be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period

presented in the financial statements. We are currently evaluating the effect of this update on our consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. The amendments in this update simplify the presentation of deferred income taxes and require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This update applies to all entities that present a classified statement of financial position. These amendments may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. If the guidance is applied prospectively, disclosure is made in the first interim and first annual period of change, the nature of and reason for the change in accounting principle and a statement that prior periods were not retrospectively adjusted. If the guidance is applied retrospectively, disclosure is made in the first interim and first annual period of change, the nature of and reason for the change in accounting principle and quantitative information about the effects of the accounting change on prior periods. The amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. We have decided to early-adopt ASU 2015-17, which resulted in a retrospective adjustment of amounts disclosed in our consolidated balance sheet for the year ended December 31, 2014.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). Upon the effective date, the ASU replaces almost all existing revenue recognition guidance, including industry specific guidance, in generally accepted accounting principles. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The amendments in this update deferred the effective date for implementation of ASU 2014-09 by one year and are now effective for annual reporting periods beginning after December 15, 2017. Early application is permitted only as of annual reporting periods beginning after December 15, 2016 including interim reporting periods within that period. We are currently assessing the impact that the adoption of this standard will have on our consolidated financial statements and related disclosures upon implementation.

2. ACQUISITION AND RELATED PARTY ITEMS

On February 24, 2013, the Company acquired a 54.6% interest in Cuattro Veterinary USA, LLC ("Cuattro Vet USA") for approximately $7.6 million in cash and stock, including more than $4 million in cash (the "Acquisition"). Included in the cash consideration was $1 million the Company paid to Cuattro Vet USA in 2012 which was reported as part of "net cash used in operating activities" on the Company's 2012 consolidated statements of cash flows. Immediately following and as a result of the transaction, former Cuattro Vet USA unit holders owned approximately 7.2% of the Company's Public Common Stock. The remaining minority position (45.4)% in Cuattro Vet USA is subject to purchase by Heska under performance-based puts and calls following calendar year 2015, 2016 and 2017. Should Heska undergo a change in control, as defined, prior to the end of 2017, Cuattro Vet USA minority unit holders will be entitled to sell their Cuattro Vet USA units to Heska.

The Company recorded assets acquired, liabilities assumed and non-controlling interests at their estimated fair values. The intangible assets and non-controlling interest were valued based on a report from an independent third party.

The following summarizes the aggregate consideration paid by the Company and the allocation of the purchase price (in thousands):

Consideration		
Cash	$	4,073
Stock		3,571
Total	$	7,644
Inventories	$	1,466
Notes from Cuattro Veterinary, LLC, due March 15, 2016		1,360
Other tangible assets		1,278
Intangible assets		688
Goodwill		19,994
Notes payable and other borrowings		(1,527)
Accounts payable		(1,424)
Other assumed liabilities		(2,399)
Total net assets acquired	$	19,436
Non-controlling interest		(11,792)
Total	$	7,644

Intangible assets acquired, amortization method and estimated useful lives as of February 24, 2013 was as follows (in thousands, except useful life):

	Useful Life	Amortization Method	Fair Value
Trade name	2.75	Straight-line	$ 688

The Company believes goodwill is a function of several factors. Cuattro Vet USA had assembled a workforce highly knowledgeable in the veterinary imaging area. These individuals had acquired the training necessary to identify opportunities for the Cuattro Vet USA to sell products, including training related to which components from existing systems could be utilized within the Cuattro Vet USA's solution to minimize the out-of-pocket cost to the customer. Cuattro Vet USA had demonstrated an ability to combine disparate assets including but not limited to digital radiography detectors, positioning aides such as tunnels and tables, viewing computers and other accessories along with embedded software and support, data hosting and other services to provide customers with a simple, efficient and convenient experience in utilizing advanced data imaging technology far in excess of what a typical customer could have created individually with similar but separately purchased assets and services. The Company anticipated bundling and cross promotion programs, including potentially in one customer contract, could enhance the revenue of both the Company and Cuattro Vet USA following the Acquisition. The ability of Cuattro Vet USA to generate estimated future cash flows due to these factors supports the goodwill calculated at the closing of the Acquisition and the current carrying value of the goodwill on the Company's consolidated balance sheets. The Company estimates it had approximately $6.9 million in tax deductible goodwill from the Acquisition at the closing of the Acquisition.

Cuattro Vet USA was subsequently renamed Heska Imaging US, LLC ("Heska Imaging") and markets, sells and supports digital radiography and ultrasound products along with embedded software and support, data hosting and other services.

Shawna M. Wilson, Clint Roth, DVM, Steven M. Asakowicz, Rodney A. Lippincott, Kevin S. Wilson and Cuattro, LLC own approximately 29.75%, 8.39%, 4.09%, 3.07%, 0.05% and 0.05% of Heska Imaging, respectively. Kevin S. Wilson is the Chief Executive Officer and President of the Company and the spouse of Shawna M. Wilson. Steven M. Asakowicz serves as Executive Vice President, Companion Animal Health Sales for the Company. Rodney A. Lippincott serves as Executive Vice President, Companion Animal Health Sales for the Company. Mr. Wilson, Mrs. Wilson and trusts for their children and family own a 100% interest in Cuattro, LLC. Cuattro, LLC owns a 100% interest in Cuattro Software, LLC. Mr. Wilson, Mrs. Wilson and trusts for their children and family own a majority interest in Cuattro Veterinary, LLC and Cuattro Medical, LLC.

In 2013, following the Acquisition closing, Cuattro, LLC charged Heska Imaging $6.8 million, primarily related to digital imaging products, for which there is an underlying supply contract with minimum purchase obligations, software and services as well as other operating expenses; Heska Corporation charged Heska Imaging $2.2 million, primarily related to sales expenses; Heska Corporation net charged Cuattro, LLC $140 thousand, primarily related to facility usage and other services. In 2014, Cuattro, LLC charged Heska Imaging $10.5 million, primarily related to digital imaging products, for which there is an underlying supply contract with minimum purchase obligations, software and services as well as other operating expenses; Heska Corporation charged Heska Imaging $3.9 million, primarily related to sales expenses; Heska Corporation net charged Cuattro, LLC $0.2 million, primarily related to facility usage and other services. In 2015, Cuattro, LLC charged Heska Imaging $9.0 million, primarily related to digital imaging products, for which there is an underlying supply contract with minimum purchase obligations, software and services as well as other operating expenses; Heska Corporation charged Heska Imaging $4.9 million, primarily related to sales expenses; Heska Corporation charged Cuattro, LLC $0.2 million, primarily related to facility usage and other services.

At December 31, 2015, Heska Imaging had a $1.5 million note receivable, including accrued interest, from Cuattro Veterinary, LLC, which was due on March 15, 2016 and which is listed as "Note receivable - related party" on the Company's consolidated balance sheets. We currently do not anticipate collecting this note in 2016 due to our pending acquisition of Cuattro Veterinary, LLC. Heska Corporation had net accounts receivable from Cuattro, LLC of $40 thousand which is included in "Due from - related parties" on the Company's consolidated balance sheets; Heska Imaging had net prepaid receivables from Cuattro, LLC of $0.3 million which is included in "Due to - related party" on the Company's consolidated balance sheets; Heska Corporation had accounts receivable from Heska Imaging of $6.3 million, including accrued interest, which eliminated in consolidation of the Company's financial statements; all monies owed accrue interest at the same interest rate Heska Corporation pays under its credit and security agreement with Wells Fargo Bank, National Association ("Wells Fargo") once past due with the exception of the note receivable, which accrues at this rate to its maturity date.

The aggregate position in Heska Imaging of the unit holders who hold the 45.4% of Heska Imaging that Heska Corporation does not own (the "Put Value") is being accreted to its estimated redemption value in accordance with Heska Imaging's Operating Agreement. Since the Operating Agreement contains certain put rights that are out of the control of the Company, authoritative guidance requires the non-controlling interest, which includes the estimated value of such put rights, to be displayed outside of the equity section of the consolidated balance sheets. The adjustment to increase or decrease the Put Value to its expected redemption value and to estimate any distributions required under Heska Imaging's Operating Agreement to the unit holders who hold the 45.4% of Heska Imaging that Heska Corporation does not own (the "Imaging Minority") each reporting period is recorded to stockholders' equity in accordance with United States Generally Accepted Accounting Principles.

The following is a reconciliation of the non-controlling interest balance (in thousands):

Beginning December 31, 2014	$	15,679
Accretion of Put Value		68
Balance December 31, 2015	$	15,747

In addition, Heska Imaging made a distribution of approximately $2 thousand during the twelve months ended December 31, 2014, approximately $1 thousand of which was to the Imaging Minority and which has been recorded on the "Proceeds from issuance of common stock, net of distributions" line item of the Company's consolidated statements of cash flows.

The following unaudited pro forma financial information presents the combined results of the Company and Heska Imaging for the full year ended December 31, 2013 as if the acquisition had closed on January 1, 2013 (in thousands, except per share data):

	Year Ended December 31,	
	2013	
Revenue, net	$	79,239
Net loss attributable to Heska Corporation		(1,948)
Basic loss per share attributable to Heska Corporation		(0.34)
Diluted loss per share attributable to Heska Corporation		(0.34)

3. INCOME TAXES

As of December 31, 2015, the Company had a domestic net operating loss carryforward ("NOL"), of approximately $104.8 million, a domestic alternative minimum tax credit of approximately $0.4 million and a domestic research and development tax credit carryforward of approximately $0.4 million for federal tax purposes. The Company's federal NOL is expected to expire as follows if unused: $98.8 million in 2018 through 2022, $5.5 million in 2024 and 2025 and $0.5 million in 2027 and later. The NOL and tax credit carryforwards are subject to alternative minimum tax limitations and to examination by the tax authorities. In addition, the Company had a "change of ownership" as defined under the provisions of Section 382 of the Internal Revenue Code of 1986, as amended (an "Ownership Change").

The Company does not believe this Ownership Change will place a significant restriction on its ability to utilize its NOL in the future. The Company has established a valuation allowance against those NOL's for which it is estimated to be more likely than not that they will expire unutilized.

The Company is subject to income taxes in the U.S. federal jurisdiction, and various foreign, state and local jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. Cash paid for income taxes for the twelve months ended December 31, 2013, 2014 and 2015 was $84 thousand, $272 thousand and $55 thousand, respectively.

The components of income (loss) before income taxes were as follows (in thousands):

	Year Ended December 31,		
	2013	2014	2015
Domestic	$ (1,508)	$ 2,837	$ 8,325
Foreign	115	113	102
	$ (1,393)	$ 2,950	$ 8,427

Temporary differences that give rise to the components of net deferred tax assets are as follows (in thousands):

	December 31,	
	2014	2015
Inventory	$ 643	$ 954
Accrued compensation	124	267
Stock Options	57	344
Research and development	472	440
Alternative minimum tax credit	308	367
Deferred revenue	4,396	3,638
Property and equipment	1,777	1,967
Net operating loss carryforwards – domestic	40,277	37,845
Capital Lease	—	(384)
Other	(131)	(8)
	47,923	45,430
Valuation allowance	(20,713)	(19,547)
Total net deferred tax assets	$ 27,210	$ 25,883

The components of the income tax expense (benefit) are as follows (in thousands):

	Year Ended December 31,		
	2013	2014	2015
Current income tax expense:			
Federal	$ 95	$ 11	$ 1,492
State	62	7	65
Foreign	26	29	24
Total current expense	183	47	1,581
Deferred income tax expense (benefit):			
Federal	(583)	1,181	1,043
State	(54)	123	284
Foreign	—	—	—
Total deferred expense (benefit)	(637)	1,304	1,327
Total income tax expense (benefit)	$ (454)	$ 1,351	$ 2,908

The Company's income tax expense (benefit) relating to income (loss) for the periods presented differs from the amounts that would result from applying the federal statutory rate to that income (loss) as follows:

	Year Ended December 31,		
	2013	2014	2015
Statutory federal tax rate	34 %	34 %	34 %
State income taxes, net of federal benefit	3 %	5 %	3 %
Non-controlling interest in Heska Imaging US, LLC	6 %	12 %	(1)%
Other permanent differences	(10)%	(3)%	(1)%
Change in tax rate	— %	2 %	(1)%
Foreign rate difference	(1)%	— %	— %
Change in valuation allowance	(13)%	78 %	(14)%
Other	13 %	(82)%	15 %
Effective income tax rate	32 %	46 %	35 %

ASC 740 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements. Tax positions must meet a "more-likely-than-not" recognition threshold before a benefit is recognized in the financial statements. As of December 31, 2015, the Company has not recorded a liability for uncertain tax positions. The Company would recognize interest and penalties related to uncertain tax positions in income tax expense (benefit). No interest and penalties related to uncertain tax positions were accrued at December 31, 2015.

4. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income attributable to Heska Corporation by the weighted-average number of common shares outstanding during the period. The computation of diluted EPS is similar to the computation of basic EPS except that the numerator is increased to exclude charges that would not have been incurred, and the denominator is increased to include the number of additional common shares that would have been outstanding (using the if-converted and treasury stock methods), if securities containing potentially dilutive common shares (stock options and restricted stock units but excluding options to purchase fractional shares resulting from the Company's December 2010 1-for-10 reverse stock split) had been converted to common shares, and if such assumed conversion is dilutive.

The following is a reconciliation of the weighted-average shares outstanding used in the calculation of basic and diluted earnings per share for the years ended December 31, 2013, 2014, and 2015 (in thousands, except per share data):

	Years ended December 31,		
	2013	2014	2015
Net income (loss) attributable to Heska Corporation	$ (1,196)	$ 2,603	$ 5,239
Basic weighted-average common shares outstanding	5,755	5,951	6,509
Assumed exercise of dilutive stock options and restricted stock units	—	458	565
Diluted weighted-average common shares outstanding	5,755	6,409	7,074
Basic earnings (loss) per share	$ (0.21)	$ 0.44	$ 0.80
Diluted earnings (loss) per share	$ (0.21)	$ 0.41	$ 0.74

The following stock options and restricted units were excluded from the computation of diluted earnings per share because they would have been anti-dilutive (in thousands):

	Years ended December 31,		
	2013	2014	2015
Stock options	1,103	367	144

5. GOODWILL AND OTHER INTANGIBLES

The Company's recorded goodwill relates to the February 2013 acquisition of a majority interest in Cuattro Veterinary USA, LLC, which was subsequently renamed Heska Imaging US, LLC and the 1997 acquisition of Heska AG, the Company's Swiss subsidiary.

The following summarizes the changes in goodwill during the years ended December 31, 2014 and 2015 (in thousands):

	Year Ended December 31,	
	2014	2015
Carrying amount, beginning of period	$ 21,009	$ 20,903
Adjustments due to foreign currency fluctuations	(106)	7
Carrying amount, end of period	$ 20,903	$ 20,910

Other intangibles consisted of the following as of December 31, 2014 and 2015 (in thousands):

	Year Ended December 31,	
	2014	2015
Gross carrying amount	$ 788	$ 788
Accumulated amortization	(486)	(732)
Net carrying amount	$ 302	$ 56

Amortization expense relating to other intangibles is as follows (in thousands):

	Years Ended December 31,		
	2013	2014	2015
Amortization expense	$ 226	$ 260	$ 246

Estimated amortization expense related to intangibles for each of the five years from 2016 through 2020 and thereafter is as follows (in thousands):

Year Ending December 31,	
2016	$ 10
2017	10
2018	10
2019	10
2020	10
Thereafter	6
	$ 56

6. PROPERTY AND EQUIPMENT

Detail of property and equipment is as follows (in thousands):

	December 31,	
	2014	2015
Land	$ 377	$ 377
Building	2,868	2,868
Machinery and equipment	30,655	35,284
Leasehold and building improvements	5,871	6,673
Construction in progress	185	1,496
	39,956	46,698
Less accumulated depreciation and amortization	(26,546)	(29,678)
Total property and equipment, net	$ 13,410	$ 17,020

The Company has utilized marketing programs whereby its instruments in inventory may be placed in a customer's location on a rental basis. The cost of these instruments is transferred to machinery and equipment or other long-term assets and depreciated, typically over a five to seven year period depending on the circumstance under which the instrument is placed with the customer. During 2013, 2014 and 2015, total costs transferred from inventory were approximately $4.0 million, $4.6 million and $4.1 million respectively.

The Company has sold certain customer rental contracts and underlying assets to a third party under the agreement that once the customer has met the customer obligations under the contract, ownership of the assets underlying the contract would be returned to the Company. The Company enters a debit to cash and a corresponding credit to deferred revenue at the time of these sales. These sales provided $1.8 million and $0.1 million of cash which was reported in the "deferred revenue and other" line item of the Company's consolidated statements of cash flows in 2014 and 2015, respectively, all related to the Company's 54.6%-owned subsidiary, Heska Imaging US, LLC. As the Company anticipates it will regain ownership of the assets underlying these sales, it reports these assets as part of property and equipment and depreciates these assets per its depreciation policies. The Company had $3.0 million and $2.2 million of net property and equipment related to these transactions as of December 31, 2014 and December 31, 2015, respectively, all related to the Company's 54.6%-owned subsidiary, Heska Imaging US, LLC.

Depreciation and amortization expense for property and equipment was $2.3 million, $3.4 million and $4.0 million for the years ended December 31, 2013, 2014 and 2015, respectively.

The Company capitalizes third-party software costs, where appropriate, and reports such costs, net of accumulated amortization, on the "property and equipment, net" line of its consolidated balance sheets. We had $0.6 million and $0.4 million of such capitalized costs, net of accumulated amortization, on the "property and equipment, net" line of our consolidated balance sheets as of December 31, 2014 and December 31, 2015, respectively. Capitalized software costs in a given year are reported on the "purchases of property and equipment" line item of the Company's consolidated statements of cash flows. We had $809 thousand, $31 thousand and $51 thousand of capitalized software costs reported on the "purchases of property and equipment" line item of our consolidated statements of cash flows for the years ended December 31, 2013, 2014 and 2015, respectively.

7. ACCRUED LIABILITIES

Accrued liabilities consisted of the following as of December 31, 2014 and 2015 (in thousands):

	2014	2015
Accrued payroll and employee benefits	$ 1,322	$ 1,626
Accrued property taxes	593	594
Other	3,215	3,196
Total accrued liabilities	$ 5,130	$ 5,416

Other accrued liabilities consists of items that are individually less than 5% of total current liabilities.

8. CAPITAL STOCK

Stock Option Plans

We have two stock option plans which authorize granting of stock options and stock purchase rights to our employees, officers, directors and consultants to purchase shares of common stock. In 1997, the board of directors adopted the 1997 Stock Incentive Plan (the "1997 Plan") and terminated two prior option plans. All shares that remained available for grant under the terminated plans were incorporated into the 1997 Plan, including shares subsequently canceled under prior plans. In May 2012, the stockholders approved an amendment to the 1997 Plan allowing for an increase of 250,000 shares and an annual increase through 2016 based on the number of non-employee directors serving as of our Annual Meeting of Stockholders, subject to a maximum of 45,000 shares per year. In May 2003, the stockholders approved a new plan, the 2003 Equity Incentive Plan, which allows for the granting of options for up to 239,050 shares of the Company's common stock. The number of shares reserved for issuance under both plans as of December 31, 2015 was 41,440.

The stock options granted by the board of directors may be either incentive stock options ("ISOs") or non-qualified stock options ("NQs"). The exercise price for options under all of the plans may be no less than 100% of the fair value of the underlying common stock for ISOs or 85% of fair value for NQs. Options granted will expire no later than the tenth anniversary subsequent to the date of grant or three months following termination of employment, except in cases of death or disability, in which case the options will remain exercisable for up to twelve months. Under the terms of the 1997 Plan, in the event we are sold or merged, outstanding options will either be assumed by the surviving corporation or vest immediately.

There are four key inputs to the Black-Scholes model which we use to estimate the fair value for options which it issues: expected term, expected volatility, risk-free interest rate and expected dividends, all of which require us to make estimates. Our estimates for these inputs may not be indicative of actual future performance and changes to any of these inputs can have a material impact on the resulting estimated fair value calculated for the option. Our expected term input was estimated based on our historical experience for time from option grant to option exercise for all employees in 2013, 2014 and 2015; We treated all employees in one grouping in all three years. Our expected volatility input was estimated based on our historical stock price volatility in 2013, 2014 and 2015. Our risk-free interest rate input was determined based on the U.S. Treasury yield curve at the time of option issuance in 2013, 2014 and 2015. Our expected dividends input were zero in all periods as we did not anticipate paying dividends in the foreseeable future.

Weighted average assumptions used in 2013, 2014 and 2015 for each of these four key inputs are listed in the following table:

	2013	2014	2015
Risk-free interest rate	0.75%	1.21%	1.41%
Expected lives	3.4 years	3.4 years	3.4 years
Expected volatility	46%	43%	41%
Expected dividend yield	0%	0%	0%

A summary of our stock option plans, excluding options to purchase fractional shares resulting from our December 2010 1-for-10 reverse stock split, is as follows

	Year Ended December 31,					
	2013		2014		2015	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of period	1,245,161	$ 11.054	1,321,232	$ 10.386	1,074,251	$ 10.110
Granted at Market	275,654	$ 7.532	134,800	$ 16.398	146,446	$ 36.904
Canceled	(166,286)	$ 11.437	(218,926)	$ 17.786	(28,440)	$ 10.080
Exercised	(33,297)	$ 6.488	(162,855)	$ 7.234	(251,647)	$ 10.559
Outstanding at end of period	1,321,232	$ 10.386	1,074,251	$ 10.110	940,610	$ 14.163
Exercisable at end of period	939,458	$ 11.556	729,175	$ 9.800	621,559	$ 10.269

The total estimated fair value of stock options granted during the years ended December 31, 2013, 2014 and 2015 were computed to be approximately $0.7 million, $0.7 million and $1.6 million, respectively. The amounts are amortized ratably over the vesting periods of the options. The weighted average estimated fair value of options granted during the years ended December 31, 2013, 2014 and 2015 was computed to be approximately $2.54, $5.28 and $11.35, respectively. The total intrinsic value of options exercised during the years ended December 31, 2013, 2014 and 2015 was $42 thousand, $0.7 million and $4.7 million, respectively. The cash proceeds from options exercised during the years ended December 31, 2013, 2014 and 2015 was $0.2 million, $1.2 million and $1.8 million.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2015, excluding outstanding options to purchase an aggregate of 6.0 fractional shares resulting from our December 2010 1-for-10 reverse stock split with a weighted average remaining contractual life of 0.85 years, a weighted average exercise price of $16.77 and exercise prices ranging from $11.00 to $22.50. We intend to issue whole shares only from option exercises. The following table includes 109,500 shares underlying options issued in December 2015 with a strike price of $39.76 and expiration date of December 28, 2025 which will only vest and become exercisable if our stockholders approve an increase in the total number of authorized shares of our Public Common Stock to at least 8.5 million shares on or before December 31, 2022.

	Options Outstanding			Options Exercisable	
Exercise Prices	Number of Options Outstanding at December 31, 2015	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number of Options Exercisable at December 31, 2015	Weighted Average Exercise Price
$ 4.40 - $ 6.90	225,302	4.90	$ 5.600	222,671	$ 5.593
$ 6.91 - $ 8.26	188,524	7.87	$ 7.384	96,689	$ 7.383
$ 8.27 - $11.65	168,496	6.76	$ 9.079	136,800	$ 9.178
$11.66 - $18.30	205,826	5.42	$ 17.483	132,229	$ 17.206
$18.31 - $39.76	152,462	9.51	$ 36.336	33,170	$ 26.916
$ 4.40 - $39.76	940,610	6.69	$ 14.163	621,559	$ 10.269

As of December 31, 2015, there was $2.2 million of total unrecognized compensation expense related to outstanding stock options. That cost is expected to be recognized over a weighted-average period of 1.9 years with all cost to be recognized by the end of December 2018, assuming all options vest according to the vesting schedules in place at December 31, 2015. As of December 31, 2015, the aggregate intrinsic value of outstanding options was $23.2 million and the aggregate intrinsic value of exercisable options was $17.7 million.

Employee Stock Purchase Plan (the "ESPP")

Under the 1997 Employee Stock Purchase Plan, we are authorized to issue up to 450,000 shares of common stock to our employees, of which 389,563 had been issued as of December 31, 2015. On May 5, 2015, our shareholders approved the amendment and restatement of the ESPP, including a 75,000 share increase to 450,000 total shares authorized under the ESPP as well as changes discussed below as compared to the ESPP prior to the amendment and restatement. Employees who are expected to work at least 20 hours per week and five months per year are eligible to participate and can choose to have up to 10% of their compensation withheld to purchase our stock under the ESPP when they choose to withhold a whole percentage of their compensation.

During the period from January 1, 2013 to June 30, 2013, our ESPP had a five-year offering period and six-month accumulation periods ending on each June 30 and December 31. The purchase price of stock on June 30 and December 31 was 85% of the fair market value at purchase.

Beginning on July 1, 2013, our ESPP had a 27-month offering period and three-month accumulation periods ending on each March 31, June 30, September 30 and December 31. The purchase price of stock on March 31, June 30, September 30 and December 31 was the lesser of (1) 85% of the fair market value at the time of purchase and (2) the greater of (i) 95% of the fair market value at the beginning of the applicable offering period or (ii) 65% of the fair market value at the time of purchase. In addition, participating employees may purchase shares under the ESPP at the beginning of an applicable offering period for a purchase price of stock equal to 95% of the fair market value at such time or at 5 pm on a day other than March 31, June 30, September 30 and December 31 during the applicable offering period for a purchase price of stock equal to 95% of the fair market value at purchase.

Beginning April 1, 2015, employees may elect to withhold a positive fixed amount from each compensation payment in addition to the previous approach of withholding a whole percentage of such compensation payment, with all withholding for a given employee subject to a maximum monthly amount of $2,500 following the amendment and restatement as opposed to a $25,000 maximum annual amount prior to

the amendment and restatement. For offering periods beginning on or after April 1, 2015, the purchase price of stock on March 31, June 30, September 30 and December 31 is to be the lesser of (1) 85% of the fair market value at the time of purchase and (2) the greater of (i) 85% of the fair market value at the beginning of the applicable offering period, (ii) the fair market value at the beginning of the applicable offering period less 1 cent and (iii) 65% of the fair market value at the time of purchase. In addition, participating employees may elect to purchase shares under the ESPP at the beginning of an applicable offering period for a purchase price of stock equal to the greater of (1) 85% of the fair market value at the beginning of the applicable offering period and (2) the fair market value at the beginning of the applicable offering period less 1 cent or at 5 pm on a day other than March 31, June 30, September 30 and December 31 during the applicable offering period for a purchase price of stock equal to the greater of (1) 85% of the fair market value at the time of purchase and (2) the fair market value at the time of purchase less 1 cent.

For the years ended December 31, 2013, 2014 and 2015, we issued 27,714, 29,847, and 16,673 shares under the ESPP, respectively.

Since July 1, 2013, we estimated the fair values of stock purchase rights granted under the ESPP using the Black-Scholes pricing model and the following weighted average assumptions:

	2013	2014	2015
Risk-free interest rate	0.21%	0.23%	0.27%
Expected lives	1.3 years	1.3 years	1.2 years
Expected volatility	34%	34%	36%
Expected dividend yield	0%	0%	0%

For the years ended December 31, 2013, 2014 and 2015, the weighted-average fair value of the purchase rights granted was $1.28, $2.61 and $6.25 per share, respectively.

Restricted Stock Issuance

On March 26, 2014, we issued 63,572 shares to Robert B. Grieve, Ph.D., who was our Executive Chair, pursuant to an employment agreement between Dr. Grieve and the Company effective as of March 26, 2014 (the "Grieve Employment Agreement"). The shares were issued in five tranches and are subject to time-based vesting and other provisions outlined in the Grieve Employment Agreement. All shares were to vest in full as of April 30, 2017. Effective on October 1, 2015, the Grieve Employment Agreement was terminated and, in connection therewith, the Company entered into a Separation and Release Agreement dated as of October 1, 2015 (the "Release Agreement") with Dr. Grieve. Pursuant to the Release Agreement, the Company agreed to treat the termination of the Grieve Employment Agreement as a termination without cause, entitling Dr. Grieve to the immediate vesting of 55,715 shares, 14,373 of which were withheld for tax purposes. As a result of the termination of the Grieve Employment Agreement, and as acknowledged in the Release Agreement, effective October 1, 2015, Dr. Grieve began serving as a consultant to the Company pursuant to the Consulting Agreement (Founder Emeritus) dated as of March 26, 2014 (the "Consulting Agreement"). The remaining 7,857 shares issued to Dr. Grieve on March 26, 2014 are scheduled to vest on April 30, 2016 if the Consulting Agreement remains in effect through April 30, 2016.

On March 26, 2014, we issued 110,000 shares to Mr. Wilson pursuant to an employment agreement between Mr. Wilson and the Company effective as of March 26, 2014 (the "Wilson Employment Agreement"). The shares were issued in four equal tranches and are subject to time-based vesting and other provisions outlined in the Wilson Employment Agreement. The first tranche vested on September 26, 2014, and each of the three remaining tranches is to vest on the succeeding March 26 until all shares are vested in full as of March 26, 2017. On May 6, 2014, we issued an additional 130,000 shares to Mr. Wilson following a

vote of approval on the issuance by our stockholders. The shares were issued in ten equal tranches, five of which were subject to vesting based on the achievement of certain stock price targets as defined and further described in the Wilson Employment Agreement and five of which were subject to vesting based on certain "Adjusted EBITDA" targets as defined and further described in the Wilson Employment Agreement. All shares subject to vesting based on "Adjusted EBITDA" vested based on our 2014 performance. Of the five tranches based on the achievement of certain stock price targets, one vested in 2014 and the remaining four vested in 2015.

On March 17, 2015, the Company issued unvested shares to certain Executive Officers related to performance-based restricted stock grants (the "Performance Grants") and performance-based restricted stock grants related to the Company's 2015 Management Incentive Plan (the "MIP Grants"). The Performance Grants are to cliff vest three years following issuance, subject to the Company's achieving $7 million in Operating Cash Flow, as defined in the underlying restricted stock grant agreement, in at least one of 2015, 2016 or 2017, and other vesting provisions in the underlying restricted stock grant agreement. The MIP Grants are to vest on the date MIP Payouts are to be made under the 2015 Management Incentive Plan and are subject to the Company's achievement of certain financial goals and other vesting provisions in the underlying restricted stock grant agreement. The Company issued 52,956 shares under Performance Grants and 24,649 shares under MIP Grants on March 17, 2015.

Restrictions on the transfer of Company stock

The Company's Restated Certificate of Incorporation, as amended (the "Certificate of Incorporation"), places restrictions (the "Transfer Restrictions") on the transfer of the Company's stock that could adversely affect the Company's ability to utilize its domestic Federal Net Operating Loss Position. In particular, the Transfer Restrictions prevent the transfer of shares without the approval of the Company's Board of Directors if, as a consequence of such transfer, an individual, entity or groups of individuals or entities would become a 5-percent holder under Section 382 of the Internal Revenue Code of 1986, as amended, and the related Treasury regulations, and also prevents any existing 5-percent holder from increasing his or her ownership position in the Company without the approval of the Company's Board of Directors. Any transfer of shares in violation of the Transfer Restrictions (a "Transfer Violation") shall be void *ab initio* under the Certificate of Incorporation, and the Company's Board of Directors has procedures under the Certificate of Incorporation to remedy a Transfer Violation including requiring the shares causing such Transfer Violation to be sold and any profit resulting from such sale to be transferred to a charitable entity chosen by the Company's Board of Directors in specified circumstances.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income consisted of the following (in thousands):

	Minimum pension liability	Foreign currency translation	Unrealized gains (losses) on available for sale investments	Total accumulated other comprehensive income
Balances at December 31, 2014	$ (447)	$ 684	$ 46	$ 283
Current period other comprehensive income (loss)	(129)	(11)	44	(96)
Balances at December 31, 2015	$ (576)	$ 673	$ 90	$ 187

10. COMMITMENTS AND CONTINGENCIES

The Company holds certain rights to market and manufacture all products developed or created under certain research, development and licensing agreements with various entities. In connection with such agreements, the Company has agreed to pay the entities royalties on net product sales. In each of the years ended December 31, 2013, 2014 and 2015, royalties of $0.4 million became payable under these agreements.

The Company has contracts with suppliers for unconditional annual minimum inventory purchases and milestone obligations to third parties the Company believes are likely to be triggered currently totaling approximately $0.4 million for fiscal 2016.

The Company has entered into operating leases for its office and research facilities and certain equipment with future minimum payments as of December 31, 2015 as follows (in thousands):

Year Ending December 31,		
2016	$	1,956
2017		1,893
2018		1,640
2019		1,546
2020		1,541
Thereafter		4,581
	$	13,157

The Company had rent expense of $1.8 million, $1.9 million and $2.0 million in 2013, 2014 and 2015 respectively.

From time to time, the Company may be involved in litigation relating to claims arising out of its operations. On March 12, 2015, a complaint was filed against us by Shaun Fauley in the United States District Court Northern District of Illinois alleging our transmittal of unauthorized faxes in violation of the federal Telephone Consumer Protection Act of 1991, as amended by the Junk Fax Prevention Act of 2005, as a class action seeking stated damages of the greater of actual monetary loss or five hundred dollars per violation. We intend to defend ourselves vigorously in this matter. At December 31, 2015, the Company was not a party to any other legal proceedings that were expected, individually or in the aggregate, to have a material adverse effect on our business, financial condition or operating results.

The Company's current terms and conditions of sale include a limited warranty that its products and services will conform to published specifications at the time of shipment and a more extensive warranty related to certain of its products. The Company also sells a renewal warranty for certain of its products. The typical remedy for breach of warranty is to correct or replace any defective product, and if not possible or practical, the Company will accept the return of the defective product and refund the amount paid. Historically, the Company has incurred minimal warranty costs. The Company's warranty reserve on December 31, 2015 was $0.4 million.

11. INTEREST AND OTHER EXPENSE (INCOME)

Interest and other expense (income) consisted of the following (in thousands):

	Year Ended December 31,		
	2013	2014	2015
Interest income	$ (127)	$ (190)	$ (172)
Interest expense	74	206	200
Other, net	16	(55)	102
	$ (37)	$ (39)	$ 130

Cash paid for interest for the twelve months ended December 31, 2013, 2014 and 2015 was $78 thousand, $92 thousand $90 thousand, respectively.

12. CREDIT FACILITY AND LONG-TERM DEBT

At December 31, 2015, we had a $15.0 million asset-based revolving line of credit with Wells Fargo which has a maturity date of December 31, 2017 as part of our credit and security agreement with Wells Fargo. At December 31, 2015, we had $143 thousand of borrowings outstanding on this line of credit. Our ability to borrow under this line of credit varies based upon available cash, eligible accounts receivable and eligible inventory. On December 31, 2015, any interest on borrowings due was to be charged at a stated rate of three month LIBOR plus 2.25% and payable monthly. There is an annual minimum interest charge of $75 thousand under the agreement. We are required to comply with various financial and non-financial covenants, and we have made various representations and warranties under our agreement with Wells Fargo. A key financial covenant is based on a fixed charge coverage ratio, as defined in our agreement with Wells Fargo. We were in compliance with all financial covenants as of December 31, 2015 and our available borrowing capacity based upon eligible accounts receivable and eligible inventory under our revolving line of credit was approximately $11.2 million.

Long-term debt consists of the following (in thousands):

	December 31,	
	2014	2015
Term loan with a financial entity due in monthly installments beginning July 2012 with the balance paid in full in June 2017 and a stated interest rate of 6.0%.	$ 368	$ 228
Less current portion of long-term debt	141	159
Long-term debt, net of current portion	$ 227	$ 69

Maturities of long-term debt as of December 31, 2015 were as follows (in thousands):

<u>Year Ending December 31,</u>	
2016	$ 159
2017	69
2018	—
	$ 228

13. SEGMENT REPORTING

The Company is comprised of two reportable segments, Core Companion Animal Health ("CCA") and Other Vaccines, Pharmaceuticals and Products ("OVP"). The Core Companion Animal Health segment includes diagnostic instruments and supplies, as well as single use diagnostic and other tests, pharmaceuticals and vaccines, primarily for canine and feline use. The CCA segment also includes digital radiography and ultrasound products along with embedded software and support, data hosting and other services from Heska Imaging after February 24, 2013. These products are sold directly by the Company as well as through independent third-party distributors and through other distribution relationships. CCA segment products manufactured at the Des Moines, Iowa production facility included in the OVP segment's assets are transferred at cost and are not recorded as revenue for the OVP segment. The Other Vaccines, Pharmaceuticals and Products segment includes private label vaccine and pharmaceutical production, primarily for cattle, but also for other animals including small mammals. All OVP products are sold by third parties under third-party labels.

Summarized financial information concerning the Company's reportable segments is shown in the following table (in thousands):

Year Ended December 31, 2013	Core Companion Animal Health	Other Vaccines, Pharmaceuticals and Products	Total
Total revenue	$ 66,404	$ 11,935	$ 78,339
Operating Income (loss)	(2,295)	865	(1,430)
Income (loss) before income taxes	(2,229)	836	(1,393)
Total assets	81,041	12,512	93,553
Net assets	36,933	10,183	47,116
Capital expenditures	512	1,418	1,930
Depreciation and amortization	1,691	806	2,497

Year Ended December 31, 2014	Core Companion Animal Health	Other Vaccines, Pharmaceuticals and Products	Total
Total revenue	$ 72,354	$ 17,483	$ 89,837
Operating Income	1,198	1,713	2,911
Income before income taxes	1,290	1,660	2,950
Total assets	85,361	11,483	96,844
Net assets	41,286	11,846	53,132
Capital expenditures	1,864	473	2,337
Depreciation and amortization	2,954	758	3,712

Year Ended December 31, 2015	Core Companion Animal Health	Other Vaccines, Pharmaceuticals and Products	Total
Total revenue	$ 84,249	$ 20,348	$ 104,597
Operating Income	4,911	3,646	8,557
Income before income taxes	4,836	3,591	8,427
Total assets	92,567	17,152	109,719
Net assets	48,175	15,353	63,528
Capital expenditures	1,177	2,596	3,773
Depreciation and amortization	3,478	709	4,187

Revenue is attributed to individual countries based on customer location. Total revenue by principal geographic area was as follows (in thousands):

	For the Years Ended December 31,		
	2013	2014	2015
United States	$ 71,713	$ 83,584	$ 97,164
Europe	2,738	2,264	2,086
Other International	3,888	3,989	5,347
Total	$ 78,339	$ 89,837	$ 104,597

Total assets by principal geographic areas were as follows (in thousands):

	For the Years Ended December 31,		
	2013	2014	2015
United States	$ 90,572	$ 93,977	$ 106,780
Europe	2,981	2,867	2,939
Other International	—	—	—
Total	$ 93,553	$ 96,844	$ 109,719

14. QUARTERLY FINANCIAL INFORMATION (unaudited)

The following summarizes selected quarterly financial information for each of the two years in the periods ended December 31, 2014 and 2015 (amounts in thousands, except per share data).

	Q1	Q2	Q3	Q4	Total
2014					
Total revenue	$ 20,793	$ 22,916	$ 21,805	$ 24,323	$ 89,837
Gross profit	8,279	9,077	8,317	10,042	35,715
Operating income (loss)	(101)	917	341	1,754	2,911
Net income (loss)	(273)	778	15	1,079	1,599
Net income attributable to Heska Corporation	192	1,069	513	829	2,603
Basic earnings per share attributable to Heska Corporation	0.03	0.18	0.09	0.14	0.44
Diluted earnings per share attributable to Heska Corporation	0.03	0.17	0.08	0.13	0.41
2015					
Total revenue	$ 22,894	$ 23,910	$ 28,034	$ 29,759	$ 104,597
Gross profit	10,084	10,297	11,597	12,235	44,213
Operating income	1,021	1,829	2,142	3,565	8,557
Net income	583	1,178	1,383	2,375	5,519
Net income attributable to Heska Corporation	598	1,197	1,415	2,029	5,239
Basic earnings per share attributable to Heska Corporation	0.10	0.19	0.22	0.29	0.80
Diluted earnings per share attributable to Heska Corporation	0.09	0.17	0.20	0.28	0.74

15. SUBSEQUENT EVENTS

On November 11, 2015, the Company entered into a Unit Purchase Agreement (the "International Agreement") with Cuattro Veterinary, LLC ("Cuattro International"), Kevin S. Wilson and all of the Cuattro International members (the "Members"). Cuattro International sells the same digital radiography solutions outside the United States that Heska Imaging sells in the United States. Under the terms of the International Agreement, the Company agreed to deliver $6.0 million in stock, subject to a minimum of 175,000 shares and a maximum of 200,000 shares, in exchange for 100% ownership of Cuattro International. In addition, the Company also agreed to issue additional shares of common stock to the Members (the "Contingent Shares") in the event that any of the liabilities or obligations of Cuattro International that have been fully reserved as uncollectible (the "Reserved Assets") from affiliates of Cuattro International, Mr. Wilson and the Members are recovered by the Company or Cuattro International. Additionally, the Company will assume approximately $2.1 million in debt as part of the International Agreement. The acquisition was expected to close on or about January 1, 2016 subject to certain closing conditions, including the affirmative vote of the Company's stockholders to increase by 1,000,000 shares each the authorized shares of both classes of the Company's Common Stock Securities, as defined in the Company's Restated Certificate of Incorporation, as amended. On December 16, 2015, the Company entered into a First Amendment to Unit Purchase Agreement, dated effective as of December 1, 2015 (the "First International Amendment"), with Cuattro International, Kevin S. Wilson and all of the Members. The First International Amendment extended to February 29, 2016 from December 31, 2015 the earliest date upon which the parties may terminate the International Agreement for the failure of a closing condition under the International Agreement to be satisfied. The Amendment also capped Contingent Shares at 100,000.

On March 14, 2016, the Company, Cuattro International, Kevin S. Wilson and the Members terminated the International Agreement and superseded the International Agreement with an agreement and plan of merger by and among the Company, the Company’s wholly-owned subsidiary, Cuattro International Merger Subsidiary Inc., a Delaware corporation ("Merger Sub"), Cuattro International and the Members (the "New Agreement") and Heska Imaging extended the due date on the $1.5 million note receivable, including accrued interest, from Cuattro Veterinary, LLC which is listed as "Note receivable - related party" on the Company's consolidated balance sheets from March 15, 2016 to June 15, 2016. All parties involved intend that the transactions contemplated by the New Agreement be treated as a transaction that qualifies as a "reorganization" within the meaning of Section 368(a)(2)(E) of the Internal Revenue Code of 1986, as amended (the "Code"), and the New Agreement is intended to be, and is adopted as, a plan of reorganization for purposes of Sections 354 and 361 of the Code and within the meaning of Treasury regulation section 1.368‑2(g). The New Agreement eliminated the use of Contingent Shares in the event any of the Reserved Assets are recovered by the Company or Cuattro International; in such a circumstance, the Members would be paid in cash under the New Agreement. The earliest date upon which the parties may terminate the New Agreement for failure of a closing condition under the New Agreement to be satisfied is May 31, 2016.

OFFICERS

Kevin S. Wilson, Chief Executive Officer and President

Jason A. Napolitano, Chief Operating Officer, Chief Financial Officer, Executive Vice President and Secretary

Michael J. McGinley, Ph.D., President, Biologicals and Pharmaceuticals

Nancy Wisnewski, Ph.D., Executive Vice President, Product Development and Customer Support

Steven M. Eyl, Executive Vice President, Commercial Operations

Steven M. Asakowicz, Executive Vice President, Companion Animal Health Sales

Rodney A. Lippincott, Executive Vice President, Companion Animal Health Sales

John McMahon, Vice President, Financial Operations and Controller

Laurie E. Peterson, Vice President, Heska Des Moines*

Daniel J. Pollack, Treasurer and Assistant Secretary*

BOARD OF DIRECTORS

Sharon L. Riley, Chair of the Board; Principal and CEO of Larson Riley Associates

G. Irwin Gordon, Executive Vice President and Chief Customer Officer of Invitation Homes, a Blackstone Company

David E. Sveen, Ph.D., President, Cedarstone Partners, Inc.

Bonnie J. Trowbridge, Retired Partner, PricewaterhouseCoopers LLP

Kevin S. Wilson, Chief Executive Officer and President, Heska Corporation

Carol A. Wrenn, Founder and former President, Sky River Helicopters, LLC

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*All Officers of Heska Corporation identified without an asterisk are "officers" under Section 16 of the Securities Exchange Act of 1934, as amended, and "executive officers" as defined in Rule 3b-7 under the Exchange Act. Those Officers identified with an asterisk are neither Section 16 "officers" nor "executive officers" of Heska Corporation, but they are board-appointed officers of Heska Corporation. ©2016 Heska Corporation. All Rights Reserved. HESKA is a registered trademark of Heska Corporation in the U.S. and other countries.