SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2001

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

COMMISSION FILE NUMBER: 0-22427

HESKA CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	77-0192527
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)
1613 PROSPECT PARKWAY FORT COLLINS, COLORADO	80525
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE))

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:(970)493-7272

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE
SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
COMMON STOCK, $.001 PAR VALUE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $40,287,365 as of March 26, 2002 based upon the closing price on the Nasdaq National Market reported for such date. This calculation does not reflect a determination that certain persons are affiliates of the Registrant for any other purpose.

47,845,112 shares of the Registrant's Common Stock, $.001 par value, were outstanding at March 26, 2002.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10 (as to directors), 11, 12 and 13 of Part III incorporate by reference information from the Registrant's Proxy Statement filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the Registrant's 2002 Annual Meeting of Stockholders.

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also refers to trademarks and trade names of other organizations.

PART I

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward- looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results could differ materially from those expressed or forecasted in any such forward-looking statements as a result of certain factors, including those set forth in "Factors that May Affect Results," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this Form 10-K.

Although we believe that expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based. These forward-looking statements apply only as of the date of this Form 10-K.

ITEM 1. BUSINESS.

We discover, develop, manufacture and market companion animal health products principally for dogs, cats and horses. We employ approximately 80 scientists, of whom over one quarter hold doctoral degrees, with expertise in several disciplines including microbiology, immunology, genetics, biochemistry, molecular biology, parasitology and veterinary medicine. This scientific expertise is focused on the development of a broad range of pharmaceutical, vaccine and diagnostic products for companion animals. We also sell veterinary diagnostic and patient monitoring instruments and offer diagnostic services to veterinarians in the United States and Europe principally for companion animals. Our Diamond Animal Health subsidiary manufactures food animal vaccines as well as other food animal products that are marketed and distributed by other animal health companies. In addition, Diamond manufactures certain companion animal health products for marketing and sale by Heska.

We currently market our products in the United States to veterinarians through approximately 20 independent third-party distributors and through a direct sales force, complemented by an internal telesales group. Nearly one-half of our domestic distributors provide sales services for the full line of our pharmaceutical, vaccine, diagnostic and instrumentation products. Late in 2001, we made a shift in our product distribution strategy and expect to rely on independent distributors for a greater portion of our domestic sales. Outside the United States, we rely primarily on third-party distributors and, for certain of our products, have granted our corporate partners exclusive distribution rights. See "Sales, Marketing and Distribution" below.

Our principal executive offices are located at 1613 Prospect Parkway, Fort Collins, Colorado 80525 and our telephone number is (970) 493-7272. We were incorporated in California in 1988, and we reincorporated in Delaware in 1997.

Our business is comprised of two reportable segments, Companion Animal Health and Food Animal Health. Within the Companion Animal Health segment there are two major product groups, which we define as pharmaceuticals, vaccines and diagnostics (PVD) and veterinary diagnostic and patient monitoring instruments. These products are sold through our operations in Fort Collins, Colorado and Europe. Within the Food Animal Health segment, there is one major product group, food animal vaccine and pharmaceutical products. We manufacture these food animal products at our Diamond Animal Health subsidiary located in Des Moines, Iowa.

COMPANION ANIMAL HEALTH PRODUCTS

We presently sell a variety of companion animal health products, among the most significant of which are the following:

DIAGNOSTICS

Heartworm Diagnostic Products. Heartworm infections of dogs and cats are caused by the parasite, Dirofilaria immitis. This parasitic worm is transmitted in larval form to dogs and cats through the bite of an infected mosquito. Larvae develop into adult worms that live in the pulmonary arteries and heart of the host, where they can cause serious cardiovascular, pulmonary, liver and kidney disease. Our canine and feline heartworm diagnostic tests use monoclonal antibodies or a recombinant heartworm antigen, respectively, to detect heartworm antigens or antibodies circulating in the blood of an infected animal. These tests were introduced into the marketplace over the last several years.

We currently market and sell heartworm diagnostic products for both cats and dogs. SOLO STEP FH for cats and SOLO STEP CH for dogs are available in both point-of-care versions that can be used by veterinarians on site, as well as tests that can be sent to our veterinary diagnostic laboratory at our Fort Collins facility. In 2000, we introduced SOLO STEP CH Batch Test Strips, which is a rapid and simple point-of-care antigen detection test for dogs that allows veterinarians in larger practices to run multiple samples at the same time. Novartis Agro K.K. (Novartis Animal Health K.K. Tokyo) has been appointed our exclusive distributor of SOLO STEP CH and SOLO STEP FH in Japan. SOLO STEP CH received regulatory approval from the Japanese Ministry of Agriculture, Forestry

and Fisheries, or MAFF, in September 2001 and was first sold in Japan in November 2001.

Allergy Testing and Diagnostic Products. Allergy is common in companion animals, and it is estimated to affect approximately 10% to 15% of dogs. Clinical symptoms of allergy are variable, but are often manifested as persistent and serious skin disease in dogs and cats. Clinical management of allergic disease is problematic, as there are a large number of allergens that may give rise to these conditions. Although skin testing is often regarded as the most accurate diagnostic procedure, such tests can be painful, subjective and inconvenient. The effectiveness of the immunotherapy that is prescribed to treat allergic disease is inherently limited by inaccuracies in the diagnostic process.

Heska markets two complementary in vitro tests for the detection of IgE, the antibody involved in most allergic reactions:

* The ALLERCEPT E-Screen Test, introduced in 2001, is a rapid in-clinic test that detects the presence of allergen-specific IgE, an antibody associated with allergic disease. Dogs testing positive for allergen-specific IgE are candidates for further evaluation using our ALLERCEPT Definitive Allergen Panels to determine the specific allergens to which the dog is allergic.

* The ALLERCEPT Definitive Allergen Panels, introduced in 1997, provide the most accurate determination of the specific allergens to which a dog is reacting. The panels use a highly specific recombinant version of the natural IgE receptor to screen the serum of potentially allergic animals for IgE directed against a panel of known allergens. A typical test panel consists primarily of various pollen, grass, mold, insect and mite allergens. The test results often serve as the basis for prescription ALLERCEPT Allergy Treatment Sets.

Early Renal Disease. Renal disease is the second leading cause of death in dogs and often goes undetected until it is too late. It is estimated that 70% to 80% of kidney function is already destroyed before veterinarians can detect renal disease using existing tests. Early detection is key to the introduction of dietary or therapeutic regimens that could significantly slow the progression of the disease and add quality years to a dog's life. Our E.R.D.-SCREEN Test, introduced in March 2002, is a rapid in-clinic immunoassay that detects trace amounts of albumin in urine. The persistent presence of albumin in urine is believed to be associated with the early stages of renal disease.

VACCINES

Equine Influenza Vaccine. Equine influenza is a common viral disease of horses and is similar to human influenza. This disease poses a significant risk to the estimated six million horses in the United States. Infected horses have severe respiratory disease and diminished performance for an extended period following infection. We believe that approximately half of the six million horses in the United States currently receive vaccination. Most competitive equine influenza vaccines are administered as a component of a multi-purpose vaccine, intended to provide protection against multiple infectious diseases. Industry sources have estimated the total U.S. equine vaccine market at $50 million. We believe that other currently available vaccines for equine influenza are of limited efficacy.

We have developed a unique vaccine for equine influenza, our Flu AVERT I.N. vaccine, which we believe has improved efficacy and duration of immunity compared to existing products. This product was approved by the United States Department of Agriculture, or USDA, in November 1999 and was first sold to veterinarians in December 1999. In February 2001, we granted Novartis Animal Health Canada exclusive distribution rights for Flu AVERT I.N. vaccine in Canada. The vaccine received regulatory approval from the Canadian Food Inspection Agency, or CFIA, in August 200l and was first sold in Canada in September 2001.

Allergy Treatment Sets. Veterinarians who use our ALLERCEPT Definitive Allergen Panels often purchase ALLERCEPT Allergy Treatment Sets for those animals with positive test results. These prescription immunotherapy treatment sets are formulated specifically for each allergic animal and contain only the allergens to which the animal has significant levels of IgE antibodies. The prescription formulations are administered in a series of injections, with doses increasing over several months, to ameliorate the allergic condition of the animal. Immunotherapy is generally continued for an extended time. We offer both canine and feline immunotherapy treatment products.

Feline Respiratory Disease Vaccine. In 1997, we introduced in the United States HESKA Trivalent Intranasal/Intraocular Vaccine, a three-way modified live vaccine to prevent disease caused by the three most common respiratory viruses of cats: calicivirus, rhinotracheitis virus and panleukopenia virus. This vaccine is administered without needle injection by dropping the liquid preparation into the eyes and nostrils of cats. While there is one competitive non-injectable two-way vaccine, all other competitive products are injectable formulations. The use of injectable vaccines in cats has become controversial due to the frequency of injection site-associated side effects. The most serious of these side effects are injection site sarcomas, tumors which, if untreated, are nearly always fatal. Our vaccine avoids injection site side effects, and we believe it is very efficacious. We anticipate the introduction of a second generation of this product in 2003.

PHARMACEUTICALS

Nutritional Supplements. In 1998, we developed and introduced in the United States a novel fatty acid supplement, HESKA F.A. Granules. The source of the fatty acids in this product, flaxseed oil, leads to high omega-3:omega-6 ratios of fatty acids. Diets high in omega-3 fatty acids are believed to lead to lower levels of inflammatory mediators. The HESKA F.A. Granules include

vitamins and are formulated in a palatable flavor base that makes the product convenient and easy to administer.

MEDICAL INSTRUMENTS

We offer a broad line of veterinary diagnostic, monitoring and other instruments which are described below. We also market and sell consumable supplies and reagents for these instruments. We entered this line of business in March 1998, when we acquired Sensor Devices, Inc., a manufacturer and marketer of patient monitoring and diagnostic instruments. Following that acquisition, we completed the development of various other instruments and entered into agreements for the distribution of additional instruments to veterinarians.

Diagnostic Instruments. Our line of veterinary diagnostic instruments includes the following:

* The i-STAT Portable Clinical Analyzer is a hand-held, portable clinical analyzer that provides quick, easy analysis of blood gases and other key analytes, such as sodium, potassium and glucose, with whole blood.

* The HESKA Vet ABC-Diff Hematology Analyzer is an easy to use blood analyzer that measures such key parameters as white blood cell count, red blood cell count, platelet count and hemoglobin levels in animals.

* The SPOTCHEM EZ is a compact desktop system used to measure common blood chemistry components that are vital to veterinary medical diagnosis. It provides veterinarians with an easy-to-use, flexible and economical in-clinic chemistry system.

Monitoring and Other Instruments. The use by veterinarians of the types of patient monitoring products that are taken for granted in human medicine is becoming the state of the art in companion animal health. Our line of monitoring instruments includes:

* The VET/OX 4404 monitor and the VET/OX 4800 monitor, the centerpieces of our monitoring instrument product line, are oxygen saturation monitors designed for monitoring animals under anesthesia. Each monitor includes a variety of additional parameters, such as pulse rate and strength, body temperature, respiration and ECG.

* The VET/E-Sig probe is used for monitoring ECG, temperature and heart and breath sounds of anesthetized dogs.

* The VET/IV 2.2 infusion pump is a compact, affordable IV pump that allows veterinarians to easily provide regulated infusion of fluids, drugs or nutritional products for their patients.

VETERINARY DIAGNOSTIC LABORATORY

We have a veterinary diagnostic laboratory at our Fort Collins facility. This diagnostic laboratory currently offers our allergy diagnostics, canine and feline heartworm diagnostics and flea bite allergy assays, in addition to other diagnostic services including polymerase chain reaction (PCR) based tests for certain infectious diseases. Our Fort Collins veterinary diagnostic laboratory is currently staffed by medical technologists experienced in animal disease and several additional technical staff.

We intend to continue to use our Fort Collins diagnostic laboratory both as a stand-alone service center for our customers and as an adjunct to our product development efforts. Many of the assays which we intend to develop in a point-of-care format are initially validated and made available in the veterinary diagnostic laboratory and will also remain available there after the introduction of the analogous point-of-care test.

FOOD ANIMAL HEALTH PRODUCTS

In addition to manufacturing companion animal health products for marketing and sale by Heska, Diamond Animal Health, our wholly-owned subsidiary, has developed its own line of food animal vaccines that were licensed by the USDA in the United States in 1998 and 1999. In 1998, Diamond entered into an agreement with a food animal products distributor, Agri Laboratories, Ltd., or AGRILABS, for the exclusive marketing and sale of these vaccines worldwide. AGRILABS currently has an arrangement with Intervet International B.V., a division of Akzo Nobel, for the exclusive distribution of these vaccines worldwide. Certain annual contract minimums must be met by AGRILABS in order to maintain worldwide exclusivity. The agreement expires in December 2004 and is automatically renewed for additional one-year terms thereafter, unless either party gives prior written notice that it does not wish to renew the agreement. We do not currently intend to terminate this agreement and have not received any such notice from AGRILABS. We are currently in negotiations with AGRILABS to modify and extend this agreement. Diamond is the sole manufacturer of these products.

Diamond also manufactures biological and pharmaceutical products for a number of other food animal health companies. This activity ranges from providing complete turnkey services which include research, licensing, production, labeling and packaging of products to providing any one of these services as needed by their customers.

PRODUCT CREATION

We are committed to creating innovative products to address significant unmet health needs of companion animals. We create products both through internal research and development and through external collaborations. Internal research is managed by multidisciplinary product-associated project teams that consist of microbiologists, immunologists, geneticists, biochemists, molecular biologists, parasitologists and veterinarians, as appropriate.

We are also committed to identifying external product opportunities and creating business and technical collaborations that lead to the creation of other products. We believe that our active participation in scientific networks and our reputation for investing in research enhances our ability to acquire external product opportunities.

In the past, we have collaborated with a number of third parties on the development of various pharmaceutical, vaccine and diagnostic products. We have collaborated with numerous university veterinary specialists and practicing veterinarians to test products in development and to validate the utility of our existing products in the marketplace. In addition, we have collaborated with the following institutions and companies to develop critical components of our products:

* Quidel Corporation, Genzyme Corporation and Diagnostic Chemicals, Ltd. with respect to the development of certain of our rapid, in-clinic diagnostics tests,
* Valentis, Inc. and National Jewish Medical and Research Center on the development of an intratumor gene therapy for the treatment of solid tumors in dogs, and
* Researchers at the University of Pittsburgh on the development of our Flu Avert I.N. vaccine.

We have also collaborated with several third parties on the development of our veterinary medical instrument product line, including:

* i-STAT Corporation, for the development of veterinary applications for the i-STAT Portable Clinical Analyzer and the cartridges used with this instrument,

* Arkray, Inc., for the development of veterinary applications for the SPOTCHEM EZ clinical biochemistry analyzer and associated reagents, and

* scil GmbH, for the development of veterinary applications for the Heska Vet ABC-Diff Hematology Analyzer and associated reagents.

Our product pipeline currently includes numerous products in various stages of development. Products under development include several point-of-care diagnostic products, vaccines and pharmaceutical products for allergy, cancer, heartworm control, pain management and flea control. We currently have under development the following products which we expect to introduce in 2002 and 2003:

* A screening test for the parasites, Giardia and Cryptosporidium;
* A second generation vaccine for feline respiratory disease;
* A diagnostic product to determine if cats remain protected against common respiratory viral diseases; and
* A gene-based medicine that stimulates a dog's own immune system to attack tumors.

The vast majority of all our research and development resources are directed toward the development of new companion animal health products. We incurred expenses of $13.6 million, $14.9 million and $17.0 million in the years ended December 31, 2001, 2000, and 1999, respectively in support of our research and development activities.

SALES, MARKETING AND DISTRIBUTION

We estimate that there are approximately 30,000 veterinarians in the United States whose practices are devoted principally to small animal medicine. Those veterinarians practice in approximately 20,000 clinics in the United States. During the past year, we sold our products to approximately 14,000 such clinics in the United States.

We currently market our products in the United States to veterinarians through independent third- party distributors, a direct sales force, a telephone sales force, trade shows and print advertising. Prior to 2001, our distribution strategy relied upon the use of third-party sales agents who would market Heska's products on consignment. During 2001, we modified our distribution strategy and entered into distribution agreements with over 20 third-party veterinary distributors. These distributors market our products utilizing their direct sales forces. Nearly one-half of these domestic distributors carry the full line of our pharmaceutical, vaccine, diagnostic and instrumentation products. We believe that these relationships will provide for more complete market penetration. Internationally, we market our products to veterinarians primarily through third-party distributors and corporate partners.

Given the shift in our product distribution strategy, we expect that a greater portion of our sales will come from distributors rather than our direct sales force. An important factor in successfully implementing this strategy will be to retain sufficient independent distributors to market and sell our products. We believe that one of our largest competitors, IDEXX, prohibits its distributors from selling competitors' products, including our SOLO STEP heartworm diagnostic products and medical diagnostic instruments. To be successful, we will need to continue to attract and retain sufficient independent distributors and train the sales personnel of our distributors about the Heska products.

We have granted third parties substantial marketing rights to certain of our existing products as well as products under development. Our agreements with our corporate marketing partners generally contain no minimum purchase requirements in order for them to maintain their exclusive or co-exclusive marketing rights. Currently, Novartis Agro K.K. markets and distributes SOLO STEP CH in Japan, and Novartis Animal Health Canada, Inc. distributes our Flu AVERT I.N. vaccine in Canada. In addition, we have entered into agreements with Novartis, Nestle Purina Petcare Company and Eisai Inc. to market or co-market

certain of the products that we are currently developing.

MANUFACTURING

Our products are manufactured by our Fort Collins, Des Moines and Fribourg, Switzerland facilities and/or by third-party manufacturers. Diamond's facility is a USDA, Food and Drug Administration, or FDA, and Drug Enforcement Agency, or DEA, licensed biological and pharmaceutical manufacturing facility in Des Moines, Iowa. We expect that we will manufacture most or all of our biological products at this facility, as well as most or all of our recombinant proteins and other proprietary reagents for our diagnostic products. Heska AG manufactures its allergy diagnostic products at its facility in Fribourg, Switzerland. Quidel Corporation and Diamond manufacture our heartworm point-of-care diagnostic products. Centaq, Inc. manufactures our immunotherapy treatment products. Third parties manufacture our veterinary diagnostic and patient monitoring instruments, including our various analyzers and veterinary sensors.

In addition to manufacturing certain of our proprietary products, Diamond manufactures animal health vaccine products for marketing and sale by other companies. Diamond currently has the capacity to manufacture more than 50 million doses of vaccine each year. Diamond's customers purchase products in both bulk and finished format, and Diamond performs all phases of manufacturing, including growth of the active bacterial and viral agents, sterile filling, lyophilization and packaging. Diamond also offers support to its customers through research services, regulatory compliance services, validation support and distribution services.

COLLABORATIVE AGREEMENTS

Novartis. We have entered into several collaborative agreements with various subsidiaries and/or divisions of Novartis AG.

* Screening and Development Agreement. We entered into this agreement with Ciba-Geigy Limited, now known as Novartis AG, in April 1996. Under the agreement the parties may undertake joint research and development activities related to both companion animal and food animal health. If the parties decide not to perform joint research activities, then Novartis has the right to use our materials to develop food animal or companion animal products. Novartis would pay royalties on any such products developed by it. There are currently no joint research programs underway and no products being sold that were developed under this agreement. This Agreement is effective until December 31, 2005.

* Marketing Agreements. In April 1996, we entered into marketing agreements with Ciba-Geigy Limited (Novartis AG) and Ciba-Geigy Corporation, now known as Novartis Animal Health US, Inc. Under these agreements, these entities were granted various rights to manufacture and market flea control vaccine or feline heartworm control vaccine products developed by us for which USDA prelicensing serials are completed on or before December 31, 2005. We have co-exclusive rights to market these products under our own trade names throughout the world, subject to certain other marketing rights, and we share revenues on those sales. These agreements are in force until December 2010 or for as long as Novartis is selling the products. No products have yet been developed or commercialized under these agreements.

* Right of First Refusal Agreements.

  - In April 1996 we entered into an agreement with Ciba-Geigy Limited (Novartis AG) under which we, prior to granting licenses to any third party to products or technology developed or acquired by us for either companion animal or food animal applications, subject to certain other rights, must first notify and offer Novartis such rights. This agreement terminates in December 2005. To date, Novartis AG is not developing or marketing any products offered to it under this agreement, except for a Leishmania vaccine that is currently in development at Novartis.

  - In August 1998, we entered into an agreement with Novartis Agro K.K. ("NAH-Japan") and Novartis Animal Health, Inc. ("NAH") under which both entities, prior to granting licenses to any third party to certain products or technology offered to NAH-Japan or NAH by any third party or by any NAH affiliate for either companion animal or food animal applications, must first notify and offer us such rights. This agreement terminates in December 2005. To date, Heska is not developing or marketing any products under this agreement.

* Exclusive Distribution Agreements.

  - In August 1998, we entered into an agreement with Novartis Agro K.K. (Novartis Animal Health K.K. Tokyo) to be our exclusive distributor for SOLO STEP CH and SOLO STEP FH heartworm diagnostic products and our feline Bivalent/Trivalent Intranasal/Intraocular Vaccines in Japan upon obtaining regulatory approval in Japan for such products, at Novartis' expense. This right continues until December 2006. There are no minimum purchase obligations contained in this agreement. Sales of SOLO STEP CH began in November 2001.

  - In February 2001, we entered into an agreement with Novartis Animal Health Canada, Inc. to be our exclusive distributor for Flu AVERT, I.N. our equine influenza vaccine in Canada until December 2006, subject to Novartis meeting certain minimum purchase requirements. Products are marketed under the HESKA brand name. Product sales began in November 2001.

Nestle Purina PetCare Company. We have a strategic alliance with Nestle Purina PetCare Company, formerly Ralston Purina Company. Nestle holds exclusive rights to license our discoveries, know-how and technologies for innovative diets for dogs and cats. The first product from this strategic alliance was introduced under the Purina name in July 2000. A second related product was introduced in 2001. These products are specialty diets for the nutritional management of feline diabetes mellitus. We receive a royalty from Nestle on sales of these products.

i-STAT Corporation. Under the terms of an Amended and Restated Distribution Agreement dated as of February 1999, we have been granted exclusive rights to market and sell the i-STAT portable blood analyzer and cartridges in the U.S. and major international markets, including Europe. We also have a right to market certain products developed by i-STAT. The term of this agreement is currently until December 2002. It is automatically renewed thereafter for additional 12 months terms unless either party gives at least 9 months prior written notice to the other that it does not wish to renew the agreement.

Agri Laboratories, Ltd. In July 1998, our wholly owned subsidiary, Diamond Animal Health, Inc. entered into a Bovine Vaccine Distribution Agreement. Under the terms of this agreement, Diamond has agreed to manufacture and sell certain bovine vaccines to AGRILABS for distribution worldwide, with certain exceptions. Certain minimum purchase requirements apply to this agreement. This agreement expires in December 2004 and is automatically renewed thereafter for additional one year terms unless either party gives prior written notice to the other that it does not wish to renew the agreement. We are currently in negotiations with AGRILABS to modify and extend this agreement.

INTELLECTUAL PROPERTY

We believe that patents, trademarks, copyrights and other proprietary rights are important to our business. We also rely upon trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain our competitive position.

We actively seek patent protection both in the United States and abroad. As of December 31, 2001, we owned, co-owned or had rights to 138 issued U.S. patents and 110 pending U.S. patent applications. Our issued U.S. patents primarily relate to allergy, flea control, heartworm control, infectious disease vaccines, nutrition, instrumentation, diagnostics or vaccine delivery technologies. Our pending patent applications primarily relate to allergy, flea control, heartworm control, infectious disease vaccines, diagnostics, nutrition, cancer, vaccine delivery, immunomodulators or medical instrument technologies. Applications corresponding to pending U.S. applications have been or will be filed in other countries. Our patent portfolio also includes 132 issued patents and 209 pending applications in various foreign countries.

We also have obtained exclusive and non-exclusive licenses for numerous other patents held by academic institutions and biotechnology and pharmaceutical companies. The proprietary technologies of Diamond and Heska AG are primarily protected through trade secret protection of, for example, their manufacturing processes.

The biotechnology and pharmaceutical industries have been characterized by extensive litigation relating to patents and other intellectual property rights. In 1998, Synbiotics Corporation filed a lawsuit against us alleging infringement of a Synbiotics patent relating to heartworm diagnostic technology. See "Item 3. Legal Proceedings."

SEASONALITY

Certain portions of our business are subject to seasonality, including our SOLO STEP heartworm diagnostic products, which are principally sold starting in the fourth quarter and continuing through the second quarter of the year; our Flu AVERT I.N. vaccine for equine influenza, which is principally sold in the first and fourth quarters of the year; our veterinary medical instrument products, sales of which are higher in the fourth quarter of the year; and our food animal vaccine products, which are sold principally in the second half of the year.

GOVERNMENT REGULATION

Most of the products that we develop are subject to extensive regulation by governmental authorities in the United States, including the USDA and the FDA, and by similar agencies in other countries. These regulations govern, among other things, the development, testing, manufacturing, labeling, storage, pre-market approval, advertising, promotion, sale and distribution of our products. Satisfaction of these requirements can take several years and time needed to satisfy them may vary substantially, based on the type, complexity and novelty of the product. Any product that we develop must receive all relevant regulatory approval or clearances, if required, before it may be marketed in a particular country. The following summarizes the U.S. government agencies that regulate animal health products:

* USDA. Vaccines and certain point-of-care diagnostics are considered veterinary biologics and are therefore regulated by the Center for Veterinary Biologics, or CVB, of the USDA. Industry data indicate that it takes approximately four years and $1.0 million to license a conventional vaccine for animals from basic research through licensing. In contrast to vaccines, point-of-care diagnostics can typically be licensed by the USDA in about a year, at considerably less cost. However, vaccines or diagnostics that use innovative materials, such as those resulting from recombinant DNA technology, usually require additional time to license. The USDA licensing process involves the submission of several data packages. These packages include information on how the product will be manufactured, information on the efficacy

and safety of the product in laboratory animal studies and information on performance of the product in field conditions.

* FDA. Pharmaceutical products, which generally include synthetic compounds, are approved and monitored by the Center for Veterinary Medicine of the FDA. Industry data indicate that developing a new drug for animals requires approximately 11 years from commencement of research to market introduction and costs approximately $5.5 million. Of this time, approximately three years is spent in animal studies and the regulatory review process. However, unlike human drugs, neither preclinical studies nor a sequential phase system of studies are required. Rather, for animal drugs, studies for safety and efficacy may be conducted immediately in the species for which the drug is intended. Thus, there is no required phased evaluation of drug performance, and the Center for Veterinary Medicine will review data at appropriate times in the drug development process. In addition, the time and cost for developing companion animal drugs may be significantly less than for drugs for food production animals, as food safety issues relating to tissue residue levels are not present.

* EPA. Products that are applied topically to animals or to premises to control external parasites are regulated by the Environmental Protection Agency, or EPA.

After we have received regulatory licensing or approval for our pharmaceutical products, numerous regulatory requirements apply. Among the conditions for certain regulatory approvals is the requirement that our manufacturing facilities or those of our third-party manufacturers conform to current Good Manufacturing Practices or other manufacturing regulations, which include requirements relating to quality control and quality assurance as well as maintenance of records and documentation. The USDA, FDA and foreign regulatory authorities strictly enforce manufacturing regulatory requirements through periodic inspections.

A number of our animal health products are not regulated. For example, certain assays for use in a veterinary diagnostic laboratory, such as ALLERCEPT, E-SCREEN and E.R.D.-SCREEN Urine Test, do not have to be licensed by either the USDA or FDA. Similarly, none of our veterinary diagnostic and patient monitoring instruments require regulatory approval to be marketed and sold. Additionally, various botanically derived products, various nutritional products and supportive care products are exempt from significant regulation as long as they do not bear a therapeutic claim that represents the product as a drug.

We have pursued regulatory approval outside the United States based on market demographics of foreign countries. For marketing outside the United States, we are also subject to foreign regulatory requirements governing regulatory licensing and approval for many of our products. The requirements governing product licensing and approval vary widely from country to country. Licensing and approval by comparable regulatory authorities of foreign countries must be obtained before we can market products in those countries. The approval process varies from country to country and the time required for such approvals may differ substantially from that required in the United States. We cannot be certain that approval of any of our products in one country will result in approvals in any other country. To date, we or our distributors have sought regulatory approval for certain of our products in Canada, which is governed by the Canadian Food Inspection Agency, or CFIA, and in Japan, which is governed by the Japanese Ministry of Agriculture, Forestry and Fisheries, or MAFF.

The status of regulatory approval for our major products and products in development both in the United States and elsewhere is summarized below.

CURRENT MAJOR PRODUCTS	COUNTRY	REGULATED	AGENCY	STATUS
ALLERCEPT E-SCREEN Test	United States	No		
	EU	No - in most countries		
ALLERCEPT Definitive Allergen Panels	Unites States	No		
	EU	No		
E.R.D.-SCREEN Urine Test	United States	No		
	EU	No - in most countries		
Flu AVERT I.N. Vaccine	United States	Yes	USDA	Licensed
	Canada	Yes	CFIA	Licensed
HESKA F.A. Granules	United States	No		
SOLO STEP CH	United States	Yes	USDA	Licensed
	Canada	Yes	CFIA	Pending
	Japan	Yes	MAFF	Licensed
SOLO STEP FH	United States	Yes	USDA	Licensed
SOLO STEP Batch Test Strips	United States	Yes	USDA	Licensed
	Canada	Yes	CFIA	Pending
Trivalent Intranasal/Intraocular Vaccine	United States	Yes	USDA	Licensed
Veterinary Medical Instrumentation	United States	No		
	EU	No		

PRODUCTS IN DEVELOPMENT	COUNTRY	REGULATED	AGENCY	STATUS
Feline ImmuCheck Assay	United States	Yes	USDA	Pending
	EU	No-in most countries		
Canine Cancer Gene Therapy	United States	Yes	USDA	Pending
Giardia + Crypto-Screen Fecal Test	United States	Yes	USDA	Pending

	EU	No-in most countries		
Trivalent Intranasal/Intraocular Vaccine-Second Generation	United States	Yes	USDA	Pending

COMPETITION

The market in which we compete is intensely competitive. Our competitors include independent animal health companies and major pharmaceutical companies that have animal health divisions. Companies with a significant presence in the animal health market, such as Wyeth (formerly American Home Products), Bayer AG, IDEXX Laboratories, Inc., Intervet International B.V., Merial Ltd., Novartis AG, Pfizer Inc., Pharmacia Corporation and Schering-Plough Corporation are marketing or are developing products that compete with our products. These competitors may have substantially greater financial, technical, research and other resources and larger, more established marketing, sales, distribution and service organizations than us. Moreover, such competitors may offer broader product lines and have greater name recognition than we do. Novartis is our marketing partner, but its agreement with us does not restrict its ability to develop and market competing products. In addition, we believe that IDEXX prohibits its distributors from selling competitors' products, including our SOLO STEP heartworm diagnostic products and medical diagnostic instruments.

The food animal vaccines sold by Diamond to AGRILABS compete with similar products offered by a number of other companies, some of which have substantially greater financial, technical, research and other resources than Diamond and may have more established marketing, sales, distribution and service organizations than AGRILABS.

ENVIRONMENTAL REGULATION

In connection with our product development activities and manufacturing of our biological, pharmaceutical and diagnostic products, we are subject to federal, state and local laws, rules, regulations and policies governing the use, generation, manufacture, storage, handling and disposal of certain materials, biological specimens and wastes. Although we believe that we have complied with these laws, regulations and policies in all material respects and have not been required to take any significant action to correct any noncompliance, we may be required to incur significant costs to comply with environmental and health and safety regulations in the future. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be eliminated. In the event of such an accident, we could be held liable for any damages that result and any such liability could exceed our resources.

EMPLOYEES

As of December 31, 2001, we and our subsidiaries employed 336 full-time persons, of whom 107 were in manufacturing, quality control, shipping and receiving, and materials management, 90 were in research, development, intellectual property and regulatory affairs, 57 were in management, finance, administration, legal, information systems, human resources and facilities management, 67 were in sales, marketing and customer service and 15 were in the diagnostic laboratories. We believe that our ability to attract and retain skilled personnel is critical to our success. None of our employees is covered by a collective bargaining agreement, and we believe our employee relations are good.

ITEM 2. PROPERTIES.

Our principal administrative and research and development activities are located in Fort Collins, Colorado. We currently lease an aggregate of approximately 64,000 square feet of administrative and laboratory space in four buildings located in Fort Collins under leases expiring through 2005, with options to extend through 2010 for the larger facilities. We believe that our present Fort Collins facilities are adequate for our current and planned activities and that suitable additional or replacement facilities in the Fort Collins area are readily available on commercially reasonable terms should such facilities be needed in the future. Our principal manufacturing facility, Diamond, located in Des Moines, Iowa, consists of 168,000 square feet of buildings on 34 acres of land, which we own. We also own a 175-acre farm used principally for research purposes located in Carlisle, Iowa. Our European subsidiaries lease their facilities.

ITEM 3. LEGAL PROCEEDINGS.

In November 1998, Synbiotics Corporation filed a lawsuit against us in the United States District Court for the Southern District of California in which it alleges that we infringe a patent owned by Synbiotics relating to heartworm diagnostic technology. We have obtained legal opinions from our outside patent counsel that our heartworm diagnostic products do not infringe the Synbiotics patent and that the patent is invalid. The opinions of non-infringement are consistent with the results of our internal evaluations related to the one remaining claim. In September 2000, the U.S. District Court hearing the case granted our request for a partial summary judgment, holding two of the Synbiotics patent claims to be invalid, leaving only the one remaining claim in the lawsuit. The one remaining claim is currently scheduled for trial in 2002.

While we believe that we have valid defenses to Synbiotics' allegations and intend to defend the action vigorously, there can be no assurance that an adverse result or settlement would not have a material adverse effect on our financial position, results of operations or cash flow.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were submitted to a vote of stockholders during the fourth

quarter of the year ended December 31, 2001.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our common stock is quoted on the Nasdaq National Market under the symbol "HSKA." The following table sets forth the intraday high and low, prices for our common stock as reported by the Nasdaq National Market, for the periods indicated below.

	HIGH	LOW
2000		
First Quarter	$ 5.563	$ 2.063
Second Quarter	4.375	1.500
Third Quarter	4.469	1.750
Fourth Quarter	2.938	0.594
2001		
First Quarter	1.563	0.656
Second Quarter	1.440	0.950
Third Quarter	1.310	0.500
Fourth Quarter	1.100	0.500
2002		
First Quarter (through March 26)	1.470	1.019

On March 26, 2002, the last reported sale price of our common stock was $1.10 per share. As of March 26, 2002, there were approximately 358 holders of record of our common stock and approximately 4,658 beneficial stockholders. We have never declared or paid cash dividends on our capital stock and do not anticipate paying any cash dividends in the near future. In addition, we are restricted from paying dividends, other then dividends payable solely in stock, under the terms of our credit facility. We currently intend to retain future earnings for the development of our business.

On December 18, 2001, we issued 7,792,768 shares of common stock for an aggregate purchase price of approximately $5.7 million, net of issuance costs, to accredited investors. The issuance of these shares was made in reliance on the exemptions from registration set forth in Section 4(2) of the Securities Act of 1933, as amended. We made no public solicitation in connection with the issuance of the above-mentioned securities. We relied on representations from the recipients of the securities that they purchased the securities for investment only and not with a view to any distribution thereof and that they were aware of our business affairs and financial condition and had sufficient information to reach an informed and knowledgeable decision regarding their purchase of the securities.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.

The following statement of operations and balance sheet data have been derived from our consolidated financial statements. The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related Notes included as Items 7 and 8 in this Form 10-K.

	YEAR ENDED DECEMBER 31,				
	2001	2000	1999	1998	1997
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
CONSOLIDATED STATEMENT OF OPERATIONS DATA:					
Revenues:					
Products, net:					
Pharmaceuticals, vaccines and diagnostics	$ 16,704	$ 13,961	$ 12,716	$ 5,406	$ 2,587
Veterinary medical instruments	16,018	14,194	12,106	6,709	5,690
Food animal products	13,664	18,203	12,086	12,234	11,083
Sold businesses and other	-	3,191	13,383	14,102	7,365
Total product revenues	46,386	49,549	50,291	38,451	26,725
Research, development and other	1,897	3,126	885	1,321	2,578
Total revenues	48,283	52,675	51,176	39,772	29,303
Cost of products sold	28,655	33,299	36,386	29,087	20,077
	19,628	19,376	14,790	10,685	9,226
Operating expenses:					
Selling and marketing	13,981	14,788	15,073	13,188	9,954
Research and development	13,565	14,929	17,042	25,126	20,343
General and administrative	7,882	9,457	11,231	11,939	13,192
Amortization of intangible assets and deferred compensation	299	903	2,228	2,745	2,500
Purchased research and					

development	-	-	-	-	2,399
Loss on sale of assets	-	204	2,593	1,287	-
Restructuring expenses and other	2,023	435	1,210	2,356	-
Total operating expenses	37,750	40,716	49,377	56,641	48,388
Loss from operations	(18,122)	(21,340)	(34,587)	(45,956)	(39,162)
Other income (expense)	(569)	(530)	(1,249)	1,682	298
Net loss	$ (18,691)	$ (21,870)	$ (35,836)	$ 44,274)	$ (38,864)
Basic net loss per share	$ (0.48)	$ (0.65)	$ (1.31)	$ (1.79)	
Unaudited pro forma basic net loss per share(1)					$ (2.42)
Shares used to compute basic net loss per share and Unaudited pro forma basic net loss per share	38,919	33,782	27,290	24,693	16,042

	DECEMBER 31,				
	2001	2000	1999	1998	1997
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
CONSOLIDATED BALANCE SHEET DATA:					
Cash, cash equivalents and marketable securities	$ 5,710	$ 5,658	$ 23,981	$ 51,930	$ 28,752
Working capital	8,215	13,308	28,234	51,947	31,461
Total assets	37,757	39,160	71,168	98,054	69,020
Line of credit	5,737	-	917	1,749	667
Long-term obligations	3,131	3,819	5,346	11,367	10,754
Accumulated deficit	(193,163)	(174,472)	(152,602)	(116,766)	(72,492)
Total stockholders' equity	17,166	25,100	45,439	67,114	43,850

(1) All shares of convertible preferred stock were automatically converted to common stock upon closing of the Company's initial public offering in July 1997. The Company has reflected the conversion of convertible preferred stock into 11,289 shares of common stock on a pro forma basis as if the shares had been outstanding during 1997.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Selected Consolidated Financial Data" and the Consolidated Financial Statements and related Notes included in Items 6 and 8 of this Form 10-K.

This discussion contains forward-looking statements that involve risks and uncertainties. Such statements, which include statements concerning future revenue sources and concentration, gross margins, research and development expenses, selling and marketing expenses, general and administrative expenses, capital resources, additional financings or borrowings and additional losses, are subject to risks and uncertainties, including, but not limited to, those discussed below and elsewhere in this Form 10-K, particularly in "Factors that May Affect Results," that could cause actual results to differ materially from those projected. The forward-looking statements set forth in this Form 10-K are as of April 1, 2002, and we undertake no duty to update this information.

CORPORATE OVERVIEW

We discover, develop, manufacture and market companion animal health products, principally for dogs, cats and horses. We employ approximately 80 scientists, of whom over one quarter hold doctoral degrees, with expertise in several disciplines including microbiology, immunology, genetics, biochemistry, molecular biology, parasitology and veterinary medicine. This scientific expertise is focused on the development of a broad range of pharmaceutical, vaccine and diagnostic products for companion animals. We also sell veterinary diagnostic and patient monitoring instruments and offer diagnostic services to veterinarians in the United States and Europe, principally for companion animals. In addition to manufacturing companion animal health products for marketing and sale by Heska, our Diamond Animal Health subsidiary manufactures food animal vaccines and other food animal products that are marketed and distributed by other animal health companies.

OUR BUSINESS

We currently market our products in the United States to veterinarians through approximately 20 independent third-party distributors and through a direct sales force. Nearly one-half of these domestic distributors purchase the full line of our pharmaceutical, vaccine, diagnostic and instrumentation products. We have recently begun to rely on distributors for a greater portion of our sales.

Our business is comprised of two reportable segments, Companion Animal Health and Food Animal Health. Prior to June 30, 2000, we also had a third reportable segment, Allergy Treatment, which represented the operations of a subsidiary sold as of June 23, 2000. Within the Companion Animal Health segment there are two major product groupings which we define as pharmaceuticals, vaccines and diagnostics (PVD) and veterinary diagnostic and patient monitoring

instruments. These products are sold through our operations in Fort Collins, Colorado and Europe. Within the Food Animal Health segment, there is one major product grouping, food animal vaccine and pharmaceutical products. We manufacture these food animal products at our Diamond Animal Health subsidiary, located in Des Moines, Iowa.

Additionally, we generate non-product revenues from sponsored research and development projects for third parties, licensing of technology and royalties. We perform these sponsored research and development projects for both companion animal and food animal purposes.

ACQUISITIONS AND DISPOSITIONS

In 1996, we expanded into a fully-integrated research, development, manufacturing and marketing company by acquiring Diamond Animal Health, a licensed pharmaceutical and biological manufacturing facility in Des Moines, Iowa, accounted for as a purchase. We acquired Center Laboratories, an FDA and USDA licensed manufacturer of allergy immunotherapy products located in New York in 1997, accounted for as a purchase. Center was sold effective June 23, 2000. Also in 1997, we expanded internationally with the acquisitions of Heska UK, a veterinary diagnostic laboratory in England and Heska AG (formerly Centre Medical des Grand'Places S.A.) in Switzerland, which manufactures and markets allergy diagnostic products for use in veterinary and human medicine, primarily in Europe, accounted for as a purchase. Heska UK was sold effective January 31, 2000. In 1998, we acquired Sensor Devices, Inc., a manufacturer and marketer of patient monitoring devices located in Waukesha, Wisconsin, accounted for as a pooling. These operations were consolidated with our existing operations in Fort Collins, Colorado and Des Moines, Iowa as of December 31, 1999 and the facility was closed.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are more fully described in Note 2 to our consolidated financial statements. However, certain of our accounting policies are particularly important to the understanding of our financial position and results of operations and require the application of significant judgment by our management; as a result they are subject to an inherent degree of uncertainty. In applying those policies, our management uses its judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on our historical experience, terms of existing contracts, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. Our significant accounting policies include:

* The Company generates its revenues through sale of products, licensing of technology and sponsored research and development. Revenue is accounted for in accordance with the guidelines provided by Staff Accounting Bulletin 101 "Revenue Recognition in Financial Statements" (SAB 101). The Company's 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
  - Collectibility is reasonably assured.

  Revenue from the sale of products is generally recognized after both the goods are shipped to the customer and acceptance has been received with an appropriate provision for returns and allowances. 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.

  In addition to its direct sales force, the Company utilizes third-party distributors to sell its products. Distributors purchase goods from the Company, take title to those goods and resell them to their customers in the distributors' territory.

  License revenues under arrangements to sell product rights or technology rights are recognized upon the sale and completion by the Company of all obligations under the agreement. Royalties are recognized as products are sold to customers.

  The Company recognizes revenue from sponsored research and development over the life of the contract as research activities are performed. The revenue recognized is the lesser of revenue earned under a percentage of completion method based on total expected revenues or actual non-refundable cash received to date under the agreement.

* Inventories. Inventories are stated at the lower of cost or market, cost being determined on the first-in, first-out method. Inventories are written down if the estimated net realizable value is less than the recorded value.

* Foreign currency translation. The financial position and results of operations of our foreign subsidiaries are measured using local currency as the functional currency. Assets and liabilities of each foreign subsidiary are translated at the rate of exchange in effect at the end of the period. Revenues and expenses are translated at the average exchange rate for the period. Foreign currency translation gains and losses not impacting cash flows are credited to or charged against other comprehensive income (loss). Foreign currency translation gains

and losses arising from cash transactions are credited to or charged against current earnings.

RESULTS OF OPERATIONS

The following table summarizes our operations for our three most recent fiscal years.

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS)		
CONSOLIDATED STATEMENT OF OPERATIONS DATA:			
Revenues:			
Products, net:			
Pharmaceuticals, vaccines and diagnostics	$ 16,704	$ 13,961	$ 12,716
Veterinary medical instruments	16,018	14,194	12,106
Food animal products	13,664	18,203	12,086
Sold businesses and other	-	3,191	13,383
Total product revenues	46,386	49,549	50,291
Research, development and other	1,897	3,126	885
Total revenues	48,283	52,675	51,176
Cost of products sold	28,655	33,299	36,386
	19,628	19,376	14,790
Operating expenses:			
Selling and marketing	13,981	14,788	15,073
Research and development	13,565	14,929	17,042
General and administrative	7,882	9,457	11,231
Amortization of intangible assets and deferred compensation	299	903	2,228
Loss on sale of assets	-	204	2,593
Restructuring expenses and other	2,023	435	1,210
Total operating expenses	37,750	40,716	49,377
Loss from operations	(18,122)	(21,340)	(34,587)
Other income (expense)	(569)	(530)	(1,249)
Net loss	$ (18,691)	$ (21,870)	$ (35,836)
Basic net loss per share	$ (0.48)	$ (0.65)	$ (1.31)

REVENUES

Total revenues, which include product revenues, sponsored research and development and other revenues, decreased 8% to $48.3 million in 2001 compared to $52.7 million in 2000. The 2000 total revenues of $52.7 million increased 3% compared to $51.2 million in 1999. The total reported revenue included approximately $3.2 million in 2000 and $13.4 million in 1999 from businesses sold and non-strategic product lines discontinued during those years. In 2000, we recorded $1.3 million in non-recurring revenue related to the sale of the worldwide rights to one of our products. Sales to one customer, AGRILABS, represented 16% and 17% of total revenues in 2001 and 2000, respectively, and sales to another customer, Bayer, represented 12% of total revenues in 1999. We expect our total 2002 revenues to be higher than 2001 for all product groups as we introduce our new canine early renal disease diagnostic and record full-year revenues for products introduced in the prior year.

Product revenues decreased 6% to $46.4 million in 2001 compared to $49.5 million in 2000. Product revenues decreased 2% to $49.5 million in 2000 compared to $50.3 million in 1999.

Our PVD product group had increased revenues of 20% in 2001 and 10% in 2000 on a year-to-year basis. Both of these annual increases were driven primarily by higher domestic sales of our heartworm diagnostic products and equine influenza vaccine, as well as growth in our export sales of both products. We introduced the equine influenza vaccine in 2000 and in 2001 we introduced our E-SCREEN allergy product. In 2002, we introduced our E.R.D.-SCREEN Urine Test canine renal product. We expect PVD product revenues to increase in 2002 due primarily to this introduction.

Revenues from the Instruments product group increased 12% to $16.0 million in 2001 and 17% to $14.2 million in 2000 over the respective prior year. The 2001 increase is primarily attributable to the introduction of our new blood chemistry instrument and solid growth in consumables and reagents as more instruments have been placed in service each year. During 2000 we experienced significant growth in the sales of our portable analyzer and hematology instrument and the related consumables and reagents. Instrument product revenues in 2002 should continue to grow at a rate equal to or greater than 2001 due to a full year of sales for our blood chemistry instrument introduced in 2001 and increased sales for consumables and reagents with more instruments placed in service.

Diamond Animal Health reported 25% lower revenues in 2001 declining to $13.6 million versus the prior year revenues of $18.2 million due to reduced orders from a significant vaccine customer. Revenues at Diamond increased 51% in 2000 over the 1999 total of $12.1 million due to increases in contract vaccine manufacturing for food animals. We expect higher sales at Diamond in 2002 with growth primarily in our bovine vaccine products.

Revenues from sponsored research and development and other decreased 39% to $1.9 million in 2001 from $3.1 million in 2000. Included in the total for 2000 is $1.3 million of revenue from the sale of our worldwide rights to the PERIOceutic Gel product. Revenues from sponsored research and development and other increased 244% to $3.1 million in 2000 from $900,000 in 1999 due to the sale of the product rights and an increase in the number of funded research projects. Our revenues from sponsored research and development are anticipated to be significantly lower in 2002 due to fewer large research projects for third parties.

COST OF PRODUCTS SOLD

Cost of products sold totaled $28.7 million in 2001 compared to $33.3 million in 2000, and the resulting gross profit from product sales for 2001 increased to $17.7 million from $16.3 million in 2000. Our gross margin percentage on products sold was 38% in 2001, compared to 33% in 2000. During 2001, our gross margin improved as our product mix included a higher percentage of our proprietary PVD products with higher gross margins. Also during fiscal 2000 we sold businesses and eliminated various product lines that did not meet gross profit expectations.

Cost of goods sold totaled $33.3 million in 2000 compared to $36.4 million in 1999, and the resulting gross profit from product sales for 2000 increased to $16.3 million from $13.9 million in 1999. Our gross margin percentage was 33% in 2000, compared to 28% in 1999. During 2000, our gross margin improved as our product mix included a higher percentage of proprietary products with higher gross margins. Also during fiscal 2000 and late in fiscal 1999, we sold businesses and eliminated various product lines that did not meet gross profit expectations.

We expect our gross margin percentage to continue to increase in 2002 as we sell more higher-margin PVD products plus reagents and consumables related to the increased number of instruments in use in the marketplace. We also expect to benefit from an improved cost structure at Diamond. This expected gross margin percentage increase will be at a slower pace than prior years because, in part, it will be somewhat offset by the recent change in our distribution strategy which incorporates a larger reliance on third-party distributors for the sale of our products.

OPERATING EXPENSES

Selling and marketing expenses decreased over 5% to $14.0 million in 2001 as compared to $14.8 million in 2000, due to the sale of certain businesses. Selling and marketing expenses consist primarily of salaries, commissions and benefits for sales and marketing personnel, commissions paid to contract sales personnel and expenses of product advertising and promotion. We expect lower selling and marketing expenses in 2002 as we rely more heavily on third-party distributors rather than our own direct sales force to generate sales of our products to veterinarians. Selling and marketing expenses remained relatively flat with $14.8 million in 2000 as compared to $15.1 million in 1999, due to the sale of certain businesses offset by the introduction and marketing costs for new products.

Research and development expenses decreased nearly 9% to $13.6 million in 2001 from $14.9 million in 2000 and $17.0 million in 1999. The decreases are due to a greater focus on companion animal product opportunities and tight cost control. We expect a similar decrease in these expenses in 2002 for the same reasons.

General and administrative expenses decreased 17% to $7.9 million in 2001 from $9.5 million in 2000 and $11.2 million in 1999. The year-over-year decreases are due to the sale of certain businesses and tight cost control at all operations. We expect general and administrative expenses to continue to decrease in 2002 with continued tight cost control.

The amortization of goodwill and other intangibles resulted in a non-cash charge to operations of $270,000, $255,000 and $1.6 million in 2001, 2000 and 1999, respectively. The decrease after 1999 is due to the sale of Heska UK and the write-down of goodwill and certain intangible assets in 1999. The amortization of deferred compensation resulted in a non-cash charge to operations in 2001 of approximately $29,000 compared to $648,000 and $629,000 in 2000 and 1999, respectively. The 2000 and 1999 amortization of deferred compensation represents current period costs associated with options issued to employees during 1996 and 1997 in which the deemed value of the common stock for accounting purposes on the date of grant exceeded the exercise price of the options. The compensation costs were recognized over the service period and the related deferred compensation was fully amortized as of December 31, 2000. We have adopted SFAS 142 and therefore, will no longer be amortizing the goodwill associated with our purchase of CMG. During fiscal 2001, we recognized $210,000 of amortization related to this goodwill.

The loss on sale of assets in 2000 reflects the write-down to net book value of certain assets held for sale, offset by the gain on the sale of Center of approximately $151,000.

We recorded a restructuring charge of approximately $1.5 million in the fourth quarter of 2001 related to the change in our distribution strategy and to the consolidation of our European operations into one facility. We also recognized approximately $500,000 of non-recurring expenses resulting from management's decision to not pursue a strategic transaction after extensive evaluation.

During the first quarter of 2000, we recorded a $435,000 restructuring charge related to the rationalization of our business operations at Diamond. Diamond reduced the size of its workforce and vacated a warehouse and distribution facility no longer needed when we decided to discontinue manufacturing of certain low margin human healthcare products.

OTHER

Interest income decreased to $324,000 in 2001 as compared to $1.0 million in 2000 and $1.6 million in 1999 as we continued to fund our operations with available cash. Interest income is expected to continue to decrease in the future as we continue to use cash to fund our business operations. Interest expense decreased to $587,000 in 2001 from $1.2 million in 2000 and $1.9 million as we reduced our debt and capital leases from $17.1 million at the beginning of 1999 to less than $8.7 million at the end of fiscal 2001.

Other expense decreased to $306,000 from $361,000 in 2000 and nearly $1.0 million in 1999. The higher losses in 1999 were primarily due to losses realized on the sale of certain long-term interest-bearing government securities during that year.

NET LOSS

Our net loss decreased to $18.7 million in 2001 compared to $21.9 million in 2000 and $35.8 million in 1999. The improvement is the result of significantly higher gross margin percentages on product sales from year-to-year, a $11.6 million reduction in operating expenses including certain unprofitable businesses that were sold and tight cost control in all areas of our business. We are expecting a net loss in 2002 substantially lower than the net loss in 2001 as we anticipate revenue growth in each of our primary product groups, slightly higher gross profit margins on product sales and continued disciplined management of our operating expenses.

LIQUIDITY AND CAPITAL RESOURCES

We have incurred negative cash flow from operations since inception in 1988. For the year ended December 31, 2001, we had total revenues of $48.3 million and a net loss of $18.7 million. Our negative operating cash flows have been funded primarily through the sale of common stock and borrowings. At December 31, 2001, we had cash and cash equivalents of $5.7 million.

We recently amended our credit agreement with our lender to obtain a waiver of certain covenants under our revolving line of credit as of December 31, 2001, set the financial covenants for 2002 and extend the maturity date of the loans an additional year to May 31, 2003. If our lender imposes loan covenants or other credit requirements that would prevent us from accessing the full amount of our line of credit, we would need to raise additional capital to fund any shortfall from our borrowings expected to be available under the revolving line of credit. We anticipate that any additional capital would be raised through one or more of the following:

* obtaining new loans secured by unencumbered assets;
* sale of various products or marketing rights;
* licensing of technology;
* sale of various assets; and
* sale of additional equity or debt securities.

At December 31, 2001, we had outstanding obligations for long-term debt and capital leases totaling $2.9 million primarily related to two term loans with Wells Fargo Business Credit. One of these two term loans is secured by real estate at Diamond and had an outstanding balance at December 31, 2001 of $1.8 million due in monthly installments of $17,658 plus interest, with a balloon payment of approximately $1.5 million due on May 31, 2003. The other term loan is secured by machinery and equipment at Diamond and had an outstanding balance at December 31, 2001 of approximately $688,000 payable in installments of $18,667 plus interest, with a balloon payment of approximately $370,000 due on May 31, 2003. Both loans have a stated interest rate of prime plus 1.25%. In addition, Diamond has promissory notes to the Iowa Department of Economic Development and the City of Des Moines with outstanding balances at year-end of $41,000 and $54,000, respectively, due in annual and monthly installments through June 2004 and May 2004, respectively. Both promissory notes have a stated interest rate of 3.0% and an imputed interest rate of 9.5%. The notes are secured by first security interests in essentially all of Diamond's assets and both lenders have subordinated their first security interest to Wells Fargo. We also had $240,000 of equipment financing which was paid in full in January 2002. Our capital lease obligations totaled $161,000 at year-end 2001.

We also have a $10.0 million asset-based revolving line of credit with Wells Fargo Business Credit. Available borrowings under this line of credit are based upon percentages of our eligible domestic accounts receivable and domestic inventories. Interest is charged at a stated rate of prime plus 1% and is payable monthly. Our ability to borrow under this facility varies based upon available cash, eligible accounts receivable and eligible inventory. On March 13, 2002, we negotiated our covenants for 2002 and obtained a waiver of certain financial covenants at December 31, 2001. The line of credit has a maturity date of May 31, 2003. At December 31, 2001, our outstanding borrowings under the line of credit were $5.7 million and we had remaining available borrowing capacity of $2.2 million.

Net cash used in operating activities was $14.1 million in 2001, compared to $15.9 million in 2000. Accounts payable and accrued liabilities increased by $2.9 million in 2001 related to the $2.0 million of restructuring expense and other, as well as increases in accrued commissions, royalties and incentive compensation. Accounts receivable increased by $2.0 million compared to the fourth quarter of 2000 due to the 29% increase in revenues during the fourth quarter of 2001. Net cash used in operating activities in 1999 was $33.2 million compared to $14.1 million in 2001. This significant decrease when compared to the current year is primarily due to a $17.1 million decrease in the net loss over the past two fiscal years.

Net cash flows from investing activities provided us with $1.9 million during 2001, compared to $25.2 million and $20.3 million of cash provided in

2000 and 1999, respectively. The cash provided in 2001 resulted from the sale of our marketable securities offset by capital expenditures for the year. The cash provided in 2000 resulted primarily from the sale of $20.0 million of marketable securities and the sale of Center Laboratories for approximately $6.0 million. This cash was used to fund our fiscal 2000 operations and debt repayments. The cash provided in 1999 was from proceeds from the sale of marketable securities offset by the purchase of marketable securities and capital expenditures. This cash was used to fund operations in 1999 and debt repayments. Expenditures for property and equipment totaled $840,000, $1.2 million and $3.3 million in 2001, 2000 and 1999, respectively. We currently expect to spend approximately $500,000 in 2002 for capital equipment, including expenditures to upgrade certain manufacturing operations to improve efficiencies and to assure ongoing compliance with regulatory requirements. We also expect to begin a major renovation of the roof at our Diamond manufacturing facility with an estimated cost of $1.0-$1.5 million. We expect to finance these expenditures through available cash, equipment leases and secured debt facilities.

Net cash flows from financing activities provided $14.8 million in cash in 2001, used $7.6 million in 2000 and provided $8.4 million in 1999. Our primary sources of cash from financing activities in 2001 were two private placements of our common stock in February and December with net proceeds of approximately $11.0 million and borrowings under our credit facility of $5.7 million. We repaid debt and capital lease obligations totaling $2.0 million in 2001. Our primary use of cash in 2000 was the repayment of debt and capital lease obligations totaling nearly $8.5 million. The primary source of cash in 1999 was the public offering of common stock in December which provided us with net proceeds of approximately $13.3 million. We also borrowed an additional $971,000 under our available credit facilities. We used cash to repay $6.5 million of debt and capital lease obligations.

Our primary short-term needs for capital, which are subject to change, are for our continuing research and development efforts, our sales, marketing and administrative activities, working capital associated with increased product sales and capital expenditures relating to developing and expanding our manufacturing operations. Our future liquidity and capital requirements will depend on numerous factors, including the extent to which our present and future products gain market acceptance, the extent to which products or technologies under research or development are successfully developed, the timing of regulatory actions regarding our products, the costs and timing of expansion of sales, marketing and manufacturing activities, the cost, timing and business management of current and potential acquisitions and contingent liabilities associated with such acquisitions, the procurement and enforcement of patents important to our business and the results of competition.

Our financial plan for 2002 indicates that our cash on hand, together with up to $9.1 million of borrowings expected to be available under our revolving line of credit, should be sufficient to fund our operations through 2002 and into 2003. However, our actual results may differ from this plan, and we may need to raise additional capital in the future. If necessary, we expect to raise these additional funds through one or more of the following: (1) obtaining new loans secured by unencumbered assets; (2) sale of various products or marketing rights; (3) licensing of technology; (4) sale of various assets; and (5) sale of additional equity or debt securities. If we cannot raise the additional funds through these options on acceptable terms or with the necessary timing, management could also reduce discretionary spending to decrease our cash burn rate and extend the currently available cash and cash equivalents, and available borrowings. See "Factors that May Affect Results."

A summary of our contractual obligations at December 31, 2001 is shown below.

	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	AFTER 5 YEARS
CONTRACTUAL OBLIGATIONS					
Long-Term Debt	$ 2,763	$ 711	$ 2,052	$ -	$ -
Capital Lease Obligations	161	104	57	-	-
Line of Credit	5,737	-	5,737	-	-
Operating Leases	2,580	887	1,607	86	-
Unconditional Purchase Obligations	2,392	91	1,655	646	-
Other Long-Term Obligations	125	-	-	-	125
Total Contractual Cash Obligations	$ 13,758	$ 1,793	$ 11,108	$ 732	$ 125

NET OPERATING LOSS CARRYFORWARDS

As of December 31, 2001, we had a net operating loss carryforward, or NOL, of approximately $164.5 million and approximately $2.7 million of research and development tax credits available to offset future federal income taxes. The NOL and tax credit carryforwards, which are subject to alternative minimum tax limitations and to examination by the tax authorities, expire from 2003 to 2021. Our acquisition of Diamond resulted in a "change of ownership" under the provisions of Section 382 of the Internal Revenue Code of 1986, as amended. As such, we will be limited in the amount of NOL's incurred prior to the merger that we may utilize to offset future taxable income. This limitation will total approximately $4.7 million per year for periods subsequent to the Diamond acquisition. Similar limitations also apply to utilization of research and development tax credits to offset taxes payable. We believe that this

limitation may affect the eventual utilization of our total NOL carryforwards.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." These statements prohibit pooling-of-interests accounting for transactions initiated after June 30, 2001, require the use of the purchase method of accounting for all combinations after June 30, 2001, and establish a new accounting standard for goodwill acquired in a business combination. These continue to require recognition of goodwill as an asset, but do not permit amortization of goodwill as previously required by APB Opinion No. 17, "Intangible Assets." Furthermore, certain intangible assets that are not separable from goodwill will also not be amortized. However, goodwill and other intangible assets will be subject to periodic (at least annual) tests for impairment, and recognition of impairment losses in the future could be required based on a new methodology for measuring impairments prescribed by these pronouncements. The revised standards include transition rules and requirements for identification, valuation and recognition of a much broader list of intangibles as part of business combinations than prior practice, most of which will continue to be amortized. The potential prospective impact of these pronouncements on the Company's financial statements may significantly affect the results of future periodic tests for impairment. The amount and timing of non-cash charges related to intangibles acquired in business combinations will change from prior practice. The Company recorded $211,000 of amortization expense during the year ended December 31, 2001 relating to goodwill that will not be amortized beginning January 1, 2002. Furthermore, the Company will be required to conduct an annual impairment test of its goodwill. The Company has not yet quantified the impact, if any, that this impairment test will have on the results of its operations.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated asset retirement cost. It requires an entity to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate can be made. The Company is required to adopt this statement in its fiscal year 2003. The Company does not believe that this statement will materially impact its results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of" and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." This statement applies to recognized long-lived assets of an entity to be held and used, or to be disposed of. This statement does not apply to goodwill, intangible assets not being amortized, financial instruments, and deferred tax assets. This statement requires an impairment loss to be recorded for assets to be held and used when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. An asset that is classified as held for sale shall be recorded at the lower of its carrying amount or fair value less cost to sell. The Company is required to adopt this statement for the first quarter of 2002. The Company does not believe that this statement will materially impact its results of operations.

FACTORS THAT MAY AFFECT RESULTS

Our future operating results may vary substantially from period to period due to a number of factors, many of which are beyond our control. The following discussion highlights these factors and the possible impact of these factors on future results of operations. If any of the following factors actually occur, our business, financial condition or results of operations could be harmed. In that case, the price of our common stock could decline, and you could experience losses on your investment.

WE ANTICIPATE FUTURE LOSSES AND MAY NOT BE ABLE TO ACHIEVE PROFITABILITY IN THE FUTURE.

We have incurred net losses since our inception in 1988 and, as of December 31, 2001, we had an accumulated deficit of $193.2 million. We anticipate that we will continue to incur additional operating losses in the near term. These losses have resulted principally from expenses incurred in our research and development programs and from sales and marketing and general and administrative expenses. Even if we achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. If we cannot achieve or sustain profitability, we may not be able to fund our expected cash needs or continue our operations.

WE ARE NOT GENERATING POSITIVE CASH FLOW AND MAY NEED ADDITIONAL CAPITAL IN THE FUTURE AND ANY REQUIRED CAPITAL MAY NOT BE AVAILABLE ON ACCEPTABLE TERMS OR AT ALL.

We have incurred negative cash flow from operations since inception in 1988. For the year ended December 31, 2001, we had total revenues of $48.3 million and a net loss of $18.7 million. Our financial plan for 2002 indicates that our cash on hand, together with up to $9.1 million of borrowings expected to be available under our revolving line of credit should be sufficient to fund our operations through 2002 and into 2003. However, our actual results may differ from this plan, and we may need to raise additional capital in the future.

We recently amended our credit agreement with our lender to obtain a waiver of certain covenants under our revolving line of credit as of December 31, 2001, set the financial covenants for 2002 and extend the maturity date of the loans an additional year to May 31, 2003. If our lender imposes loan covenants or other credit requirements that would prevent us from accessing the full amount

of our line of credit, we would need to raise additional capital to fund any shortfall from our borrowings expected to be available under the revolving line of credit. We anticipate that any additional capital would be raised through one or more of the following:

* obtaining new loans secured by unencumbered assets;
* sale of various products or marketing rights;
* licensing of technology;
* sale of various assets; and
* sale of additional equity or debt securities.

Additional capital may not be available on acceptable terms, if at all. The public markets may remain unreceptive to equity financings, and we may not be able to obtain additional private equity financing. Furthermore, amounts we expect to be available under our existing revolving credit facility may not be available, and other lenders could refuse to provide us with additional debt financing. Furthermore, any additional equity financing would likely be dilutive to stockholders, and additional debt financing, if available, may include restrictive covenants which may limit our currently planned operations and strategies. If adequate funds are not available, we may be required to curtail our operations significantly and reduce discretionary spending to extend the currently available cash resources, or to obtain funds by entering into collaborative agreements or other arrangements on unfavorable terms, all of which would likely have a material adverse effect on our business, financial condition and our ability to continue as a going concern.

WE MUST MAINTAIN VARIOUS FINANCIAL AND OTHER COVENANTS UNDER OUR REVOLVING LINE OF CREDIT AGREEMENT.

Under our revolving line of credit agreement with Wells Fargo Business Credit, we are required to comply with various financial and non-financial covenants, and we have made various representations and warranties. Among the financial covenants are requirements for monthly minimum book net worth, minimum quarterly net income and minimum cash balances or liquidity levels. We have obtained modifications and a waiver of these covenants in the past.

Failure to comply with any of the covenants, representations or warranties could result in our being in default under the loan and could cause all outstanding amounts to become immediately due and payable or impact our ability to borrow under the agreement. All amounts due under the credit facility mature on May 31, 2003. We intend to rely on available borrowings under the credit agreement to fund our operations through 2002 and into 2003. If we are unable to borrow funds under this agreement, we will need to raise additional capital to fund our cash needs and continue our operations.

WE HAVE LIMITED RESOURCES TO DEVOTE TO PRODUCT DEVELOPMENT AND COMMERCIALIZATION. IF WE ARE NOT ABLE TO DEVOTE ADEQUATE RESOURCES TO PRODUCT DEVELOPMENT AND COMMERCIALIZATION, WE MAY NOT BE ABLE TO DEVELOP OUR PRODUCTS.

Our strategy is to develop a broad range of products addressing companion animal healthcare. We believe that our revenue growth and profitability, if any, will substantially depend upon our ability to:

* improve market acceptance of our current products;
* complete development of new products; and
* successfully introduce and commercialize new products.

We have introduced some of our products only recently and many of our products are still under development. Among our recently introduced products are SOLO STEP CH Batch Test Strips for testing heartworm infection in dogs, E.R.D.-SCREEN Urine Test for detecting albumin in canine urine, ALLERCEPT E-SCREEN Test for assessing allergies in dogs, and SPOTCHEMT EZ, a compact system for measuring animal blood chemistry. We currently have under development or in preliminary clinical trials a number of products, including a gene based therapy for canine cancer. Because we have limited resources to devote to product development and commercialization, any delay in the development of one product or reallocation of resources to product development efforts that prove unsuccessful may delay or jeopardize the development of our other product candidates. If we fail to develop new products and bring them to market, our ability to generate revenues will decrease.

In addition, our products may not achieve satisfactory market acceptance, and we may not successfully commercialize them on a timely basis, or at all. If our products do not achieve a significant level of market acceptance, demand for our products will not develop as expected and it is unlikely that we ever will become profitable.

WE MUST OBTAIN AND MAINTAIN COSTLY REGULATORY APPROVALS IN ORDER TO MARKET OUR PRODUCTS.

Many of the products we develop and market are subject to extensive regulation by one or more of the USDA, the FDA, the EPA and foreign regulatory authorities. These regulations govern, among other things, the development, testing, manufacturing, labeling, storage, pre-market approval, advertising, promotion, sale and distribution of our products. Satisfaction of these requirements can take several years and time needed to satisfy them may vary substantially, based on the type, complexity and novelty of the product.

Our Flu AVERT I.N. Vaccine, SOLO STEP CH, SOLO STEP FH and SOLO STEP Batch Test Strips each have received regulatory approval in the United States by the USDA. In addition, the Flu AVERT I.N. Vaccine has been approved in Canada by the CFIA. SOLO STEP CH and SOLO STEP Batch Test Strips are pending approval by the CFIA. SOLO STEP CH has also been approved by the Japanese Ministry of Agriculture, Forestry and Fisheries. In addition, our Trivalent Intranasal/Intraocular Vaccine has also received United States regulatory approval. U.S. regulatory approval by the USDA is currently pending for our Feline ImmuCheck Assay, Canine Cancer Gene Therapy, Giardia + Crypto-Screen Fecal Test and Trivalent Intranasal/Intraocular Vaccine - Second Generation

products.

The effect of government regulation may be to delay or to prevent marketing of our products for a considerable period of time and to impose costly procedures upon our activities. We have experienced in the past, and may experience in the future, difficulties that could delay or prevent us from obtaining the regulatory approval or license necessary to introduce or market our products. For example, the Flu AVERT I.N. vaccine for equine influenza was not approved until six months after the date on which we expected approval. This delay caused us to miss the initial primary selling season for equine influenza vaccines, and we believe it delayed the initial market acceptance of this product. Regulatory approval of our products may also impose limitations on the indicated or intended uses for which our products may be marketed.

Among the conditions for certain regulatory approvals is the requirement that our manufacturing facilities or those of our third party manufacturers conform to current Good Manufacturing Practices or other manufacturing regulations, which include requirements relating to quality control and quality assurance as well as maintenance of records and documentation. The USDA, FDA and foreign regulatory authorities strictly enforce manufacturing regulatory requirements through periodic inspections. If any regulatory authority determines that our manufacturing facilities or those of our third party manufacturers do not conform to appropriate manufacturing requirements, we or the manufacturers of our products may be subject to sanctions, including warning letters, product recalls or seizures, injunctions, refusal to permit products to be imported into or exported out of the United States, refusals of regulatory authorities to grant approval or to allow us to enter into government supply contracts, withdrawals of previously approved marketing applications, civil fines and criminal prosecutions.

FACTORS BEYOND OUR CONTROL MAY CAUSE OUR OPERATING RESULTS TO FLUCTUATE, AND SINCE MANY OF OUR EXPENSES ARE FIXED, THIS FLUCTUATION COULD CAUSE OUR STOCK PRICE TO DECLINE.

We believe that our future operating results will fluctuate on a quarterly basis due to a variety of factors, including:

* results from Diamond;
* the introduction of new products by us or by our competitors;
* our recent change in distribution strategy;
* market acceptance of our current or new products;
* regulatory and other delays in product development;
* product recalls;
* competition and pricing pressures from competitive products;
* manufacturing delays;
* shipment problems;
* product seasonality; and
* changes in the mix of products sold.

We have high operating expenses for personnel, new product development and marketing. Many of these expenses are fixed in the short term. If any of the factors listed above cause our revenues to decline, our operating results could be substantially harmed.

Our operating results in some quarters may not meet the expectations of stock market analysts and investors. In that case, our stock price probably would decline.

OUR LARGEST CUSTOMER ACCOUNTED FOR OVER 15% OF OUR REVENUES FOR THE PREVIOUS TWO YEARS, AND THE LOSS OF THAT CUSTOMER OR OTHER CUSTOMERS COULD HARM OUR OPERATING RESULTS.

We currently derive a substantial portion of our revenues from sales by our subsidiary, Diamond, which manufactures several of our products and products for other companies in the animal health industry. Revenues from one contract between Diamond and Agri Laboratories, Ltd., comprised approximately 16% of our total revenues in 2001 and 17% of our total revenues in 2000. That contract expires in 2004 and is automatically renewed unless either party does not wish to renew. We are currently in negotiations with Agri Laboratories to modify and extend this agreement, but there is no assurance we will be successful. If Agri Laboratories does not continue to purchase from Diamond and if we fail to replace the lost revenue with revenues from other customers, our business could be substantially harmed. In addition, sales from our next three largest customers accounted for an aggregate of approximately 12% of our revenues in 2001. If we are unable to maintain our relationships with one or more of these customers, our sales may decline.

WE OPERATE IN A HIGHLY COMPETITIVE INDUSTRY, WHICH COULD RENDER OUR PRODUCTS OBSOLETE OR SUBSTANTIALLY LIMIT THE VOLUME OF PRODUCTS THAT WE SELL. THIS WOULD LIMIT OUR ABILITY TO COMPETE AND ACHIEVE PROFITABILITY.

We compete with independent animal health companies and major pharmaceutical companies that have animal health divisions. Companies with a significant presence in the animal health market, such as Wyeth, Bayer, IDEXX, Intervet, Merial, Novartis, Pfizer, Pharmacia and Schering Plough, have developed or are developing products that compete with our products or would compete with them if developed. These competitors may have substantially greater financial, technical, research and other resources and larger, better-established marketing, sales, distribution and service organizations than us. In addition, we believe that IDEXX prohibits its distributors from selling competitors' products, including our SOLO STEP heartworm diagnostic products and medical diagnostic instruments. Our competitors frequently offer broader product lines and have greater name recognition than we do. Our competitors may develop or market technologies or products that are more effective or commercially attractive than our current or future products or that would render our technologies and products obsolete. Further, additional competition could come from new entrants to the animal healthcare market. Moreover, we may not have the financial resources, technical expertise or marketing, distribution or

support capabilities to compete successfully. If we fail to compete successfully, our ability to achieve profitability will be limited.

WE MAY BE UNABLE TO SUCCESSFULLY MARKET AND DISTRIBUTE OUR PRODUCTS AND HAVE RECENTLY MODIFIED OUR DISTRIBUTION STRATEGY.

The market for companion animal healthcare products is highly fragmented, with discount stores and specialty pet stores accounting for a substantial percentage of sales of certain products. Because our proprietary products are available only by prescription and our medical instruments require technical training, we sell our companion animal health products only to veterinarians. Therefore, we may fail to reach a substantial segment of the potential market.

We currently market our products in the United States to veterinarians through approximately 20 independent third party distributors and through a direct sales force. Nearly one-half of these domestic distributors carry the full line of our pharmaceutical, vaccine, diagnostic and instrumentation products. We have recently begun to rely on distributors for a greater portion of our sales and therefore need to increase our training efforts directed at the sales personnel of our distributors. To be successful, we will have to continue to develop and train our direct sales force as well as sales personnel of our distributors and rely on other arrangements with third parties to market, distribute and sell our products. In addition, most of our distributor agreements can be terminated on 60 days' notice and IDEXX, our largest competitor, prohibits its distributors from selling competitors' products, including ours. For example, one of our largest distributors recently informed us that they would no longer carry our heartworm diagnostic products or our chemistry or hematology instruments because they wish to carry products from one of our competitors.

We may not successfully develop and maintain marketing, distribution or sales capabilities, and we may not be able to make arrangements with third parties to perform these activities on satisfactory terms. If our marketing and distribution strategy is unsuccessful, our ability to sell our products will be negatively impacted and our revenues will decrease. Furthermore, the recent change in our distribution strategy and our expected increase in sales from distributors and decrease in direct sales may have a negative impact on our gross margins.

WE HAVE GRANTED THIRD PARTIES SUBSTANTIAL MARKETING RIGHTS TO CERTAIN OF OUR EXISTING PRODUCTS AS WELL AS PRODUCTS UNDER DEVELOPMENT. IF THE THIRD PARTIES ARE NOT SUCCESSFUL IN MARKETING OUR PRODUCTS OUR SALES MAY NOT INCREASE.

Our agreements with our corporate marketing partners generally contain no minimum purchase requirements in order for them to maintain their exclusive or co-exclusive marketing rights. Currently, Novartis Agro K.K. markets and distributes SOLO STEP CH in Japan, and Novartis Animal Health Canada, Inc. distributes our FLU AVERT I.N. vaccine in Canada. In addition, we have entered into agreements with Novartis and Eisai Inc. to market or co-market certain of the products that we are currently developing. Also, Nestle Purina Petcare has exclusive rights to license our technology for nutritional applications for dogs and cats. One or more of these marketing partners may not devote sufficient resources to marketing our products. Furthermore, there is nothing to prevent these partners from pursuing alternative technologies or products that may compete with our products. In the future, third party marketing assistance may not be available on reasonable terms, if at all. If any of these events occur, we may not be able to commercialize our products and our sales will decline.

WE MAY FACE COSTLY INTELLECTUAL PROPERTY DISPUTES.

Our ability to compete effectively will depend in part on our ability to develop and maintain proprietary aspects of our technology and either to operate without infringing the proprietary rights of others or to obtain rights to technology owned by third parties. We have United States and foreign-issued patents and are currently prosecuting patent applications in the United States and with various foreign countries. Our pending patent applications may not result in the issuance of any patents or any issued patents that will offer protection against competitors with similar technology. Patents we receive may be challenged, invalidated or circumvented in the future or the rights created by those patents may not provide a competitive advantage. We also rely on trade secrets, technical know-how and continuing invention to develop and maintain our competitive position. Others may independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets.

The biotechnology and pharmaceutical industries have been characterized by extensive litigation relating to patents and other intellectual property rights. In 1998, Synbiotics Corporation filed a lawsuit against us alleging infringement of a Synbiotics patent relating to heartworm diagnostic technology, and this litigation remains ongoing. We may become subject to additional patent infringement claims and litigation in the United States or other countries or interference proceedings conducted in the United States Patent and Trademark Office, or USPTO, to determine the priority of inventions. The defense and prosecution of intellectual property suits, USPTO interference proceedings, and related legal and administrative proceedings are costly, time-consuming and distracting. We may also need to pursue litigation to enforce any patents issued to us or our collaborative partners, to protect trade secrets or know-how owned by us or our collaborative partners, or to determine the enforceability, scope and validity of the proprietary rights of others. Any litigation or interference proceeding will result in substantial expense to us and significant diversion of the efforts of our technical and management personnel. Any adverse determination in litigation or interference proceedings could subject us to significant liabilities to third parties. Further, as a result of litigation or other proceedings, we may be required to seek licenses from third parties which may not be available on commercially reasonable terms, if at all.

OUR TECHNOLOGY AND THAT OF OUR COLLABORATORS MAY BECOME THE SUBJECT OF LEGAL ACTION.

We license technology from a number of third parties, including Quidel Corporation, Genzyme Corporation, Diagnostic Chemicals, Ltd., Valentis, Inc., Corixa Corporation, Roche, New England Biolabs, Inc. and Hybritech Inc., as well as a number of research institutions and universities. The majority of these license agreements impose due diligence or milestone obligations on us, and in some cases impose minimum royalty and/or sales obligations on us, in order for us to maintain our rights under these agreements. Our products may incorporate technologies that are the subject of patents issued to, and patent applications filed by, others. As is typical in our industry, from time to time we and our collaborators have received, and may in the future receive, notices from third parties claiming infringement and invitations to take licenses under third party patents. It is our policy that when we receive such notices, we conduct investigations of the claims they assert. With respect to the notices we have received to date, we believe, after due investigation, that we have meritorious defenses to the infringement claims asserted. Any legal action against us or our collaborators may require us or our collaborators to obtain one or more licenses in order to market or manufacture affected products or services. However, we or our collaborators may not be able to obtain licenses for technology patented by others on commercially reasonable terms, we may not be able to develop alternative approaches if unable to obtain licenses, or current and future licenses may not be adequate for the operation of our businesses. Failure to obtain necessary licenses or to identify and implement alternative approaches could prevent us and our collaborators from commercializing our products under development and could substantially harm our business.

WE HAVE LIMITED MANUFACTURING EXPERIENCE AND CAPACITY AND RELY SUBSTANTIALLY ON THIRD-PARTY MANUFACTURERS. THE LOSS OF ANY THIRD-PARTY MANUFACTURERS COULD LIMIT OUR ABILITY TO LAUNCH OUR PRODUCTS IN A TIMELY MANNER, OR AT ALL.

To be successful, we must manufacture, or contract for the manufacture of, our current and future products in compliance with regulatory requirements, in sufficient quantities and on a timely basis, while maintaining product quality and acceptable manufacturing costs. In order to increase our manufacturing capacity, we acquired Diamond in April 1996.

We currently rely on third parties to manufacture those products we do not manufacture at our Diamond facility. We currently have supply agreements with Quidel Corporation for various manufacturing services relating to our point-of-care diagnostic tests, with Centaq, Inc. for the manufacture of our own allergy immunotherapy treatment products and with various manufacturers for the supply of our veterinary diagnostic and patient monitoring instruments. Our manufacturing strategy presents the following risks:

* Delays in the scale-up to quantities needed for product development could delay regulatory submissions and commercialization of our products in development;

* Our manufacturing facilities and those of some of our third-party manufacturers are subject to ongoing periodic unannounced inspection by regulatory authorities, including the FDA, USDA and other federal and state agencies for compliance with strictly enforced Good Manufacturing Practices regulations and similar foreign standards, and we do not have control over our third party manufacturers' compliance with these regulations and standards;

* If we need to change to other commercial manufacturing contractors for certain of our products, additional regulatory licenses or approvals must be obtained for these contractors prior to our use. This would require new testing and compliance inspections. Any new manufacturer would have to be educated in, or develop substantially equivalent processes necessary for the production of our products;

* If market demand for our products increases suddenly, our current manufacturers might not be able to fulfill our commercial needs, which would require us to seek new manufacturing arrangements and may result in substantial delays in meeting market demand; and

* We may not have intellectual property rights, or may have to share intellectual property rights, to any improvements in the manufacturing processes or new manufacturing processes for our products.

Any of these factors could delay commercialization of our products under development, interfere with current sales, entail higher costs and result in our being unable to effectively sell our products.

Our agreements with various suppliers of the veterinary medical instruments require us to meet minimum annual sales levels to maintain our position as the exclusive distributor of these instruments. We may not meet these minimum sales levels in the future, and maintain exclusivity over the distribution and sale of these products. If we are not the exclusive distributor of these products, competition may increase.

WE DEPEND ON PARTNERS IN OUR RESEARCH AND DEVELOPMENT ACTIVITIES. IF OUR CURRENT PARTNERSHIPS AND COLLABORATIONS ARE NOT SUCCESSFUL, WE MAY NOT BE ABLE TO DEVELOP OUR TECHNOLOGIES OR PRODUCTS.

For several of our proposed products, we are dependent on collaborative partners to successfully and timely perform research and development activities on our behalf. For example, we jointly developed several point-of-care diagnostic products with Quidel Corporation, and Quidel manufactures these products. We license DNA delivery and manufacturing technology from Valentis Inc. and distribute chemistry analyzers for Arkray, Inc. We also have worked with i-STAT Corporation to develop portable clinical analyzers for dogs and Diagnostic Chemicals, Ltd. to develop the E.R.D.-SCREEN Urine Test, and we are working with 3-Dimensional Pharmaceuticals, Inc. to develop pharmaceutical products. One or more of our collaborative partners may not complete research and development activities on our behalf in a timely fashion, or at all. If our

collaborative partners fail to complete research and development activities, or fail to complete them in a timely fashion, our ability to develop technologies and products will be impacted negatively and our revenues will decline.

WE DEPEND ON KEY PERSONNEL FOR OUR FUTURE SUCCESS. IF WE LOSE OUR KEY PERSONNEL OR ARE UNABLE TO ATTRACT AND RETAIN ADDITIONAL PERSONNEL, WE MAY BE UNABLE TO ACHIEVE OUR GOALS.

Our future success is substantially dependent on the efforts of our senior management and scientific team, particularly Dr. Robert B. Grieve, our Chairman and Chief Executive Officer. The loss of the services of members of our senior management or scientific staff may significantly delay or prevent the achievement of product development and other business objectives. Because of the specialized scientific nature of our business, we depend substantially on our ability to attract and retain qualified scientific and technical personnel. There is intense competition among major pharmaceutical and chemical companies, specialized biotechnology firms and universities and other research institutions for qualified personnel in the areas of our activities. Although we have an employment agreement with Dr. Grieve, he is an at-will employee, which means that either party may terminate his employment at any time without prior notice. If we lose the services of, or fail to recruit, key scientific and technical personnel, the growth of our business could be substantially impaired. We do not maintain key person life insurance for any of our key personnel.

WE MAY FACE PRODUCT RETURNS AND PRODUCT LIABILITY LITIGATION AND THE EXTENT OF OUR INSURANCE COVERAGE IS LIMITED. IF WE BECOME SUBJECT TO PRODUCT LIABILITY CLAIMS RESULTING FROM DEFECTS IN OUR PRODUCTS, WE MAY FAIL TO ACHIEVE MARKET ACCEPTANCE OF OUR PRODUCTS AND OUR SALES COULD DECLINE.

The testing, manufacturing and marketing of our current products as well as those currently under development entail an inherent risk of product liability claims and associated adverse publicity. Following the introduction of a product, adverse side effects may be discovered. Adverse publicity regarding such effects could affect sales of our other products for an indeterminate time period. To date, we have not experienced any material product liability claims, but any claim arising in the future could substantially harm our business. Potential product liability claims may exceed the amount of our insurance coverage or may be excluded from coverage under the terms of the policy. We may not be able to continue to obtain adequate insurance at a reasonable cost, if at all. In the event that we are held liable for a claim against which we are not indemnified or for damages exceeding the $10 million limit of our insurance coverage or which results in significant adverse publicity against us, we may lose revenue and fail to achieve market acceptance.

WE MAY BE HELD LIABLE FOR THE RELEASE OF HAZARDOUS MATERIALS, WHICH COULD RESULT IN EXTENSIVE CLEAN UP COSTS OR OTHERWISE HARM OUR BUSINESS.

Our products and development programs involve the controlled use of hazardous and biohazardous materials, including chemicals, infectious disease agents and various radioactive compounds. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by applicable local, state and federal regulations, we cannot eliminate the risk of accidental contamination or injury from these materials. In the event of such an accident, we could be held liable for any fines, penalties, remediation costs or other damages that result. Our liability for the release of hazardous materials could exceed our resources, which could lead to a shutdown of our operations. In addition, we may incur substantial costs to comply with environmental regulations as we expand our manufacturing capacity.

WE EXPECT TO EXPERIENCE VOLATILITY IN OUR STOCK PRICE, WHICH MAY AFFECT OUR ABILITY TO RAISE CAPITAL IN THE FUTURE OR MAKE IT DIFFICULT FOR INVESTORS TO SELL THEIR SHARES.

The securities markets have experienced significant price and volume fluctuations and the market prices of securities of many public biotechnology companies have in the past been, and can in the future be expected to be, especially volatile. For example, in the last twelve months our closing stock price has ranged from a low of $0.50 to a high of $1.50. Fluctuations in the trading price or liquidity of our common stock may adversely affect our ability to raise capital through future equity financings. Factors that may have a significant impact on the market price and marketability of our common stock include:

* announcements of technological innovations or new products by us or by our competitors;
* our quarterly operating results;
* releases of reports by securities analysts;
* developments or disputes concerning patents or proprietary rights;
* regulatory developments;
* developments in our relationships with collaborative partners;
* changes in regulatory policies;
* litigation;
* economic and other external factors; and
* general market conditions.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. If a securities class action suit is filed against us, we would incur substantial legal fees and our management's attention and resources would be diverted from operating our business in order to respond to the litigation.

IF WE FAIL TO MEET NASDAQ NATIONAL MARKET LISTING REQUIREMENTS, OUR COMMON STOCK MAY BE DELISTED AND BECOME ILLIQUID.

Our common stock is currently listed on the Nasdaq National Market. Nasdaq has requirements we must meet in order to remain listed on the Nasdaq National Market. If we continue to experience losses from our operations or we are

unable to raise additional funds as needed, we might not be able to maintain the standards for continued quotation on the Nasdaq National Market, including a minimum bid price requirement of $1.00. During the year ended December 31, 2001, our minimum bid price at times fell below $1.00, and on March 26, 2002, was $1.06. If the minimum bid price of our common stock were to drop below $1.00 and remain below $1.00 for 30 consecutive trading days, or if we were unable to continue to meet Nasdaq's standards for any other reason, our common stock could be delisted from the Nasdaq National Market.

If as a result of the application of these listing requirements, our common stock were delisted from the Nasdaq National Market, our stock would become harder to buy and sell. Further, our stock could be subject to what are known as the "penny stock" rules. The penny stock rules place additional requirements on broker-dealers who sell or make a market in such securities. Consequently, if we were removed from the Nasdaq National Market, the ability or willingness of broker-dealers to sell or make a market in our common stock might decline. As a result, the ability for investors to resell shares of our common stock could be adversely affected.

THE REGISTRATION OF SHARES FROM OUR RECENT PRIVATE PLACEMENT WILL INCREASE THE NUMBER OF SHARES AVAILABLE FOR RESALE IN THE PUBLIC MARKET.

We recently filed a registration statement on Form S-3 with the SEC to register the shares sold in a private offering in December 2001. The sale into the public market of the common stock sold in the offering could adversely affect the market price of our common stock. Most of our shares of common stock outstanding are eligible for immediate and unrestricted sale in the public market at any time. Once the registration statement on Form S-3 is declared effective, the 7,792,768 shares of common stock covered by the Form S-3 will be eligible for immediate and unrestricted resale into the public market. The presence of these additional shares of common stock in the public market may further depress our stock price.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market risk represents the risk of loss that may impact the financial position, results of operations or cash flows due to adverse changes in financial and commodity market prices and rates. We are exposed to market risk in the areas of changes in United States and foreign interest rates and changes in foreign currency exchange rates as measured against the United States dollar. These exposures are directly related to our normal operating and funding activities. During 2001, we entered into a series of forward contracts for the purchase of Japanese yen to be used for the purchase of inventory. As of December 31, 2001, all of these forward contracts had been settled.

INTEREST RATE RISK

The interest payable on certain of our lines of credit and other borrowings is variable based on the United States prime rate and, therefore, is affected by changes in market interest rates. At December 31, 2001, approximately $8.2 million was outstanding on these lines of credit and other borrowings with a weighted average interest rate of 5.82%. We manage interest rate risk by investing excess funds principally in cash equivalents or marketable securities, which bear interest rates that reflect current market yields. We completed an interest rate risk sensitivity analysis of these borrowings based on an assumed 1% increase in interest rates. If market rates increase by 1% during the fiscal year ended December 31, 2002, we would experience an increase in interest expense of approximately $82,000 based on our outstanding balances as of December 31, 2001.

FOREIGN CURRENCY RISK

At December 31, 2001, we had a wholly-owned subsidiary located in Switzerland. Sales from these operations are denominated in Swiss Francs or Euros, thereby creating exposures to changes in exchange rates. The changes in the Swiss/U.S. exchange rate or Euro/U.S. exchange rate may positively or negatively affect our sales, gross margins and retained earnings. We completed a foreign currency exchange risk sensitivity analysis on an assumed 1% increase in foreign currency exchange rates. If foreign currency exchange rates increase/decrease by 1% during the fiscal year ended December 31, 2002, we would experience an increase/decrease in our foreign currency gain/loss of approximately $100,000 based on the investment in foreign subsidiaries as of and for the fiscal year ended December 31, 2001.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

HESKA CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Heska Corporation:

We have audited the accompanying consolidated balance sheets of Heska Corporation (a Delaware corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heska Corporation and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of valuation and qualifying accounts is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/S/ ARTHUR ANDERSEN LLP

Denver, Colorado,
February 1, 2002 except with respect
to the matter discussed in Note 15, as
to which the date is March 13, 2002.

HESKA CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

	DECEMBER 31,	
	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,710	$ 3,176
Marketable securities	-	2,482
Accounts receivable, net of allowance for doubtful accounts of $501 and $431, respectively	10,313	8,433
Inventories	8,589	8,716
Other current assets	1,063	742
Total current assets	25,675	23,549
Property and equipment, net	10,118	12,901
Intangible assets, net	1,400	1,457
Other assets	564	1,253
Total assets	$ 37,757	$ 39,160
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 4,263	$ 3,370
Accrued liabilities	6,302	4,258
Deferred revenue	343	467
Line of credit	5,737	-
Current portion of capital lease obligations	104	584
Current portion of long-term debt	711	1,562
Total current liabilities	17,460	10,241
Capital lease obligations, net of current portion	57	138
Long-term debt, net of current portion	2,052	2,670
Deferred revenue and other long-term liabilities	1,022	1,011

Total liabilities	20,591	14,060
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.001 par value, 25,000,000 shares authorized; none issued or outstanding	-	-
Common stock, $.001 par value, 75,000,000 shares authorized; 47,842,198 and 34,072,640 shares issued and outstanding, respectively	48	34
Additional paid-in capital	211,589	199,789
Deferred compensation	(681)	-
Accumulated other comprehensive loss	(627)	(251)
Accumulated deficit	(193,163)	(174,472)
Total stockholders' equity	17,166	25,100
Total liabilities and stockholders' equity	$ 37,757	$ 39,160

See accompanying notes to consolidated financial statements

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

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
Revenues:			
Products, net of sales returns and allowance	$ 46,386	$ 49,549	$ 50,291
Research, development and other	1,897	3,126	885
Total revenues	48,283	52,675	51,176
Cost of products sold	28,655	33,299	36,386
	19,628	19,376	14,790
Operating expenses:			
Selling and marketing	13,981	14,788	15,073
Research and development	13,565	14,929	17,042
General and administrative	7,882	9,457	11,231
Amortization of intangible assets and deferred compensation	299	903	2,228
Loss on sale of assets	-	204	2,593
Restructuring expenses and other	2,023	435	1,210
Total operating expenses	37,750	40,716	49,377
Loss from operations	(18,122)	(21,340)	(34,587)
Other income (expense):			
Interest income	324	986	1,611
Interest expense	(587)	1,155)	(1,857)
Other, net	(306)	(361)	(1,003)
Net loss	$ (18,691)	$ (21,870)	$ (35,836)
Other comprehensive income (loss):			
Foreign currency translation adjustments	(133)	(121)	(88)
Changes in unrealized gain (loss) on marketable securities	45	246	(376)
Minimum pension liability adjustments	(175)	-	-
Changes in unrealized gain (loss) on forward contracts	24	-	-
Other comprehensive income (loss)	(239)	125	(464)
Comprehensive loss	$ (18,930)	$ (21,745)	$ (36,300)
Basic and diluted net loss per share	$ (0.48)	$ (0.65)	$ (1.31)
Shares used to compute basic and diluted net loss per share	38,919	33,782	27,290

See accompanying notes to consolidated financial statements

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

	COMMON STOCK		ADDITIONAL PAID-IN	DEFERRED
	SHARES	AMOUNT	CAPITAL	COMPENSATION
Balances, December 31, 1998	26,458	$ 26	$ 185,163	$ (1,277)
Issuance of common stock for services	17	-	116	-
Cashless exercise of warrants to purchase common stock	5	-	-	-
Issuance of common stock upon the Company's follow-on public offering, net of $128 of expenses	6,500	7	13,282	-
Issuance of common stock related to options, ESPP and other	457	-	595	-
Amortization of deferred compensation	-	-	-	629
Interest on stock subscription receivable	-	-	-	-
Payments received on stock subscription receivable	-	-	-	-
Foreign currency translation adjustments	-	-	-	-
Unrealized loss on marketable securities	-	-	-	-
Net loss	-	-	-	-
Balances, December 31, 1999	33,437	33	199,156	(648)
Issuance of common stock related to options, ESPP and other	636	1	633	-
Amortization of deferred compensation	-	-	-	648
Interest/payments on stock subscription receivable	-	-	-	-
Foreign currency translation adjustments	-	-	-	-
Unrealized gain on marketable securities	-	-	-	-
Net loss	-	-	-	-
Balances, December 31, 2000	34,073	34	199,789	-
Issuance of common stock from private placements, net of $823 of costs	12,366	13	10,880	-
Issuance of common stock related to options, ESPP	358	-	211	-
Issuance of restricted stock (Note 8)	1,045	1	709	(710)
Deferred compensation recognized	-	-	-	29
Foreign currency translation adjustments	-	-	-	-
Minimum pension liability	-	-	-	-
Unrealized gain/loss on forward contracts	-	-	-	-
Net loss	-	-	-	-
Balances, December 31, 2001	47,842	$ 48	$ 211,589	$ (681)

	STOCK SUBSCRIPTION RECEIVABLE	ACCUMULATED OTHER COMPREHENSIVE INCOME	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS EQUITY
Balances, December 31, 1998	$ (120)	$ 88	$ (116,766)	$ 67,114
Issuance of common stock for services	-	-	-	116
Cashless exercise of warrants to purchase common stock	-	-	-	-
Issuance of common stock upon the Company's follow-on public offering, net of $128 of expenses	-	-	-	13,289
Issuance of common stock related to options, ESPP and other	-	-	-	595
Amortization of deferred compensation	-	-	-	629
Interest on stock subscription receivable	(7)	-	-	(7)
Payments received on stock subscription receivable	3	-	-	3
Foreign currency translation adjustments	-	(88)	-	(88)
Unrealized loss on marketable securities	-	(376)	-	(376)
Net loss	-	-	(35,836)	(35,836)
Balances, December 31, 1999	(124)	(376)	(152,602)	45,439
Issuance of common stock related to options, ESPP and other	-	-	-	634
Amortization of deferred compensation	-	-	-	648
Interest/payments on stock subscription receivable	124	-	-	124
Foreign currency translation adjustments	-	(121)	-	(121)
Unrealized gain on marketable securities	-	246	-	246
Net loss	-	-	(21,870)	(21,870)
Balances, December 31, 2000	-	(251)	(174,472)	25,100
Issuance of common stock from private placements, net of $823 of costs	-	-	-	-
Issuance of common stock related to options, ESPP	-	-	-	11,814
Issuance of restricted stock (Note 8)	-	-	-	(710)
Deferred compensation recognized	-	-	-	29
Foreign currency translation adjustments	-	(177)	-	(177)
Minimum pension liability	-	(175)	-	(175)
Unrealized gain/loss on forward contracts	-	(24)	-	(24)
Net loss	-	-	(18,691)	(18,691)
Balances, December 31, 2001	$ -	$ (627)	$ (193,163)	$ 17,166

See accompanying notes to consolidated financial statements

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

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
CASH FLOWS USED IN OPERATING ACTIVITIES:			
Net loss	$ (18,691)	$ (21,870)	$ (35,836)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation and amortization	3,425	4,066	3,864
Amortization of intangible assets and deferred compensation	299	903	2,228
Loss on disposition of assets	-	445	2,215
Changes in operating assets and liabilities:			
Accounts receivable, net	(1,880)	155	(2,993)
Inventories	127	2,380	(1,760)
Other current assets	(321)	18	(293)
Other long-term assets	689	(229)	(1,092)
Accounts payable	893	(2,551)	(614)
Accrued liabilities	2,044	449	498
Deferred revenue and other long-term liabilities	(643)	348	592
Net cash used in operating activities	(14,058)	(15,886)	(33,191)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash withdrawn from restricted cash account	-	-	238
Purchase of marketable securities	-	-	(21,229)
Proceeds from sale of marketable securities	2,500	20,000	44,300
Proceeds from sale of subsidiary	-	6,000	-
Proceeds from disposition of property and equipment	196	406	262
Purchases of property and equipment	(839)	(1,207)	(3,296)
Net cash provided by investing activities	1,857	25,199	20,275
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	11,133	634	13,884
Proceeds from stock subscription receivable	-	124	3
Proceeds from borrowings	5,737	136	971
Repayments of debt and capital lease obligations	(2,039)	(8,484)	(6,464)
Net cash provided by (used in) financing activities	14,831	(7,590)	8,394
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(96)	(46)	100
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,534	1,677	(4,422)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,176	1,499	5,921
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,710	$ 3,176	$ 1,499

See accompanying notes to consolidated financial statements

HESKA CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1.ORGANIZATION AND BUSINESS

Heska Corporation ("Heska" or the "Company") is primarily focused on the discovery, development, manufacturing and marketing of companion animal health products and delivery of diagnostic services to veterinarians. The Company currently conducts its operations through two segments. Through its Companion Animal Health segment, the Company sells pharmaceutical, vaccine and diagnostic products and veterinary diagnostic and patient monitoring instruments, offers diagnostic services, and performs a variety of research and development activities. The operations of this segment are carried out through the Company's facilities in Fort Collins, Colorado, its wholly owned Swiss subsidiary, Heska AG. Through its Animal Health segment, the Company manufactures food animal vaccine and pharmaceutical products that are marketed and distributed by third parties. The operations of this segment are carried out through the Company's wholly owned subsidiary Diamond Animal Health, Inc. ("Diamond"), located in Des Moines, Iowa. Until June 2000, the Company operated through a third segment, Allergy Treatment. This segment operated through the then wholly owned subsidiary Center Laboratories, Inc., a manufacturer of allergy immunotherapy products ("Center").

From the Company's inception in 1988 until early 1996, the Company's operating activities related primarily to research and development activities, entering into collaborative agreements, raising capital and recruiting personnel. Prior to 1996, the Company had not received any revenue from the sale of products. During 1996, Heska grew from being primarily a research and development concern to a fully-integrated research, development, manufacturing and marketing company. The Company accomplished this by acquiring Diamond, a licensed pharmaceutical and biological manufacturing facility, hiring key employees and support staff, establishing marketing and sales operations to support new Heska products, and designing and implementing more sophisticated operating and information systems. The Company also expanded the scope and level of its scientific and business development activities, increasing the opportunities for new products. In 1997, the Company introduced additional products and expanded in the United States through the acquisition of Center, a Food and Drug Administration ("FDA") and United States Department of Agriculture ("USDA") licensed manufacturer of allergy immunotherapy products located in Port Washington, New York, and internationally through the acquisitions of Heska UK Limited ("Heska UK", formerly Bloxham Laboratories Limited), a veterinary diagnostic laboratory in Teignmouth, England and Heska AG (formerly Centre Medical des Grand'Places S.A.) in Fribourg, Switzerland, which manufactures and markets allergy diagnostic products for use in veterinary and human medicine, primarily in Europe. Each of the Company's acquisitions during this period was accounted for under the purchase method of accounting and accordingly, the Company's financial statements reflect the operations of these businesses only for the periods subsequent to the respective acquisitions. In July 1997, the Company established a new subsidiary, Heska AG, located near Basel, Switzerland, for the purpose of managing its European operations.

During the first quarter of 1998 the Company acquired Heska Waukesha (formerly Sensor Devices, Inc.), a manufacturer and marketer of patient monitoring devices used in both animal health and human applications.

During 1999 and 2000, the Company restructured and refocused its business. The operations of Heska Waukesha were combined with existing operations in Fort Collins, Colorado and Des Moines, Iowa during the fourth quarter of 1999. The Heska Waukesha facility was closed in December 1999. In March 2000, the Company sold Heska UK. The Company recorded a loss on disposition of approximately $1.0 million during 1999 for this sale. In June 2000, the Company sold Center. The Company recognized a gain on the sale of approximately $151,000.

The Company has incurred net losses since its inception and anticipates that it will continue to incur additional net losses in the near term as it introduces new products, expands its sales and marketing capabilities and continues its research and development activities. Cumulative net losses from inception of the Company in 1988 through December 31, 2001 have totaled $193.2 million. During the year ended December 31, 2001, the Company incurred a loss of approximately $18.7 million and used cash of approximately $14.1 million for operations.

The Company's primary short-term needs for capital, which are subject to change, are for its continuing research and development efforts, its sales, marketing and administrative activities, working capital associated with increased product sales and capital expenditures relating to developing and expanding its manufacturing operations. The Company's ability to achieve profitable operations will depend primarily upon its ability to successfully market its products, commercialize products that are currently under development and develop new products. Most of the Company's products are subject to long development and regulatory approval cycles and there can be no guarantee that the Company will successfully develop, manufacture or market these products. There can also be no guarantee that the Company will attain profitability or, if achieved, will remain profitable on a quarterly or annual basis in the future. Until the Company attains positive cash flow, the Company may continue to finance operations with additional equity and debt financing. There can be no guarantee that such financing will be available when required or will be obtained under favorable terms.

Our financial plan for 2002 indicates that our available cash and cash equivalents, together with cash from operations, available borrowings and borrowings we expect to be available under our revolving line of credit facility should be sufficient to satisfy our projected cash requirements through 2002 and into 2003. However, our actual results may differ from this plan and, we may need to raise additional funds at or before such time. If necessary, we expect to raise these additional funds through one or more of the following: (1) obtaining new loans secured by unencumbered assets; (2) sale of various products or marketing rights; (3) licensing of technology; (4) sale of various assets; and (5) sale of additional equity or debt securities. If we cannot raise the additional funds through these options on acceptable terms or with the necessary timing, management could also reduce discretionary spending to decrease our cash burn rate and extend the currently available cash and cash equivalents, and available borrowings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Company and of its wholly-owned subsidiaries since their respective dates of acquisitions. All material intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost, which approximates market, and include short-term highly liquid investments with original maturities of less than three months. Included in these amounts were Japanese yen with a value in U.S. dollars of approximately $366,000 which were held in an interest-bearing multi-currency account of a non-U.S. bank. The Company values its Japanese yen at the spot market rate as of the balance sheet date. These yen resulted from settlement of forward contracts entered into for purchases of inventory throughout fiscal 2001. Changes in the fair value of the yen are recorded in current earnings. The Company recognized a loss from devaluation of the yen of approximately $48,000 during the fiscal year ended December 31, 2001. The Company had no Japanese yen at December 31, 2000.

Marketable Securities and Restricted Investments

The Company classifies its marketable securities as "available-for-sale" and, accordingly, carries such securities at aggregate fair value. Unrealized gains or losses, if material, are included as a component of accumulated other comprehensive income.

At December 31, 2001, the Company had no marketable securities on its balance sheet. At December 31, 2000, these securities, consisting entirely of U.S. government agency obligations, had an aggregate amortized cost, using specific identification, of $2.8 million, with a maximum maturity of approximately three years. The fair market value of marketable securities at December 31, 2000 was approximately $2.5 million. Marketable securities at December 31, 2000 included approximately $281,000 of restricted investments held as collateral for capital leases (See Note 4) and $2.5 million of short-term marketable securities, respectively. The Company realized losses on the sale of certain marketable securities of $22,000 and $111,000 in 2001 and 2000, respectively. These amounts were previously included in other comprehensive income as unrealized losses on marketable securities.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents, marketable securities and accounts receivable. The Company maintains the majority of its cash, cash equivalents and marketable securities with financial institutions that management believes are creditworthy in the form of demand deposits, U.S. government agency obligations and U.S. corporate commercial paper. The Company has no significant off-balance sheet concentrations of credit risk such as foreign exchange contracts, options contracts or other foreign hedging arrangements. Its accounts receivable balances are due primarily from domestic veterinary clinics and individual veterinarians, and both domestic and international corporations.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short-term trade receivables and payables, notes receivable, capital lease obligations and notes payable. The carrying values of cash and cash equivalents and short-term trade receivables and payables approximate fair value. The fair value of notes payable is estimated based on current rates available for similar debt with similar maturities and collateral, and at December 31, 2001, approximates the carrying value.

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method. If the cost of inventories exceeds fair market value, provisions are made to reduce the carrying value to fair market value.

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

	DECEMBER 31,	
	2001	2000
Raw materials	$ 2,549	$ 2,219
Work in process	3,223	2,904
Finished goods	2,817	3,593
	$ 8,589	$ 8,716

Derivative Instruments and Hedging Activities

The Company utilizes derivative financial instruments to reduce financial market risks. These instruments may be used to hedge foreign currency, interest rate and certain equity market exposures of underlying assets, liabilities and other obligations. The Company does not use derivative financial instruments for speculative or trading purposes. The Company accounts for its derivative instruments in accordance with the Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138. This standard requires that all derivative instruments be recorded on the balance sheet at fair value and establishes criteria for designation and effectiveness of hedging relationships.

The Company's accounting policies for these instruments are based on whether they meet the Company's criteria for designation as hedging transactions. The criteria the Company uses for designating an instrument as a hedge includes the instrument's effectiveness in risk reduction and one-to-one matching of derivative instruments to underlying transactions. Gains and losses on currency forward contracts, and options that are designated and effective as hedges of anticipated transactions, for which a firm commitment has been attained, are deferred and recognized in income in the same period that the underlying transactions are settled. Gains and losses on currency forward contracts, options and swaps that are designated and effective as hedges of existing transactions are recognized in income in the same period as losses and gains on the underlying transactions are recognized and generally offset. Gains and losses on any instruments not meeting the above criteria are recognized in income in the current period. If an underlying hedged transaction is terminated earlier than initially anticipated the offsetting gain or loss on the related derivative instrument would be recognized in each period until the instrument matures, is terminated or is sold. See Note 11.

Property, Equipment and Intangible Assets

Property and equipment are recorded at cost and depreciated on a straight-line or declining balance basis over the estimated useful lives of the related assets.

Leasehold improvements are amortized over the applicable lease period or their estimated useful lives, whichever is shorter. Maintenance and repairs are charged to expense when incurred, and major renewals and improvements are capitalized.

Intangible assets primarily consist of various assets arising from business combinations and are amortized using the straight-line method over the period of expected benefit.

The Company periodically reviews the appropriateness of the remaining life of its property, equipment and intangible assets considering whether any events have occurred or conditions have developed which may indicate that the remaining life requires adjustment. After reviewing the appropriateness of the remaining life and the pattern of usage of these assets, the Company then assesses their overall recoverability by determining if the net book value can be recovered through undiscounted future operating cash flows. Absent any unfavorable findings, the Company continues to amortize and depreciate its property, equipment and intangible assets based on the existing estimated life. During 2000, the Company's review of property, equipment and intangible assets determined that a write-down to fair market value of $355,000 for equipment was needed. In 1999, the Company's review of property, equipment and intangible assets determined that a write-down to fair market value of $1.0 million for equipment and $372,000 for intangible assets was needed. These amounts were recorded as part of the loss on sale of assets in the accompanying statement of operations.

Property and equipment consist of the following (in thousands):

	ESTIMATED USEFUL LIFE	DECEMBER 31, 2001	DECEMBER 31, 2000
Land	N/A	$ 377	$ 377
Building	10 to 20 years	2,677	2,677
Machinery and equipment	3 to 15 years	19,220	19,426
Leasehold improvements	7 to 15 years	4,435	4,066
		26,709	26,546
Less accumulated depreciation and amortization		(16,591)	(13,645)
		$ 10,118	12,901

Depreciation and amortization expense for property and equipment was $3.4 million, $4.1 million and $3.9 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Intangible assets consist of the following (in thousands):

	ESTIMATED USEFUL LIFE	DECEMBER 31, 2001	DECEMBER 31, 2000
Customer lists, market presence and goodwill	7 years	$ 1,705	$ 1,705
Other intangible assets	2 to 15 years	1,079	793
		2,784	2,498
Less accumulated amortization		(1,384)	(1,041)
		$ 1,400	$ 1,457

Amortization expense for intangible assets was $270,000, $255,000 and $1.6 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Revenue Recognition

The Company generates its revenues through sale of products, licensing of technology, and sponsored research and development. Revenue is accounted for in accordance with the guidelines provided by Staff Accounting Bulletin 101 "Revenue Recognition in Financial Statements" (SAB 101). The Company's 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
* Collectibility is reasonably assured.

Revenue from the sale of products is generally recognized after both the goods are shipped to the customer and acceptance has been received with an appropriate provision for returns and allowances. 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.

In addition to its direct sales force, the Company utilizes third party distributors to sell its products. Distributors purchase goods from the Company, take title to those goods and resell them to their customers in the distributors' territory.

License revenue under arrangements to sell product or technology rights is recognized upon the sale and completion by the Company of all obligations under the agreement. Royalties are recognized as products are sold to customers.

The Company recognizes revenue from sponsored research and development over the life of the contract as research activities are performed. The revenue recognized is the lesser of revenue earned under a percentage of completion method based on total expected revenues or actual non-refundable cash received to date under the agreement.

Cost of Products Sold

Royalties payable in connection with certain licensing agreements (See Note 12) are reflected in cost of products sold as incurred.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expenses were $747,000, $1,508,000 and $790,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

Restructuring Expenses and Other

Income Taxes

The Company records a current provision for income taxes based on estimated amounts payable 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 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. The measurement of deferred tax assets may be reduced by a valuation allowance based on judgmental assessment of available evidence if deemed more likely than not that some or all of the deferred tax assets will not be realized.

Basic and Diluted Net Loss Per Share

Basic net loss per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed using the sum of the weighted average number of shares of common stock outstanding and, if not anti-dilutive, the effect of outstanding common stock equivalents (such as stock options and warrants) determined using the treasury stock method. Since inception, due to the Company's net losses, all potentially dilative securities are anti-dilutive and as a result, basic and net loss per share is the same as diluted net loss per share for all periods presented. At December 31, 2001 and 2000, securities that have been excluded from diluted net loss per share because they would be anti-dilutive are outstanding options to purchase 3,901,860 and 3,964,668 shares, respectively, of the Company's common stock and warrants to purchase zero and 1,165,000 shares, respectively, of the Company's common stock.

Comprehensive Loss

Comprehensive loss includes net loss adjusted for the results of certain stockholders' equity changes not reflected in the Consolidated Statements of Operations. Such changes include foreign currency items, unrealized gains and losses on certain investments in marketable securities, unrealized gains and losses on derivative instruments and minimum pension liability adjustments.

Foreign Currency Translation

The functional currency of the Company's international subsidiaries is the Swiss Franc ("CHF"). Assets and liabilities of the Company's international subsidiaries are translated using the exchange rate in effect at the balance sheet date. Revenue and expense accounts are translated using an average of exchange rates in effect during the period. Cumulative translation gains and losses, if material, 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 the current operations.

Reclassifications

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

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." These statements prohibit pooling-of-interests accounting for transactions initiated after June 30, 2001, require the use of the purchase method of accounting for all combinations after June 30, 2001, and establish a new accounting standard for goodwill acquired in a business combination. These continue to require recognition of goodwill as an asset, but do not permit amortization of goodwill as previously required by APB Opinion No. 17, "Intangible Assets." Furthermore, certain intangible assets that are not separable from goodwill will also not be amortized. However, goodwill and other intangible assets will be subject to periodic (at least annual) tests for impairment, and recognition of impairment losses in the future could be required based on a new methodology for measuring impairments prescribed by these pronouncements. The revised standards include transition rules and requirements for identification, valuation and recognition of a much broader list of intangibles as part of business combinations than prior practice, most of which will continue to be amortized. The potential prospective impact of these pronouncements on the Company's financial statements may significantly affect the results of future periodic tests for impairment. The amount and timing of non-cash charges related to intangibles acquired in business combinations will change from prior practice. The Company recorded $211,000 of amortization expense during the year ended December 31, 2001 relating to goodwill that will not be amortized beginning January 1, 2002. Furthermore, the Company will be required to conduct an annual impairment test of its goodwill. The Company has not yet quantified the impact, if any, that this impairment test will have on the results of its operations.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated asset retirement cost. It requires an entity to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate can be made. The Company is required to adopt this statement in its fiscal year 2003. The Company does not believe that this statement will materially impact its financial position or results of its operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of" and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." This statement applies to recognized long-lived assets of an entity to be held and used, or to be disposed of. This statement does not apply to goodwill, intangible assets not being amortized, financial instruments, and deferred tax assets. This statement requires an impairment loss to be recorded for assets to be held and used when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. An asset that is classified as held for sale shall be recorded at the lower of its carrying amount or fair value less cost to sell. The Company is required to adopt this statement for the first quarter of 2002. The Company does not believe that this statement will materially impact its results of operations.

3.CAPITAL LEASE OBLIGATIONS

The Company has entered into certain capital lease agreements for laboratory equipment, office equipment, machinery and equipment, and computer equipment and software. For the years ended December 31, 2001 and 2000, the Company had capitalized machinery and equipment under capital leases with a gross value of approximately $560,000 and $2.5 million and net book value of approximately $242,000 and $740,000, respectively. The capitalized cost of the equipment under capital leases is included in the accompanying balance sheets under the respective asset classes. Under the terms of the Company's lease agreements, the Company is required to make monthly payments of principal and interest through the year 2004, at interest rates ranging from 4.05% to 20.00% per annum. The equipment under the capital leases serves as security for the leases.

The future annual minimum required payments under capital lease obligations as of December 31, 2001 were as follows (in thousands):

YEAR ENDING DECEMBER 31,

2002	$ 116
2003	46
2004	10
Total future minimum lease payments	172
Less amount representing interest	(11)
Present value of future minimum lease payments	161
Less current portion	(104)
Total long-term capital lease obligations	$ 57

4.RESTRUCTURING EXPENSES

In the fourth quarter of 2001, the Company recorded a $1.5 million restructuring charge related to a strategic change in its distribution model and the consolidation of its European operations into one facility. This expense related to personnel severance costs, costs to adjust the Company's products to align with the new distribution model and the cost to close a leased facility in Europe.

During the first quarter of fiscal 2000, the Company initiated a cost reduction and restructuring plan at its Diamond subsidiary. The restructuring resulted from the rationalization of Diamond's business including a reduction in the size of its workforce and the Company's decision to vacate a leased warehouse and distribution facility no longer needed after the Company's decision to discontinue contract manufacturing of certain low margin human healthcare products. The charge to operations of approximately $435,000 related primarily to personnel severance costs for 12 individuals and the costs associated with closing the leased facility, terminating the lease and abandoning certain leasehold improvements. The facility was closed in April 2000.

In August 1999, the Company announced plans to consolidate its Heska Waukesha operations with existing operations in Fort Collins, Colorado and Des Moines, Iowa. This consolidation was based on the Company's determination that significant operating efficiencies could be achieved through the combined operations. The Company recognized a charge to operations of approximately $1.2 million for this consolidation. These expenses related primarily to personnel severance costs for 40 individuals and the costs associated with facilities being closed and excess equipment, primarily at the Company's Waukesha, Wisconsin location. This facility was closed in December 1999.

Shown below is a reconciliation of restructuring costs for the year ended December 31, 2001 (in thousands):

	BALANCE AT DECEMBER 31, 2000	ADDITIONS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001	PAYMENTS/CHARGES THROUGH DECEMBER 31, 2001	BALANCE AT DECEMBER 31, 2001
Severance pay, benefits and relocation expenses	$ -	$ 378	$ -	$ 378
Noncancellable leased facility closure costs	176	50	176	50
Products and other	-	1,100	-	1,100
Total	$ 176	$ 1,528	$ 176	$ 1,528

The balance of $1.5 million and $176,000 is included in accrued liabilities in the accompanying consolidated balance sheets as of December 31, 2001 and 2000, respectively.

5.LONG-TERM DEBT

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

	DECEMBER 31, 2001	DECEMBER 31, 2000
Equipment financing with final payment due in January 2002, stated interest rates between 2.7% and 17.9%, secured by certain equipment and fixtures	$ 240	$ 1,218
Promissory note to the Iowa Department of Economic Development ("IDED"), due in annual installments through June 2004, with a stated interest rate of 3.0% and a 9.5% imputed interest rate, net	41	54
Promissory note to the City of Des Moines, due in monthly installments through May 2004, with a stated interest rate of 3% and a 9.5% imputed interest rate, net	54	75
Real estate mortgage loan with a commercial bank, due in monthly installments through September 2003, with a stated interest rate of		

prime plus 1.25% at December 31, 2001 and 2000 (6.0% and 10.75%, respectively)	1,740	1,973
Term loan with a commercial bank, secured by machinery and equipment, due in monthly installments through December 2004, with a stated interest rate of prime plus 1.25% at December 31, 2001 and 2000 (6.0% and 10.75%, respectively)	688	912
	2,763	4,232
Less installments due within one year	(711)	(1,562)
	$ 2,052	$ 2,670

The Company has a credit facility with Wells Fargo Business Credit, Inc., an affiliate of Wells Fargo Bank. The credit facility includes a $10.0 million asset-based revolving line of credit with a stated interest rate of prime plus 1%. Under the agreement, the Company is required to comply with certain financial and non-financial covenants. Among the financial covenants are requirements for monthly minimum book net worth, quarterly minimum net income and minimum cash balances or liquidity levels. The amount available for borrowings under this agreement will be determined based on the borrowing base as defined by the credit agreement. As of December 31, 2001 approximately $2.2 million was available for additional borrowings under the line of credit agreement. The Company was in violation of certain of the financial covenants at December 31, 2001. On March 13, 2002, the Company obtained a waiver of these financial covenants from the bank and also executed an amendment to the credit agreement which extended the maturity date to May 31, 2003. See Note 15.

Amounts due under the Company's equipment term loan, real estate mortgage loan and revolving credit facility are payable to a commercial bank and are secured by a first security interest in essentially all of the Company's assets.

The IDED and City of Des Moines promissory notes are secured by a first security interest in essentially all assets of Diamond except assets acquired through capital leases and are included as cross-collateralized obligations by the respective lenders. The IDED has subordinated all of its security interest in these assets to a commercial bank providing credit to the Company. The City of Des Moines has subordinated up to $15 million of its security interest in these assets to the same commercial bank. These notes were assumed as a result of the 1996 Diamond acquisition.

Maturities of long-term debt as of December 31, 2001 were as follows (in thousands):

YEAR ENDING DECEMBER 31,	
2002	$ 711
2003	2,028
2004	24
Thereafter	-
	$ 2,763

6. ACCRUED PENSION LIABILITY

Diamond has a noncontributory defined benefit pension plan covering all employees who have met the eligibility requirements. The plan provides monthly benefits based on years of service which are subject to certain reductions if the employee retires before reaching age 65. Diamond's funding policy is to make the minimum annual contribution that is required by applicable regulations. Effective October 1992, Diamond froze the plan, restricting new participants and benefits for future service.

The following table sets forth the plan's funded status and amounts recognized in the accompanying balance sheets (in thousands):

	DECEMBER 31,	
	2001	2000
Change in benefit obligation:		
Benefit obligation, beginning	$ 1,127	$ 1,171
Service cost	-	-
Interest cost	77	80
Actuarial loss	5	(39)
Benefits paid	(67)	(85)
Benefit obligation, ending	1,142	1,127
Change in plan assets:		
Fair value of plan assets, beginning	954	971
Actual return on plan assets	129	68
Employer contribution	-	-

Benefits paid	(67)	(85)
Fair value of plan assets, ending	1,016	954
Funded status	(125)	(173)
Unrecognized net actuarial loss	175	234
Prepaid benefit cost	$ 50	$ 61
Additional minimum liability disclosures:		
Accrued benefit liability	$ (125)	$ (173)
Components of net periodic benefit costs:		
Service cost	$ -	$ -
Interest cost	77	80
Expected return on plan assets	(72)	(73)
Recognized net actuarial loss	6	7
Net periodic benefit cost	$ 11	$ 14

Assumptions used by Diamond in the determination of the pension plan information consisted of the following:

	DECEMBER 31,	
	2001	2000
Discount rate	7.00%	7.00%
Expected long-term rate of return on plan assets	7.75%	7.75%

7.INCOME TAXES

As of December 31, 2001 the Company had approximately $164.5 million of net operating loss ("NOL") carryforwards for income tax purposes and approximately $2.7 million of research and development tax credits available to offset future federal income tax, subject to limitations for alternative minimum tax. The NOL and credit carryforwards are subject to examination by the tax authorities and expire in various years from 2003 through 2020. In addition, the Company's NOL and tax credit carryforwards available for use in any given year may be limited upon the occurrence of certain events, including significant changes in ownership interest. The acquisition of Diamond in April 1996 resulted in such a change of ownership and the Company estimates that the resulting NOL carryforward limitation will be approximately $4.7 million per year for periods subsequent to April 19, 1996. The Company believes that this limitation may affect the eventual utilization of its total NOL carryforwards.

The Company's NOL's represent a previously unrecognized tax benefit. Recognition of these benefits requires future taxable income, the attainment of which is uncertain, and therefore, a valuation allowance has been established for the entire tax benefit and no benefit for income taxes has been recognized in the accompanying consolidated statements of operations.

The components of net loss were as follows (in thousands):

	YEAR ENDED DECEMBER 31,	
	2001	2000
Domestic	$ (17,816)	$ (20,642)
Foreign	(875)	(1,228)
	$ (18,691)	$ (21,870)

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

	DECEMBER 31,	
	2001	2000
Current deferred tax assets (liabilities):		
Inventory	$ 142	$ 268
Accrued compensation	134	121
Restructuring reserve	574	254
Other	205	182

	1,055	825
Valuation allowance	(1,055)	(825)
Total current deferred tax assets (liabilities)	-	-
Noncurrent deferred tax assets (liabilities):		
Research and development credits	2,748	3,126
Deferred revenue	523	17
Pension liability	90	19
Amortization of intangible assets	-	314
Gain/loss on assets held for sale	559	(35)
Property and equipment	(626)	(875)
Net operating loss carryforwards	62,930	58,874
	66,224	61,440
Valuation allowance	(66,224)	(61,440)
Total noncurrent deferred tax assets (liabilities)	$ -	$ -

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

	YEAR ENDED DECEMBER 31,	
	2001	2000
Deferred income tax benefit:		
Federal	$ (4,261)	$ (7,265)
State	(552)	(969)
Foreign	(201)	(490)
Total benefit	(5,014)	(8,724)
Valuation allowance	5,014	8,724
Total income tax expense (benefit)	$ -	$ -

The Company's income tax benefit relating to losses, respectively, for the periods presented differ from the amounts that would result from applying the federal statutory rate to those losses as follows:

	YEAR ENDED DECEMBER 31,	
	2001	2000
Statutory federal tax rate	(35%)	(35%)
State income taxes, net of federal benefit	(3%)	(3%)
Other permanent differences	11%	1%
Change in valuation allowance	27%	37%
Effective income tax rate	0%	0%

8.CAPITAL STOCK

Common Stock

In December 2001, the Company completed a private placement of 7.8 million shares of common stock at a price of $0.77 per share providing the Company with net proceeds of approximately $5.7 million.

In February 2001, the Company completed a private placement of 4.6 million shares of common stock at a price of $1.247 per share, providing the Company with net proceeds of approximately $5.3 million.

In December 1999, the Company completed a public offering of 6.5 million shares of common stock at a price of $2.063 per share, providing the Company with net proceeds of approximately $13.3 million.

Stock Option Plans

The Company has a stock option plan which authorizes granting of stock options and stock purchase rights to employees, officers, directors and consultants of the Company to purchase shares of common stock. In 1997, the board of directors adopted the 1997 Stock Incentive Plan and terminated two prior option plans. However, options granted and unexercised under the prior plans are still outstanding. All shares that remained available for grant under the terminated plans were incorporated into the 1997 Plan. In addition, all

shares subsequently cancelled under the prior plans are added back to the 1997 Plan on a quarterly basis as additional options available to grant. The number of shares reserved for issuance under the 1997 Plan increases automatically on January 1 of each year by a number equal to the lesser of (a) 1,500,000 shares or (b) 5% of the shares of common stock outstanding on the immediately preceding December 31. The number of shares reserved for issuance under all plans as of January 1, 2002 was 8,223,728.

The stock options granted by the board of directors may be either incentive stock options ("ISOs") or non-qualified stock options ("NQs"). The purchase price for options under all of the plans may be no less than 100% of fair market value for ISOs or 85% of fair market 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 the Company is sold or merged, outstanding options will either be assumed by the surviving corporation or vest immediately.

SFAS No. 123 ("SFAS 123")

SFAS 123, Accounting for Stock-Based Compensation, defines a fair value based method of accounting for employee stock options, employee stock purchases, or similar equity instruments. However, SFAS 123 allows the continued measurement of compensation cost for such plans using the intrinsic value based method prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees ("APB 25"), provided that pro forma disclosures are made of net income or loss, assuming the fair value based method of SFAS 123 had been applied. The Company has elected to account for its stock-based compensation plans under APB 25; accordingly, for purposes of the pro forma disclosures presented below, the Company has computed the fair values of all options granted during 2001, 2000 and 1999, using the Black-Scholes pricing model and the following weighted average assumptions:

	2001	2000	1999
Risk-free interest rate	4.39%	6.26%	5.63%
Expected lives	1.7 years	7.59 years	3.5 years
Expected volatility	86%	94%	91%
Expected dividend yield	0%	0%	0%

To estimate expected lives of options for this valuation, it was assumed options will be exercised at varying schedules after becoming fully vested dependent upon the income level of the option holder. For measurement purposes, options have been segregated into three income groups, and estimated exercise behavior of option recipients varies from one and one half years to two years from the date of vesting, dependent on income group (less highly compensated employees are expected to have shorter holding periods). All options are initially assumed to vest. Cumulative compensation cost recognized in pro forma basic net income or loss with respect to options that are forfeited prior to vesting is adjusted as a reduction of pro forma compensation expense in the period of forfeiture. Fair value computations are highly sensitive to the volatility factor assumed; the greater the volatility, the higher the computed fair value of the options granted.

The total fair value of options granted was computed to be approximately $1.1 million, $1.7 million and $3.8 million for the years ended December 31, 2001, 2000 and 1999, respectively. The amounts are amortized ratably over the vesting periods of the options. Pro forma stock-based compensation, net of the effect of forfeitures, was $906,000, $2.2 million and $3.6 million for 2001, 2000 and 1999, respectively.

A summary of the Company's stock option plans is as follows:

	YEAR ENDED DECEMBER 31,					
	2001		2000		1999	
	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of period	3,964,668	$ 4.4979	4,246,183	$ 4.6994	3,209,317	$ 5.1203
Granted at Market	1,444,844	$ 1.2047	753,700	$ 3.3453	1,725,480	$ 3.4876
Granted above Market	431	$ 0.9400	-	-	-	-
Cancelled	(1,477,500)	$ 6.6312	(600,228)	$ 6.5438	(329,820)	$ 6.6815
Exercised	(30,583)	$ 0.3649	(434,967)	$ 1.0904	(358,794)	$ 0.8148
Outstanding at end of period	3,901,860	$ 2.5689	3,964,668	$ 4.4979	4,246,183	$ 4.6994
Exercisable at end of period	2,399,954	$ 2.9447	2,274,489	$ 4.6293	1,973,349	$ 4.1737

The weighted average estimated fair value of options granted during the years ended December 31, 2001, 2000 and 1999 were $0.7821, $2.3277 and $2.1814, respectively.

The Company also granted stock options to non-employees in exchange for consulting services, recording deferred compensation based on the estimated fair value of the options at the date of grant. Deferred compensation was amortized over the applicable service periods. The amortization of deferred compensation resulted in a non-cash charge to operations of $648,000 and $629,000 in the years ended December 31, 2000 and 1999, respectively.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2001:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXERCISE PRICES	NUMBER OF OPTIONS OUTSTANDING AT DECEMBER 31, 2001	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE IN YEARS	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF WEIGHTED OPTIONS EXERCISABLE AT DECEMBER 31, 2001	AVERAGE EXERCISE PRICE
$0.25 - $1.14	790,988	7.86	$ 0.9312	315,836	$ 0.6309
$1.19 - $1.20	547,598	4.63	$ 1.1999	545,016	$ 1.1999
$1.22 - $1.81	835,850	9.19	$ 1.2818	438,617	$ 1.3000
$2.00 - $3.25	820,580	7.70	$ 2.4252	480,808	$ 2.5059
$3.37 - $15.00	906,844	7.19	$ 2.5689	619,677	$ 7.1631
$0.25 - $15.00	3,901,860	7.50	$ 2.5689	2,399,954	$ 2.9447

Employee Stock Purchase Plan (the "ESPP")

Under the 1997 Employee Stock Purchase Plan, the Company is authorized to issue up to 750,000 shares of common stock to its employees. Employees of the Company and its U.S. subsidiaries who are expected to work at least 20 hours per week and five months per year are eligible to participate. Under the terms of the plan, employees can choose to have up to 10% of their annual base earnings withheld to purchase the Company's common stock. The purchase price of the stock is 85% of the lower of its beginning-of-enrollment period or end-of-measurement period market price. Each enrollment period is two years, with six month measurement periods ending June 30 and December 31.

For the years ended December 31, 2001, 2000 and 1999, the weighted-average fair value of the purchase rights granted was $0.35, $0.91 and $1.24 per share, respectively. Pro forma stock-based compensation, net of the effect of adjustments, was approximately $88,161, $112,462 and $96,000 in 2001, 2000 and 1999, respectively, for the ESPP.

Restricted Stock Exchange

On August 9, 2001, the Board of Directors approved a proposal to give Heska employees an opportunity to exchange all options outstanding with exercise prices greater than $3.90 per share under the 1997 Stock Incentive Plan for shares of restricted stock. The offer closed on September 28,2001 with options to purchase 1,044,900 shares of common stock exchanged for 1,044,900 shares of restricted stock. The fair market value of the restricted stock at the time of the exchange was $0.68 per share. The restricted stock vests over 48 months beginning November 1, 2001. This exchange resulted in deferred compensation of approximately $710,000 that is being recognized over the vesting period of the restricted stock. The Company recognized $29,000 of non-cash compensation expense from this exchange in 2001.

Pro Forma Basic Net Loss per Share under SFAS 123

If the Company had accounted for all of its stock-based compensation plans in accordance with SFAS 123, the Company's net loss would have been reported as follows (in thousands, except per share amounts):

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
Net loss:			
As reported	$ (18,691)	$ (21,870)	$ (35,836)
Pro forma	$ (19,597)	$ (24,143)	$ (39,564)
Basic net loss per share:			
As reported	$ (0.48)	$ (0.65)	$ (1.31)
Pro forma	$ (0.50)	$ (0.71)	$ (1.45)

9.MAJOR CUSTOMERS

The Company had sales of greater than 10% of total revenues to only one customer during the years ended December 31, 2001, 2000 and 1999. One customer who represented 16% and 17% of total revenues in 2001 and 2000, respectively, and a different customer who represented 12% of total revenues 1999, purchased vaccines from Diamond. One customer represented 24% of total accounts receivable at December 31, 2001.

10. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS)		
Cash paid for interest	$ 587	$ 1,155	$ 1,857
Purchase of assets under direct capital lease financing	$ -	$ 45	$ 193

11. HEDGING ACTIVITIES

In April 2001, the Company entered into a series of forward contracts to purchase Japanese yen at various dates throughout the remainder of the year. The yen were used to purchase inventory from a Japanese manufacturer throughout fiscal 2001. These derivative instruments have been designated and qualify as cash flow hedging instruments under the definition provided by SFAS 133, "Accounting for Derivative Instruments and Hedging Activities". The forward contracts were entered into with settlement dates, and for amounts, that approximately correspond with the Company's projected needs to purchase inventory with the hedged currency. All of these forward contracts have been settled as of December 31, 2001. These derivative instruments were consistent with the Company's risk management policy, which allows for the hedging of risk associated with fluctuations in foreign currency for anticipated future transactions. These instruments have been determined to be fully effective as a hedge in reducing the risk of the underlying transaction. An unrealized loss of approximately $24,000 has been recorded in Other Comprehensive Loss as of December 31, 2001. This unrealized loss will be reclassified to cost of products sold and recognized as the purchase inventory is sold to customers. The Company has recognized a loss of approximately $48,000 in cost of products sold during the fiscal year ended December 31, 2001.

Accumulated gains and losses from derivative contracts is as follows:

	2001
Accumulated derivative gains (losses), December 31, 2000	$ -
Unrealized losses on forward contracts	(72)
Realized losses on forward contracts reclassified to current earnings	48
Accumulated derivative gains (losses), December 31, 2001	(24)

12. COMMITMENTS AND CONTINGENCIES

In November 1998, Synbiotics Corporation ("Synbiotics") filed a lawsuit against the Company in the United States District Court for the Southern District of California in which it alleges that the Company infringed a patent owned by Synbiotics relating to heartworm diagnostic technology. The Company has answered the complaint and no trial date has been set. The Company has obtained legal opinions from outside patent counsel that its heartworm diagnostic products do not infringe the Synbiotics patent and that the patent is invalid. The opinions of non-infringement are consistent with the results of the Company's internal evaluations. In September 2000, the U.S. District Court hearing the case granted the Company's request for a partial summary judgment, holding two of the Synbiotics patent claims to be invalid, leaving only one remaining claim, which is scheduled for trial in 2002. While management believes that the Company has valid defenses to Synbiotics' allegations and intends to defend the action vigorously, there can be no assurance that an adverse result or settlement would not have a material adverse effect on the Company's financial position, its results of operations or cash flow.

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 the years ended December 31, 2001, 2000 and 1999, royalties of $866,000, $931,000

and $1.0 million became payable under these agreements, respectively.

The Company contracts with various parties that conduct research and development on the Company's behalf. In return, the Company generally receives the right to commercialize any products resulting from these contracts. In the event the Company licenses any technology developed under these contracts, the Company will generally be obligated to pay royalties at specified percentages of future sales of products utilizing the licensed technology.

The Company has entered into operating leases for its office and research facilities and certain equipment with future minimum payments as of December 31, 2001 as follows (in thousands):

YEAR ENDING DECEMBER 31,	
2002	$ 878
2003	799
2004	666
2005	108
2006	-
	$ 2,451

The Company had rent expense of $861,000, $1.0 million and $1.1 million in 2001, 2000 and 1999, respectively.

13. SEGMENT REPORTING

Our business is comprised of two reportable segments, Companion Animal Health and Food Animal Health. Prior to June 30, 2000, we also had a third reportable segment, Allergy Treatment, which represented the operations of a subsidiary sold as of June 23, 2000. Within the Companion Animal Health segment there are two major product groupings which we define as pharmaceuticals, vaccines and diagnostics (PVD) and veterinary diagnostic and patient monitoring instruments. These products are sold through our operations in Fort Collins, Colorado and Europe. Within the Food Animal Health segment, there is one major product grouping, food animal vaccine and pharmaceutical products. We manufacture these food animal products at our Diamond Animal Health subsidiary.

Additionally, we generate non-product revenues from sponsored research and development projects for third parties, licensing of technology and royalties. We perform these sponsored research and development projects for both companion animal and food animal purposes.

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

	COMPANION ANIMAL HEALTH	FOOD ANIMAL HEALTH	ALLERGY TREATMENT	OTHER	TOTAL
2001:					
Revenues:					
PVD	$ 16,704	$ -	$ -	$ -	$ 16,704
Instruments	16,018	-	-	-	16,018
Diamond Animal Health	-	13,664	-	-	13,664
Sold businesses and other	-	-	-	-	-
Research, development and other	1,532	365	-	-	1,897
Total revenues	34,254	14,029	-	-	48,283
Operating income (loss)	(18,349)	2,250	-	(2,023)(a)	(18,122)
Total assets	52,102	21,079	-	(35,424)	37,757
Capital expenditures	420	419	-	-	839
Depreciation and amortization	1,978	1,447	-	-	3,425

(a) Includes restructuring expenses of $1,528 million and $495,000 of other (See Note 4).

	COMPANION ANIMAL HEALTH	FOOD ANIMAL HEALTH	ALLERGY TREATMENT	OTHER	TOTAL
2000:					
Revenues:					
PVD	$ 13,961	$ -	$ -	$ -	$ 13,961
Instruments	14,194	-	-	-	14,194

Diamond Animal Health	-	18,203	-	-	18,203
Sold business and other	-	-	3,191	-	3,191
Research, development and other	1,834	1,292	-	-	3,126
Total revenues	29,989	19,495	3,191	-	52,675
Operating income (loss)	(22,065)	1,539	(24)	(790)(b)	(21,340)
Total assets	53,109	17,533	-	(31,482)	39,160
Capital expenditures	724	483	-	-	1,207
Depreciation and amortization	2,277	1,577	212	-	4,066

(b) Includes the write-down of certain fixed assets to their expected net realizable values, resulting in a loss of $355,000 and restructuring expenses of $435,000 (See Note 4).

	COMPANION ANIMAL HEALTH	FOOD ANIMAL HEALTH	ALLERGY TREATMENT	OTHER	TOTAL
1999:					
Revenues:					
PVD	$ 12,716	$ _	$ _	$ _	$ 12,716
Instruments	12,106	_	_	_	12,106
Diamond Animal Health	_	12,086	_	_	12,086
Sold businesses and other	301	3,901	9,181	_	13,383
Research, development and other	505	380	_	_	885
Total revenues	25,628	16,367	9,181	_	51,176
Operating income (loss)	(27,878)	(2,534)	(372)	(3,803)(c)	(34,587)
Total assets	89,199	22,185	6,376	(46,592)	71,168
Capital expenditures	743	2,368	185	-	3,296
Depreciation and amortization	2,155	1,294	415	-	3,864

(c) Includes the write-down of certain tangible and intangible assets to their expected net realizable values, resulting from a loss on assets held for disposition of $2.6 million, restructuring expenses of $1.2 million (See Note 4).

The Company manufactures and markets its products in two major geographic areas, North America and Europe. The Company's primary manufacturing facilities are located in North America. Revenues earned in North America are attributable to Heska, Diamond, Heska Waukesha (through 1999) and Center (through June 2000). Revenues earned in Europe are primarily attributable to Heska UK (through January 2000), Heska AG. There have been no significant exports from North America or Europe.

During each of the years presented, European subsidiaries purchased products from North America for sale to European customers. Transfer prices to international subsidiaries are intended to allow the North American companies to produce profit margins commensurate with their sales and marketing efforts. Certain information by geographic area is shown in the following table (in thousands).

	NORTH AMERICA	EUROPE	OTHER	TOTAL
2001:				
Revenues:				
PVD	$ 15,213	$ 1,491	$ -	$ 16,704
Instruments	15,744	274	-	16,018
Diamond Animal Health	13,664	-	-	13,664
Sold businesses and other	-	-	-	-
Research, development and other	1,897	-	-	1,897
Total revenues	46,518	1,765	-	48,283
Operating income (loss)	(15,782)	(317)	(2,023)(a)	(18,122)
Total assets	71,288	1,893	(35,424)	37,757
Capital expenditures	821	18	-	839
Depreciation and amortization	3,324	101	-	3,425

(a) Includes restructuring expenses of $1,528 million and $495,000 of other (See Note 4).

	NORTH AMERICA	EUROPE	OTHER	TOTAL
2000:				
Revenues:				
PVD	$ 12,352	$ 1,609	$ -	$ 13,961

Instruments	13,562	632	-	14,194
Diamond Animal Health	18,203	-	-	18,203
Sold businesses and other	2,889	302	-	3,191
Research, development and other	3,126	-	-	3,126
Total revenues	50,132	2,543	-	52,675
Operating income (loss)	(20,444)	(896)	- (b)	(21,340)
Total assets	68,130	2,512	(31,482)	39,160
Capital expenditures	1,082	125	-	1,207
Depreciation and amortization	3,956	110	-	4,066

(b) Includes the write-down of certain fixed assets to their expected net realizable values, resulting in a loss of $355,019 and restructuring expenses of $435,000 (See Note 4).

	NORTH AMERICA	EUROPE	OTHER	TOTAL
1999:				
Revenues:				
PVD	$ 9,308	$ 3,408	$ -	$ 12,716
Instruments	11,314	792	-	12,106
Diamond Animal Health	12,086	-	-	12,086
Sold business and other	10,436	2,947	-	13,383
Research, development and other	885	-	-	885
Total revenues	44,029	7,147	-	51,176
Operating income (loss)	(27,431)	(3,353)	(3,803)(c)	(34,587)
Total assets	114,165	3,595	(46,592)	71,168
Capital expenditures	3,292	4	-	3,296
Depreciation and amortization	3,701	163	-	3,864

(c) Includes the write-down of certain tangible and intangible assets to their expected net realizable values, resulting from a loss on assets held for disposition of $2.6 million, restructuring expenses of $1.2 million (See Note 4).

14. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following summarizes selected quarterly financial information for each of the two years in the period ended December 31, 2001 (amounts in thousands except per share data).

	Q1	Q2	Q3	Q4	TOTAL
2001:					
Total revenues	$ 10,927	$ 10,938	$ 11,755	$ 14,663	$ 48,283
Gross profit from product sales	4,100	3,710	4,115	5,806	17,731
Net loss	(4,572)	(4,664)	(3,894)	(5,561)	(18,691)
Net loss per share - basic and diluted	(0.12)	(0.12)	(0.10)	(0.14)	(0.48)
2000:					
Total revenues	$ 14,363	$ 14,243	$ 12,708	$ 11,361	$ 52,675
Gross profit from product sales	4,001	4,250	3,944	4,055	16,250
Net loss	(5,929)	(5,703)	(4,731)	(5,507)	(21,870)
Net loss per share - basic and diluted	(0.18)	(0.17)	(0.14)	(0.16)	(0.65)

15. SUBSEQUENT EVENTS

On March 13, 2002, the Company re-negotiated the covenants under its revolving line of credit facility. The Company's ability to borrow under this agreement varies based upon available cash, eligible accounts receivable and eligible inventory. The minimum liquidity (cash plus excess capacity) required to be maintained has been reduced to $2.5 million during 2002.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.

PART III

Certain information required by Part III is incorporated by reference to our definitive Proxy Statement filed with the Securities and Exchange Commission in connection with the solicitation of proxies for our 2002 Annual Meeting of Stockholders.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by this section is incorporated by reference to the information in the sections entitled "Election of Directors-Directors and Nominees for Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers and their ages as of March 16, 2002 are as follows:

NAME	AGE	POSITION
Robert B. Grieve, Ph.D.	50	Chairman of the Board and Chief Executive Officer
James H. Fuller	57	President and Chief Operating Officer
Ronald L. Hendrick	56	Executive Vice President, Chief Financial Officer and Secretary
Dan T. Stinchcomb, Ph.D.	48	Executive Vice President, Research and Development
Carol Talkington Verser, Ph.D.	49	Executive Vice President, Intellectual Property and Business Development

Robert B. Grieve, Ph.D., one of our founders, currently serves as Chief Executive Officer and Chairman of the Board. Dr. Grieve was named Chief Executive Officer effective January 1, 1999, Vice Chairman effective March 1992 and Chairman of the Board effective May 2000. Dr. Grieve also served as Chief Scientific Officer from December 1994 to January 1999 and Vice President, Research and Development, from March 1992 to December 1994. He has been a member of our Board of Directors since 1990. He holds a Ph.D. degree from the University of Florida and M.S. and B.S. degrees from the University of Wyoming.

James H. Fuller has served as President and Chief Operating Officer since January 1999. Prior to joining us, Mr. Fuller served as Corporate Vice President of Allergan, Inc., a leading specialty pharmaceutical company, from 1994 through 1998. Prior to 1994, Mr. Fuller served in a number of sales and marketing positions at Allergan since 1974. He holds M.S. and B.S. degrees from the University of Southern California.

Ronald L. Hendrick serves as Executive Vice President, Chief Financial Officer and Secretary. He joined us in December 1998. From 1995 until December 1998, Mr. Hendrick was Executive Vice President and Chief Financial Officer of Xenometrix, Inc., a human biotechnology concern. From 1993 until 1995, Mr. Hendrick served as Vice President and Corporate Controller at Alexander & Alexander Services, Inc., a NYSE financial services firm, and before that he held a number of finance and accounting positions at Adolph Coors Company. He holds a M.B.A. from the University of Colorado and a B.A. degree from Michigan State University.

Dan T. Stinchcomb, Ph.D., was appointed Executive Vice President, Research and Development, in December 1999. Dr. Stinchcomb previously served as Vice President, Research from December 1998 to November 1999, and as Vice President, Biochemistry and Molecular Biology from May 1996 until December 1998. From July 1993 until May 1996, Dr. Stinchcomb was employed by Ribozyme Pharmaceuticals, Inc., most recently as Director of Biology Research. From 1988 until April 1993, Dr. Stinchcomb held various positions with Synergen, Inc. Prior to joining Synergen, Dr. Stinchcomb was an Associate Professor in Cellular and Developmental Biology at Harvard University. He holds a Ph.D. degree from Stanford University and a B.A. degree from Harvard University.

Carol Talkington Verser, Ph.D., was appointed Executive Vice President, Intellectual Property and Business Development in February 2001. From June 2000 until January 2001 she was Vice President, Intellectual Property and Business Development. From July 1996 to May 2000, she served us as Vice President, Intellectual Property. From July 1995 to June 1996, Dr. Verser served us as Director, Intellectual Property. From July 1991 to June 1995, Dr. Verser was a Patent Agent and Technical Specialist at Sheridan, Ross and McIntosh, an intellectual property law firm. Prior to July 1991, she was Director, Scientific Development and Laboratory Director at Biogrowth, Inc., currently a subsidiary of Insmed Inc. Dr. Verser holds a Ph.D. in cellular and developmental biology from Harvard University and a B.S. in biological sciences from the University of Southern California.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this section is incorporated by reference to the information in the sections entitled "Election of Directors-Directors' Compensation" and "Executive Compensation" in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this section is incorporated by reference to the information in the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this section is incorporated by reference to the information in the section entitled "Certain Transactions and Relationships" in the Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) The following documents are filed as a part of this Form 10-K.

(1) FINANCIAL STATEMENTS:

Reference is made to the Index to Consolidated Financial Statements under Item 8 in Part II of this Form 10-K.

(2) FINANCIAL STATEMENT SCHEDULES:

Schedule II - Valuation and Qualifying Accounts.

SCHEDULE II

HESKA CORPORATION AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS

	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO COSTS AND EXPENSES	OTHER ADDITIONS	DEDUCTIONS	BALANCE AT END OF YEAR
ALLOWANCE FOR DOUBTFUL ACCOUNTS					
Year ended:					
December 31, 2001	$ 431	$ 373	-	$ (298)(a)	$ 506
December 31, 2000	$ 188	$ 320	-	$ (77)(a)	$ 431
December 31, 1999	$ 93	$ 122	-	$ (27)(a)	$ 188
ALLOWANCE FOR RESTRUCTURING CHARGES					
Year ended:					
December 31, 2001	$ 176	$ 2,023	-	$ (176)(b)	$ 2,023
December 31, 2000	$ 1,123	$ 435	-	$ (1,382)(b)	$ 176
December 31, 1999	$ 1,631	$ 1,210	-	$ (1,718)(b)	$ 1,123

(a) Write-offs of uncollectable accounts.
(b) Payments for personnel severance costs and facility closing costs.

(3) EXHIBITS:

The exhibits listed below are required by Item 601 of Regulation S-K. Each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K has been identified.

EXHIBIT NUMBER	NOTES	DESCRIPTION OF DOCUMENT
3(i)(d)	(5)	Restated Certificate of Incorporation of the Registrant.
3(ii)	(8)	Bylaws of the Registrant.
10.1H	(1)	Collaborative Agreement between Registrant and Eisai Co., Ltd., dated January 25, 1993.
10.3H		Bovine Vaccine Distribution Agreement between Diamond Animal Health, Inc. and AGRI Laboratories, Ltd., dated February 13, 1998, as amended.
10.4H		Exclusive Distribution Agreement between Registrant and Novartis Animal Health Canada, Inc. dated February 14, 2001, as amended.
10.5H	(1)	Screening and Development Agreement between Ciba-Geigy Limited and Registrant, dated as of April 12, 1996.
10.6	(1)	Right of First Refusal Agreement between Ciba-Geigy Limited and Registrant, dated as of April 12, 1996.
10.7	(1)	Marketing Agreement between Registrant and Ciba-Geigy Limited, dated as of April 12, 1996.
10.8H	(1)	Marketing Agreement between Registrant and Ciba-Geigy Corporation, dated as of April 12, 1996.
10.9 H		Amended and Restated Distribution Agreement between Registrant and i-STAT Corporation, dated as of February 9, 1999.
10.10*	(1)	Employment Agreement between Registrant and Robert B. Grieve, dated January 1, 1994, as amended March 4, 1997.
10.10(a)*	(4)	Amended and Restated Employment Agreement with Robert B. Grieve, dated as of February 22, 2000.
10.14H	(2)	Supply Agreement between Registrant and Quidel Corporation, dated July 3, 1997.
10.14(a)H		First Amendment to Product Supply Agreement between Registrant and Quidel Corporation, dated as of March 15, 1999.
10.18*	(1)	Form of Indemnification Agreement entered into between Registrant and its directors and certain officers.
10.19*	(8)	1997 Incentive Stock Plan of Registrant, as amended and restated.

10.20*	(1)	Forms of Option Agreement.
10.21*	(1)	1997 Employee Stock Purchase Plan of Registrant, as amended.
10.22	(1)	Lease Agreement dated March 8, 1994 between Sharp Point Properties, LLC and Registrant.
10.23	(1)	Lease Agreement dated as of June 27, 1996 between GB Ventures and Registrant.
10.24	(1)	Lease Agreement dated as of July 11, 1996 between GB Ventures and Registrant.
10.25		Lease Agreement dated as of August 24, 1999 between GB Ventures and Registrant.
10.26		Lease Agreement dated as of October 6, 1999 between GB Ventures and Registrant.
10.28*	(3)	Employment Agreement between Registrant and Ronald L. Hendrick, dated December 1, 1998.
10.29*	(3)	Employment Agreement between Registrant and James H. Fuller, dated January 18, 1999.
10.34H	(3)	Exclusive Distribution Agreement between the Company and Novartis Agro K.K., dated as of August 18, 1998
10.35	(3)	Right of First Refusal Agreement between the Company and Novartis Animal Health, Inc., dated as of August 18, 1998
10.39	(5)	Second Amended and Restated Credit and Security Agreement between Registrant, Diamond Animal Health, Inc., Center Laboratories, Inc. and Wells Fargo Business Credit, Inc., dated as of June 14, 2000.
10.40*	(5)	Employment agreement by and between Registrant and Dan T. Stinchcomb, dated as of May 1, 2000.
10.41*	(5)	Employment agreement by and between Registrant and Carol Talkington Verser, dated as of May 1, 2000.
10.42*	(6)	Management Incentive Compensation Plan.
10.43	(7)	First Amendment to Second Amended and Restated Credit and Security Agreement between Registrant, Diamond Animal Health, Inc. and Wells Fargo Business Credit, Inc., dated as of March 27, 2001.
10.44		Second Amendment to Second Amended and Restated Credit and Security Agreement between Registrant, Diamond Animal Health, Inc. and Wells Fargo Business Credit, Inc., dated as of March 13, 2002.
21.1	(6)	Subsidiaries of the Company.
23.1		Consent of Arthur Andersen LLP.
24.1		Power of Attorney (See page 70 of this Form 10-K).
99.1		Letter concerning Arthur Andersen LLP.

Notes
* Indicates management contract or compensatory plan or arrangement.
H Confidential treatment has been requested with respect to certain portions of these agreements.
(1) Filed with Registrant's Registration Statement on Form S-1 (File No. 333-25767).
(2) Filed with the Registrant's Form 10-Q for the quarter ended September 30, 1997.
(3) Filed with the Registrant's Form 10-K for the year ended December 31, 1998.
(4) Filed with the Registrant's Form 10-K for the year ended December 31, 1999.
(5) Filed with the Registrant's Form 10-Q for the quarter ended June 30, 2000.
(6) Filed with the Registrant's Form 10-K for the year ended December 31, 2000.
(7) Filed with the Registrant's Form 10-Q for the quarter ended March 31, 2001.
(8) Filed with the Registrant's Form 10-Q for the quarter ended June 30, 2001.

(b) Reports on Form 8-K: The Company filed a Report on Form 8-K dated December 20, 2001, related to the private placement of approximately 7.8 million shares of its common stock with certain investors at a price of $0.77 per share

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on April 1, 2002.

HESKA CORPORATION

By: /s/ ROBERT B. GRIEVE
Robert B. Grieve
Chairman of the Board and
Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Robert B. Grieve, Ronald L. Hendrick, Michael A. Bent and A. Lynn DeGeorge, and each of them, his or her true and lawful attorneys-in-fact, each with full power of substitution, for him or her in any and all capacities, to sign any amendments to this report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact or their substitute or substitutes may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
/s/ ROBERT B. GRIEVE Robert B. Grieve	Chairman of the Board and Chief Executive Officer (Principal Executive Officer) and Director	April 1, 2002
/s/ RONALD L. HENDRICK Ronald L. Hendrick	Executive Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	April 1, 2002
/s/ G. IRWIN GORDON G. Irwin Gordon	Director	April 1, 2002
/s/ A. BARR DOLAN A. Barr Dolan	Director	April 1, 2002
/s/ LYLE A. HOHNKE Lyle A. Hohnke	Director	April 1, 2002
/s/ EDITH W. MARTIN Edith W. Martin	Director	April 1, 2002
/s/ WILLIAM A. AYLESWORTH William A. Aylesworth	Director	April 1, 2002
/s/ LYNNOR B. STEVENSON Lynnor B. Stevenson	Director	April 1, 2002
/s/ JOHN F. SASEN, Sr. John F. Sasen, Sr.	Director	April 1, 2002

[CONFIDENTIAL TREATMENT REQUESTED. CONFIDENTIAL PORTIONS OF THIS DOCUMENT HAVE BEEN REDACTED AND HAVE BEEN SEPARATELY FILED WITH THE COMMISSION]

BOVINE VACCINE DISTRIBUTION AGREEMENT

This Agreement is entered as of the 13th day of February, 1998 (the "Effective Date"), by and between DIAMOND ANIMAL HEALTH, INC., an Iowa corporation with offices at 2538 S.E. 43rd Street, Des Moines, Iowa, 50317, ("Diamond") and AGRI LABORATORIES, LTD., a Delaware corporation, with offices at 20927 State Route K, St. Joseph, Missouri, 64505 ("Distributor").

WHEREAS, Diamond has the right to certain bovine antigens described on Exhibit A attached hereto and certain USDA and other licenses (and applications therefor) for the manufacture of such antigens and the right to enter into this distribution agreement as to them; and

WHEREAS, Distributor desires to purchase Products from Diamond, to be marketed under private label brand names as Distributor deems appropriate pursuant to the terms of this Agreement.

NOW, THEREFORE, the parties agree as follows:

SECTION 1. PRODUCTION, SALE AND DISTRIBUTION

1.01 Manufacture and Sale. Diamond agrees to manufacture and sell to Distributor, and Distributor agrees to purchase from Diamond, Products and additional products as referenced herein for distribution in the Territory pursuant to and in accordance with the terms and conditions of this Agreement.

1.02 Exclusivity. Distributor's distribution rights under this Agreement shall be exclusive worldwide for all Products identified on Exhibit A attached hereto and additional Products added pursuant to Section 2, except as set forth in this paragraph. Notwithstanding the foregoing, (i) Distributor's rights under this Agreement shall be non-exclusive for distribution in Canada for all Products; (ii) Distributor shall have no distribution rights outside the United States for any Products containing [***] antigens listed on Exhibit C, without the prior written consent and agreement of [***] (it being understood that Diamond does not have rights to such [***] antigens outside the United States); (iii) Distributor shall not have any right to distribute Products consisting of the [***] antigens listed on Exhibit C in combination with any antigens other than the viral antigens listed on Exhibit A, without the prior written consent and agreement of [***]; (iv) Distributor acknowledges that [***] has exclusive rights to distribute in Canada the product combinations (and lesser fallout products containing [***] antigens) described in Exhibit C; (v) Diamond and its Affiliates may sell, have sold and otherwise distribute to [***] without restriction the individual [***] antigens listed in Exhibit C; (vi) Diamond and its Affiliates may sell, have sold and otherwise distribute to [***] without restriction the individual antigens and monovalent vaccines (i.e., a vaccine containing a single bovine antigen) listed on Exhibit B; and (vii) Diamond and its Affiliates may sell, have sold and otherwise distribute to [***] without any restriction biological veterinary products containing antigens specified in Exhibit D to be used in solid dose configurations or using [***] technologies. From the beginning date of the second Contract Year, Distributor shall have twenty-four (24) months to submit an application to any foreign jurisdiction for the registration of any one or more Products or future products and twenty-four (24) months after obtaining approval of the registration to begin marketing the registered Product. If Distributor fails to submit a timely application for the registration of any one or more Products or additional Products, or if Distributor submits a timely application and obtains an approved registration but fails to timely market the Product, then Distributor shall forfeit its Exclusive License rights to foreign markets but shall maintain its Exclusive License rights in the United States.

It is furthermore recognized by the parties hereto that parties will make good faith efforts to hereafter negotiate fair and equitable agreements as between them for the sale of bulk antigens to other vaccine companies which sales should be included in the Qualified Revenue requirements as set forth in Section 1.04(ii). If the parties hereto cannot agree for the sale of Bulk Antigens to other vaccine companies, then Diamond shall be prohibited from making any Bulk Sales, except as set forth in Section 1.02.

1.03 Territory. Distributor is authorized to sell, have sold and otherwise distribute Products and additional products added pursuant to Section 2 hereafter collectively referred to as "All Products" worldwide limited only as provided in Section 1.02.

1.04 Purchase of Requirements; Minimum Purchases.

(i) Requirements. Distributor agrees to purchase its total requirements of Products from Diamond for bovine veterinary biologic products of the type described on Exhibit A but only to the extent Diamond has the Products reasonably available for Distributor's delivery directions that conform to Section 4 hereof. Distributor may purchase any additional requirement from any source, but only during such period that Diamond is unable to meet such requirements and the reasonable costs thereof shall be included in Minimum Qualified Revenues for purposes of Section 1.04(ii).

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(ii) Minimums. During the term of this Agreement Distributor shall cause the Qualified Revenues for each Contract Year to equal or exceed the

following amounts (the "Minimum Qualified Revenue").

Contract Year as defined in 13.06	Minimum Qualified Revenues
1st	[***]
2nd	$[***]
3rd	$[***]
4th	$[***]
5th and thereafter	$[***]

provided, however, that Distributor may permit the Qualified Revenues to be less than the Minimum Qualified Revenue in any Contract Year and in lieu thereof pay to Diamond an amount equal to the difference between such Minimum Qualified Revenue and the actual Qualified Revenues for such Contract Year (the "Additional Payment"). If an Additional Payment is due hereunder for any Contract Year, which payment shall be due and payable thirty (30) days after the end of such Contract Year, Distributor may elect by written notice to Diamond within thirty (30) days after the end of such Contract Year, in lieu of paying such Additional Payment, to terminate Distributor's exclusivity rights under Section 1.02 of this Agreement. Distributor's distribution rights shall continue on a nonexclusive basis subject to all the remaining terms of this Agreement not inconsistent therewith, which shall remain in full force and effect.

1.05 Responsibilities of Distributor; Diamond Technical Support. Distributor shall use reasonable efforts to market and sell Products in the

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Territory and shall adhere to reasonable industry practice in connection therewith. Distributor shall be responsible, at its sole expense, for advertising and promotion, technical support and customer service. At Distributor's request, Diamond shall provide reasonable technical support for Distributor's marketing, sales and customer service efforts, and shall pay the support costs thereof.

1.06 Registration and Licensing. Diamond shall use reasonable efforts to obtain Licenses in the United States with respect to all Products and will pay all Registration Costs associated with obtaining and maintaining such Licenses, except as set forth in Section 2.02. Diamond will use reasonable efforts to assist Distributor in the registration of Products (bulk or packed form) outside the United States at Distributor's expense. Distributor shall pay all Registration Costs associated with obtaining and maintaining any Licenses required in the Territory outside the United States and said cost shall be included in the Qualified Revenue requirements as set forth in Section 1.04(ii).

1.07 Specifications. Diamond and Distributor agree that all Products will be manufactured in accordance with the Specifications and applicable USDA regulations. The Specifications may be changed at any time by mutual agreement of the parties, subject to applicable regulatory requirements, notices and approvals. Any disagreement concerning revisions to the Specifications shall be first addressed by mutual discussion and negotiation. Except to the extent the parties may otherwise agree in writing, any increases in costs resulting from Specification changes (including, but not limited to, those relating to packaging and raw materials) may be reflected in a direct cost increase to the Purchase.

1.08 Labeling; Trademarks. Diamond shall affix labeling to all Products, such labeling to bear one or more Distributor trademarks, as specified in writing by Distributor. Nothing contained herein shall give Diamond any right to use any Distributor trademark except on all Products manufactured and delivered for Distributor. Diamond shall not obtain any right; title or interest in any Distributor trademark by virtue of this Agreement Distributor shall not use, nor shall Distributor obtain any right, title or interest in, any Diamond trademark or any [***] trademark, including without limitation "Pneumo-Star," "Somnu-Star" and "Somnu-Star PH." All Product labeling shall in addition to the Distributor trademark, contain the notation "Manufactured by Diamond Animal Health, Inc." with its address or such similar notation as may be necessary or advisable under applicable law, and shall contain the notation "Distributed by Agri Laboratories, Inc.," with its address. Distributor shall cause All Product labeling to contain only such claims as are permitted under applicable Licenses for such Products and to otherwise comply with applicable law. All labeling and packaging of All Products shall be subject to the prior written approval of both parties, which shall not be unreasonably withheld. Diamond will order quantities of labeling and packaging sufficient to perform its obligations hereunder in its reasonable discretion. Distributor shall be responsible for the costs of developing and changing packaging for All Products, including costs of obsolete labeling and packaging due to changes requested by Distributor but only those occurring after initial License for the same. Furthermore, Diamond shall be responsible for the cost occasioned by any changes required by a government agency.

1.09 Location of Manufacture. All Products shall be manufactured by Diamond at its plant located in Des Moines, Iowa.

SECTION 2. ADDITIONAL PRODUCTS

2.01 Additional Products. At Distributor's request, additional Products may be added to Exhibit A to this Agreement, providing for additional combinations of the antigens listed in Exhibit A and/or combinations of such antigens and new antigens specified by Distributor. Diamond shall have the right, in its discretion, to approve or disapprove any such

additional Products and if approved, to establish reasonable Purchase Prices therefor. Any such approved additional Products and the Purchase Prices therefor shall be set forth in an amended Exhibit A signed by both parties to be collectively known as "All Products". Any such approved additional product shall be included in the requirements of Section 1.04(ii).

2.02 Registration Costs; Ownership. Distributor shall advance to Diamond the Registration Costs for any additional Products approved pursuant to Section 2.01, which are added at Distributor's request. Each of Distributor and Diamond shall retain ownership of any antigens it supplies for any such additional Products and the addition of additional Products to Exhibit A shall not be deemed to transfer any right, title, interest or license in or to the antigens supplied by either party to the other party for such Products, except as necessary to manufacture and sell Products under this Agreement. Each of Distributor and Diamond shall retain joint ownership of any jointly produced antigens developed by the parties hereto, and the addition of said Products to Exhibit A shall not be deemed to transfer any right, title, interest or license in or to the jointly developed antigens or Products, except as necessary to manufacture and sell Products under this Agreement. It is contemplated that a separate agreement would be entered into for the joint development of antigens or Products between the parties hereto.

SECTION 3. PRICE; PAYMENT

3.01 Purchase Prices. Distributor agrees to purchase the Products at prices shown in Exhibit A hereto, subject to adjustment from time to time as specified below (the "Purchase Price"). All prices are F.O.B. Diamond's manufacturing plant and are exclusive of taxes, freight and insurance, if any, which shall be invoiced to and paid by Distributor.

3.02 Annual Price Adjustment. Purchase Prices for each Product set forth in Exhibit A shall be in effect for Products having specified delivery dates during the first Contract Year. Purchase Prices to be in effect for Products to be delivered in each subsequent Contract year shall be negotiated by the parties in good faith, taking into account factors including, but not limited to, cost changes, volume changes and plant utilization. In the event that Purchase Price changes are not agreed upon as a result of such good faith negotiations, then the Purchase Prices in effect for the preceding Contract Year shall remain in effect.

3.03 Cost Increases. Diamond may also notify Distributor in writing during any Contract Year of any cost increases for raw materials and packaging components for All Products to the extent such increases, individually or in the aggregate, would cause total finished cost of goods of such Product to increase by more than 2%. Upon Distributor's request, Diamond will furnish reasonable supporting documentation therefor. Upon such notification, the parties shall negotiate in good faith to adjust the applicable Purchase Prices to account for such increases. In the event that Purchase Price changes are not agreed upon as a result of such good faith negotiations, then the Purchase Prices then in effect shall remain in effect.

3.04 Payment Terms. Diamond shall notify Distributor of the date when Products are ready for shipment. Diamond shall invoice the Distributor for Products on the later of (i) the date Diamond notifies Distributor that the Products are ready for shipment or (ii) the delivery date specified in Distributor's purchase order accepted by Diamond. Diamond shall invoice Distributor for the Additional Payment, if any, within thirty (30) days after the end of any Contract Year for which it is due. Diamond shall invoice Distributor for Registration Costs, Support Costs and other amounts payable by Distributor under this Agreement, if applicable, monthly as incurred. Payment terms shall be net 30 days from the date of each such invoice. An interest charge of one and one-half percent (1 1/2 %) per month or portion of a month shall be charged for late payments. Diamond shall be entitled to place Distributor on shipment hold and otherwise suspend performance under this Agreement if Distributor shall be materially late or in default of its payment obligations.

3.05 Packaging. Purchase Prices include packaging for bulk palletized shipment for Distributor by common carrier for next-day delivery. Distributor shall pay to Diamond the additional charges for labor and materials costs for special or additional packaging or shipping requested by Distributor.

SECTION 4. FORECASTS; ORDER PROCEDURES; DELIVERIES

4.01 Firm Orders. Except to the extent that the parties otherwise agree in writing with regard to a particular order, Distributor shall submit to Diamond a firm written purchase order or orders specifying the types, quantities and delivery dates and instructions of Products that it desires to purchase at least five (5) months prior to the requested delivery date(s). Diamond will review each purchase order within five (5) business days of receipt and either issue in writing its confirmation or its proposal for changes and modifications for delivery to accommodate, to the extent reasonable, Diamond's scheduling requirements. Diamond will use reasonable commercial efforts to accommodate and to minimize changes and modifications to the delivery dates requested by Distributor. Each purchase order shall be binding on Distributor upon written confirmation by Diamond or, if Diamond has made a proposal for changes or modifications to delivery, upon Distributor's written acceptance of such changes or modifications; provided, that no material modification or change will become effective after confirmation without the written approval of both parties. Diamond agrees that with respect to Products covered by a purchase order confirmed by it in writing, the Products shall be available for shipment on the specified delivery dates, except to the extent it is prevented from doing so due to conditions beyond its reasonable control as provided in Section 8.

The applicable delivery schedules shall be suspended during any period that Products have been selected for testing by a regulatory authority.

4.02 Standard Batch Size. Distributor will order Products in standard batch sizes as shown on Exhibit A. If specified order amounts for Distributor would result in a batch which is thirty percent (30 %) or more below the applicable standard batch size set forth in Exhibit A, Diamond will so notify Distributor and at Distributor's option (i) the parties will mutually agree to an increased Purchase Price for such Products; (ii) Distributor will agree to accept and pay for the entire standard batch size of the ordered Products or (iii) Distributor may submit a revised purchase order for a quantity of Products within the permitted parameters.

4.03 Forecasts. Within 15 days after the date hereof Distributor will furnish Diamond a written forecast of the quantities and types of Products that the Distributor anticipates it will order from Diamond during each of the anticipated first twelve (12) months of this Agreement. Thereafter, within fifteen (15) days after the first day of each calendar quarter during the term of this Agreement, Distributor will also furnish to Diamond revised written estimates of the quantities it anticipates it will order during each month of the succeeding twelve (12) month period. Such forecasts will not be deemed binding commitments, but are for the purpose of enabling Diamond to more effectively schedule the use of its facilities.

4.04 Delivery; Title. Diamond shall ship the Products at the Distributor's expense and in accordance with Distributor's written instructions. Written shipping instructions shall be provided by Distributor in each purchase order or not later than two (2) days prior to the specified delivery date. Title and risk of loss of the Products shall pass to the Distributor upon receipt of the Products at the location directed by Distributor.

4.05 Warehousing . Diamond agrees to store the Products as required by the Distributor for a period of not to exceed thirty (30) days from the later of (i) the date Diamond notifies Distributor the Products are ready for shipment or (ii) the delivery date specified in Distributor's purchase order accepted by Diamond. With respect to Products that are not picked up by the common carrier designated by Distributor's shipping instructions within thirty (30) days from the date Diamond notifies Distributor the Products are ready for shipment, Diamond shall charge a warehousing fee of one and one-half percent (1 1/2%) of the invoice amount per month or portion thereof until such Products are shipped.

4.06 Order of Precedence. In the event of conflict between the typewritten terms of Distributor's purchase orders and the terms and conditions of this Agreement, the order of precedence shall be first, the typewritten terms of Distributor's accepted purchase orders and then this Agreement. All other terms and conditions contained in Distributor's and Diamond's standard form purchasing and selling documents shall be disregarded.

SECTION 5. LABEL CODES: QUALITY ASSURANCE; DATING

5.01 Label Codes. Diamond shall code all labels affixed to each unit of the packaged Products to identify the Product batch. Distributor shall not remove or obliterate label codes or patent marking on any Products.

5.02 Product Analysis . Prior to shipping any Product for the Distributor, Diamond shall analyze the Product for the purpose of determining whether it conforms with the Specifications.

5.03 Audit. Once during each Contract Year, Diamond shall provide to Distributor reasonable access, during normal business hours, upon reasonable notice to Diamond's manufacturing facilities to permit Distributor to examine, audit and copy Diamond's records with respect to manufacture, quality control and regulatory compliance of the Products, at Distributor's sole expense. Such audit rights shall not extend to financial and other records of Diamond not pertinent hereto.

5.04 Dating. Unless otherwise approved by Distributor prior to shipment, Products will have a dating at time of shipment as follows; provided, that in the event that retesting is required for a Product, the minimum dating otherwise required shall be reduced by a period of sixty (60) days:

(i) Products released for sale with twenty-four (24) months dating will be shipped for Distributor with a minimum of twenty (20) months dating remaining.

(ii) Products released for sale with eighteen (18) months dating will be shipped for Distributor with a minimum of fourteen (14) months dating remaining.

(iii) Products released for sale with twelve (12) months dating will be shipped for Distributor with a minimum of eight (8) months dating remaining.

5.05 Outdates. Should Product remain undistributed beyond the date permitted by regulation or other government agency requirement, Diamond will accept redelivery to it at Distributor's shipping costs, with Distributor to receive credit for same at the price paid to Diamond up to a maximum cumulative credit of 1 % of the aggregate Purchase Prices of the products ordered for shipment within a Contract Year, to be included in the calculation of the Qualified Revenue Requirement in Section 1.04 (ii). Diamond agrees to destroy said returned Product at its cost and in compliance with all regulatory requirements.

SECTION 6. TERM; TERMINATION

6.01 Term. The initial term of this Agreement shall be for a period commencing on the Effective Date and ending on the fifth (5th) anniversary of the end of the first Contract Year. This Agreement shall automatically renew thereafter for additional renewal terms of one year each, unless either party gives at least twelve (12) months prior written notice to the other that it does not wish to renew this Agreement.

6.02 Termination for Breach. Subject to the provisions of Section 8, if either party shall breach any material obligation required under this Agreement the other party may give written notice of its intention to terminate this Agreement describing in reasonable detail the breach. If the breaching party fails to remedy such material breach within thirty (30) days (ninety (90) days in the case of any failure by Diamond to deliver any Product) following such written notice, or if such breach is not reasonably capable of cure within such thirty (30)-day or ninety (90)-day period, as the case may be, and the breaching party fails to commence cure procedures within such thirty (30)-day or ninety (90)-day period and diligently prosecute such procedures until the breach is cured, then the non-breaching party may, in addition to all other remedies available at law or in equity, terminate this Agreement forthwith upon written notice.

6.03 Performance on Termination. Upon termination of this Agreement, (i) Products manufactured pursuant to confirmed purchase orders shall be delivered no later than the requested delivery dates in the approved purchase order and Distributor shall pay Diamond therefor as provided in Section 3.04 (provided, that prepayment shall be required upon termination due to Distributor's payment default); (ii) all raw materials furnished by Distributor shall be returned at Distributor's expense; and (iii) all reasonable costs of unused raw materials, containers, labeling and packaging previously ordered by Diamond in its reasonable discretion and not reusable for other purposes by Diamond shall be paid by Distributor.

SECTION 7. REPRESENTATIONS AND WARRANTIES; NOTIFICATIONS

7.01 Of Diamond. Diamond represents and warrants to Distributor that:

(i) the Products delivered to Distributor hereunder shall conform to the Specifications and all other requirements and shall be free from material defects in workmanship and materials through their respective expiration dates;

(ii) the execution and delivery of this Agreement by Diamond, and the performance of its obligations hereunder, do not require the consent of any third party and will not violate, with or without notice, the lapse of time or both, any agreement, contract, license or permit to which Diamond is a party or its organizational documents; and

(iii) prior to delivery of any Product hereunder it will have, and will thereafter maintain, all required manufacturing establishment designations, permits and Licenses required to perform its obligations with respect to such Product under this Agreement.

7.02 Of Distributor. Distributor represents and warrants to Diamond that:

(i) the execution and delivery of this Agreement by Distributor, and the performance of its obligations hereunder, do not require the consent of any third party and will not violate, with or without notice, the lapse of time or both, any agreement, contract, license or permit to which Distributor is a party or its organizational documents; and

(ii) it has, and will maintain, all permits and licenses required to perform its obligations under this Agreement and Products distributed hereunder will bear labels conforming to the requirements of this Agreement.

7.03 Non-Conforming Products. The Distributor shall have 30 days after receipt of the Product to inspect the Product for gross visual defects and reject the same. If the Product is rejected, written notice must be given to Diamond no later than 30 days after receipt by the Distributor. The parties within 30 days after rejection will endeavor in good faith negotiations to determine whether or not the Product conforms to Diamond's warranties. If the parties conclude it does conform, it will be treated as conforming in all respects under this Agreement with time requirements to be adjusted to cover the time required by this process. If the parties conclude it does not conform with Diamonds warranties in Section 7.01 (i), at the Distributor's option, (i) Diamond shall be relieved of any obligation to deliver any Product with respect to the non-conforming shipment and in such case Diamond shall credit against future purchases by Distributor the purchase price of such non-conforming Product paid by Distributor together with any shipping costs paid by the Distributor for delivery of such non-conforming Product, or (ii) Diamond shall replace the non-conforming Product with substitute Product which conforms with said warranties, within the time agreed to by both parties, in which case the Distributor shall pay to Diamond amounts in accordance with Section 3 hereof based on the substitute shipment, net of the purchase price and shipping costs, if any, previously paid by Distributor for such non-conforming Products. The nonconforming Product shall become the property of and be returned to Diamond at Diamond's expense. Diamond shall dispose of such Product at its own expense according to all appropriate regulations. The Purchase Price of nonconforming product shall be treated as Minimum Qualified Revenue in the Contract Year the product is ordered for shipment.

7.04 Recall. Diamond shall replace Product at no cost to the Distributor to complete any Product recall or stop-sale required by a subsequent determination that the Product (i) was not produced in accordance with Specifications when released to the Distributor, (ii) failed to remain in compliance with Specifications through the dating period of such Product, (iii) contained any material defect in workmanship and materials not detectable by Distributor's inspection testing, or (iv) was not produced in compliance with applicable USDA regulations. The reasonable costs of any such recall or stop-sale shall be borne by Diamond. Any such recall or stop-sale shall be conducted in accordance with USDA Veterinary Services Memorandum No. 800.57 or any successor regulations. The Distributor shall be responsible for all other recalls related to marketing, handling or storage of Product by Distributor or its agents, including voluntary recalls made by Distributor. Minimum Qualified Revenue for any Contract Year shall include the Purchase Price for product recalled under the first sentence of this Section 7.04.

7.05 Exclusive Remedy. THE REMEDIES DESCRIBED IN THIS AGREEMENT ARE EXCLUSIVE AND IN LIEU OF ANY 0THER REMEDY DISTRIBUTOR WOULD OTHERWISE HAVE AGAINST DIAMOND WITH RESPECT TO DEFECTIVE PRODUCTS OR ANY BREACH OF DIAMOND'S LIMITED WARRANTY UNDER SECTION 7.01 (i) OF THIS AGREEMENT; PROVIDED, THAT THIS SECTION SHALL NOT LIMIT DIAMOND'S INDEMNITY OBLIGATION SET FORTH IN SECTION 11 WITH RESPECT TO THIRD PARTY CLAIMS.

7.06 Limitations.

(i) EXCEPT AS EXPRESSLY SET FORTH IN THIS SECTION 7, DIAMOND MAKES NO WARRANTIES, EXPRESSED OR IMPLIED, CONCERNING TECHNOLOGY, GOODS, SERVICES, RIGHTS OR THE MANUFACTURE AND SALE OF PRODUCTS, AND HEREBY DISCLAIMS ALL WARRANTIES, INCLUDING WITHOUT LIMITATION ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR USE OR PURPOSE OR NONINFRINGEMENT WITH RESPECT TO ANY AND ALL OF THE FOREGOING.

(ii) IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER PARTY OR ANY THIRD PARTY FOR LOST PROFITS, LOSS OF GOODWILL, OR ANY SPECIAL, INDIRECT, CONSEQUENTIAL OR INCIDENTAL DAMAGES, HOWEVER CAUSED, ARISING UNDER ANY THEORY OF LIABILITY. THIS LIMITATION SHALL APPLY EVEN IF A PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, AND NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY.

(iii) THE WARRANTY IN SECTION 7. 01 (i) WILL NOT APPLY TO THE EXTENT OF ANY DEFECTS CAUSED BY IMPROPER OR INADEQUATE HANDLING OR STORAGE OF PRODUCTS AFTER SHIPMENT BY DIAMOND OR FAILURE OF ANY RAW MATERIALS SUPPLIED BY DISTRIBUTOR.

7.07 Notifications.

(i) Of Diamond. Diamond agrees that it will promptly notify the Distributor in writing of any contact, claim or other communication by any entity or agency that relates to, or may relate to, Diamond's ability to perform its responsibilities herein. Any communication (other than routine regulatory filings, notices and reports and other non-adverse communications), either initiated by Diamond or by the USDA, that references a Product in this Agreement or the submission of any such Product will immediately be brought in writing to the attention of the Distributor.

(ii) Of Distributor. Distributor agrees that it will promptly notify Diamond in writing of any contact, claim or other communication by any entity or agency that relates to, or may relate to, Distributor's ability to perform its responsibilities herein. Any communication (other than routine regulatory filings, notices and reports and other non-adverse communications), either initiated by Distributor or by the USDA, that references a Product in this Agreement or the submission of any such Product will immediately be brought in writing to the attention of Diamond.

SECTION 8. FORCE MAJEURE

8.01 Force Majeure. No party shall be held liable or responsible for failure or delay in fulfilling or performing any obligation of this Agreement in case such failure or delay is due to Acts of God, strikes or other labor disputes, governmental regulations or actions (not otherwise the responsibility of the parties), inability to obtain material, labor, equipment or transportation, or any other condition beyond the reasonable control of the affected party, provided such party has taken reasonable steps to avert such causes or conditions. Each party agrees to give the other party prompt written notice of the occurrence and the nature of any such condition or act,, and the extent to which the affected party will be unable to fully perform its obligation hereunder. Each party further agrees to use all reasonable efforts to correct the condition as quickly as possible.

8.02 Right to Terminate. If, as a result of causes or conditions described in this Section, either party is unable to perform substantially all of its material obligations hereunder for any consecutive period of three (3) months, the other party shall have the right to terminate this Agreement upon at least thirty (30) days prior written notice.

SECTION 9. CONFIDENTIAL INFORMATION

9.01 Non-Disclosure. All Confidential Information disclosed hereunder shall remain the property of the disclosing party and shall be maintained in confidence and not disclosed by the receiving party to any person except to officers, employees, and consultants to whom it is necessary to disclose the information for the purpose of performing and enforcing this Agreement. Each party shall take all steps it would normally take

to protect its own Confidential Information to ensure that the received Confidential Information shall be maintained in confidence and not disclosed, but in no event less than reasonable care.

9.02 Use. Unless otherwise agreed in writing, all Confidential Information disclosed hereunder shall be used by the parties only pursuant to and in accordance with this Agreement.

9.03 Exceptions. The obligations of Diamond and Distributor under this paragraph shall not apply to:

(i) Information which, at the time of disclosure, is in the public domain or thereafter comes within the public domain other than as a result of breach of this Agreement; or

(ii) Information which either party can establish was in its possession at the time of disclosure; or

(iii) Information which was received from a third party not under an obligation of confidentiality; or

(iv) Information which either party can establish was independently developed without reference to the information received hereunder.

9.04 Termination; Survival. Upon termination of this Agreement, Diamond and Distributor agree upon written request to return to the other all written or other physical embodiments of the other's Confidential Information, except for one record copy. The obligations under this paragraph shall be binding on any affiliate, parent, subsidiary, successor or assign of Diamond or Distributor as if a party to the Agreement. The obligations of confidentiality and non-use of the Confidential Information under this Agreement shall, continue throughout the term of this Agreement and for a period of two (2) years following the termination or expiration of this Agreement.

9.05 Confidentially of Agreement. Except to the extent required by law, neither party shall disclose to third parties the terms of this Agreement or the negotiations giving rise to this Agreement.

SECTION 10. OWNERSHIP OF INTELLECTUAL PROPERTY

Any and all design, patent, copyright and other relevant ownership and other rights in and to the intellectual property aspects of the Products which are the subject of this Agreement and all modifications, adjustments, changes and derivatives thereto and thereof (collectively, the "Rights") shall belong exclusively to Diamond, except as otherwise agreed in writing with respect to additional Products added to this Agreement pursuant to Section 2. Distributor agrees that it does not have, and will not claim, any Rights in any Product delivered pursuant to this Agreement or aspect thereof, except as so agreed in writing. Diamond. shall own the raw materials and Products, subject to any security interest, until title passes pursuant to Section 4.04.

SECTION 11. INDEMNIFICATION

11.01 By Diamond. Diamond hereby agrees to defend, indemnify and hold Distributor, its directors, officers, employees, agents and Affiliates harmless from and against any loss, claim, action, damage, expense or liability (including defense costs and attorneys' fees) resulting from any third party claim or suit arising out of or relating to Diamond's failure to manufacture a Product in compliance with its Specifications; provided, however, that the foregoing indemnity obligations shall not apply where such claim is the result of the willful misconduct or negligent act of Distributor or its Affiliates, and there shall be apportionment in accordance with responsibility when such obligation derives in part from such acts of Diamond and in part from such acts of Distributor and its Affiliates.

11.02 By Distributor. Distributor hereby agrees to defend, indemnify and hold Diamond, its directors, officers, employees, agents and Affiliates harmless from and against any loss, claim, action, damage, expense or liability (including defense costs and attorneys' fees) resulting from any third party claim or suit arising out of or relating to the use, sale or distribution of any of the Product manufactured in conformity with the Specifications, including, but not limited to any warranty for the Products extended by Distributor other than the warranties given by Diamond in Section 7.01(i) above and any of the claims identified in Section 7.06(i) above; provided, however, that the foregoing indemnity obligation shall not apply where such claim is solely the result of the willful misconduct or negligent act of Diamond or its Affiliates and there shall be apportionment in accordance with responsibility when such obligation derives in part from acts of Distributor and in part from such acts of Diamond and its Affiliates.

11.03 Procedures. In the event that a third-party claim is made or third-party suit is filed for which either party intends to seek indemnification from the other party pursuant to this Section 11, the party seeking indemnification (the "Indemnitee" shall promptly notify the other party (the "Indemnitor")of said claim or suit. The Indemnitor shall have the right to control, through counsel of its choosing, the defense of such third-party claim or suit, but may compromise or settle the same only with the consent of the Indemnitee, which consent shall not be unreasonably withheld. The Indemnitee shall promptly consult in good faith with the Indemnitor with respect to any proposed settlement. The Indemnitee shall cooperate fully with the Indemnitor and its counsel in the defense of any such claim or suit and shall make available to the Indemnitor any books, records or other documents necessary or appropriate for such defense. The Indemnitee shall have the right to participate at the Indemnitee's expense

in the defense of any such claim or suit through counsel chosen by the Indemnitee.

11. 04 Insurance. Diamond and Distributor will each Maintain product liability insurance covering their individual performance of their obligations hereunder with a minimum limit of liability of Two Million Dollars ($2,000,000) in the aggregate. Each party will maintain insurance to protect themselves and the other from claims under any workers compensation acts and from any other damages from personal injury including death, which may be sustained by the said parties, their agents, servants or employees and the general public and/or claims of property damage which might be sustained from any one of them due to the negligence of the parties. Each party shall furnish the other with a certificate of insurance.

11.05 Survival. The provision of Sections 11.01 through 11.03 shall survive the expiration or termination of this Agreement.

SECTION 12. MISCELLANEOUS

12.01 Notices. All notices or other communications provided for in this Agreement shall be in writing and shall be considered delivered upon the earliest of actual receipt, or personal or courier delivery, or sending by facsimile with confirmation of receipt in good order requested and received, or on the fourth business day after they are deposited in the United States mail, certified first class or air mail postage prepaid, return receipt requested, addressed to the respective parties as follows:

(i) If to Diamond:	(ii) If to Distributor:
Diamond A al Health, Inc.	AGRI Laboratories, ltd.
2538 S.E. 43rd Street	20927 State Route K
Des Moines, Iowa 50317	St. Joseph, MO 64505
ATTN: President	ATTN: President
Fax: (515) 263-8661	Fax: (816) 233-9546
Copy to:	Copy to:
Heska Corporation	Edward S. Sloan
Legal Department	Niewald, Waldeck & Brown
1825 Sharp Point Drive	120 W. 12th Street
Fort Collins, CO 80525	Kansas City, MO 64105
	Fax: (816) 474-0872

The parties may, at any time, change their addresses or other information in this section by written notice under this section.

12.02 Independent Contractors. The parties are and shall always remain independent contractors as to the other in their performances of this Agreement. The provisions of this Agreement shall not be construed as authorizing or reserving to either party any right to exercise any control or direction over the operations, activities, employees, or agents of the other in connection with this Agreement except to the extent required by law, it being understood and agreed that the control and direction of such operations, activities, employees, or agents shall otherwise remain with each party. Neither party to this Agreement shall have any authority to employ any person as an employee or agent for or on behalf of the other party to this Agreement, nor shall any person performing any duties or engaging in any work at the request of such party, be deemed to be an employee or agent of the other party to this Agreement.

12.03 Governing Law. The validity, interpretation and performance of this Agreement shall be governed and construed in accordance with the internal laws of the State of Iowa.

12.04 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision hereof shall be prohibited by or be invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

12.05 Modification. No modification or waiver of any provision of this Agreement shall be effective unless the modification is made in writing and signed by the party sought to be charged, and the same shall then be effective only for a period and on the conditions and for the specific instances and purposes specified in such writing. No course of dealing between Diamond and the Distributor or delay or failure to exercise any rights hereunder shall operate as a waiver of such rights or preclude the exercise of any other rights hereunder.

12.06 Survival. Termination or expiration of this Agreement shall not relieve either party from any obligation under this Agreement which may have accrued prior thereto or which survives by its terms.

12.07 Captions. The captions set forth in this Agreement are for convenience only and shall not be used in any way to construe or interpret this Agreement.

12.08 Assignment. Neither party to this Agreement may assign this Agreement or its rights or obligations hereunder without the prior written consent of the other party; except that either party may assign its right and delegate its obligations hereunder without prior consent of the other party to any successor entity by way of merger, consolidation, or reorganization or to the purchaser of all or substantially all of its assets. Any permitted assignee shall assume all obligations of its assignor under this Agreement. No assignment

shall relieve either party of responsibility for the performance of any accrued obligation which it has hereunder. Any consent required shall not be unreasonably withheld.

12.09 Entire Agreement. This Agreement (including the Exhibits hereto) constitutes the entire understanding of the parties with respect to the subject matter hereof and supersede all prior negotiations or communications, however given, regarding the subject matter hereof. There are no other understandings, representations or warranties of any kind, express or implied.

12.10 Arbitration. Should the parties hereto be unable to amicably resolve between themselves any disagreements relating to or arising from any one or more of the provisions of this Agreement, which does not involve injunctive or equitable relief, both parties shall submit such disagreement to arbitration under the Commercial Rules of the American Arbitration Association in Kansas City, Missouri, with any hearing to be held in St. Joseph, Missouri. Neither party shall have the right to further appeal or redress an arbitration award in any other court or tribunal except solely for the purpose of obtaining execution of the judgment rendered by the American Arbitration Association.

SECTION 13. DEFINITIONS

13.01 "Affiliate" shall mean with respect to any person or entity (i) any other person or entity that controls, is controlled by or is under common control with such first person or entity, with "control" meaning direct or indirect beneficial ownership of more than fifty percent (50%) of the equity interest of an entity or more than a fifty percent (50%) interest in the decision making authority of an entity, and (ii) an entity in which the maximum equity interest permitted by law to be held by another entity is held by such other entity.

13.02 "[***]" shall mean [***].

13.03 "[***]" shall mean [***], Inc., a corporation organized under the laws of Canada.

13.04 "[***]" shall mean [***] Inc., a Delaware corporation.

13.05 "Confidential Information" shall, mean all information disclosed in writing, or by oral communication if reduced to writing and confirmed as confidential within (30) days of disclosure, by either party to the other relating to raw materials, product specifications, formulations and compositions, scientific know-how, chemical compound and composition data, manufacturing processes, analytical methodology, product applications, including safety and efficacy data, current and future product and marketing plans and projections, and other information of a technical or economic nature related to the Products and/or Diamond's manufacture of the Products.

13.06 "Contract Year" shall mean (i) for Contract Year one (1) the period commencing on the Effective Date and ending on the date Diamond has obtained licenses in the United States for all of the viral antigens listed on Exhibit A, and (ii) for each Contract Year thereafter, each succeeding twelve-month period thereafter.

13.07 "License" shall mean a veterinary biologic license issued to Diamond by the United States Department of Agriculture or other regulatory agency with jurisdiction in the Territory for a Product to be manufactured by Diamond pursuant to this Agreement.

13.08 "Minimum Qualified Revenue" shall mean the minimum amounts of Qualified Revenue per Contract Year, as specified in Section 1.04 (ii) above.

13.09 "Product" shall mean the antigens set forth on Exhibit A attached hereto, together with any additional antigens added to this Agreement pursuant to Section 2 hereof, individually or in any combination permitted by this Agreement, in bulk or packaged as set forth in Exhibit A.

13. 10 "Qualified Revenue" shall mean, for any Contract Year, an amount equal to (i) the Purchase Price of Products ordered for shipment in such Contract Year by Distributor, plus (ii) any amounts paid by Distributor to Diamond in such Contract Year for Registration Costs and Support Costs, plus (iii) any other amounts paid or advanced by Distributor to Diamond in such Contact Year for research and development or other services not contemplated by this Agreement, as adjusted for (iv) all other adjustments to Minimum Qualified Revenue expressly as provided in this Agreement.

13.11 "Registration Costs" shall mean all costs and expenses associated with obtaining Licenses, including without limitation clinical trial costs, assay development and validation, development of seed stocks, production processes scale-up, formulation development, production of pre-licensing serials, conduct of field safety trials, application fees and other costs and expenses reasonably incidents thereto. As between the parties, Registration Costs shall include labor and service charges at Diamond's standard hourly rates, as amended from time to time, direct cost of materials, and out-of-pocket and third-party expenditures.

13.12 "Specifications" shall mean, as the context may require, either one or both of the following, which have been mutually agreed upon by the parties: (i) vendor-certified appropriate quantitative and qualitative particulars for all raw materials including active and non-active excipients that are used to prepare all components represented in and by

final Products, and (ii) a filed and approved USDA Outline of Production describing in detail the manufacturing process applicable for each Product and the testing and release criteria applicable to each Product.

13.13 "Support Costs" shall mean all costs and expenses of Diamond associated with providing technical support to Distributor under this Agreement, including without limitation labor and service charges at Diamond's standard hourly rates, as amended from time to time, direct cost of materials, and out-of-pocket and third-party expenditures.

13.14 " Territory" shall mean the territory specified in Section 1.03.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

DIAMOND ANIMAL HEALTH, INC.	AGRI LABORATORIES, LTD.
By: /s/ LOUIS VAN DAELE	By: /s/ STEVE SCHRAM
Title: President	Title: President

EXHIBITS
A - Products and Prices
B - [***] Rights
C - [***] Antigens
D - [****]

Exhibit A (Modified Live)
Products and Pricing

Trade Name	Antigens	1Ods	50ds	5ds
Titanium BRSV	(BRSV)	[***]	[***]	[***]
Titanium BRSV Vac3	(BRSV-PI3-IBR)	[***]	[***]	[***]
Titanium 5	(BRSV-PI3-IBR-BVD1,BVD2)	[***]	[***]	[***]
Titanium 5-L5	(BRSV-PI3-IBR-BVD1,BVD2-Lepto 5)	[***]	[***]	[***]
Titanium 3 + BRSV LP	(BRSV-IBR-BVD1,BVD2-Lepto Pomona)	[***]	[***]	[***]
Titanium IBR	(IBR)	[***]	[***]	[***]
Titanium IBR LP	(IBR-Lepto Pomona)	[***]	[***]	[***]
Titanium 3	(IBR-BVD1,BVD2)	[***]	[***]	[***]
Titanium 4	(IBR-PI3-BVD1,BVD2)	[***]	[***]	[***]
Titanium 4 L5	(IBR-PI3-BVD1,BVD2-Lepto 5)	[***]	[***]	[***]

Diamond Animal Health, Inc	Agri Laboratories, LTD
By: /s/ CONNIE PHILLIPS	By: /s/ STEVE SCHRAM
Title: V. P. Ops	Title: President
Date: 11-6-00	Date: 11-3-00

Standard Batch Size	Large Freeze Dryer		Small Freeze Dryer	
5 dose	[***] units	[***]ds	[***] units	[***] ds
10 dose	[***] units	[***]ds	[***] units	[***] ds
50 dose	[***] units	[***]ds	[***] units	[***] ds

NOTE: THESE PRICES ARE IN EFFECT FOR DELIVERIES MADE BETWEEN 1/1/2001 AND 12/31/2001
INCLUDING PURCHASE ORDERS PLACED AFTER 8/1/2000

Those products that are no longer carried are not included in this price restructure. Should any of these
be ordered after this agreement, new pricing will be established.

Handscribed:
Note: 5ds pricing subject to reduction if forecasting/batches (larger) are obtainable. SDS 11/3/00

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Exhibit A

DAH World Wide Products
Single Bovine Antigens or Bovine Combinations

Modified Live Virus Antigens (Signature Line)

Infectious Bovine Rhinotracheitis (IBR)
Bovine Virus Diarrhea Virus-Type I (BVD)
Bovine Virus Diarrhea Virus-Type 11 (BVD)
Parainfluenza (P13)
Bovine Respiratory Syncytial Virus (BRSV)

Inactivated Virus Antigens (Signature Line)

Infectious Bovine Rhinotracheitis (IBR)
Bovine Virus Diarrhea - Type I (BVD)

Bovine Virus Diarrhea - Type II (BVD)
Lepto 5-way
Lepto Pomona
[***] [***] product (US Only)
[***] [***] product (US Only)
Camplylobacter (Vibrio) [***] product

[***]

[***]
[***]
[***]
[***]
[***]
[***]
[***]

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Exhibit B

[***]

[***] Antigens or [***] Vaccine

Infectious Bovine [***]

Bovine [***]

> [***]

> [***]

Bovine [***]
[***]

[***]
(Master Cell Stock)

Exhibit C

[***] ANTIGENS

Generic Names	Antigens
1. [***]	[***]
[***]	[***]
2. [***]	[***]
[***]	
3. [***]	[***]
[***]	[***]
[***]	[***]

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Exhibit C, continued

[***], Inc.

Exclusive [***] Product Combinations (Canada Only)

[***]

[***]

[***]

Any other Signature Line antigen in combination with the [***] antigen.

Note: Non-exclusive on any other Signature Line product in Canada that does not contain the [***] antigen.

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Exhibit D

[***]

Diamond antigens to be incorporated into the [***] or Solid Dose Technologies:

[***]

[***]

[***]

[***]

[***]

Note: [***] component contains both Type I and Type II

*** Confidential Treatment Requested

AMENDMENT NO. 1
TO
BOVINE VACCINE DISTRIBUTION AGREEMENT

This Amendment No. 1 ("Amendment") is entered into as of the 13th day of July, 1998, by and between DIAMOND ANIMAL HEALTH, INC., an Iowa corporation with offices at 2538 Southeast 43rd Street, Des Moines, Iowa 50317 ("Diamond") and AGRI LABORATORIES, LTD., a Delaware corporation, with offices at 20927 State Route K, St. Joseph, Missouri 64505 ("Distributor") as an amendment to that certain Bovine Vaccine Distribution Agreement between Diamond and Distributor dated as of February 13, 1998, (the "Distribution Agreement").

WHEREAS, Diamond and Distributor are parties to the Distribution Agreement providing for the distribution of certain bovine antigens; and

WHEREAS, Section 2.01 of the Distribution Agreement contemplates that additional products may be added to the Products subject to the Distribution Agreement; and

WHEREAS, Distributor and [***] are parties to a separate agreement providing for an exclusive worldwide license of [***] rights in the Additional Product to Distributor and providing for compensation to [***] from Distributor on account of Distributor's sales of such Additional Product; and

WHEREAS, Diamond and Distributor desire to add the Additional Product as a Product under the Distribution Agreement in the event that the Additional Product is successfully developed and licensed.

NOW, THEREFORE, the parties agree as follows:

1 . Definitions.

a. In General. Capitalized terms used herein shall have the meanings ascribed to them in the Distribution Agreement, unless otherwise defined herein.

b. "Additional Product" shall mean the Product described on Exhibit A, attached hereto.

c. "[***] Antigens" shall mean the [***] and [***] antigens owned by [***] and more particularly described in Exhibit A hereto.

d. "[***] Technology" means all patents, patent applications, copyrights, trademarks, know-how, trade secrets and other intellectual property rights relating to the [***] Antigens and the Additional Product other than the Diamond Antigens and Diamond Technology.

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e. "Diamond Antigens" shall mean the [***] and [*** [***] antigens owned by Diamond and more particularly described in Exhibit A hereto.

f. "Diamond Technology " shall mean all patents, patent applications, copyrights, trademarks, know-how, trade secrets and other intellectual property rights of Diamond relating to the Diamond Antigens and the Additional Product.

2. Additional Product Subject to Distribution Agreement. If a License is issued to Diamond for the Additional Product by the United States Department of Agriculture, and effective upon the date of such issuance (the "License Date"), the Additional Product shall be added as a "Product" under the Distribution Agreement. All provisions of the Distribution Agreement relating to Products shall apply to the Additional Product, except as expressly provided in this Amendment.

3. [***] Rights. The provisions of Sections 1.01 (Manufacture and Sale), 1.02 (Exclusivity), 1.03 (Territory), 1.05 (Responsibility of Distributor; Diamond Technical Support), and 1.06 (Registration and Licensing) shall NOT apply with respect to the Additional Product, except to the extent of the Diamond Antigens included therein. Distributor represents and warrants to Diamond that Distributor has all necessary rights in and to the [***] Antigens and [***] Technology for the development, manufacture and sale of the Additional Product pursuant to the Distribution Agreement and this Amendment ("[***] Rights"). Distributor hereby grants to Diamond exclusive manufacturing rights to Additional Product and to have sold the Additional Product exclusively to Distributor pursuant to the Distribution Agreement and this Amendment. Diamond shall exercise such rights only for the purpose of performing its obligations to Distributor under the Distribution Agreement and this Amendment.

4. Purchase Price; Batch Sizes. The Purchase Price for the Additional Product shall be $[***] per dose for and during the first three

(3) Contract Years, as defined in Paragraph 5 below, subject to a price adjustment beginning with the fourth Contract Year and thereafter pursuant to the terms of Sections 3.02 and 3.03 of the Distribution Agreement.

5. Term. With respect to the Additional Product (but not other Products, with respect to which Section 6.01 of the Distribution Agreement shall control: (i) the initial Term of this Amendment shall be for a period commencing on the License Date and ending on the fifth (5th) anniversary of the end of the Contract Year during which the License Date occurs and (ii) this Amendment shall automatically renew thereafter for additional renewal terms of one year each, unless either party gives at least twelve (12) months prior written notice to the other that it does not wish to renew this Amendment.

6. Registration and Licensing. Diamond will use reasonable efforts to assist Distributor in the registration of Additional Product (bulk or packed form) outside the United States at Distributor's expense. Distributor shall pay all registration costs associated with obtaining and maintaining any License required outside the United States and said costs shall be included in Qualified Revenue requirements as set forth in Section 1.04(ii) of the Distribution Agreement.

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7. Effect of Amendment. This Amendment is hereby incorporated by reference into the Distribution Agreement as if fully set forth therein, and the Distribution Agreement as amended by this Amendment shall continue in full force and effect following execution and delivery hereof. In the event of any conflict between the terms and conditions of the Distribution Agreement and this Amendment, the terms and conditions of this Amendment shall control.

8. Indemnification. In addition to the indemnification contained in Section 11 of the Distribution Agreement, Distributor agrees to defend, indemnify and hold Diamond, its directors, officers, employees, agents and affiliates harmless with respect to any third-party claim or suit arising out of any claim that [***] Antigens or [***] Technology infringes the patent, copyright or other intellectual property right of any third-party.

IN WITNESS WHEREOF, the parties have caused this Amendment No. 1 to be executed by their duly authorized representatives as of the date first written above.

DIAMOND ANIMAL HEALTH, INC.

By: /s/ LOUIS VAN DAELE
Its: President

AGRI LABORATORIEES, LTD.
By: /s/ STEVE SCHRAM
Its: President

*** Confidential Treatment Requested

EXHIBIT A TO AMENDMENT NO. I TO BOVINE DISTRIBUTION AGREEMENT

Additional Product, Pricing and Batch Sizes

Additional Product	Purchase Price	Standard Batch Size
[***]	$[***]	[***] units (est.)
[***]		
[***]		
[***]		
[***]		
[***]		

IN WITNESS WHEREOF, the parties have caused this revised Exhibit A to be executed by their duly authorized representatives as of July 13, 1998.

DIAMOND ANIMAL HEALTH, INC.

By: /s/ LOUIS VAN DAELE
Its: President

AGRI LABORATORIES, LTD.

By: /s/ STEVE SCHRAM
Its: President

*** Confidential Treatment Requested

AMENDMENT NO. 2
TO
BOVINE VACCINE DISTRIBUTION AGREEMENT

This Amendment No. 2 ("Amendment") is entered into as of the 13th day of December, 1999, ("Effective Date") by and between DIAMOND ANIMAL HEALTH, INC., an Iowa corporation with offices at 2538 Southeast 43rd Street, Des Moines, Iowa 50317 ("Diamond") and AGRI LABORATOREES, LTD., a Delaware corporation, with offices at 20927 State Route K, St. Joseph, Missouri 64505 ("Distributor") as an amendment to that certain Bovine Vaccine Distribution Agreement between Diamond and Distributor dated as of February 13, 1998 (the "Distribution Agreement").

WHEREAS, Diamond and Distributor are parties to the Distribution Agreement providing for the distribution of certain bovine antigens; and

WHEREAS, Diamond, Distributor and [***] have entered into a "Bovine Testing Agreement" for the Product Titanium 5 + Once PMH.

WHEREAS, Section 2.01 of the Distribution Agreement contemplates that additional products may be added to the Products subject to the Distribution Agreement; and

WHEREAS, Diamond and Distributor desire to provide for the development and licensure of certain Additional Cattle Products (defined below) and if licensed, to add them as Products under the Distribution Agreement.

NOW, THEREFORE, the parties agrees as follows:

1. Definitions.

(1) In General. Capitalized terms used herein shall have the meanings ascribed to them in the Distribution Agreement, unless otherwise defined herein,

(2) "Additional Cattle Products" shall mean the products described in Exhibit A, attached hereto.

2. Development and Registration of Additional Cattle Products. In consideration of Distributor's payment of the fees provided in the Bovine Vaccine Testing Agreement, Diamond agrees to and hereby grants to Distributor exclusive world wide marketing rights to the product identified on Exhibit A attached hereto and incorporated herein for a period of five (5) years from the License Date by United States Department of Agriculture ("USDA"). Diamond shall use reasonable efforts to assist Distributor in the registration of such Additional Cattle Products (bulk or packed form) outside the United States at Distributor's expense. Distributor shall pay all Registration Costs associated with obtaining and maintaining any Licenses required in the Territory outside the United States and said Registration Costs shall be included in the Qualified Revenue requirements as set forth in Section 1.04(ii) of the Distribution Agreement. This Section 2 of this Amendment shall supersede any and all inconsistent provisions of Section 1.06, and the first sentence of Section 2.02, of the Distribution Agreement.

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3. Development and Registration Fees. Amounts paid by Distributor under the Bovine Testing Agreement to Diamond shall constitute Qualified Revenue under the Distribution Agreement, be credited to Distributor's Minimum Qualified Revenue obligations under the Distribution Agreement, beginning with the Second Contract Year's Minimum Qualified Revenue, under the Distribution Agreement.

4. Additional Product Subject to Distribution Agreement. If a License is issued to Diamond, [***], Distributor or any combination of the three (3) named parties for the Additional Cattle Product as identified in Exhibit A by the United States Department of Agriculture, and effective upon the date of such issuance (the "License Date"), such Additional Cattle Products shall be added as a "Product" under the Distribution Agreement. All provisions of the Distribution Agreement relating to Products shall apply to the Additional Product, except as expressly provided in this Amendment.

5. Ownership. Section 2.02 of the Distribution Agreement shall not apply to the Additional Cattle Products. Diamond shall retain ownership of (i) the Additional Cattle Products developed pursuant to this Amendment and (ii) any antigens it supplies for such Additional Cattle Products, and the addition of the Additional Cattle Products as Products under the Distribution Agreement shall not be deemed to transfer any right, title, interest or license in or to such Additional Cattle Products and/or antigens to Distributor, except for the distribution rights expressly granted in the Distribution Agreement and this Amendment.

6. Purchase Price: Batch Sizes. The initial Purchase Prices and batch sizes for the Additional Cattle Products are set forth in Exhibit A attached hereto.

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7. Term.

In General. With respect to all Additional Cattle Products (but not other Products, with respect to which Section 6.01 of the Distribution Agreement shall control): (i) the initial term of this Amendment shall be for a period commencing on the License Date and ending on the fifth (5th) anniversary of the end of the Contract Year during which the License Date

occurs and (ii) this Amendment shall automatically renew thereafter for additional renewal terms of one year each, unless either party gives at least twelve (12) months prior written notice to the other that it does not wish to renew this Amendment with respect to such Additional Cattle Product.

8. Effect of Amendment. This Amendment is hereby incorporated by reference into the Distribution Agreement as if fully set forth therein, and the Distribution Agreement as amended by this Amendment shall continue in full force and effect following execution and delivery hereof. In the event of any conflict between the terms and conditions of the Distribution Agreement and this Amendment, the terms and conditions of this Amendment shall control.

IN WITNESS WHEREOF, the parties have caused this Amendment No. 2 to be executed by their duly authorized representatives as of the date first written above.

DIAMOND ANIMAL HEALTH, INC.

By: /s/ LOUIS VAN DAELE

Its: President

AGRI LABORATORIES, INC,

By: /s/ STEVE SCHRAM

Its: President

EXHIBIT A
AMENDMENT NO. 2
BOVINE VACCINE DISTRIBUTION AGREEMENT

ADDITIONAL CATTLE PRODUCTS, PRICING, AND BATCH SIZES

Additional Products:

Titanium 5 + Once PMH (MLV IBR, BRSV, P13, BVD I and II + Live avirulent P.haemolytica/multocida).

Standard Batch Size:
5 dose [***] units
10 dose [***] units
50 dose [***] units

Purchase Price:	5 dose	10 dose	50 dose
[***] (unlabeled)	[***]	[***]	[***]
AgriLabs (final packaged)	[***]	[***]	[***]

1) All prices include viricidal testing performed at Diamond.
2) Bactericidal testing is performed by [***] and is incorporated into the Once PMH cost to Agrilabs.
3) [***] will bill Agrilabs directly for the Once PMH component and Agilabs will provide the Once PMH component to Diamond for labeling and final packaging at no cost to Diamond.

Diamond Animal Health	Agri Laboratories, Inc.
By: /s/ LOUIS VAN DAELE	By: /s/ STEVE SCHRAM
---	---
Its: President	Its: President
Date: 6-29-00	Date: 6-30-00

Note: Prices will be effective with the first shipment of product after licensing and will be in effect for 12 months following the first shipment.

*** Confidential Treatment Requested

AMENDMENT NO. 3 TO
BOVINE VACCINE DISTRIBUTION AGREEMENT

This Amendment No. 3 modifies the Bovine Vaccine Distribution Agreement dated
February 13, 1998, between Diamond Animal Health, Inc. and Agri Laboratories, Ltd. ("Original Agreement").

1. Purchase of Requirements: Minimum Purchases: Section 1.04 (ii) of the Original Agreement is hereby modified to delete and replace a certain year and monetary amount under "Contract Year as defined in 13.06" and "Minimum Qualified Revenues" as follows:

Delete in total:

5th and thereafter $[***]

Replace with:

5th $[***]
6th and thereafter $[***]

2. No Other Changes. Except as expressly modified by this Amendment, Amendment No. 1 dated July 13, 1998 and Amendment No. 2 dated December 13, 1999, all provisions of the Original Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment has been executed by the duly authorized representatives of the parties.

SIGNED:

Diamond Animal Health, Inc.	Agri Laboratories
By: /s/ CAROL TALKINGTON VERSER	By: /s/ STEVE SCHRAM
Name: Carol Talkington Verser, Ph.D.	Name: Steve Schram
Title: Executive Vice President	Title: CEO
Date: 7-12-01	Date: 7-05-01

*** Confidential Treatment Requested

[CONFIDENTIAL TREATMENT REQUESTED. CONFIDENTIAL PORTIONS OF THIS DOCUMENT HAVE BEEN REDACTED AND HAVE BEEN SEPARATELY FILED WITH THE COMMISSION]

THIS EXCLUSIVE DISTRIBUTION AGREEMENT (THE "AGREEMENT") is entered into as of February 14, 2001 (the "EFFECTIVE DATE") between HESKA CORPORATION ("Heska"), a Delaware corporation and NOVARTIS ANIMAL HEALTH CANADA, INC. ("Novartis").

WHEREAS, Novartis wishes to purchase certain veterinary products from Heska for the purpose of distribution for resale in Canada.

THE PARTIES AGREE AS FOLLOWS:

1. DEFINITIONS.

In this Agreement, including the Schedules hereto, the following words and expressions shall have the following meanings:

"AFFILIATE" means, with respect to any entity, any other entity which is controlled by, in control of, or under common control with, such entity. For the purpose of this definition, "control" of an entity shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

"BASE RATE" initially means for the FluAvert I.N. Vaccine. $[***] US per $ [***] Cdn, and for additional Products pursuant to SECTION 6.2, the average exchange rate of Canadian Dollar to United States Dollar for the [***] by Novartis in Canada. The Base Rate shall be adjusted pursuant to SECTION 4.2.

"COMMERCIAL RELEASE" means, with respect to a Product, that such Product has been approved for marketing in Canada by all applicable regulatory authorities.

"COMPETITIVE PRODUCT" means any product (other than a Product) which has any of the same diagnostic or therapeutic applications as any Product.

"INITIAL PERIOD" has the meaning given to such term in SECTION 2.4(A).

"MARKETING PLAN" has the meaning given to such term in SECTION 2.4(A).

"MINIMUM EXPIRATION DATE" means, for each Product, the minimum amount of time from the scheduled shipment date of any such Product unit to the stated expiration date of such unit which Heska agrees to provide under SECTION 3.4. The Minimum Expiration Date for each Product shall be specified pursuant to SECTION 3.4.

"MINIMUM PURCHASE REQUIREMENT" means, for each Product, the number of units as set forth on Schedule A, which Novartis is required to purchase in each Calendar Year. This shall be prorated for partial year periods.

"PARTY" means Heska and/or Novartis.

"PERIOD" means each of the Initial Period and each calendar year thereafter.

"PRICE" has the meaning given to such term in SECTION 4.1.

"PRODUCT SCHEDULE" has the meaning given to such term in SECTION 2.4(A).

"PRODUCTS" means Heska's Flu Avert(TM) I.N. Vaccine. The Parties may revise (definition of Products pursuant to SECTIONS 6 AND 12.2.

*** Confidential Treatment Requested

"TERM" means the period commencing on the date hereof and, unless terminated in accordance with SECTION 12, continuing to December 31, 2006 and shall be automatically renewed for additional successive one (1) year terms unless either Party provides written notification to the other Party of its intention not to renew at least six (6) months prior to the termination date.

2. DISTRIBUTOR APPOINTMENT.

2.1 Appointment. Subject to the terms and conditions set out in this Agreement, Heska hereby appoints Novartis as its exclusive distributor in Canada during the Term to promote, market and sell the Products for use by veterinarians.

2.2 No Sales Outside Canada. Other than pursuant to other distribution agreements for other territories with Heska, Novartis shall not (a) seek customers outside of Canada, (b) establish distribution points outside of Canada, nor (c) sell the Products to any distributor or reseller which Novartis reasonably understands will sell the Products outside of Canada.

2.3 No Limit on Price. Notwithstanding SECTION 2.4, Novartis has the unrestricted right to unilaterally determine the prices at which it resells the Products which it purchases hereunder. No Heska representative has the authority to require or suggest that Novartis charge a particular resale price for the Products which it purchases hereunder.

2.4 Initial Marketing Plan; Product Schedule.

(a) Initial Period. At least six months prior to the projected Commercial Release of each Product (or, if later, on or prior to the date on which such Product becomes a Product hereunder), Novartis will provide to Heska. a draft marketing plan (the "MARKETING PLAN") for such Product for

the remainder of the initial calendar year and, if less than nine months remains in such calendar year, the next succeeding calendar year (the "INITIAL PERIOD"). The Marketing Plan shall specify in reasonable detail Novartis' marketing plans for such Product and shall include for the Initial Period Novartis' anticipated sales price of the Product and goals for the Product based on its good faith sales estimates. In addition, the Parties will finalize any remaining terms for such Product on SCHEDULE A (a "PRODUCT SCHEDULE").

(b) Subsequent Periods. For each Period after the Initial Period, Novartis will provide to Heska a revised Marketing Plan. Each such plan shall be delivered by November 1 of the year prior to the start of such Period.

2.5 Competitive Products. Novartis hereby represents and agrees that neither it nor any of its Affiliates sell nor will sell during the Term, any Competitive Products in Canada. This representation will be deemed restated as of the date any item becomes a Product as provided in SECTION 6.2.

3. SALES.

3.1 Orders. Novartis shall place orders for Products consistent with the binding portion of the forecasts as set forth in SECTION 5.4. All orders shall be initiated by written purchase order to Heska. Orders shall not be binding upon Heska unless and until expressly accepted by Heska in writing or by shipping Product in accordance with the order. Heska shall endeavor to accept or reject all orders within five (5) business days of receipt. No partial shipment of an order shall constitute the acceptance of the entire order, absent the written acceptance of such entire order.

3.2 Shipping. Anticipated shipment dates shall be as specified in Heska's written acceptance of the order. Heska shall use its commercially reasonable efforts to meet acknowledged shipment dates; however, Heska shall not be liable for any damages resulting from its failure to meet such shipment dates, even if Heska has been advised of the possibility of such damages. Novartis shall select the common carrier and method of shipment. Novartis shall be responsible for arranging the exporting and importing of all Products ordered under this Agreement. Risk of loss or damage shall pass to Novartis on delivery of the Products by Heska to a common carrier. All Products in each order may be shipped only to a single destination.

3.3 Cancellation/Rescheduling. Novartis may not cancel purchase orders for Products which have been formally accepted by Heska. Novartis shall be entitled to reschedule an accepted purchase order one time without penalty; provided that such rescheduling is requested at least fifteen (15) days prior to the scheduled shipment date and the purchase order is rescheduled to a date no more than thirty (30) days beyond the originally scheduled shipment date.

3.4 Minimum Expiration Date. Heska agrees that the stated expiration date of each Product shall be at least the respective Minimum Expiration Date after the scheduled shipment date of the related order. The Minimum Expiration Date for each Product is indicated in Schedule A. If any order is rescheduled by Novartis such commitment regarding the Minimum Expiration Date shall be based on the original scheduled shipment date, not the rescheduled date. Heska shall use its best efforts to ship the most recent lot of Product to Novartis.

3.5 Rejection of Products. A Product shall be deemed accepted if not rejected within thirty (30) days after receipt by Novartis or, if earlier, shipment by Novartis to its customer. The sole basis for rejection shall be the failure of the product to conform to the Technical Specifications as set forth in Schedule A. Heska shall replace such a defective product, at Heska's cost, with equivalent unit(s) of the same Product and shall reimburse Novartis for reasonable costs realized by Novartis for destroying defective product.

4. PRICES AND PAYMENT.

4.1 Prices. Prices for each Product shall be as set forth in Schedule A.

4.2 Adjustments.

(a) With respect to any Product, if at any time after the first full calendar year of sales of the Product in Canada, the Average Rate (defined below) differs from the then current Base Rate by more than [***]% then the Price for such Product shall be adjusted. Under such adjustment, the Price shall be the Original Dollar Price (defined below) for such Product converted into Canadian Dollars using such Average Rate. Following such adjustment, such Average Rate shall become the Base Rate for all future calculations and all Product Schedules will be appropriately adjusted. "AVERAGE RATE" means the exchange rate of Canadian dollars to United States dollars [***]. "ORIGINAL DOLLAR PRICE" shall mean the Price for such Product (prior to adjustment) expressed in United States dollars using the Base Rate (prior to adjustment) as the rate of exchange.

(b) With respect to any Product, after the first full calendar year of sales of the Product in Canada, Heska can implement an annual price increase/decrease equal to the percentage increase/decrease in its documented manufacturing costs over then prevailing prices. Heska shall provide notice to Novartis of such price increase/decrease no later than November 30 with respect to an increase/decrease for the following year. In no case shall price increases be higher than the Canadian Consumer Price Index (CPI).

4.3 Prices. The Prices are FOB, Diamond Animal Health, Des Moines, Iowa. The Prices do not include the costs of shipping and insurance and sales, use, VAT, excise, withholding or similar taxes, all of which shall be

the obligation of Novartis.

4.4 Payment. Payment for Products shall be due in full thirty (30) days from the receipt of goods by Novartis. All payments hereunder shall be made in immediately available funds in Canadian dollars by wire transfer to the account from time to time specified by Heska. Amounts not paid when due are subject to a monthly charge at the rate of one and one-half percent (1-1/2%) per month, or the maximum rate permitted by law whichever is less.

*** Confidential Treatment Requested

5. NOVARTIS OBLIGATIONS.

5.1 Sales and Product Support. Novartis agrees to use reasonable commercial efforts to develop, promote, support and sell the Products in Canada. Such activities shall include, but are not limited to, (a) development of marketing support materials such as sales brochures, journal advertisements, sales aids, technical bulletins, slide presentations and other related supportive documentation, Heska to provide to Novartis one printed and one electronic copy of all USA advertising and support materials including slides, CD Roms , films etc. (b) ensuring sales personnel detail the Products to distributors, veterinarians and other interested parties, (c) organizing and sponsoring seminars and meetings with distributors, veterinarians and other interested parties, (d) actively participating in trade shows, including prominently displaying and promoting the Products, and (e) other activities deemed appropriate for the commercial success of the Products. Heska will provide Novartis personnel, at no charge, reasonable amounts of training regarding the Products at Novartis's Sales meeting at one location in Canada. Novartis will maintain throughout Canada customer service phone support for the Products for its distributors and veterinarians. Heska will provide back-up telephone customer support only to Novartis. Novartis shall contact Heska immediately regarding any material complaints or reports of material adverse experiences regarding use of the Products.

5.2 Approvals. No later than promptly following the Effective Date, Novartis will inform Heska of any legal, administrative or regulatory requirements in Canada with which Heska or Novartis must or should comply in connection with this Agreement or the performance by Novartis of the marketing or distribution of any Product (collectively, the "APPROVALS"). Novartis will comply with all applicable laws in connection with performing its rights and obligations under this Agreement, including obtaining, prior to offering and reselling any Product, all applicable Approvals required for import, storage, distribution, and sales (Application for permit to import Veterinary Biologics into Canada, CFIA-1493). Novartis will maintain the Import Approvals throughout the Term at its own expense. Heska will provide, at no cost to Novartis, reasonable assistance in connection with obtaining the Approvals, including providing Novartis such data, samples and other information and materials as are in Heska's possession. Novartis will periodically, and in any event promptly following Heska's request, provide Heska reasonable information regarding the status of all Approvals. Heska will be responsible for providing to the Canadian Food Inspection Agency all information required from the manufacturer of the products including labeling provided by Novartis (Veterinary Biologics Information Form, CFIA-1503). Heska shall notify Novartis of any U.S. regulatory changes that significantly impact any of the Products.

5.3 Inventory and Sales Reports. Novartis will furnish to Heska inventory and sales reports by the 10th day of the month following each calendar quarter. Such inventory reports will include, at a minimum, with respect to all inventory on hand at the end of the prior calendar quarter: Product number, quantity, and expiration dates. Such sales reports will include, at a minimum, with respect to sales made during the prior calendar quarter: Product number, quantity and Novartis' weighted average sales price and the range of sales prices.

5.4 Forecasts. At least six months prior to the calendar quarter in which Commercial Release of the first Product is projected to occur and, thereafter, at least sixty days prior to the beginning of each calendar quarter, Novartis will furnish Heska with a forecast of Novartis' projected Product requirements for the next succeeding 4 calendar quarters. Each such forecast shall be binding on Novartis only if covered by the applicable purchase order (Section 3) for the first calendar quarter of such forecasted period. Each such forecast will specify the projected requirements for each Product by month, except that it shall be broken out by requested shipping dates for the first calendar quarter of such forecast.

5.5 Approval of Promotional Materials. Novartis will submit to Heska for approval prior to use copies (with translations) of all new advertisements and other promotional materials, including catalog descriptions, involving the Products prepared by or for Novartis in connection with the Products. If Heska fails to reject such materials within two weeks of receipt, then Heska will be deemed to have approved such materials.

5.6 Certain Practices. Novartis agrees to not directly or indirectly offer, pay, promise to pay, or authorize the payment of money or anything of value to any governmental official or representative for the purpose of influencing such persons' decisions or actions regarding the Products.

5.7 No Modifications to Product. Unless otherwise agreed by Heska in writing, Novartis will not (a) sell Products other than in original, unmodified, and unused condition, (b) remove, obscure or modify any label or other indication of patent, any trademark or other intellectual property rights on the Products, (c) add any label or mark to any Product, nor (d) promote any Product under any name or mark other than the names and trademarks provided by Heska.

5.8 Minimum Purchase Requirement. Novartis shall purchase the Minimum

Purchase Requirement with respect to each Product for each applicable period as set out in Schedule A which may be modified at least thirty (30) days prior to the upcoming calendar year upon mutual agreement of the Parties.

6. PRODUCT DISCONTINUANCE; NEW PRODUCTS.

6.1 Product Discontinuance. Heska shall have the right, without liability to Novartis, to discontinue the manufacture or sale in Canada of any Product covered by this Agreement. Heska shall endeavor to notify Novartis as soon as practicable prior to such discontinuance no later than sixty (60) days prior to discontinuance.

6.2 New Products. Heska agrees that from time to time it may offer Novartis the first right to purchase for resale in Canada, other Heska drug, vaccine and point of care diagnostic products, except for any such product(s) for which Heska has identified a worldwide (with the possible exception of the United States) partner. Such purchase right shall be on the terms set forth in this Agreement as modified in writing by the Parties. Upon agreement, the affected product shall become a Product hereunder and the Parties shall complete and execute a Product Schedule for such Product. Heska and Novartis further agree to complete and execute a Product Schedule for Solo Step(TM) CH Cassettes, Solo Step(TM) CH Batch Test Strips, and Heska's IgE point of care screen ("Pending New Products") within one hundred twenty (120) days of the Effective Date of this Agreement. Should such a Product Schedule for any of these Pending New Products not be executed within such one hundred twenty (120) day period then Heska shall have the right to offer any such Pending New Product to any third party, but at substantially no better terms than were offered to Novartis, unless Novartis declines such terms.

7. INTELLECTUAL PROPERTY INFRINGEMENT INDEMNIFICATION.

7.1 Indemnity. Heska will defend, at its own expense, any claim, suit or proceeding brought against Novartis to the extent it is based upon a claim that any Product sold pursuant to this Agreement infringes upon any presently issued patent, or misappropriates any trade secret, of any third party. Novartis agrees that it shall promptly notify Heska in writing of any such claim or action and give Heska full information and assistance in connection therewith. Heska shall have the sole right to control the defense of any such claim or action and the sole right to settle or compromise any such claim or action. If Novartis complies with the provisions hereof, Heska will pay all damages, costs and expenses finally awarded to third parties against Novartis in such action. If a Product is, or in Heska's opinion might be, held to infringe as set forth above, Heska may, at its option replace or modify such Product so as to avoid infringement, or procure the right for Novartis to continue the use and resale of such Product. If neither of such alternatives is, in Heska's opinion, commercially reasonable, the infringing Product shall be returned to Heska and Heska's sole liability, in addition to its obligation to reimburse awarded damages, costs and expenses as set forth above, shall be to refund the amounts paid to Heska for such Products by Novartis.

7.2 Limitations. Heska will have no liability for any claim of infringement arising as a result of Novartis' use or sale of a Product in combination with any items not supplied by Heska or any modification of a Product by Novartis or third parties.

7.3 Entire Liability. THE FOREGOING STATES THE ENTIRE LIABILITY OF HESKA TO NOVARTIS OR ANY PURCHASER OF PRODUCTS CONCERNING INFRINGEMENT OF INTELLECTUAL PROPERTY RIGHTS, INCLUDING BUT NOT LIMITED TO, PATENT, COPYRIGHT, TRADEMARK AND TRADE SECRET RIGHTS.

8. SUITABILITY/LIABILITY.

8.1 Express Remedies. The express remedies set forth in this Agreement are in lieu of all obligations or liabilities on the part of Heska for damages resulting from breach of warranty, breach of contract, negligence or on any other legal theory.

8.2 No Consequential Damages, Etc. IN NO EVENT SHALL HESKA BE LIABLE FOR COSTS OF PROCUREMENT OF SUBSTITUTE PRODUCTS OR SERVICES, NOR WILL EITHER PARTY BE LIABLE FOR LOST PROFITS, OR ANY OTHER SPECIAL, INDIRECT, CONSEQUENTIAL OR INCIDENTAL DAMAGES, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY, ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY REPRESENTATION OR WARRANTY HEREUNDER, OR RESULTING FROM THE SALE OF PRODUCTS OR SERVICES BY NOVARTIS OR RESALE OR USE BY ANY DISTRIBUTOR, END-USER OR TRANSFEREE OF SUCH PRODUCTS. THIS LIMITATION SHALL APPLY EVEN IF A PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, AND NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY. The limitations in this section shall not limit the obligations of the Parties under Sections 7, 8.4, 8.5 AND 11 of this Agreement.

8.3 No Prospective Profits. Each of Heska and Novartis acknowledges that it is acting independently in connection with any actions taken in connection with this Agreement, including any investments in personnel, facilities, and marketing activities undertaken hereunder, and is not relying on any express or implied representation or promise from the other that this Agreement will continue beyond the Term or will not be terminated in accordance with its terms. As a result, neither Heska nor Novartis shall, by reason of the termination of this Agreement under any circumstances be liable to the other for compensation, reimbursement or damages on account of the loss of prospective profits on anticipated sales, or on account of expenditures, investments, leases or commitments, in connection with the business or goodwill of Heska or Novartis, or otherwise.

8.4 General Indemnity by Heska. Heska will defend, at its own expense, any claim, suit or proceeding brought against Novartis to the extent it is based upon a claim that any Product sold pursuant to this

Agreement is defective. Novartis agrees that it shall promptly notify Heska in writing of any such claim or action and give Heska full information and assistance in connection therewith. Heska shall have the sole right to control the defense of any such claim or action and the sole right to settle or compromise any such claim or action. If Novartis complies with the provisions hereof, Heska will pay all damages, costs and expenses finally awarded to third parties against Novartis in such action. If any Product unit is, or in Heska's opinion might be, defective, Heska may, at its option, replace such unit or request the return of such unit and refund the amount paid for such unit by Novartis. Heska shall have no liability hereunder to the extent any such defect was caused by Novartis' or its employees' acts or omissions.

8.5 General Indemnity by Novartis. Novartis agrees to indemnify and hold Heska harmless from and against all damages, costs and expenses arising with respect to the sale, distribution or use of any Product, to the extent caused by any act or omission by Novartis. Without limiting the generality of the foregoing, Novartis agrees to indemnify and hold Heska harmless from and against all damages, costs and expenses to the extent caused by Novartis' sale of any Product in violation of any regulatory requirements in Canada or into any jurisdiction outside of Canada.

9. TRADEMARKS.

9.1 Limited Trademark License. Subject to the next succeeding sentence, Heska grants to Novartis a limited license to use during the Term, for proper purposes in connection with the promotion and sale of the Products on a non-exclusive basis, Heska's name and logo and the other trademarks used by Heska from time to time with respect to the Products (collectively, the "TRADEMARKS").

9.2 Novartis's Use. Novartis's use of the Trademarks shall be in accordance with applicable trademark law and Heska's policies regarding advertising and trademark usage as established and amended from time to time. Novartis shall include all applicable Trademarks in any literature, promotional materials or advertising which it produces or distributes concerning the Products. Novartis will not use any such Trademarks other than with respect to the direct promotion of the Products.

9.3 Ownership of Trademarks. Novartis agrees that the Trademarks are and will remain the sole property of Heska and agrees not to do anything inconsistent with that ownership or to contest ownership of the Trademarks. Novartis agrees to always identify the Trademarks as being the property of Heska. Novartis also agrees that all use of the Trademarks by Novartis will inure to the benefit of, and be on behalf of, Heska.

10. PRODUCT MATERIALS; WARRANTY; MANUFACTURING QUALITY; DEFECTIVE BATCH.

10.1 Product Materials. Novartis may not make any representations or warranties regarding a Product in addition to or different from those specified by Heska in the applicable Product documentation and any representations or warranties made by Novartis with respect to the Products shall contain the same limitations and disclaimers as are included by Heska in such documentation.

10.2 Exclusive Warranty. HESKA HEREBY REPRESENTS AND WARRANTS THAT EACH PRODUCT WILL MEET ITS RESPECTIVE SPECIFICATIONS SET FORTH IN THE APPLICABLE PRODUCT SCHEDULE IN ALL MATERIAL RESPECTS. SUCH WARRANTY IS IN LIEU OF, AND HESKA DISCLAIMS, ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NONINFRINGEMENT, OR ARISING FROM THE COURSE OF DEALING BETWEEN THE PARTIES OR USAGE OF TRADE.

10.3 Manufacturing Quality; Defective Batch. The Products sold to Novartis will be manufactured by Heska using the same quality assurance procedures as it uses for Product units sold directly by Heska outside of Canada. If Heska confirms that any Product unit contains any material defect which, based on the nature of the defect, is reasonably likely to be present in other Product units from the same batch, then Heska shall exchange such defective units at Heska's expense, for other units of the same Product and shall reimburse Novartis for reasonable costs realized by Novartis for destroying defective product.

11. CONFIDENTIAL INFORMATION.

Neither Party shall use for any purpose, other than as contemplated by this Agreement, or divulge to any third party, any trade secrets, processes, techniques, designs, know how or other confidential information provided to such Party by the other. Notwithstanding the foregoing, these confidentiality provisions shall not apply to any information: (a) which is independently developed by the receiving Party or its Affiliates or lawfully received free of restriction from another source having the right to so furnish such information; (b) after it has become generally available to the public without breach of this Agreement by the receiving Party or its Affiliates; (c) which at the time of disclosure to the receiving Party was known to such Party or its Affiliates free of restriction; or (d) which and to the extent the receiving Party is required to disclose pursuant to law, regulations, or an order of a court of competent jurisdiction, provided that the disclosing Party shall have been afforded a reasonable opportunity to limit such disclosure. In addition to the above, subject to disclosure as required under the foregoing CLAUSE (D), the Parties shall maintain in confidence and not divulge to any third party the terms of this Agreement or any Product Schedule.

12. TERMINATION PROVISIONS.

12.1 Termination for Cause. Either Party shall have the right to terminate this Agreement prior to the end of the Term by notice immediately

if:

(a) Breach. The other Party commits any material breach of this Agreement which has not been remedied, or remedy has not been commenced, within ninety (90) days of notice thereof; or

(b) Insolvency. The other Party enters into liquidation or reorganization, whether compulsory or voluntary, or has a receiver appointed as to all or a substantial part of its assets, or takes or suffers any similar action in consequence of debt.

12.2 Termination Due to Failure to Make Minimum Purchases. Heska shall have the right to terminate this Agreement with respect to any Product if Novartis fails in any Period to achieve the Minimum Purchase Requirement for such Product in such Period (unless such failure is due to Heska's failure to deliver Products in accordance with accepted purchase orders).

12.3 Effect of Termination as to Any Product. Upon termination of this Agreement as to any Product as provided in SECTION 12.2:

(a) Termination of Licenses. Except as expressly provided in this SECTION 12, all rights and licenses granted to Novartis under this Agreement for such Product and the related Trademarks shall immediately terminate; provided, that, subject to Heska's rights under CLAUSE (B) below, Novartis may sell on a nonexclusive basis but otherwise on the terms set forth in this Agreement its remaining inventory of such Product for a period of up to ninety (90) days following the date of termination; and

(b) Right to Purchase Inventory. Heska shall have the right (but not the obligation) on notice to Novartis from time to time to purchase from Novartis all or any portion of such Product in its inventory at the time of such termination for credit against outstanding invoices, or for cash refund to the extent there are no invoices then outstanding. Any credit or refund due Novartis for such Product shall be equal to the purchase price of the Product, less any discounts or credits previously received.

12.4 Termination Due to Acquisition. Heska shall have the right to terminate this agreement upon three (3) months written notice to Novartis should Heska be acquired by a third party, in which case Heska will honor all purchase orders accepted as of the notice date which have not been filled, and Novartis shall be able to sell any Products in inventory or the subject of such purchase orders for a ninety (90) day period following such termination, provided, however, that Novartis shall pay royalties and render reports to Heska thereon in the manner specified herein.

12.5 Effect of Termination of Agreement. Upon expiration or termination of this Agreement for any reason:

(a) Termination of Licenses. Except as expressly provided in this SECTION 12, all rights and licenses granted to Novartis under this Agreement shall immediately terminate; provided, that, unless this Agreement is terminated by Heska, (i) Heska shall honor all accepted purchase orders providing for delivery within 30 days of the date of termination and for which Novartis pays in full prior to shipment, and (ii) Novartis may sell on a nonexclusive basis but otherwise on the terms set forth in this Agreement its remaining inventory of Products for a period of up to one hundred and eighty (180) days following the date of termination, subject to Heska's rights under CLAUSE (B) below;

(b) Right to Purchase Inventory. Heska shall have the right (but not the obligation) on notice to Novartis from time to time to purchase from Novartis all or any portion of the Products in its inventory at the time of such expiration or termination for credit against outstanding invoices, or for cash refund to the extent there are no invoices then outstanding. Any credit or refund due Novartis for such Product shall be equal to the purchase price of the Product, less any discounts or credits previously received; and

(c) Confidential Information. Each Party shall return all copies of the other Party's confidential information which remain in such Party's possession or under its control.

12.6 Survival. The provisions of SECTIONS 1, 4, 7, 8, 10, 11, 12 AND 13 shall survive any termination or expiration of this Agreement.

13. GENERAL.

13.1 No Other Agreements. All previous agreements and arrangements (if any) made by Heska and Novartis and relating to the subject matter hereof are hereby superseded. This Agreement embodies the entire understanding of the Parties. There are no promises, terms, conditions or obligations, oral or written, express or implied, other than those contained in this Agreement. This Agreement shall supersede any provision of any purchase order submitted by Novartis for Products during the Term, notwithstanding any provision in such purchase order to the contrary. This Agreement may only be amended by a writing signed by the Parties.

13.2 Notices. Any notice required to be given hereunder shall be in writing and may be given by facsimile transmission (confirmed by mail), personal delivery (including by professional courier), or mailing (by first class receipted prepaid mail) to the respective address or facsimile number set forth below, or to such other address or facsimile number as such Party may have notified the other pursuant to this Section. In the case of facsimile transmission or personal delivery, such notice shall be deemed to have been given upon the date of such transmission or delivery if delivered during normal business hours, otherwise it shall be deemed received the next business day. In the case of mailing, such notice shall be deemed to have been given seven days after such mailing.

Heska:	Novartis:
Heska Corporation 1613 Prospect Parkway Fort Collins, CO 80525 Attn: Chief Executive Officer Telephone: 970-493-7272 Telecopier: 970-484-9505 cc: Executive Vice President, Intellectual Property and Business Development	Novartis Animal Health Canada Inc 2233 Argentia Road, Suite 200 East Mississauga, Ontario L5N 2X7 Canada Attn: President

Telecopier: 970-491-9976

13.3 Governing Law. The Parties hereby agree that their rights and obligations under this Agreement will not be governed by the United Nations Conventions on Contracts for the International Sale of Goods, the application of which is expressly excluded. Rather, this Agreement shall be governed by and construed in accordance with the laws of the State of Colorado, without regard to its provisions concerning the applicability of the laws of other jurisdictions.

13.4 No Agency. Nothing in this Agreement or any other document or agreement between the Parties shall constitute or be deemed to constitute a partnership between the Parties. The relationship between Heska and Novartis shall be that of seller and buyer. Novartis, its officers, agents and employees, shall under no circumstances be considered the agents, employees or representatives of Heska. Neither Party shall have the right to enter into any contracts or binding commitments in the name of or on behalf of the other Party in any respect whatsoever.

13.5 Assignment. Neither party may assign any of its rights or obligations hereunder, whether voluntarily or by operation of law, without the prior written consent of the other party (which may not be withheld unreasonably, except that either Party may make such assignment to a partner, subsidiary or entity otherwise controlling, controlled by or under control with such Party, or to an entity acquiring all or substantially all relevant assets of a Party to which this Agreement pertains. Subject to the foregoing, this Agreement will inure to the benefit of and be binding upon the successors and assigns of the Parties.

13.6 Construction. This Agreement is the result of negotiations among, and has been reviewed by, Heska and Novartis and their respective counsel. Accordingly, this Agreement shall be deemed to be the product of each Party hereto, and no ambiguity shall be construed in favor of or against Heska or Novartis.

13.7 Headings; Plural Terms; Other Interpretive Provisions. Headings and captions used to introduce Sections of this Agreement are only for convenience and have no legal significance. All terms defined in this Agreement or any exhibit in the singular form shall have comparable meanings when used in the plural form and vice versa. References in this Agreement to "Recitals," "Sections" and "Schedules" are to recitals, sections and schedules herein and hereto unless otherwise indicated. The words "include" and "including" and words of similar import when used in this Agreement or in any exhibit shall not be construed to be limiting or exclusive. The word "or" when used in this Agreement or in any schedule shall mean either or both.

13.8 Force Maieure Events. Neither Party shall be liable for any failure to perform any of its obligations hereunder (other than the payment of money) which results from an act of God, the elements, fire, flood, component shortages, a force majeure event, riot, insurrection, industrial dispute, accident, war, embargoes, legal restrictions or any other cause beyond the control of the Party.

13.9 Attorneys' Fees. In any litigation, arbitration or court proceeding between the Parties with respect to this Agreement, the prevailing Party shall be entitled to recover, in addition to any other amounts awarded, attorneys' fees and all costs of proceedings incurred in enforcing this Agreement.

13.10 Arbitration. If a dispute or disagreement (a "DISPUTE") arises between the Parties in connection with this Agreement, then the Dispute will be finally settled by binding arbitration to be conducted in English in not sure why this is proposed ... suggest Chicago under the International Chamber of Commerce Rules of Conciliation and Arbitration then prevailing by one arbitrator appointed in accordance with those rules. The arbitrator shall be chosen from a panel of arbitrators knowledgeable in the companion animal health care industry. The arbitrator will apply the law specified in SECTION 13.3 to the merits of the Dispute. The decision of the arbitrator shall be final, conclusive and binding on the Parties to the arbitration.

Judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The arbitrator may grant permanent injunctions or other relief in such dispute or claim; provided that the arbitrator may not grant licenses to any intellectual property owned by either Party nor may the arbitrator award punitive damages. Notwithstanding the foregoing, without breach of this arbitration provision either Party may apply to any appropriate court for temporary injunctive relief.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Effective
Date.

HESKA CORPORATION NOVARTIS ANIMAL HEALTH CANADA, INC.

By: /s/ CAROL TALKINGTON VERSER
Name: Carol Talkington Verser, Ph.D.
Title: Executive Vice President, Intellectual Property and Business Development

By: /s/ BYRON E. BEELER
Name: Byron E. Beeler
Title: President

By: /s/ DR. VIC PARKS
Name: Dr. Vic Parks
Title: VP, Companion Animal Business

SCHEDULE A
TO
EXCLUSIVE DISTRIBUTION AGREEMENT

PRODUCT SCHEDULE

This Product Schedule shall apply to the Period commencing February 14, 2001. Heska and Novartis hereby agree that until revised, the following terms shall apply to the specified Product and shall supercede all prior Product Schedules for such Product:

A. PRODUCT: Flu Avert(TM) I.N. Vaccine

PRICE: $[***] CANADIAN FOR 1OX PACKAGE ("UNIT"), FOB, DIAMOND ANIMAL HEALTH, DES MOINES, IOWA

ORIGINAL US $ PRICE (SEE 4.2): $ [***] US

MIN. PURCHASE REQUIREMENT:

FIRST (1ST) YEAR [***] UNITS

SECOND (2ND) AND SUBSEQUENT YEARS [***] UNITS

PRODUCT INFORMATION:

Technical Specifications:

Clear plastic tray with ten (10) one-dose (1-dose) vials of lyophilized Equine Influenza Vaccine; ten (10) one-dose (1-dose) vials containing one milliliter (1 ml) of liquid diluent and 10 nasal applicators. Tray will have clear plastic lid with printed card label.

Product Packaging:

Finished trays are shrink-wrapped. All trays are placed in corregated overshippers and will be shipped within coolers or refrigerated trucks.

Minimum Expiration Date:

Twelve (12) months from shipment date; eighteen (18) months from manufacture date.

*** Confidential Treatment Requested

AMENDMENT NO. 1 TO
EXCLUSIVE DISTRIBUTION AGREEMENT

This Amendment No. I modifies the Exclusive Distribution Agreement dated February 14, 2001, between Heska Corporation and Novartis Animal Health Canada, Inc. ("Original Agreement").

1. Product Discontinuance; New Products: Section 6.2 New Products, of the Original Agreement is hereby modified to extend the date to complete and execute a Product Schedule for Solo Step CH Cassettes, Solo Step(TM) CH Batch Test Strips and Heska's IgE point of care screen ("Pending New Products") from June 14, 2001 to October 14, 2001.

2. No Other Changes. Except as expressly modified by this Amendment, all provisions of the Original Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment has been executed by the duly authorized representatives of the parties.

SIGNED:

Heska Corporation

By: /s/ CAROL TALKINGTON VERSER
Name: Carol Talkington Verser, Ph.D.
Title: Executive Vice President, Intellectual Property and Business Development

Date: July 5, 2001

Novartis Animal Health Canada, Inc.

By: /s/ BYRON E. BEELER
Name: Byron E. Beeler
Title: President

Date: June 25, 2001

By: /s/ DR. VIC PARKS

Name: Dr. Vic Parks
Title: VP, Companion Animal Business

[CONFIDENTIAL TREATMENT REQUESTED. CONFIDENTIAL PORTIONS OF THIS DOCUMENT HAVE BEEN REDACTED AND HAVE BEEN SEPARATELY FILED WITH THE COMMISSION]

AMENDED AND RESTATED DISTRIBUTION AGREEMENT

between

HESKA CORPORATION,
Distributor

and

i-STAT CORPORATION,
Manufacturer

AMENDED AND RESTATED
DISTRIBUTION AGREEMENT

PARTIES

This Amended and Restated Distribution Agreement (it, together with any Schedules and Exhibits, the "Agreement"), between i-STAT Corporation, a Delaware corporation having its principal place of business at 104 Windsor Center Drive, East Windsor, New Jersey 08520 U.S.A. ("Manufacturer"), and Heska Corporation, a Delaware corporation having its principal place of business at 1613 Prospect Parkway, Fort Collins, Colorado, 80525 U.S.A. ("Distributor").

RECITALS

Distributor desires to market and distribute Manufacturer's Products to the animal health care market and Manufacturer desires to grant Distributor such marketing and distribution rights, all on the terms and conditions of this Agreement.

Manufacturer and Distributor previously executed and delivered that certain Distribution Agreement dated as of February 9, 1998 (the "Prior Agreement"), which Prior Agreement is hereby amended and restated in its entirety by this Agreement.

TERMS OF AGREEMENT

1. APPOINTMENT AND TERRITORY Subject to the terms and conditions of this Agreement, Manufacturer hereby appoints Distributor as its exclusive distributor worldwide except for Japan and New Zealand, as its non-exclusive distributor in Japan and, commencing July 1, 1999 through the end of the Term, as its exclusive distributor in New Zealand (the "Territory"), to distribute, market and sell the Products to Customers in the Territory, and Distributor accepts such appointment. "Products" means only the articles listed on Schedule 1.1, including the i-STAT analyzers (the "Analyzers") and cartridges (the "Cartridges") listed thereon. Manufacturer agrees that, subject only to the prior fights of Abbott Laboratories ("Abbott") under that certain Funded Research and Development and License Agreement dated as of August 3, 1998, as the same may be amended from time to time, between Manufacturer and Abbott, prior to offering any other or new products to any other person for resale in the animal health care market, it will first offer Distributor the opportunity to negotiate to have such products included as a Product hereunder on such terms and conditions as are mutually acceptable to the parties. "Customer" means any animal healthcare organization or animal healthcare individual that purchases Products, excluding individuals operating within human healthcare institutions. Manufacturer reserves the right, upon reasonable notice to Distributor, to modify any of the Products and their specifications and to discontinue sales of any Product. Recognizing the end use of the Products in healthcare, Distributor shall not solicit or sell any Products to Customers or other third parties which Distributor has reason to believe will redistribute or otherwise direct them for use to classes of customers not contained within the Customer class described above, and shall otherwise take all reasonable necessary actions to prevent sales of Products to classes of customers known by Distributor to be not contained within the Customer class described above. Upon request by Manufacturer, if and to the extent Distributor sells Products to customers outside the Customer class in violation of the above restrictions, Distributor will remit to Manufacturer an amount equal to the difference between (i) the amount of Net Sales collected by Distributor from sales of such Products and (ii) the Purchase Price paid to Manufacturer for such Products. Distributor represents that it is competent under the laws of the Territory to enter into this Agreement and to act hereunder.

2. TERMS AND CONDITIONS.

2.1.PRICES. Manufacturer shall sell the Products to Distributor at the prices set forth on Schedule 1.1. Manufacturer has the right to modify prices as described on Schedule 1.1.

2.2.PAYMENT TERMS AND CONDITIONS. Prices quoted by Manufacturer, unless otherwise stated, shall be paid in U.S. Dollars and are freight on board (FOB) at Manufacturer's facility in East Windsor, New Jersey, U.S.A. Legal title, control of, right of possession and risk of loss of Products shall pass to Distributor upon shipment FOB. Distributor shall pay for each order within the terms stated in Schedule 1.1 by check or wire transfer through a bank designated by Manufacturer which shall cover, at Distributor's charge, the price of Products in such order. Distributor shall pay all expenses associated with the cost of export packing, carriage to the port of shipment, refrigerated freight to the port of destination, customs clearance, warehousing and

insurance, including war risk insurance, if applicable, and other costs and expenses occurring after the Products are made available to Distributor. Distributor shall ensure that Products are shipped, stored and handled in accordance with the specifications Manufacturer shall from time to time provide. Manufacturer reserves the right at any time to take legal proceedings to recover overdue payments by Distributor.

2.3.PLACEMENT OF ORDERS. Distributor shall place all orders with Manufacturer at Manufacturer's principal office. Manufacturer shall promptly, and in any event within five (5) business days, notify Distributor of any Purchase Orders (or parts of Purchaser Orders) accepted, rejected, or delayed, and the reason for any such rejection or delay. No Purchase Order shall be binding upon Manufacturer until accepted by Manufacturer. Purchase Orders not rejected within five (5) business days shall be deemed accepted. Distributor may not modify any Purchase Orders after acceptance by Manufacturer of such Purchase Order without Manufacturer's prior consent. All Purchase Orders should be placed 45 days prior to the requested shipping date from Manufacturer. Products shipped in connection with Purchase Orders placed less than 45 days prior to required shipment of product from Manufacturer may not have optimum dating.

2.4.SUBMISSION OF FORECASTS. Distributor shall furnish Manufacturer with a non-binding forecast for the following quarter 45 days in advance of that quarter.

3. RESPONSIBILITIES OF MANUFACTURER.

3.1. CATALOGS, BULLETINS. Manufacturer shall, without charge, furnish to Distributor reasonable quantities of technical data and technical bulletins adequate to describe the Products in the English language, and in other languages to the extent already available. Distributor may, at its own cost, provide a translation of the documents into the local language.

3.2. TRAINING. Manufacturer shall provide follow-up training, as mutually agreed by the parties, at Distributor's facility. In connection with such follow-up training, Manufacturer shall pay for its employees' salaries and their travel and travel-related expenses, including meals, lodging and other living expenses. For training situations not covered by the above, both Parties agree to discuss how to equitably share the travel and related expenses.

3.3. INTERFACE TRAINING. Manufacturer shall assist Distributor with ASTM interface training, as to how to interface between a Central Data Station at the Customer's site and other computer workstations of the Customer.

3.4. PRODUCT SUPPLY. To the extent Manufacturer is unable to supply adequate quantities of Products to fill Distributor's Purchase Orders submitted from time to time, and provided that such Purchase Orders are not for quantities of Products materially exceeding Distributor's ordinary requirements or forecasted needs, the minimum sales Targets and Milestones set forth in Section 4.2 hereof shall be adjusted accordingly by the parties.

4. RESPONSIBILITIES OF DISTRIBUTOR.

4.1. SALES EFFORTS; MARKETING SUPPORT. (a) Distributor shall devote commercially reasonable efforts to the promotion, sale and servicing of the Products to Customers in the Territory. Distributor shall, at its expense, take such commercially reasonable actions as it deems necessary to promote the Products, which may include: (i) including the Products in its appropriate catalogs, promotional mailings and like publications; (ii) developing, preparing and placing advertising concerning the Products in appropriate media or through direct mail; (iii) exhibiting the Products at appropriate trade shows and informing Manufacturer at least 30 days in advance of trade shows; (iv) conducting appropriate market research as it deems necessary or desirable; and (v) rendering other services customarily rendered by a distributor of veterinary medical products. Manufacturer shall have the right to prior review and to approve (or not approve) any and all copy, layout or other advertising, promotional or other distributed material involving the Products. Failure to object to any materials within fifteen (15) business days of sending shall be deemed approval. Distributor shall discuss strategy and Product positioning with Manufacturer and shall use commercially reasonable efforts to market and position the Products in accordance with the recommendations of Manufacturer.

(b) In furtherance of the above, for each calendar year during the Term, Distributor shall use commercially reasonable efforts to make or commit to make Marketing Expenditures (as defined below) in connection with its promotion of the Products, which should be approximately five percent (5%) of Net Sales (as defined below) of Analyzers for the preceding calendar year. As used herein, "Marketing Expenditures" shall include, without limitation, amounts spent or committed to be spent (whether internally or externally) on promotion of the Products (or any of them) (i) in catalogs, brochures, pamphlets, product information sheets and other mailings and publications, (ii) in broad or targeted advertising (including the development, preparation and cost of placing advertisements), (iii) at trade shows or other formal or informal industry or customer gatherings, (iv) by other accepted means employed by Distributor or the industry in general, but excluding salaries or commissions paid to Distributor's employees. Notwithstanding the foregoing, in the event, Distributor fails to make the Marketing Expenditures set forth above in any year during the Term, but reaches the total sales Milestones for such year set forth in Section 4.2 below, such failure shall not constitute a breach of this Agreement or otherwise entitle Manufacturer to exercise any rights or remedies under this Agreement or otherwise. "Net Sales" for purposes of this Agreement shall mean, with respect to any Products (or any of them specifically designated for any purpose in this Agreement) sold by Distributor, its affiliates and sales agents or distributors, the invoiced sales price of such Products billed to independent Customers who are not affiliates of Distributor, less (a) credits, allowances, discounts and rebates to, and chargebaeks from the account of, such Customers for damaged, rejected, outdated or returned product returned in accordance with Distributor's or Manufacturer's policies;

(b) freight and insurance costs incurred in transporting such Products to such Customers; (c) quantity, trade and cash discounts and other price reductions allowed; (d) discounts, fees and commissions payable to third party sales agents or distributors (but not Distributor's employees) with respect to orders or sales of such Products; (e) sales, use, value-added and other direct taxes incurred; and (f) customs, duties, tariffs surcharges and other governmental charges incurred in connection with the exportation or importation of such Products. For purposes of Distributor's obligation to meet its Marketing Expenditures goal set forth above, Net Sales shall be measured by reference to sales of Analyzers only.

4.2. SALES TARGETS AND MILESTONES. The tables below set forth sales targets ("Targets") and sales milestones ("Milestones") for Purchase Orders submitted by Distributor. The parties acknowledge that it is their goal that Distributor will take delivery of or schedule delivery within 30 days of the end of the periods referenced below of the number of Analyzers and the number of Cartridges set forth below under the caption "Milestones," in the aggregate, for sales by Distributor in each of North America and the remainder of the Territory outside of North America during the periods referenced, and Distributor shall use reasonable commercial efforts to achieve such Milestones. For purposes of determining achievement of Milestones, monthly total Purchase Orders for each of the last three months of the year cannot exceed [***]% of the monthly average for Purchase Orders for the previous six months.

(numbers shown represent units of products ordered)

TARGETS	1999	2000	2001
US			
Analyzers	[***]	[***]	[***]
Cartridges	[***]	[***]	[***]
International			
Analyzers	[***]	[***]	[***]
Cartridges	[***]	[***]	[***]
Target Totals			
Analyzers	[***]	[***]	[***]
Cartridges	[***]	[***]	[***]

MILESTONES	2000	2001
US		
Analyzers	[***]	[***]
Cartridges	[***]	[***]
International		
Analyzers	[***]	[***]
Cartridges	[***]	[***]
Milestone Totals		
Analyzers	[***]	[***]
Cartridges	[***]	[***]

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The parties further agree that (i) the above Targets for all years shown are intended to be goals and not minimum purchase obligations and any failure to achieve such Targets shall in no event constitute or give rise to a breach of this Agreement by Distributor or the exercise of any remedy by Manufacturer; (ii) in the event Distributor fails to reach the above Milestones in 2000 for either the United States or the rest of the Territory, but nonetheless achieves the total Milestone in 2000, Distributor will be deemed to have reached the Milestone 2000 for each of the United States and the rest of the Territory; and (iii) in the event Distributor fails to reach the Milestones in 2000 for either the United States or the rest of the Territory, or both, and also fails to achieve the total Milestone in 2000, Manufacturer will have the option, exercisable by delivery of written notice to Distributor, to convert the distribution rights of Distributor under this Agreement, effective not sooner than January 1, 2001, from exclusive to non- exclusive during 2001 in the portion of the Territory in which Distributor has failed to achieve its 2000 Milestones, with Distributor's exclusive distribution rights remaining unaffected in the portion of the Territory where Distributor has achieved its Milestones in 2000. In the event Manufacturer exercises its rights set forth in (iii) above, Distributor's obligation to make Marketing Expenditures pursuant to Section 4.1 above shall terminate and be deemed waived by Manufacturer.

4.3. MODIFIED AND NEW PRODUCTS. Distributor shall timely provide comprehensive information to its Customers with respect to newly available Products, discontinuance of Products and changes in existing Products, including, but not limited to, performance specification changes and required software upgrades in Analyzers (which may or may not be coupled to specific lots of Cartridges). Distributor shall use commercially reasonable efforts to ensure that each Customer in the Territory makes any such performance specification changes and software upgrades in a timely manner.

4.4. COMPETITIVE PRODUCTS. In ftutherance of its duties, and in recognition of the unique healthcare and related responsibilities in connection with the distribution of the Products, during the Term, Distributor shall not anywhere in the Territory market or sell any hand held device performing blood gas or electrolyte tests currently performed by the Analyzer. For purposes of this Section 4.4, the term "Analyzer" will be amended by the parties from time to time to include other categories (such as future tests) added as Products to

this Agreement. Distributor shall exclusively use Manufacturer's control products unless Manufacturer gives prior written approval for substitution.

4.5. COMPETENCE OF PERSONNEL. Distributor shall have an adequate number of technically competent personnel for sales and after-sales service of the Products. The number of sales personnel will depend on the market size and the market penetration over time.

4.6. MARKETING OF THE PRODUCTS IN THE TERRITORY. Distributor shall be informed of Manufacturer's suggested resale prices but shall retain full discretion to set resale prices of the Products.

4.7. TRAINING OF CUSTOMERS. Distributor shall, prior to shipment, provide to each Customer Product storage and use instructions, and shall provide its Customers with adequate training and support within the first two months after delivery to a Customer of the first batch of Products. Distributor shall use commercially reasonable efforts to ensure that all introductory training is made available to the Customer within the first week after receipt of Analyzers and Cartridges. Full use will be made of training material and technical information supplied by Manufacturer.

4.8. PRODUCT WARRANTY. Distributor shall provide to Customers Manufacturer's standard written limited warranty for all Products. Distributor shall not alter or expand such warranty. During the term of this Agreement, Distributor shall be responsible for providing technical support to Customers at its expense and shall assist them without charge in obtaining warranty service from Manufacturer. In addition, at the written request of Manufacturer, Distributor shall perform certain warranty repairs during the standard warranty period which shall be billed to and paid by Manufacturer at mutually agreed upon labor rates.

4.9. COMPUTER INTERFACING. At a Customer's request, during the Termof this Agreement, Distributor shall perform all computer interfacing activities between Central Data Stations ("CDS") and other computer workstations for each of its Customers based upon the ASTM interface provided on the CDS.

4.10. INVENTORY. Distributor shall maintain inventory of the Products sufficient to satisfy the reasonably projected needs of its Customers in light of order and shipping lead times.

4.11. REGULATORY COMPLIANCE. Distributor shall advise Manufacturer promptly of all Rovemment regulations outside the United States affecting the importation, use, sale, record maintenance and disposal of the Products and shall be responsible for compliance therewith. Without limiting the foregoing, Distributor shall obtain from competent govemmental authorities such import permits, licenses, exemptions from customs duties and governmental approvals and consents required in connection with the execution and performance of this Agreement. All governmental permits, registrations, licenses, exemptions and consents specifically relating to i- STAT products, shall be sought in the name of and shall, at the end of the Term, be the exclusive property of Manufacturer. Distributor shall comply with all applicable United States of America and Territory laws, rules and regulations and shall not engage in any activity that is illegal under, or would cause Manufacturer to be in violation of, any law, decree, rule or regulation in the Territory or in the United States of America.

4.12.BOOKS AND RECORDS. Distributor shall maintain books and records in keeping with standard industry practice regarding the performance of its obligations hereunder and shall retain such records during the Term and for three years thereafter.

4.13.PROPRIETARY INFORMATION AND TRADE SECRETS. Neither Party shall use for any purpose, other than as contemplated by this Agreement, or divulge to any third party, any trade secrets, processes, techniques, designs, know how or other confidential information provided to such Party by the other. Notwithstanding anything to the contrary provided herein, these confidentiality provisions shall not apply to any information: (a) which is independently developed by the receiving Party or its affiliated company or lawfully received free of restriction from another source having the right to so furnish such information; (b) after it has become generally available to the public without breach of this Agreement by the receiving Party or its affiliated company; (c) which at the time of disclosure to the receiving Party was known to such Party or its affiliated company free of restriction; or (d) which the receiving Party is required to disclose pursuant to law, regulations, or an order of a court of competent jurisdiction, provided that the disclosing Party shall have been afforded a reasonable opportunity to limit such disclosure.

4.14.NOTICE OF INFRINGEMENT ACTIVITIES. Distributor shall notify Manufacturer of any actual or suspected infringement or misappropriation of any of Manufacturer's patents, copyrights (including its computer software), proprietary information or trade and service marks and at Manufacturer's expense shall fully cooperate with and assist Manufacturer in any legal action that Manufacturer elects to bring to prevent or redress such violations of its rights.

4.15.CATALOG AND PRODUCT LABELS. Distributor may affix its label on catalogs and Products being distributed by Distributor in the Territory during the Term, provided that Manufacturer shall have been provided with a catalog and a photograph of each Product with Distributor's label affixed in the same manner in which the Products will be distributed. If Manufacturer shall reasonably object to the manner in which such label is affixed, Distributor shall promptly cease any such use and change its use to comply with the Manufacturers requirements.

4.16.REVIEW OF PRACTICES. Periodically, and at least quarterly, Manufacturer and Distributor shall review Distributor's marketing and selling strategy, training of Customers, inventory, computer interfacing activities and

other practices with a view toward maximizing Customer use of and satisfaction with the Products.

5. RIGHTS TO PROPERTY OF MANUFACTURER.

5.1. MARKS. Manufacturer hereby authorizes Distributor to use, on a nonexclusive basis for the Term, without cost to Distributor other than payment for the Products, the trademark "i- STAT" and any other trademarks, service marks or trade names used by Manufacturer to identify the Products (the "Marks"), solely for Distributor's distribution of Products and related performance under this Agreement. The Marks and the goodwill associated with the Marks are the exclusive property of Manufacturer. Distributor shall not (a) use the Marks as part of any composite mark including any elements not approved in advance in writing by Manufacturer, (b) challenge the validity or enforceability of the Marks or (c) acquire any proprietary rights in the Marks by reason of any activities under this Agreement or otherwise. All uses of the Marks by Distributor and any additional goodwill created thereby shall inure to the exclusive benefit of Manufacturer. Manufacturer shall, at all times during the Term on reasonable notice, have the right to inspect the materials and services on or in connection with which the Marks are used in order to assure Manufacturer that Manufacturer's quality standards relating to the Products and Distributor's servicing and other mark-pertinent provisions of this Agreement are being observed. If Manufacturer shall at any time reasonably object to any use to which the Marks are put, Distributor shall promptly cease any such use.

5.2. LICENSE TO USE COMPUTER SOFTWARE. All software, on whatever media and in whatever form, which Manufacturer shall deliver to Distributor (the "Software") is and shall remain the property of Manufacturer and its suppliers and licensors thereof and shall only be used in accordance with the terms of this Agreement. Upon the sale of any central data station software package during the Term, Distributor shall collect and pay to Manufacturer the first year's fee for the use of such software as set forth in Schedule 1.1. Manufacturer shall thereafter invoice Customers directly for any further license or maintenance fees. Software contains copyrighted and proprietary trade secrets of Manufacturer (and its suppliers and licensors), and Distributor shall keep the Software in confidence. Distributor shall not copy, use or disassemble the Software unless agreed by Manufacturer. Distributor shall have the right to reproduce Software only for (a) one backup/archival copy and (b) installation on and use with equipment designated by Manufacturer as suitable therefor and for use solely with the Products distributed by Distributor. Distributor shall reproduce the copyright and other proprietary notices of Manufacturer and third parties present in the Software delivered to Distributor. Distributor's license to use and distribute the Software shall terminate on the earlier of (a) the end of the Term; (b) discontinuance of use of the designated equipment for the Software; (c) discontinuance of payment of periodic license and maintenance fees, if any; and (d) breach of any of the above given terms. All copies of Software with respect to which the license hereunder is terminated shall be returned to Manufacturer within 30 days after such termination. Distributor shall deliver to each end user a copy of Manufacturer's written software license.

6. CORRUPT PRACTICES. Distributor shall not use any compensation hereunder as payment to any governmental official or employee of any country in the Territory for the purpose of influencing such person's decisions or actions regarding the Products.

7. DURATION AND TERMINATION.

7.1. TERM OF AGREEMENT. The initial term of this Agreement (the "Initial Term") shall commence effective February 9, 1999 after signed and delivered by both parties, and shall expire (if not automatically renewed as provided herein) on December 31, 2001. (As provided in Section 4.2, however, Distributor's rights in the third year of this Agreement may be made non-exclusive if the Milestones are not achieved). Thereafter, this Agreement shall renew automatically for additional renewal terms (each an "Additional Tenn") of twelve (12) months each, unless either party gives at least nine (9) months prior written notice to the other before the expiration of the Initial Term or any Additional Tenn that it does not wish to renew this Agreement beyond such Initial Term or such Additional Tenn; provided, however, that if Manufacturer fails to provide notice of termination within such nine month period, and Distributor fails to reach the Milestones for 2001 or any subsequent year of the Agreement (as adjusted pursuant to this Agreement), Manufacturer may elect to convert Distributor's distribution rights hereunder from exclusive to non-exclusive for the following year Milestones for years after 2001 shall be determined at the beginning of the preceding year, commencing at the beginning of 2001 for 2002 Milestones). (The Initial Tenn and each Additional Termshall be collectively referred to herein as the "Term").

7.2. IMMEDIATE TERMINATION. Either party may terminate this Agreement immediately upon the occurrence of any one or more of the events contemplated in this Section 7.2.

7.2.1. Material breach or default of this Agreement by the other party and failure to cure such default within 30 days after the other party has given written notice of such breach or default.

7.2.2. On the 30th day following written notice by one party to the other of such party's election to terminate this Agreement as a result of the bankruptcy or insolvency of the other party or the appointment of a receiver or trustee for assets of the other party.

7.2.3. On the 30th day following written notice by Manufacturer to Distributor of Distributor's unauthorized assignment or transfer of this Agreement.

7.3. ACTIONS UPON TERMINATION. Upon the termination of this Agreement, the parties shall:

7.3.1. Immediately cease the use of any confidential, proprietary or secret information of the other party and, in the case of Distributor, of the Marks except as permitted in Section 7.3.2; and

7.3.2. unless this Agreement is terminated by Manufacturer for Distributor's breach or bankruptcy, and, subject to Manufacturer's rights under Section 7.3.3 below, (i) Manufacturer shall honor all accepted purchase orders providing for delivery within 30 days of the date of termination and for which Distributor pays in full prior to shipment, and (ii) Distributor may sell on a nonexclusive basis but otherwise on the terms set forth in this Agreement (except that its license to the Trademarks is also nonexclusive) its remaining inventory of Products for a period of up to ninety (90) days following the date of termination;

7.3.3. Manufacturer shall have the right (but not the obligation) on notice to Distributor given within ten days after termination to purchase from Distributor all or any portion of the Products in its inventory at the time of such expiration or termination for credit against outstanding invoices, or for cash refund to the extent there are no invoices then outstanding. Any credit or refund due Distributor for such Product shall be equal to the purchase price of the Product, less any discounts or credits previously received; and

7.3.4. Distributor shall return to Manufacturer all promotional and sales training materials provided to Distributor by Manufacturer.

7.3.5. Assign to Manufacturer and deliver to Manufacturer any import permits, health resignations, licenses, exemptions from customs duties and governmental consents of any nature specifically relating to i-STAT products, which Distributor may have or retain directly or indirectly in connection with the Products imported, sold and/or distributed under this Agreement, which it has not yet assigned or waived, or which have not yet been delivered prior to termination.

7.4.CONTINUING OBLIGATIONS. Following any termination of this Agreement Distributor shall (a) cooperate in referring Customers to Manufacturer or to such other persons as Manufacturer may direct for continuing purchase of Products and related services; (b) transfer to Manufacturer or its nominees all outstanding maintenance contracts; and (c) provide Manufacturer with lists of each Customer who purchased product through Distributor, including records of all Software updates performed. The parties agree that following termination of this Agreement for any reason Distributor shall have no further obligations to Customers with respect to software updates and maintenance or technical support. The parties further agree that nothing in this Agreement shall be construed as preventing Distributor from soliciting Customers for other products following the termination of this Agreement.

8. INDEMNIFICATION; WARRANTY; LIMITATION OF LIABILITY.

8.1.INDEMNIFICATION. Manufacturer and Distributor shall each at all times indemnify and hold the other party and their respective affiliates, stockholders, directors, officers, employees and agents harmless from and against all liabilities, losses, claims, damages and expenses, including reasonable attorneys' fees and disbursements, arising out of or in connection with the breach of any covenant, agreement, warranty or representation made by it herein. In the event of any third party action, the other party shall have the right to participate in the defense, at its own expense, with counsel of its own choosing. Distributor shall indemnify Manufacturer against all claims, losses, damages, liabilities and expenses, including reasonable attorneys' fees and disbursements, incurred by Manufacturer arising with respect to the sale, distribution or use of a Product to the extent caused by any action or omission of Distributor or its stockholders, directors, officers, employees or agents.

8.2.WARRANTY. Manufacturer agrees to extend to Distributor and to Distributor's Customers standard product warranties, as modified from time to time, the current version of which is attached as Schedule 8.2. EXCEPT FOR THE WARRANTY PROVIDED FOR IN'SCHEDULE 8.2, MANUFACTURER MAKES NO REPRESENTATIONS OR WARRANTIES OF ANY KIND AND THE WARRANTIES OF MANUFACTURER ARE IN LIEU OF ALL OTHER WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY IMPLIED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR OF NONINFRINGEMENT OF ANY THIRD PARTY PATENTS, COPYRIGHTS OR MARKS. EXCEPT FOR THE WARRANTY PROVIDED FOR IN SCHEDULE 8.2, MANUFACTURER MAKES NO WARRANTY OF ANY KIND TO CUSTOMERS OF DISTRIBUTOR HEREUNDER.

8.3. LIMITATION OF LIABILITY. UNDER NO CIRCUMSTANCES SHALL A PARTY BE RESPONSIBLE TO THE OTHER PARTY FOR INDIRECT, SPECIAL, INCIDENTAL OR CONSEQUENTIAL DAMAGES ARISING OUT OF OR IN CONNECTION WITH THE SALE, DELIVERY, NONDELIVERY, SERVICING, USE, MAINTENANCE, SUPPORT, CONDITION OR POSSESSION OF PRODUCTS, OR FOR ANY OTHER CLAIM AGAINST A PARTY BY ANY OTHER PERSON OR ENTITY RELATING TO THIS AGREEMENT, WHETHER SUCH CLAIM IS BASED ON BREACH OF WARRANTY, CONTRACT, TORT OR OTHER LEGAL THEORY.

9. MISCELLANEOUS.

9.1.NO IMPLIED WAIVERS. A failure by one of the parties to assert its rights for or upon any breach of this Agreement shall not be deemed to be a waiver of such rights, nor shall such waiver be implied from the acceptance of any payment.

9.2.FORCE MAJEURE. Neither party shall be liable to the other party or in default hereunder by reason of any delay or omission caused by epidemic ' fire, labor disputes, governmental law or regulations, executive or court order, Act of God or public enemy, war, civil commotion, earthquake, flood, accident or explosion.

9.3.NOTICES. All notices given pursuant to this Agreement shall be in writing in the English language and shall be deemed effective on the day

they are received by certified air mail or confirmed facsimile addressed to the other party at the address or facsimile number stated below.

If to the Distributor:

Heska Corporation
1613 Prospect Parkway
Fort Collins, Colorado, 80525
Attn: President
Telephone Number: (970) 493-7272
Facsimile Number:(970) 484-9505

If to the Manufacturer:

i-STAT Corporation
104 Windsor Center Drive
East Windsor, New Jersey 08520
Attention: Mr. Noah Kroloff
Vice-President, International Sales and Marketing and Corporate Development
Telephone Number: (609) 443-9300
Facsimile Number: (609) 443-3621

9.4.GOVERNING LAW. THIS AGREEMENT SHALL IN ALL RESPECTS BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS (AND NOT THE LAWS OF CONFLICTS) OF THE STATE OF NEW JERSEY, USA.

9.5. ENTIRE AGREEMENT; AMENDMENTS. This Agreement, including the schedules, constitutes the entire understanding of the parties with respect to the subject matter hereof and supersedes all prior or contemporaneous writings or discussions. Except asotherwise expressly provided, no agreement varying or extending the terms of this Agreement shall be binding on either party unless covered by an addendum signed by an authorized representative of each party.

9.6. ASSIGNABILITY. Distributor may not assign any of its rights or obligations hereunder, whether voluntarily or by operation of law, without the prior written consent of Manufacturer, which shall not be unreasonably withheld; provided, however, that no consent shall be required for the assignment of this Agreement to any corporation controlled by Heska Corporation which has, as one of its principal lines of business, the sale of diagnostic equipment for the veterinary market Manufacturer may assign this Agreement to any person to whom Manufacturer has sold or transferred the assets of the business relating to the Products.

9.7. SURVIVAL. Sections 2.1, 2.2, 4.13, 5.2, 7 and 8 shall survive the Term.

9.8. RELATIONSHIP OF THE PARTIES. Nothing in this Agreement or any other document or agreement between the Parties shall constitute or be deemed to constitute a partnership or joint venture between the Parties. The relationship between Manufacturer and Distributor shall be that of seller and buyer. No officer, agent or employee of one party shall under any circumstances be considered the agent, employee or representative of the other party. Neither party shall have the right to enter into any contracts or binding commitments in the name of or on behalf of the other party in any respect whatsoever.

EXECUTION

The parties have duly executed this Agreement through their duly authorized representatives. This Agreement is effective as of February 9, 1999, after signed and delivered by both parties.

i-STAT CORPORATION

Date: February 24, 1999
By: /S/

Name Noah Kroloff
Title: Vice President
International Sales and
Marketing and
Corporate Development

Place of Execution:
East Windsor, New Jersey,
U.S.A.

HESKA CORPORATION

Date: February 19, 1999
By: /S/

Name: Paul S. Hudnut
Title: Executive Vice President

Place of Execution:
Fort Collins, Colorado, U.S.A.

SCHEDULE 1.1

PRICE LIST FOR HESKA CORPORATION

Distributor shall pay to Manufacturer the prices set forth below for purchases of Cartridges and Analyzers, subject to adjustment from time to time as specified below.

Payment Terms: Net 30 days FOB, East Windsor, New Jersey.

CARTRIDGE PRODUCTS NO	DESCRIPTION	PRICE/TEST	QTY/BOX	PRICE/BOX
220300	EG7+	[***]	[***]	[***]
220200	EG6+	[***]	[***]	[***]
220100	G3+	[***]	[***]	[***]

125000-02	EC8+	[***]	[***]	[***]
121000-02	6+	[***]	[***]	[***]
123000-02	EC6+	[***]	[***]	[***]
121500-02	EC4+	[***]	[***]	[***]
120100-02	G	[***]	[***]	[***]

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Cartridge Price Adjustments. The parties acknowledge and agree that the above prices for Cartridges are intended to provide Distributor with a gross profit of approximately fifty percent (50%). In the event Distributor in good faith deems it beneficial to offer to certain, specified Customers any volume purchase or similar price discounts on volume or other strategic sales of Cartridges, or in the event competitive products or competitive pressure prevailing in the industry result in Distributor lowering prices on Products in order to maintain or increase its market or competitive position with respect to the Products, Manufacture agrees that it will negotiate in good faith with Distributor a reduction of the prices on Cartridges so that Distributor and Manufacturer share equally any such discount or price reductions to the extent of sales of such discounted Cartridges. (By way of example, in the event Distributor offers a volume or other discount to a Customer of $0.20 on the price of EG7+ Cartridges (ex-Distributor), the transfer price to Distributor of such Cartridges would be reduced by $0.10, or to $4.50 per Cartridge). As used herein, the term "gross profit" shall have the meaning determined in accordance with United States generally accepted accounting principles and Distributor's customary practices commensurate therewith, applied on a consistent basis during the periods in question.

ANALYZER PRODUCT NO.	DESCRIPTION	PRICE
210000	Thermal Controlled PCA	[***]
111700	HP Portable Printer	[***]
111501	Portable Printer Paper	[***]
111502	HP Portable Printer AC Adapter	[***]
112100	Printer Cradle w/o IR Link	[***]

ANALYZER PRODUCT NO.	DESCRIPTION	PRICE
111002	9 Volt Lithium Batteries	[***]
131000	Aqueous Controls Level 1	[***]
131500	Aqueous Controls Level 2	[***]
132000	Aqueous Controls Level 3	[***]
135681	Calibration Verification Set	[***]
114000	Capillary Tubes 65 uL	[***]
112200	IR Link With Cradle	[***]
111900	Seiko Printer with IR Link	[***]
142000	Comprehensive Service Plan - Analyzer	[***]
142000	Comprehensive Service Plan - CDS	[***]

PRODUCT NO.	DESCRIPTION	PRICE
010382-02	Cable, IR Link, 5 feet	[***]
	CDS Configuration	
115002	CDS Hardware (CPU)	[***]
012124-01	CDS Monitor	[***]
010514	Cable, Printer	[***]
111800	Printer, CDS	[***]
013040-01	CDS Software	[***]
	Total CDS Configuration	[***]
	Software Download Kit	
112200	IR Link	[***]
112250	Power Adaptor	[***]
010382-02	Cable, IR, 5 ft	[***]
012127-01	Adaptor, Keyboard, AT, IBM	[***]
012128-01	Adaptor, Keyboard, IBM, AT	[***]
517000	Total Software Download Kit	[***]
011786-01	Paper, Printer, Seiko (2)	[***]

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Annual Price Adjustment-Analyzers. In the event of an increase in Manufacturing Costs (as defined below) to Manufacturer resulting in an increase, individually or in the aggregate, of total finished cost of goods of any series 200 Analyzer in 2000 or 2001 for at least ninety (90) days, the Purchase Price to Distributor for each such Analyzer may be adjusted upwards by Manufacturer for contract year 2000 or 2001, as applicable (but only once in each such contract year) by not more than an aggregate percentage increase in the Purchase Price for such Analyzer of ten percent (10%). Manufacturer will notify Distributor of such price adjustments at least 60 days priorto such price adjustment and will furnish Distributor a revised Schedule 1.1 to this Agreement. Upon Distributor's request, Manufacturer will finmish supporting documentation therefor and permit Distributor to verify the accuracy of the Manufacturing Costs and any increases thereof passed through to Distributor hereunder Such adjustments may not be applied to previously-issued invoices. For purposes of this Schedule 1.1, "Manufacturing Cost" shall mean direct material and labor cost incurred by Manufacturer to manufacture Analyzers, or alternatively, the bona fide invoice cost to Manufacturer for Analyzers manufactured for Manufacturer by an unaffiliated third party manufacturer.

Other Hardware and Software Price Adjustments (excluding Cartridges). In the event of a change in the cost of manufacturing or acquiring other hardware components, the Purchase Price to Distributor may be adjusted upwards or downwards by Manufacturer in proportion to the percentage change in the cost of manufacture or acquisition.

Dating:

Four months of Cartridge shelf life is guaranteed for any Purchase order issued 45 days in advance of ship date. Cartridges will not be shipped to Distributor with less than 4 months shelf life unless Distributor is notified in advance and agrees to a shorter shelf life.

SCHEDULE 8.2

WARRANTY

Subject to Distributor's and Distributor's Customers' shipping, storing and handling the Products in accordance with Manufacturer's (or the maker's) specifications and instructions, Manufacturer warrants the Products (excluding consumable supplies) to be free from defects in materials or workmanship for one year from the original date of purchase subject to these terms and conditions. Returns will not be accepted without prior written authorization from Manufacturer and Products must show no evidence of improper shipping, storing or handling or operation, including unauthorized repairs and/or damage caused by batteries.

At its option, Manufacturer may repair or replace defective Products covered by this warranty. MANUFACTURER EXPRESSLY DISCLAIMS ALL OTHER WARRANTIES, WHETHER EXPRESS, IMPLIED, OR STATUTORY, INCLUDING THE WARRANTY OF MERCHANTABILITY AND FITNESS OF USE. In no event shall Manufacturer be liable for consequential damages arising out of the use of its Products.

[CONFIDENTIAL TREATMENT REQUESTED. CONFIDENTIAL PORTIONS OF THIS DOCUMENT HAVE BEEN REDACTED AND HAVE BEEN SEPARATELY FILED WITH THE COMMISSION]

FIRST AMENDMENT TO PRODUCT SUPPLY AGREEMENT

THIS FIRST AMENDMENT TO PRODUCT SUPPLY AGREEMENT (this "AMENDMENT") is made and entered into as of March 15, 1999, by and between QUIDEL CORPORATION, a Delaware corporation having a place of business at 10165 McKellar Court, San Diego, California 92121 ("QUIDEL"), and HESKA CORPORATION, a Colorado corporation having a place of business at 1825 Sharp Point Drive, Fort Collins, Colorado 80525 ("HESKA").

RECITALS

A. QUIDEL and HESKA entered into that certain Product Supply Agreement dated July 3, 1997 (the "SUPPLY AGREEMENT").

B. QUIDEL and HESKA desire to amend the Supply Agreement to make more clear certain mutual indemnification obligations of the parties as provided herein.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Section 12 of the Supply Agreement is hereby deleted in its entirety and replaced with the following:

12.1 QUIDEL Indemnity. QUIDEL will defend, indemnify and save wholly harmless HESKA, its Affiliates, and their respective successors, assigns and customers, from and against any and all losses, damages, costs and expenses, including without limitation the actual reasonable legal fees, disbursements, investigation costs, other out-of-pocket expenses, settlements, payment of any third party royalties that may be due, and damages finally awarded in any claim, suit or cause of action (collectively, "LOSSES"), arising out of or in any way related to (a) any demand, claim, suit or cause of action (each a "CLAIM") alleging that any Products furnished and used as provided in this Agreement infringe a patent, trade secret or other intellectual property or proprietary right of any third party (unless and to the extent such a Claim alleges that any biological or other materials or technology supplied by HESKA infringes or violates any patent, trade secret or other intellectual property or proprietary right of any third part); (b) a beach of or default by QUIDEL of any of its representations, warranties, covenants or obligations contained in this Agreement with HESKA, including without limitation export and governmental requirements; (c) any actions taken by QUIDEL or its employees or agents in marketing any Products; or (d) any other act or omission of QUIDEL, its agents or employees taken or omitted in connection with the subject matter of this Agreement or any other written agreement with HESKA.

12.2 HESKA Indemnity. HESKA will defend, indemnify and save wholly harmless QUIDEL, its Affiliates, and their respective successors, assigns and customers, from and against any and all Losses arising out of or in any way related to (a) any Claim alleging that any biological or other materials or technology supplied by HESKA infringes or violates any patent, trade secret or other intellectual property or proprietary right of any third party; (b) a breach of or default by HESKA of any of its representations, warranties, covenants or obligations contained in this Agreement with QUIDEL, including without limitation export and governmental requirements; (c) any actions taken by HESKA or its employees or agents in marketing any Products; or (d) any other act or omission of HESKA, its agents or employees taken or omitted in connection with the subject matter of this Agreement or any other written agreement with QUIDEL. Without limiting the foregoing, HESKA acknowledges and agrees that its indemnification obligations under this Section 12.2 shall apply to any and all Claims by SYNBIOTICS CORPORATION ("SYNBIOTICS"), alleging that any Product infringes or violates any patent, trade secret or other intellectual property or proprietary right owned or licensed by Synbiotics if and to the extent that such Claim arises out of or is related to biological or other materials or technology supplied by HESKA (a "SYNBIOTICS CLAIM").

12.3 Indemnification Procedures. In the event that a Claim is filed by a third party against a party hereto (the "INDEMNIFIED PARTY"), its Affiliates or any of its customers, the Indemnified Party will notify the other party hereto (the "INDEMNIFYING PARTY") in writing within five (5) business days of being advised of the filing of such Claim. Within five (5) business days of being advised of the filing of such Claim, the Indemnifying Party will elect whether to defend the Claim itself or to transfer the defense to the Indemnified Party, and will notify the Indemnified Party in writing of its election. The Indemnifying Party will have the primary responsibility, at its cost and expense, to defend the Indemnified Party and its Affiliates, assigns, successors and customers against such Claim. If the Indemnifying Party elects to defend the Claim itself, then (a) the Indemnified Party may be represented by advisory counsel selected by the Indemnified Party, at the Indemnified Party's cost and expense (including, without limitation, actual reasonable legal fees and disbursements); (b) the Indemnified Party will provide all reasonable assistance requested by the Indemnifying Party for the defense of the Claim; and (c) all decisions regarding the settlement thereof will made by the Indemnifying Party with the Indemnified Party's written consent, which consent shall not by unreasonably withheld. Notwithstanding the foregoing, the Indemnifying Party shall also reimburse the Indemnified Party for the actual reasonable legal fees and disbursements of the Indemnified Party's advisory counsel, if any, in the event that the Claim against the Indemnified Party, its Affiliates or any of its customers is neither settled nor defeated in litigation or arbitration. If the Indemnifying Party elects not to defend the Claim itself, then (i) the Indemnified Party may undertake its own defense or the defense of any of its Affiliates and customers, as the case may be:

(ii) the Indemnifying Party will provide all reasonable assistance requested by the Indemnified Party for the defense of such Claim; (iii) all decisions regarding any such defense and settlement will be at the sole discretion of the Indemnified Party; (iv) the Indemnifying Party will reimburse the Indemnified Party, within thirty calendar (30) days of the Indemnified Party's written notification thereof, for any and all costs, actual reasonable legal fees, disbursements and out-of-pocket expenses incurred by the Indemnified Party in connection with such defense; and (v) the Indemnifying Party will be liable in any judgment for damages levied against the Indemnified Party or any of its Affiliates, assigns, successors and customers, and the Indemnifying Party will be liable for any royalties, fees and/or costs incurred by the Indemnified Party or any of its Affiliates, assigns, successors, and customers as a result of any settlement of such Claim.

The parties hereby acknowledge that QUIDEL has been advised of a Synbiotics Claim and has timely notified HESKA thereof, and that HESKA has elected to defend such Synbiotics Claim itself, all in accordance with and pursuant to the provisions of this Section 12.3.

2. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Supply Agreement.

3. Except as specifically amended herein, the terms of the Supply Agreement remain unmodified and in full force and effect. In the event of a conflict between the terms of the Supply Agreement and this Amendment, this Amendment will control.

4. This Amendment may be executed in any number of counterparts with the same effect as if all parties hereto had signed the same document. All counterparts will be construed together and will constitute one instrument.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first above written.

QUIDEL CORPORATION	HESKA CORPORATION
By: /S/	By: /S/ Paul Hudnut
Its: President and Chief Executive Officer	Its: Executive Vice President

AMENDMENT NO. 1 TO PRODUCT SUPPLY AGREEMENT

THIS AMENDMENT AGREEMENT is entered into effective as of November 17, 1997 by and between Quidel Corporation ("Quidel") and Heska Corporation ("Heska").

WHEREAS, Quidel and Heska entered into that certain Product Supply Agreement effective as of July 3, 1997 (the "Agreement"); and

WHEREAS, the parties desire to amend the Agreement with respect to the specifications for the Feline Heartworm Antibody Test Kit and the Canine Heartworm Antigen Test Kit;

NOW THEREFORE, in consideration of the foregoing, the parties agree as follows:

1. Amendment to Exhibits B-1 and B-2. Exhibits B-1 and B-2 to the Agreement are hereby amended by deleting said Exhibits in their entirety and substituting Exhibits B-1-2 and B-2-2 to this Amendment Agreement therefor.

2 No Other Changes. Except for the changes expressly made by this Amendment Agreement, the Agreement remains in full force and effect without change.

IN WITNESS WHEREOF, the parties have executed this Amendment Agreement as of the date first written above.

QUIDEL CORPORATION	HESKA CORPORATION
By: /S/	By: /S/
Name: John D. Tamerius	Name: Fred M. Schwarzer
Title: Vice President	Title: President

EXHIBIT B-1-2
Specifications for Feline Heartworm Antibody Test Kit

NEW PRODUCT DESIGN SPECIFICATIONS
Feline Heartworm Antibody Test Kit

	SPECIFICATION	HESKA/QUIDEL TEST SPECIFICATION
1.	MARKET/SEGMENT	In-clinic
2.	FORMAT	One-step
3.	TECHNOLOGY	Lateral flow antibody detection
4.	TYPE OF SPECIMEN	[***] anticoagulated whole blood, serum or plasma, cat
5.	STORAGE OF SPECIMEN	Uncoagulated whole blood fresh or stored at 2-7C [***]

		[***]	
6.	[***]	[***]	
7.	[***]	[***]	
8.	[***]	[***]	
9.	[***]	[***]	
10.	[***]	[***]	
11.	END OF TEST INDICATOR	No	
12.	[***]	[***]	
13.	[***]	[***]	
14.	[***]	[***]	
15.	TOTAL ASSAY TIME (RUN TIME)	5 min or less	
16.	[***]	[***]	
17.	[***]	[***]	
18.	[***]	[***]	
19.	[***]	[***]	
20.	KIT SIZE	25, 10 and 1	
21.	[***]	[***]	

*** Confidential Treatment Requested

EXHIBIT B-2-2
Specifications for Canine Heartworm Antigen Test Kit

NEW PRODUCT DESIGN SPECIFICATIONS
Canine Heartworm Antigen Test Kit

	SPECIFICATION	HESKA/QUIDEL TEST SPECIFICATION	
1.	MARKET/SEGMENT	In-clinic	
2.	FORMAT	One-step	
3.	TECHNOLOGY	Lateral flow antigen detection	
4.	TYPE OF SPECIMEN	[***] anticoagulated whole blood, serum or plasma	
5.	STORAGE OF SPECIMEN	Uncoagulated whole blood fresh or stored at 2-7C [***]	
		[***]	
6.	[***]	[***]	
7.	[***]	[***]	
8.	[***]	[***]	
9.	[***]	[***]	
10.	[***]	[***]	
11.	END OF TEST INDICATOR	No	
12.	[***]	[***]	
13.	[***]	[***]	
14.	[***]	[***]	
15.	TOTAL ASSAY TIME (RUN TIME)	5 min or less	
16.	[***]	[***]	
17.	[***]	[***]	
18.	[***]	[***]	
19.	[***]	[***]	
20.	KIT SIZE	25, 10 and 1	
21.	[***]	[***]	

*** Confidential Treatment Requested

LEASE AGREEMENT
OFFICE AND INDUSTRIAL SPACE

This Lease Agreement is made and entered into as of the 6th day of October, 1999, by and between GB Ventures ("Landlord"), whose address is 4875 Pearl East Cr. #300, Boulder. CO 80301, and Heska Corporation ("Tenant"), whose address is 1613 Prospect Parkway, Fort Collins, CO 80525.

In consideration of the covenants, terms, conditions, agreements and payments as herein set forth, the Landlord and Tenant hereby enter into the following Lease:

1. Definitions. Whenever the following words or phrases are used in this Lease, said words or phrases shall have the following meaning:

A. "Area" shall mean the parcel of land depicted on Exhibit "A" attached hereto and commonly known and referred to as One Prospect, Fort Collins, Colorado. The Area includes the Leased Premises and one or more buildings. The Area may include Common Areas.

B. "Building" shall mean a building located in the Area.

C. "Common Areas" shall mean all entrances, exits, driveways, curbs, walkways, hallways, parking areas, landscaped areas, restrooms, loading and service areas, and like areas or facilities which are located in the Area and which are designated by the Landlord as areas or facilities available for the nonexclusive use in common by persons designated by the Landlord.

D. "Leased Premises" shall mean the premises herein leased to the Tenant by the Landlord.

E. "Tenant's Prorata Share as to the Building in which the Leased Premises are located shall mean an amount (expressed as a percentage) equal to the number of square feet included in the Leased Premises divided by the total number of leasable square feet included in said Building. The Tenant's Prorata Share as to Common Areas shall mean an amount (expressed as a percentage) equal to the number of square feet included in the Leased Premises divided by the total number of leasable square feet included in all Buildings located in the Area. The Tenant's Prorata Share for Common Areas may change from time to time as the leasable square footage in all Buildings located in the Area is increased or decreased.

2. Leased Premises. The Landlord hereby leases unto the Tenant, and the Tenant hereby leases from the Landlord, the following described premises:

Space C, E, G, H, I, J in Building 1601 Prospect Parkway
consisting of Approximately 18,529 square feet, all

3. Base Term. The term of this Lease shall commence at 12:00 noon on May 1, 2000 , and, unless sooner terminated as herein provided for, shall end at 12:00 noon on May l, 2005 ("Lease Term"). Except as specifically provided to the contrary herein, the Leased Premises shall, upon the termination of this Lease, by virtue of the expiration of the Lease Term or otherwise, be returned to the Landlord by the Tenant in as good or better condition than when entered upon by the Tenant, ordinary wear and tear excepted.

4. Rent. Tenant shall pay the following rent for the Leased Premises:

A. Base Monthly Rent. Tenant shall pay to Landlord, without notice and without setoff, at the address of Landlord as herein set forth, the following Base Monthly Rent ("Base Monthly Rent"), said Base Monthly Rent to be paid in advance on the first day of each month during the term hereof. In the event that this Lease commences on a date other than the first day of a month, the Base Monthly Rent for the first month of the Lease Term shall be prorated for said partial month. Below is a schedule of Base Monthly Rental payments as agreed upon:

	During Lease Term	
For Period Starting	To Period Ending	A Base Monthly Rent of
Tenant shall take occupancy of 1601 Specht Point Drive Suites C/E (6402 sf) on May 1, 2000		
May 1, 2000	June 1, 2000	$5,708.45 NNN
Tenant shall take occupancy of 1601 Specht Point Drive Suites G, H, I, J (12,127 sf) for a total square footage of 18,529 sf as of June 1, 2000.		
June 1, 2000	May 1, 2005	$16,521,69/month NNN with annual CPI Adjustments on: May 1, 2001; May 1, 2002; May 1, 2003; and May 1, 2004.

B. Lease Term Adjustment. If, for any reason, other than delays caused by the Tenant, the Leased Premises are not ready for Tenants occupancy on May 1, 2000 for Suites C/E and June 1, 2000 for Suites G, H, I, J, the Tenant's rental obligation and other monetary expenses (i.e. taxes, utilities, etc.) shall be abated in direct proportion to the number of days of delay. It is hereby agreed that the premises shall be deemed ready for occupancy on the day the Landlord receives a T.C.O. or C.O. from the appropriate authority, or on the day the Landlord gives Tenant the keys to the Leased Premises if a building permit has not been applied for and/or is not required by the appropriate authority.

C. Cost of Living Adjustment. The Base Monthly Rental specified in

paragraph 4A above shall be recalculated for each Lease Year as defined hereinafter following the first Lease Year of this Lease Agreement. The recalculated Base Monthly Rental shall be hereinafter referred to as the "Adjusted Monthly Rental". The Adjusted Monthly Rental for each Lease Year after the first Lease Year shall be the greater of: (i) the amount of the previous year's Adjusted Monthly Rental, (or the Base Monthly Rental if calculating the Adjusted Monthly Rental for the second Lease Year), or (ii) an amount calculated by the rent adjustment formula set forth below. In applying the rent adjustment formula, the following definitions shall apply:

(1) "Lease Year" shall mean a period of twelve (12) consecutive full calendar months with the first Lease Year commencing on the date of the commencement of the term of this Lease and each succeeding Lease Year commencing upon the anniversary date of the first Lease Year; however, if this Lease does not commence on the first day of a month, then, the first Lease Year and each succeeding Lease Year shall commence on the first day of the first month following each anniversary date of this Lease;

(2) "Bureau" shall mean the Bureau of Labor Statistics of the United States Department of Labor or any successor agency that shall issue the Price Index referred to in this Lease Agreement.

(3) "Price Index" shall mean the "Consumer Price Index-All Urban Consumers-All Items (CPI-U) U.S. City Average (1982-84=100)" issued from time to time by the Bureau. In the event the Price Index shall hereafter be converted to a different standard reference base or otherwise revised, the determination of the increase in the Price Index shall be made with the use of such conversion factor, formula or table as may be published by Prentice-Hall, Inc. or failing such publication, by another nationally recognized publisher of similar statistical information. In the event the Price Index shall cease to be published, then, for the purposes of this paragraph 4C there shall be substituted for the Price Index such other index as the Landlord and the Tenant shall agree upon, and if they are unable to agree within sixty (60) days after the Price Index ceases to be published, such matter shall be determined by arbitration in accordance with the Rules of the American Arbitration Association.

(4) "Base Price Index" shall mean the Price Index released to the public during the second calendar month preceding the commencement of this Lease Agreement.

(5) "Revised Price Index" shall mean the Price Index released to the public during the second calendar month preceding the Lease Year for which the Base Annual Rental is to be adjusted;

(6) "Basic Monthly Rental" shall mean the Basic Monthly Rental set forth in subparagraph 4A above. The rent adjustment formula used to calculate the Adjusted Monthly Rental is as follows:

$$\text{Adjusted Monthly Rental} = \frac{\text{Revised Price Index} \times \text{Base Monthly Rental}}{\text{Base Price Index}}$$

Notwithstanding the above formula, the Adjusted Monthly Rental shall not be less than 103% or greater than 106% of the previous year's Adjusted Monthly Rental, or the Basic Monthly Rental if such adjustment is for the Second Lease Year. The Adjusted Monthly Rental as herein above provided shall continue to be payable monthly as required in paragraph 4A above without necessity of any further notice by the Landlord to the Tenant.

D. Total Net Lease. The Tenant understands and agrees that this Lease is a total net lease (a "net, net, net lease"), whereby the Tenant has the obligation to reimburse the Landlord for a share of all costs and expenses (taxes, assessments, other charges, insurance, trash removal, Common Area operation and maintenance and like costs and expenses), incurred by the Landlord as a result of the Landlord's ownership and operation of the Area. Major capital improvements, such as total replacement of the roof or parking lot are not considered to be maintenance items as described in this Paragraph 6D.

5. Security Deposit. Landlord acknowledges receipt from the Tenant of the sum of Sixteen Thousand Five Hundred Twenty Two Dollars ($16,522.00) to be retained by Landlord without responsibility for payment of interest thereon, as security for performance of all the terms and conditions of this Lease Agreement to be performed by Tenant, including payment of all rent due under the terms hereof. Deductions may be made by Landlord from the amount so retained for the reasonable cost of repairs to the Leased Premises (ordinary wear and tear excepted), for any rent delinquent under the terms hereof and/or for any sum used in any manner to cure any default of Tenant under the terms of this Lease. In the event deductions are so made, the Tenant shall, upon notice from the Landlord, redeposit with the Landlord such amounts so expended so as to maintain the deposit in the amount as herein provided for, and failure to so redeposit shall be deemed a failure to pay rent under the terms hereof. Nothing herein contained shall limit the liability of Tenant as to any damage to the Leased Premises, and Tenant shall be responsible for the total amount of any damage and/or loss occasioned by actions of Tenant. Landlord may deliver the funds deposited hereunder by Tenant to any purchaser of Landlord's interest in the Leased Premises in the event such interest shall be sold, and thereupon Landlord shall be discharged from any further liability with respect to such deposit.

6. Use of Premises. Tenant shall use the Leased Premises only for Office, warehouse, Laboratory, Light Manufacturing, Assembly and for no other purpose whatsoever except with the written consent of Landlord. Tenant shall not allow any accumulation of trash or debris on the Leased Premises or within any portion of the Area. All receiving and delivery of goods and merchandise and all removal of garbage and refuse shall be made only by way of the rear and/or other service door provided therefore. In the event the Leased Premises shall have no such door, then these matters shall be handled in a manner satisfactory to Landlord. No storage of any material outside of the Leased Premises shall be

allowed unless first approved by Landlord in writing, and then in only such areas as are designated by Landlord. Tenant shall not commit or suffer any waste on the Leased Premises nor shall Tenant permit any nuisance to be maintained on the Leased Premises or permit any disorderly conduct or other activity having a tendency to annoy or disturb any occupants of any part of the Area and/or any adjoining property.

7. Laws and Regulations. - Tenant Responsibility. The Tenant shall, at its sole cost and expense, comply with all laws and regulations of any governmental entity, board, commission or agency having jurisdiction over the Leased Premises. Tenant agrees not to install any electrical equipment that overloads any electrical paneling, circuitry or wiring and further agrees to comply with the requirements of the insurance underwriter or any governmental authorities having jurisdiction thereof.

8. Landlord's Rules and Regulations. Landlord reserves the right to adopt and promulgate rules and regulations applicable to the Leased Premises and from time to time amend or supplement said rules or regulations. Notice of such rules and regulations and amendments and supplements thereto shall be given to Tenant, and Tenant agrees to comply with and observe such rules and regulations and amendments and supplements thereto provided that the same apply uniformly to all Tenants of the Landlord in the Area.

9. Parking. If the Landlord provides off street parking for the common use of Tenants, employees and customers of the Area, the Tenant shall park all vehicles of whatever type used by Tenant and/or Tenant's employees only in such areas thereof as are designated by Landlord for this purpose, and Tenant accepts the responsibility of seeing that Tenant's employees park only in the areas so designated. Tenant shall, upon the request of the Landlord, provide to the Landlord license numbers of the Tenant's vehicles and the vehicles of Tenant's employees.

10. Control of Common Areas. - Exclusive control of the Landlord. All Common Areas shall at all times be subject to the exclusive control and management of Landlord, notwithstanding that Tenant and/or Tenant's employees and/or customers may have a nonexclusive right to the use thereof. Landlord shall have the right from time to time to establish, modify and enforce rules and regulations with respect to the use of said facilities and Common Areas.

11. Taxes.

A. Real Property Taxes and Assessments. The Tenant shall pay to the Landlord on the first day of each month, as additional rent, the Tenant's Prorata Share of all real estate taxes and special assessments levied and assessed against the Building in which the Leased Premises are located and the Common Areas. If the first and last years of the Lease Term are not calendar years, the obligations of the Tenant hereunder shall be prorated for the number of days during the calendar year that this Lease is in effect. The monthly payments for such taxes and assessments shall be $1,961.00 until the Landlord receives the first tax statement for the referred to properties. Thereafter, the monthly payments shall be based upon 1/12th of the prior year's taxes and assessments. Once each year the Landlord shall determine the actual Tenant's Prorata Share of taxes and assessments for the prior year and if the Tenant has paid less than the Tenant's Prorata Share for the prior year the Tenant shall pay the deficiency to the Landlord with the next payment of Base Monthly Rent, or, if the Tenant has paid in excess of the Tenant's Prorata Share for the prior year the Landlord shall forthwith refund said excess to the Tenant. Additionally, upon Lease expiration or termination Landlord shall also determine Tenant's Prorata Share of taxes and assessments for the calendar year in which the Lease expires or terminates based on the most recent valuation and estimate of taxes provided by Boulder County. If the Tenant has paid less than the Tenant's prorated Prorata Share for the current year the Tenant shall pay the deficiency, or, if the Tenant has paid in excess of the Tenant's prorated Prorata Share for the current year the Landlord shall forthwith refund the excess to the Tenant.

B. Personal Property Taxes. Tenant shall be responsible for, and shall pay promptly when due, any and all taxes and/or assessments levied and/or assessed against any furniture, fixtures, equipment and items of a similar nature installed and/or located in or about the Leased Premises by Tenant.

C. Rent Tax. If a special tax, charge, or assessment is imposed or levied upon the rents paid or payable hereunder or upon the right of the Landlord to receive rents hereunder (other than to the extent that such rents are included as a part of the Landlord's income for the purpose of an income tax), the Tenant shall reimburse the Landlord for the amount of such tax within fifteen (15) days after demand therefore is made upon the Tenant by the Landlord.

D. Other Taxes, Fees and Charges. Tenant shall pay to Landlord, on the first day of each month, as additional rent, Tenant's Pro Rata Share of any "Other Charges" (as hereinafter defined) levied, assessed, charged or imposed against the Area, as a whole. Unless paid directly by Tenant to the authority levying, assessing, charging or imposing same, Tenant shall also pay to Landlord, on the first day of the month following payment of same by Landlord, the entire costs of any such "Other Charges" levied, assessed, charged or imposed against the Leased Premises, Tenant's use of same, or Tenant's conduct of business thereon. For purposes of this provision, "Other Charges" shall mean and refer to any and all taxes, assessments, impositions, user fees, impact fees, utility fees, transportation fees, infrastructure fees, system fees, license fees, and any other charge or assessment imposed by any governmental authority or applicable subdivision on the Area, the Leased Premises or the ownership or use of the Area or Leased Premises, or the business conducted thereon, whether or not formally denominated as a tax, assessment, charge, or other nominal description, whether now in effect or hereafter enacted or imposed (excluding, however, Landlord's income taxes).

E. Should Landlord protest and win a reduction in the real estate taxes

for the Building and Area, Tenant shall be obligated to pay its Prorata Share of the cost of such protest, if the protest is handled by a party other than the Landlord.

12. Insurance.

A. Landlord's Insurance. Landlord shall obtain and maintain such fire and casualty insurance on the core and shell of the Building in which the Leased Premises are located and the Common Areas, as well as such loss of rents, business interruption, liability or any other insurance, as it deems appropriate, with such companies and on such terms and conditions as Landlord deems acceptable. Such insurance shall not be required to cover any of Tenant's inventory, furniture, furnishings, fixtures, equipment or tenant improvements (whether or not installed on the Leased Premises by or for Tenant and whether or not included within the tenant finish provided by Landlord), and Landlord shall not be obligated to repair any damage thereto or replace any of same, and Tenant shall have no interest in any proceeds of Landlord's insurance.

B. Tenant's Insurance. Tenant shall, at its sole cost and expense, obtain and maintain throughout the term of this Lease, on a full replacement cost basis, "all risk" insurance covering all of Tenant's Inventory, furniture, furnishings, fixtures, equipment and all tenant improvements or tenant finish (whether or not installed by Landlord) and betterments located on or within the Leased Premises. In addition, Tenant shall obtain and maintain, at its sole cost and expense, comprehensive general public liability insurance providing coverage from and against any loss or damage occasioned by an accident or casualty on, about or adjacent to the Leased Premises, including protection against death, personal injury and property damage. Such liability coverage shall be written on an "occurrence" basis, with limits of not less than $1,000,000.00 combined single limit coverage.

All policies of insurance required to be carried by Tenant hereunder shall be written by an insurance company licensed to do business in the State of Colorado, and shall name Landlord as an additional named insured and/or loss payee, as Landlord may direct. Each such policy shall provide that same shall not be changed or modified without at least thirty (30) days' prior written notice to Landlord and any mortgagee of Landlord. Certificates evidencing the extent and effectiveness of all Tenant's insurance shall be delivered to Landlord. The limits of such insurance shall not, under any circumstances, limit the liability of Tenant under this Lease.

In the event that Tenant fails to maintain any of the insurance required of it pursuant to this provision, Landlord shall have the right (but not the obligation) at Landlord's election, to pay Tenant's premiums or to arrange substitute insurance with an insurance company of Landlord's choosing, in which event any premiums advanced by Landlord shall constitute additional rent payable under this Lease and shall be payable by Tenant to Landlord immediately upon demand for same. Landlord shall also have the right, but no the obligation, whether or not Tenant maintains coverage to carry any such insurance as Landlord may elect in order to provide coverage in the event Tenant fails to properly maintain such insurance.

The rights of Landlord hereunder shall be in addition to, and not in lieu of, of any other rights or remedies available to Landlord under this Lease or provided by law or in equity. Without limiting the foregoing, in the event that coverage of any risk for which Tenant is responsible pursuant to this Section 12 is ultimately provided by coverage maintained by Landlord, whether due to Tenant's failure to provided or maintain such insurance or otherwise, Tenant shall promptly reimburse Landlord for an amount equal to any deductible incurred, immediately upon demand for same.

C. Tenants High Pressure Steam Boiler Insurance. If Tenant makes use of any kind of steam or other high pressure boiler or other apparatus which presents a risk of damage to the Leased Premises or to the Building or other improvements of which the Leased Premises are a part or to the life or limb of persons within such premises, Tenant shall secure and maintain appropriate boiler insurance in an amount satisfactory to Landlord. The Landlord shall be named insured in any such policy or policies. Certificates for such insurance shall be delivered to Landlord and shall provide that said insurance shall not be changed, modified, reduced or canceled without thirty (30) days prior written notice thereof being given to Landlord.

D. Tenants Share of Landlord Insurance. Tenant shall pay the Landlord as additional rent Tenant's Prorata Share of the insurance secured by the Landlord pursuant to "12A" above. Payment shall be made on the first day of each month as additional rent. The monthly payments for such insurance shall be $108.00 until changed by Landlord as a result of an increase or decrease in the cost of such insurance.

E. Mutual Subrogation Waiver. Landlord and Tenant hereby grant to each other, on behalf of any insurer providing fire and extended coverage to either of them covering the Leased Premises, Buildings or other improvements thereon or contents thereof, a waiver of any right of subrogation any such insurer of one party may acquire against the other or as against the Landlord or Tenant by virtue of payments of any loss under such insurance. Such a waiver shall be effective so long as the Landlord and Tenant are empowered to grant such waiver under the terms of their respective insurance policy or policies and such waiver shall stand mutually terminated as of the date either Landlord or Tenant gives notice to the other that the power to grant such waiver has been so terminated.

13. Utilities.

A. Tenant shall be solely responsible for and promptly pay all charges for heat, water, gas, electric, sewer service and any other utility service used or consumed on the Leased Premises. For all utility services used or consumed on the Leased Premises which are included in utility services to an area larger than the Leased Premises, Tenant shall pay monthly, commencing with the first

month of the Lease Term, as additional rent due under the terms hereof, a sum equal to Tenant's Prorata Share of the estimated costs for said twelve (12) month period, divided by 12. The estimated initial monthly costs are $1,521.00 for building water, electric and gas service to the HVAC system. Once each year the Landlord shall determine the actual costs of the foregoing expenses for the prior year and if the actual costs are greater than the estimated costs, the Tenant shall pay its Tenant's Prorata Share of the difference between the estimated costs and the actual costs to the Landlord with the next payment of Base Monthly Rent, or, if the actual costs are less than the estimated costs, the Landlord shall forthwith refund the amount of the Tenant's excess payment to the Tenant. Additionally, upon Lease expiration or termination Landlord shall also determine Tenant's Prorata Share of the annualized actual costs of the foregoing expenses for the number of days the Lease is in effect during the calendar year in which the Lease expires or terminates. If the annualized actual costs are greater than the estimated costs, the Tenant shall pay its Tenant's Prorata Share of the difference between the estimated costs and the annualized actual costs to the Landlord, or, if the annualized actual costs are less than the estimated costs, the Landlord shall forthwith refund the excess payment to the Tenant. For purposes of calculating Tenant's share of expenses under this paragraph, annualized actual costs shall be the sum of actual costs for the year at the time of reconciliation plus the total estimated costs prorated for the number of days from the date the last actual cost was paid to the end of the year. For all utility services used or consumed on the Leased Premises in which the utility service is used solely on the Leased Premises, the Tenant shall forthwith upon taking occupancy of the Leased Premises make arrangements with the Public Service Company, U.S. West or other appropriate utility company to pay the utilities used on the Leased Premises and to have the same billed to the Tenant at the address designated by the Tenant. Should there be a time where the Landlord remains responsible for utilities supplied to the Leased Premises, the Landlord shall bill the Tenant therefore and the Tenant shall promptly reimburse the Landlord therefore. In no event shall Landlord be liable for any interruption or failure in the supply of any such utility to the Leased Premises.

In the event the utility company supplying water and/or sewer to the Leased Premises determines that an additional service fee, impact fee, and/or assessment, or any other type of payment or penalty is necessary due to Tenant's use and occupancy of the Building, nature of operation and/or consumption of utilities, said expense shall be borne solely by the Tenant. Said expense shall be paid promptly and any repairs requested by the utility company shall be performed by Tenant immediately and without any delay.

B. Landlord Controls Selection. Landlord has advised Tenant that presently Public Service Company of Colorado ("Utility Service Provider") is the utility company selected by Landlord to provide electricity and gas service for the Building. Notwithstanding the foregoing, if permitted by Law, Landlord shall have the right at any time and from time to time during the Lease Term to either contract for service from a different company or companies providing electricity and/or gas service (each such company shall hereinafter be referred to as an ("Alternative Service Provider") or continue to contract for service from the Utility Service Provider.

C. Tenant Shall Give Landlord Access. Tenant shall cooperate with Landlord, Utility Service Provider, and any Alternative Service Provider at all times and, as reasonably necessary, shall allow Landlord, Utility Service Provider, and any Alternative Service Provider reasonable access to the Building's electric lines, feeders, risers, wiring, gas lines, and any other machinery within the Premises.

D. Landlord Not Responsible for Interruption of Service. Landlord shall in no way be liable or responsible for any loss, damage, or expense that Tenant may sustain or incur by reason of any change, failure, interference, disruption, or defect in the supply or character of the electrical and/or gas energy furnished to the Premises, or if the quantity or character of the electric and/or gas energy supplied by the Utility Service Provider or any Alternate Service Provider is no longer available or suitable for Tenant's requirements, and no such change, failure, defect, unavailability, or unsuitability shall constitute an actual or constructive eviction, in whole or in part, or entitle Tenant to any abatement or diminution of rent, or relieve Tenant from any of its obligations under the Lease.

14. Maintenance 0bligations of Landlord. Except as herein otherwise specifically provided for, and not including capital improvement. Landlord shall keep and maintain the roof and exterior of the Building of which the Leased Premises are a part in good repair and condition. Tenant shall repair and pay for any damage to roof, foundation and external walls caused by Tenant's action, negligence or fault.

15. Maintenance Obligations of the Tenant. Subject only to the maintenance obligations of the Landlord as herein provided for, the Tenant shall, during the entire Lease Term, including all extensions thereof, at the Tenant's sole cost and expense, keep and maintain the Leased Premises in good condition and repair, including specifically the following:

A. Electrical Systems. Tenant agrees to maintain in good working order and to make all required repairs and replacements to the electrical systems for the Leased Premises. Tenant upon signing this Lease acknowledges that Tenant has inspected the existing electrical systems and all such systems are in good repair and working order.

B. Plumbing Systems. Tenant agrees to maintain in good working order and to make all required repairs or replacements to the plumbing systems for the Leased Premises. Tenant upon signing this Lease acknowledges that Tenant has inspected the existing plumbing systems and all such systems are in good repair and working order.

C. Inspections and Service. Upon termination of Lease Agreement, Tenant agrees, before vacating premises, to employ at Tenant's sole cost and expense, a

licensed contractor to inspect, service and write a written report on the systems referred to in "A" and "B" of this Paragraph. Landlord shall have the right to order such an inspection if Tenant fails to provide evidence of such inspection, and, to follow the recommendations of such reports and to charge the expense thereof to the Tenant.

D. Tenant's Responsibility for Building and Area Repairs. Tenant shall be responsible for any repairs required for any part of the Building or Area of which the Leased Premises are a part if such repairs are necessitated by the actions or inactions of Tenant.

E. Cutting Roof. Tenant must obtain in writing the Landlord's approval prior to making any roof penetrations. Failure by Tenant to obtain written permission to penetrate a roof shall relieve Landlord of any roof repair obligations as set forth in Paragraph "14" hereof. Tenant further agrees to repair, at its sole cost and expense, all roof penetrations made by the Tenant and to use, if so requested by Landlord, a licensed contractor selected by the Landlord to make such penetrations and repairs.

F. Glass and Doors. The repair and replacement of all glass and doors on the Leased Premises shall be the responsibility of the Tenant. Any such replacements or repairs shall be promptly completed at the expense of the Tenant.

G. Liability for Overload. Tenant shall be responsible for the repair or replacement of any damage to the Leased Premises, the Building or the Area which result from the Tenant's movement of heavy articles therein or thereon. Tenant shall not overload the floors of any part of the Leased Premises.

H. Liability for Overuse and Overload of Operating Systems. Tenant shall be responsible for the repair, upgrade, modification, and/or replacement of any operating systems servicing the Leased Premises and/or all or part of the Building which is necessitated by Tenant's change or increase in use of or non-disclosed use of all or a part of the Leased Premises. Operating systems include, but are not limited to, electrical systems; plumbing systems (both water and natural gas); heating, ventilating, and air conditioning systems; telecommunications systems; computer and network systems; lighting systems, fire sprinkler systems; security systems; and building control systems, if any.

I. Inspection of Leased Premises - "As Is" Conditions. Tenant has inspected the Leased Premises and accepts the Leased Premises in the condition that they exist as of the date of this Lease, including, but not limited to, all mechanical, plumbing, and electrical systems and the conditions of the interior except: No Exceptions.

J. Failure of Tenant to Maintain Premises. Should Tenant neglect to keep and maintain the Leased Premises as required herein, the Landlord shall have the right, but not the obligation, to have the work done and any reasonable costs plus a ten percent (10%) overhead charge therefore shall be charged to Tenant as additional rental and shall become payable by Tenant with the payment of the rental next due.

16. Common Area Maintenance. Tenant shall be responsible for Tenant's Prorata share of the total costs incurred for the operation, maintenance and repair of the Common Areas, including, but not limited to, the costs and expenses incurred for the operation, maintenance and repair of parking areas (including restriping and repaving); removal of snow; utilities for common lighting and signs; normal HVAC maintenance and elevator maintenance (if applicable); trash removal; security to protect and secure the Area; common entrances, exits, and lobbies of the Building; all common utilities, including water to maintain landscaping; replanting in order to maintain a smart appearance of landscape areas; supplies; depreciation on the machinery and equipment used in such operation, maintenance and repair; the cost of personnel to implement such services; the cost of maintaining in good working condition the HVAC system(s) for the Leased premises; the cost of maintaining in good working condition the elevator(s) for the Leased Premises, if applicable; costs to cover Landlord's management fees paid for the property. These costs shall be estimated on an annual basis by the Landlord and shall be adjusted upwards or downwards depending on the actual costs for the preceding twelve months. Tenant shall pay monthly, commencing with the first month of the Lease Term, as additional rent due under the terms hereof, a sum equal to Tenant's Prorata Share of the estimated costs for said twelve (12) month period, divided by 12. The estimated initial monthly costs are $1,350.00. Once each year the Landlord shall determine the actual costs of the foregoing expenses for the prior year and if the actual costs are greater than the estimated costs, the Tenant shall pay its Tenant's Prorata Share of the difference between the estimated costs and the actual costs to the Landlord with the next payment of Base Monthly Rent, or, if the actual costs are less than the estimated costs, the Landlord shall forthwith refund the amount of the Tenant's excess payment to the Tenant.

Additionally, upon Lease expiration or termination Landlord shall also determine Tenant's prorated Prorata Share of the annualized actual costs of the foregoing expenses for the number of days the Lease is in effect during the calendar year in which the Lease expires or terminates. If the annualized actual costs are greater than the estimated costs, the Tenant shall pay its prorated Tenant's Prorata Share of the difference between the estimated costs and the annualized actual costs to the Landlord, or, if the annualized actual costs are less than the estimated costs, the Landlord shall forthwith refund the excess to the Tenant. For purposes of calculating Tenant's share of expenses under this paragraph, annualized actual costs shall be the sum of actual costs for the year at the time of reconciliation plus the total estimated costs prorated for the number of days from the date the last actual cost was paid to the end of the year.

17. Inspection of and Right of Entry to Leased Premises--Regular, Emergency, Reletting. Landlord and/or Landlord's agents and employees, shall have the right to enter the Leased Premises at all times during regular business hours and, at all times during emergencies, to examine the Leased Premises, to make such

repairs, alterations, improvements or additions as Landlord deems necessary, and Landlord shall be allowed to take all materials into and upon said Leased Premises that may be required therefore without the same constituting an eviction of Tenant in whole or in part, and the rent reserved shall in no way abate while such repairs, alterations, improvements or additions are being made, by reason of loss or interruption of business of Tenant or otherwise. During the six months prior to the expiration of the term of this Lease or any renewal thereof, Landlord may exhibit the Leased Premises to prospective tenants and/or purchasers and may place upon the Leased Premises the usual notices indicating that the Leased Premises are for lease and/or sale.

18. Alteration-Changes and Additions-Responsibility. Unless the Landlord's approval is first secured in writing, the Tenant shall not install or erect inside partitions, add to existing electric power service, add telephone outlets, add light fixtures, install additional heating and/or air conditioning or make any other changes or alterations to the interior or exterior of the Leased Premises. Any such changes or alterations shall be made at the sole cost and expense of the Tenant. At the end of this Lease, all such fixtures, equipment, additions, changes and/or alterations (except trade fixtures installed by Tenant) shall be and remain the property of Landlord; provided, however, Landlord shall have the option to require Tenant to remove any or all such fixtures, equipment, additions and/or alterations and restore the Leased Premises to the condition existing immediately prior to such change and/or installation, normal wear and tear excepted, all at Tenant's cost and expense. All such work shall be done in a good and workmanlike manner and shall consist of new materials unless agreed to otherwise by Landlord. Any and all repairs, changes and/or modifications thereto shall be the responsibility of, and at the cost of, Tenant. Landlord may require adequate security from Tenant assuring no mechanics' liens on account of work done on the Leased Premises by Tenant and may post the Leased Premises, or take such other action as is then permitted by law, to protect the Landlord and the Leased Premises against mechanics' liens. Landlord may also require adequate security to assure Landlord that the Leased Premises will be restored to their original condition upon termination of this Lease.

19. Sign Approval. Except for signs which are located inside of the Leased Premises and which are not attached to any part of the Leased Premises, the Landlord must approve in writing any sign to be placed in or on the interior or exterior of the Leased Premises, regardless of size or value. Specifically, signs attached to windows of the Leased Premises must be so approved by the Landlord. As a condition to the granting of such approval, Landlord shall have the right to require Tenant to furnish a bond or other security acceptable to Landlord sufficient to insure completion of and payment for any such sign work to be so performed. Tenant shall, during the entire Lease Term, maintain Tenant's signs in good condition and repair at Tenants sole cost and expense. Tenant shall, remove all signs at the termination of this Lease, at Tenant's sole risk and expense and shall in a workmanlike manner properly repair any damage and close any holes caused by the installation and/or removal of Tenants signs. Tenant shall give Landlord prior notice of such removal so that a representative of Landlord shall have the opportunity of being present when the signage is removed, or shall pre-approve the manner and materials used to repair damage and close the holes caused by removal.

20. Right of Landlord to Make Changes and Additions. Landlord reserves the right at any time to make alterations or additions to the Building or Area of which the Leased Premises are a part. Landlord also reserves the right to construct other buildings and/or improvements in the Area and to make alterations or additions thereto, all as Landlord shall determine. Easements for light and air are not included in the leasing of the Leased Premises to Tenant. Landlord further reserves the exclusive right to the roof of the Building of which the Leased Premises are a part. Landlord also reserves the right at any time to relocate, vary and adjust the size of any of the improvements or Common Areas located in the Area, provided, however, that all such changes shall be in compliance with the requirements of governmental authorities having jurisdiction over the Area. Nothing in this Lease will require Tenant to indemnify, hold harmless or release Landlord for any claim, loss, expense, cost judgement and/or demand, or fees, arising from the negligence or willful misconduct of Landlord, its agents, employees or contractors, or a breach of the obligations of the Landlord hereunder.

21. Damage or Destruction of Leased Premises. In the event the Leased Premises and/or the Building of which the Leased Premises are a part shall be totally destroyed by fire or other casualty or so badly damaged that, in the opinion of Landlord and Tenant, it is not feasible to repair or rebuild same, Landlord shall have the right to terminate this Lease upon written notice to Tenant. If the Leased Premises are partially damaged by fire or other casualty, except if caused by Tenant's negligence, and said Leased Premises are not rendered untenable thereby, as determined by Landlord and Tenant, an appropriate reduction of the rent shall be allowed for the unoccupied portion of the Leased Premises until repair thereof shall be substantially completed. If the Landlord elects to exercise the right herein vested in it to terminate this Lease as a result of damage to or destruction of the Leased Premises or the Building in which the Leased Premises are located, said election shall be made by giving notice thereof to the Tenant within thirty (30) days after the date of said damage or destruction.

22. Governmental Acquisition of Property. The parties agree that Landlord shall have complete freedom of negotiation and settlement of all matters pertaining to the acquisition of the Leased Premises, the Building, the Area, or any part thereof, by any governmental body or other person or entity via the exercise of the power of eminent domain, it being understood and agreed that any financial settlement made or compensation paid respecting said land or improvements to be so taken, whether resulting from negotiation and agreement or legal proceedings, shall be the exclusive property of Landlord, there being no sharing whatsoever between Landlord and Tenant of any sum so paid. In the event of any such taking, Landlord shall have the right to terminate this Lease on the date possession is delivered to the condemning person or authority. Such taking of the property shall not be a breach of this Lease by Landlord nor give rise to

any claims in Tenant for damages or compensation from Landlord. Nothing herein contained shall be construed as depriving the Tenant of the right to retain as its sole property any compensation paid for any tangible personal property owned by the Tenant which is taken in any such condemnation proceeding.

23. Assignment or Subletting. Tenant may not assign this Lease, or sublet the Leased Premises or any part thereof, without the written consent of Landlord, such consent shall not be unreasonably withheld. No such assignment or subletting if approved by the Landlord shall relieve Tenant of any of its obligations hereunder, and, the performance or nonperformance of any of the covenants herein contained by subtenants shall be considered as the performance or the nonperformance by the Tenant. In the event of an acquisition, merger, or reorganization, the assignment of the Lease shall not be unreasonably withheld by Landlord.

24. Warranty of Title. Subject to the provisions of the following three (3) paragraphs hereof, Landlord covenants it has good right to lease the Leased Premises in the manner described herein and that Tenant shall peaceably and quietly have, hold, occupy and enjoy the Leased Premises during the term of the Lease.

25. Access. Landlord shall provide Tenant nonexclusive access to the Leased Premises through and across land and/or other improvements owned by Landlord. Landlord shall have the right, during the term of this Lease, to designate, and to change, such nonexclusive access.

26. Subordination. Tenant agrees that this Lease shall be subordinate to any mortgages, trust deeds or ground leases that may now exist or which may hereafter be placed upon said Leased Premises and to any and all advances to be made thereunder, and to the interest thereon, and all renewals, replacements and extensions thereof. Tenant shall execute and deliver whatever instruments may be required for the above purposes, and failing to do so within ten (10) days after demand in writing, does hereby make, constitute and irrevocably appoint Landlord as its attorney-in-fact and in its name, place and stead so to do. Tenant shall in the event of the sale or assignment of Landlord's interest in the Area or in the Building of which the Leased Premises form a part, or in the event of any proceedings brought for the foreclosure of or in the event of exercise of the power of sale under any mortgage made by Landlord covering the Leased Premises, attorn to the purchaser and recognize such purchaser as Landlord under this Lease.

27. Easements. The Landlord shall have the right to grant any easement on, over, under and above the Area for such purposes as Landlord determines, provided that such easements do not materially interfere with Tenant's occupancy and use of the Leased Premises.

28. Indemnification and Waiver. Except in the case of a breach or default in the performance of any obligation under this Lease, each party shall indemnify, defend and hold harmless the other party and nothing in this Lease shall be construed as imposing any liability on them for any loss, costs, expense (including reasonable attorney's fees), or any claims, suits, actions or damages arising from the ownership, use, control or occupancy of any portion of the Project including the Building, Common Areas and Premises unless such loss, cost, expense, claim, suit or action is a result of or caused by the negligent acts or omissions of such other party or its agents, servants, employees, contractors, or invitees.

Tenant shall not indemnify Landlord for acts or failure to observe or comply with any of the rules by any other Tenant or occupant of the Building or Project that adversely affect Tenant's use and occupancy in which Landlord has been put on notice of such adverse impact to Tenant.

29. Acts or Omission of Others. The Landlord, or its employees or agents, or any of them, shall not be responsible or liable to the Tenant or to the Tenant's guests, invitees, employees, agents or any other person or entity, for any loss or damage that may be caused by the acts or omissions of other tenants, their guests or invitees, occupying any other part of the Area or by persons who are trespassers on or in the Area, or for any loss or damage caused or resulting from the bursting, stoppage, backing up or leaking of water, gas, electricity or sewers or caused in any other manner whatsoever, unless such loss or damage is caused by or results from the negligent acts of the Landlord, its agents or contractors.

30. Interest on Past Due Obligations. Any amount due to Landlord not paid when due shall bear interest at one and one half (1-1/2%) percent per month from due date until paid. Payment of such interest shall not excuse or cure any default by Tenant under this Lease.

31. Holding Over-Double Last Month's Rent. If Tenant shall remain in possession of the Leased Premises after the termination of this Lease, whether by expiration of the Lease Term or otherwise, without a written agreement as to such possession, then Tenant shall be deemed a month-to-month Tenant. The rent rate during such holdover tenancy shall be equivalent to double the monthly rent paid for the last full month of tenancy under this Lease, excluding any free rent concessions which may have been made for the last full month of the Lease. No holding over by Tenant shall operate to renew or extend this Lease without the written consent of Landlord to such renewal or extension having been first obtained. Tenant shall indemnify Landlord against loss or liability resulting from the delay by Tenant in surrendering possession of the Leased Premises including, without limitation, any claims made with regard to any succeeding occupancy bounded by such holdover period.

32. Modification or Extensions. No modification or extension of this Lease shall be binding upon the parties hereto unless in writing and unless signed by the parties hereto.

33. Notice Procedure. All notices, demands and requests which may be or are required to be given by either party to the other shall be in writing and such

that are to be given to Tenant shall be deemed to have been properly given if served on Tenant or an employee of Tenant or sent to Tenant by United States registered or certified mail, return receipt requested, properly sealed, stamped and addressed to Tenant at 1613 Prospect Parkway, Fort Collins, CO 80525, Attention Facilities Manager or at such other place as Tenant may from time to time designate in a written notice to Landlord; and, such as are to be given to Landlord shall be deemed to have been properly given if personally served on Landlord or if sent to Landlord, United States registered or certified mail, return receipt requested, properly sealed, stamped and addressed to Landlord at 4875 Pearl East Cr. #300, Boulder, CO 80301 or at such other place as Landlord may from time to time designate in a written notice to Tenant. Any notice given by mailing shall be effective as of the date of mailing.

34. Memorandum of Lease-Notice to Mortgagee. The Landlord and Tenant agree not to place this Lease of record, but upon the request of either party to execute and acknowledge so the same may be recorded a short form lease indicating the names and respective addresses of the Landlord and Tenant, the Leased Premises, the Lease Term, the dates of the commencement and termination of the Lease Term and options for renewal, if any, but omitting rent and other terms of this Lease. Tenant agrees to an assignment by Landlord of rents and of the Landlord's interest in this Lease to a mortgagee, if the same be made by Landlord. Tenant further agrees if requested to do so by the Landlord that it will give to said mortgagee a copy of any request for performance by Landlord or notice of default by Landlord; and in the event Landlord fails to cure such default, the Tenant will give said mortgagee a sixty (60) day period in which to cure the same. Said period shall begin with the last day on which Landlord could cure such default before Tenant has the right to exercise any remedy by reason of such default. All notices to the mortgagee shall be sent by United States registered or certified mail, postage prepaid, return receipt requested.

35. Controlling Law. The Lease, and all terms hereunder shall be construed consistent with the laws of the State of Colorado. Any dispute resulting in litigation hereunder shall be resolved in court proceedings instituted in Larimer County and in no other jurisdiction.

36. Landlord Not a Partner With the Tenant. Nothing contained in this Lease shall be deemed, held or construed as creating Landlord as a partner, agent, associate of or in joint venture with Tenant in the conduct of Tenants business, it being expressly understood and agreed that the relationship between the parties hereto is and shall at all times remain that of Landlord and Tenant.

37. Partial Invalidity. If any term, covenant or condition of this Lease or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease or the application of such term, covenant or condition to persons and circumstances other than those to which it has been held invalid or unenforceable, shall not be affected thereby, and each term, covenant and condition of this Lease shall be valid and shall be enforced to the fullest extent permitted by law.

38. Default-Remedies of Landlord. Should Tenant be in default of rental charges (monetary expenses to Tenant) Landlord shall give Tenant a cure period of ten (10) days; if such default is non-monetary, a cure period of thirty (30) days shall be given after written notice from Landlord.

A. The occurrence of any of the following events shall constitute a default by Tenant under this Lease:

(1) Failure to make due and punctual payment of rent or any other charges, assessments or amounts due or payable or required to be paid under this Lease; or

(2) Neglect or failure by Tenant to perform or observe, or any other breach of, any other term, covenant or condition of this Lease; or

(3) Adjudication of Tenant as bankrupt or insolvent, or filing by or against Tenant of any petition in bankruptcy or for reorganization or for the adoption of any arrangement under the Bankruptcy Code; application is made for the appointment of receiver or conservator for Tenants business or property; or assignment by Tenant is made of its property for the benefit of its creditors; or Tenant's interest in this Lease or any substantial amount of Tenant's other real or personal property is levied or executed upon by process of law; or

(4) Petition or other proceeding is made by or against Tenant for its dissolution or liquidation; or voluntary dissolution or liquidation of Tenant; or

(5) Abandonment of the Leased Premises, or any part thereof, by Tenant for a period of time in excess of thirty (30) consecutive days.

B. If Tenant shall default in the payment, of rent or in the keeping of any of the terms, covenants or conditions of this Lease to be kept and/or performed by Tenant or shall otherwise commit any event of default as defined above, Landlord may upon the expiration of any applicable cure, immediately, or at any time thereafter, reenter the Leased Premises, remove all persons and property therefrom, without being liable to indictment, prosecution for damage therefore, or for forcible entry and detainer and repossess and enjoy the Leased Premises, together with all additions thereto or alterations and improvements thereof. Landlord may, at its option, at any time and from time to time thereafter, relet the Leased Premises or any part thereof for the account of Tenant or otherwise, and receive and collect the rents therefore and apply the same first to the payment of such expenses as Landlord may have incurred in recovering possession and for putting the same in good order and condition for rerental, and expense, commissions and charges paid by Landlord in reletting the Leased Premises. Any such reletting may be for the remainder of the term of this Lease or for a longer or shorter period. In lieu of reletting such Leased Premises, Landlord may occupy the same or cause the same to be occupied by others. Whether or not the Leased Premises or any part thereof be relet, Tenant shall pay the Landlord the rent and all other charges required to be paid by

Tenant up to the time of the expiration of this Lease or such recovered possession, as the case may be and thereafter, Tenant, if required by Landlord, shall pay to Landlord until the end of the term of this Lease, the equivalent of the amount of all rent reserved herein and all other charges required to be paid by Tenant, less the net amount received by Landlord for such reletting, if any, unless waived by written notice from Landlord to Tenant. No action by Landlord to obtain possession of the Leased Premises and/or to recover any amount due to Landlord hereunder shall be taken as a waiver of Landlord's right to require full and complete performance by Tenant of all terms hereof, including payment of all amounts due hereunder or as an election on the part of Landlord to terminate this Lease Agreement. If the Leased Premises shall be reoccupied by Landlord, then, from and after the date of repossession, Tenant shall be discharged of any obligations to Landlord under the provisions hereof for the payment of rent. If the Leased Premises are reoccupied by the Landlord pursuant hereto, and regardless of whether the Leased Premises shall be relet or possessed by Landlord, all fixtures, additions, furniture, and the like then on the Leased Premises, excluding any equipment, fixtures, and furniture that Tenant may be leasing from a third party, may be retained by Landlord. In the event Tenant is in default under the terms hereof and, by the sole determination of Landlord, has abandoned the Leased Premises, Landlord shall have the right to remove all the Tenant's property from the Leased Premises and dispose of said property in such a manner as determined best by Landlord, at the sole cost and expense of Tenant and without liability of Landlord for the actions so taken and without liability on the part of Landlord for any action so taken.

C. In the event an assignment of Tenant's business or property shall be made for the benefit of creditors, or, if the Tenants leasehold interest under the terms of this Lease Agreement shall be levied upon by execution or seized by virtue of any writ of any court of law, or, if application be made for the appointment of a receiver for the business or property of Tenant, or, if a petition in bankruptcy shall be filed by or against Tenant, then and in any such case, at Landlord's option, with or without notice, Landlord may terminate this Lease and immediately retake possession of the Leased Premises without the same working any forfeiture of the obligations of Tenant hereunder.

D. [Intentionally left blank]

E. In addition to all rights and remedies granted to Landlord by the terms hereof, Landlord shall have available any and all rights and remedies available at law or in equity, or under the statutes of the State of Colorado. No remedy herein or otherwise conferred upon or reserved to Landlord shall be considered exclusive of any other remedy but shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. Further, all powers and remedies given by this Lease to Landlord may be exercised, from time to time, and as often as occasion may arise or as may be deemed expedient. No delay or omission of Landlord to exercise any right or power arising from any default shall impair any such right or power or shall be considered to be a waiver of any such default or acquiescence thereof. The acceptance of rent by Landlord shall not be deemed to be a waiver of any breach of any of the covenants herein contained or of any of the rights of Landlord to any remedies herein given.

F. If Tenant shall, for any reason, vacate the Leased Premises before the current expiration date, landlord shall have the right to accelerate rental payments and any and all future rent payments due during the course of the Lease Term shall become immediately payable in full to the Landlord.

G. Upon default by Landlord, Tenant shall give Landlord written notice of said default, with particulars. The landlord shall have thirty days to cure such default, unless the reasonable time to cure exceeds thirty days, in which case Landlord must have taken substantial steps toward curing the default within said thirty days. In addition, Tenant shall be entitled to all the rights and remedies of a commercial tenant under Colorado Law.

39. Legal Proceedings-Responsibilities. In the event of proceeding at law or in equity by either party hereto, the defaulting party shall pay all costs and expenses, including all reasonable attorney's fees incurred by the non-defaulting party in pursuing such remedy, if such non-defaulting party is awarded substantially the relief requested.

40. Administrative Charges. In the event any check, bank draft or negotiable instrument given for any money payment hereunder shall be dishonored at any time and from time to time, for any reason whatsoever not attributable to Landlord, Landlord shall be entitled, in addition to any other remedy that may be available, (1) to make an administrative charge of $100.00 or three times the face value of the check, bank draft or negotiable instrument, whichever is smaller, and (2) at Landlord's sole option, to require Tenant to make all future rental payments in cash or cashiers check.

41. Hazardous Materials and Environmental Considerations.

A. Tenant covenants and agrees that Tenant and its agents, employees, contractors and invitees shall comply with all Hazardous Materials Laws (as hereinafter defined). Without limiting the foregoing, Tenant covenants and agrees that it will not use, generate, store or dispose of, nor permit the use, generation, storage or disposal of Hazardous Materials (as hereinafter defined) on, under or about the Leased Premises, nor will it transport or permit the transportation of Hazardous Materials to or from the Leased Premises, except in full compliance with any applicable Hazardous Materials Laws. Any Hazardous Materials located on the Leased Premises shall be handled in an appropriately controlled environment which shall include the use of such equipment (at Tenant's expense) as is necessary to meet or exceed standards imposed by any Hazardous Materials Laws and in such a way as not to interfere with any other tenants use of its premises. Upon breach of any covenant contained herein, Tenant shall, at Tenant's sole expense, cure such breach by taking all action prescribed by any applicable Hazardous Materials Laws or by any governmental authority with jurisdiction over such matters.

B. Tenant shall inform Landlord at any time of (i) any Hazardous Materials it intends to use, generate, handle, store or dispose of, on or about or transport from, the Leased Premises and (ii) of Tenant's discovery of any event or condition which constitutes a violation of any applicable Hazardous Materials Laws. Tenant shall provide to Landlord copies of all communications, to or from any governmental authority or any other party relating to Hazardous Materials affecting the Leased Premises.

C. Tenant shall indemnify and hold Landlord harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities, expenses or losses (including, without limitation, diminution on value of the Leased Premises, damages for loss or restriction on use of all or part of the Leased Premises, sums paid in settlement of claims, investigation of site conditions, or any cleanup, removal or restoration work required by any federal, state or local governmental agency, attorney's fees, consultant fees, and expert fees) which arise as a result of or in connection with any breach of the foregoing covenants or any other violation of any Hazardous Materials laws by Tenant. The indemnification contained herein shall also accrue to the benefit of the employees, agents, officers, directors and/or partners of Landlord.

D. Upon termination of this Lease and/or vacation of the Leased Premises, Tenant shall properly remove all Hazardous Materials and shall then provide to Landlord a Phase I environmental audit report, prepared by a professional consultant satisfactory to Landlord and at Tenant's sole expense, certifying that the Leased Premises have not been subjected to environmental harm caused by Tenant's use and occupancy of the Leased Premises. Landlord shall grant to Tenant and its agents or contractors such access to the Leased Premises as is necessary to accomplish such removal and prepare such report.

E. "Hazardous Materials" shall mean (a) any chemical, material, substance or pollutant which poses a hazard to the Leased Premises or to persons on or about the Leased Premises or would cause a violation of or is regulated by any Hazardous Materials Laws, and (b) any chemical, material or substance defined as or included in the definitions of "hazardous substances", "hazardous wastes", "extremely hazardous waste", "restricted hazardous waste", "toxic substances", "regulated substance", or words of similar import under any applicable federal, state or local law or under the regulations adopted or publications promulgated pursuant thereto, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Sec. 9601, et seq; the Hazardous Materials Transportation Act, as amended, 49 U.S.C. Sec. 1801, et seq; the Resource Conservation and Recovery Act as amended, 42 U.S.C. Sec 6901, et seq; the Solid Waste Disposal Act, 42 U.S.C. Sec. 6991 et seq; the Federal Water Pollution Control Act, as amended, 33 U.S.C. Sec. 1251, et seq; and Sections 25-15-101, et seq; 25-16-101, et seq; 25-7-101, et seq., and 25-8-101, et seq., of the Colorado Revised Statutes. "Hazardous Materials Laws" shall mean any federal state or local laws, ordinances, rules, regulations, or policies (including, but not limited to, those laws specified above) relating to the environment, health and safety or the use, handling, transportation, production, disposal, discharge or storage of Hazardous Materials, or to industrial hygiene or the environmental conditions on, under or about the Leased Premises. Said term shall be deemed to include all such laws as are now in effect or as hereafter amended and all other such laws as may hereafter be enacted or adopted during the term of this Lease.

F. All obligations of Tenant hereunder shall survive and continue after the expiration of this Lease or its earlier termination for any reason.

G. Tenant further covenants and agrees that it shall not install any storage tank (whether above or below the ground) on the Leased Premises without obtaining the prior written consent of the Landlord, which consent may be conditioned upon further requirements imposed by Landlord with respect to, among other things, compliance by Tenant with any applicable laws, rules, regulations or ordinances and safety measures or financial responsibility requirements.

H. Should any local governmental entity having jurisdiction over the Leased Premises require any type of environmental audit or report prior to or during the occupancy of the Leased Premises by the Tenant, such cost of the audit or report shall be the sole responsibility of the Tenant.

I. Notwithstanding anything to the contrary contained in this Paragraph 41, Tenant shall not be responsible for any conditions which existed prior to its tenancy, nor shall it be responsible if conditions which are determined not to be caused by action or inaction of Tenant.

42. Entire Agreement. It is expressly understood and agree by and between the parties hereto that this Lease sets forth all the promises, agreements, conditions, and understandings between Landlord and/or its agents and Tenant relative to the Leased Premises and that there are no promises, agreements, conditions, or understandings either oral or written, between them other than that are herein set forth.

43. [Intentionally left blank]

44. Estoppel Certificates. Within no more than 5 days after receipt of written request, the Tenant shall furnish to the owner a certificate, duly acknowledged, certifying, to the extent true:

A. That this Lease is in full force and effect.
B. That the Tenant knows of no default hereunder on the part of the owner, or if it has reason to believe that such a default exists, the nature thereof in reasonable detail.
C. The amount of the rent being paid and the last date to which rent has been paid.
D. That this Lease has not been modified, or if it has been modified, the terms and dates of such modifications.
E. That the term of this Lease has commenced.
F. The commencement and expiration dates.
G. Whether all work to be performed by the owner has been completed.

H. Whether the renewal term option has been exercised if applicable.
I. Whether there exist any claims or deductions from, or defenses to, the payment of rent.
J. Such other matters as may be reasonably requested by owner.

If the Tenant fails to execute and deliver to the owner a completed certificate as required under this section, the Tenant hereby appoints the owner as its Attorney-In-Fact to execute and deliver such certificate for and on behalf of the Tenant.

45. Financial Statements. As requested by the Landlord, Tenant shall provide copies of its most recent financial statements and shall also provide Landlord with up to three (3) prior years of financial statements, if so requested.

46. Brokers. Tenant represents and warrants that it has dealt only with N/A (the "Broker") in the negotiation of this Lease. Landlord shall make payment of the commission according to the terms of a separate agreement with the Broker. Tenant hereby agrees to Indemnify and hold Landlord harmless of an from any and all loss, costs, damages or expenses (including, without limitation, all attorney's fees and disbursements) by reason of any claim of, or liability to, any other broker or person claiming through Tenant and arising out of this Lease. Additionally, Tenant acknowledges and agrees that Landlord shall have no obligation for payment of any brokerage fee or similar compensation to any person with whom Tenant has dealt or may deal with in the future with respect to leasing of any additional or expansion space in the Building or any renewals or extensions of this Lease unless specifically provided for by separate written agreement with Landlord. In the event any claim shall be made against Landlord by any other broker who shall claim to have negotiated this Lease on behalf of Tenant or to have introduced Tenant to the Building or to Landlord, Tenant hereby indemnifies Landlord, and Tenant shall be liable for the payment of all reasonable attorney's fees, costs, and expenses incurred by Landlord in defending against the same, and in the event such broker shall be successful in any such action, Tenant shall, upon demand, make payment to such broker.

47. Lease Exhibits Attached. This Lease includes the following Lease Exhibits which are incorporated herein and made a part of this Lease Agreement:

Exhibit "A" - Site Plan Depicting Area
Exhibit "B" - [Intentionally left blank]
Exhibit "C" - Landlord and Tenants Construction Obligations
Exhibit "D" - Sign Code Obligations

48. Miscellaneous. All marginal notations and paragraph headings are for purposes of reference and shall not affect the true meaning and intent of the terms hereof. Throughout this Lease, wherever the words "Landlord" and "Tenant" are used they shall include and imply to the singular, plural, persons both male and female, companies, partnerships and corporations, and in reading said Lease, the necessary grammatical changes required to make the provisions hereof mean and apply as aforesaid shall be made in the same manner as though originally included in said Lease.

IN WITNESS WHEREOF, the parties have executed this Lease as of the date hereof.

LANDLORD: GB VENTURES

By: /s/ W. W. REYNOLDS

TENANT: HESKA CORPORATION

By: /s/ R. L. HENDRICK

R. L. HENDRICK, EXECUTIVE VICE PRESIDENT & CHIEF FINANCIAL OFFICER

ENVIRONMENTAL INDEMNITY AGREEMENT

THIS INDEMNITY is given as of this 6th day of October, 1999, by Heska Corporation ("Indemnitor," whether one or more), to and for the benefit of GB Ventures ("Landlord").

WHEREAS, GB Ventures, is Landlord under a proposed Lease Agreement dated October 6, 1999, ("the Lease") in which Heska Corporation a Delaware Corporation is the proposed tenant ("Tenant"), regarding the Leased Premises commonly known as 1601 Prospect Parkway, Suites C/D, G, H, I, & J, Fort Collins, Co 80525 ("Leased Premises"); and

WHEREAS, Landlord is unwilling to enter into the Lease with Tenant unless the Indemnitor agrees to the indemnities hereinafter provided.

NOW, THEREFORE, in consideration of the matters recited above and to induce Landlord to enter into the Lease with Tenant, Indemnitor undertakes and agrees as follows:

1. Indemnitor shall indemnify, defend and hold Landlord harmless from and against any and all suits, actions, legal or administrative proceedings, demands, claims, judgements, damages, penalties, fines, costs, liabilities, expenses or losses which arise during or after the lease term as a result of or in connection with the presence, use, storage, disposal, transportation or discharge, by or on behalf of Tenant, of any Hazardous Materials (as defined in the Lease) on, in or under or affecting all or any portion of the Leased Premises or any surrounding areas, or the disposition or transportation of any Hazardous Materials therefrom, or any breach by Tenant of the provisions concerning Environmental Considerations as contained in paragraph 41 of the Lease, or the failure of the Tenant to comply with any applicable Hazardous

Materials Laws (as defined in the Lease), or otherwise resulting from or arising out of any action or non-action of Tenant or Tenant's operations on the Leased Premises.

Without limiting the generality of the foregoing, it is expressly agreed by Indemnitor that such Indemnity shall also include the following: diminution in value of the Leased Premises, damages for loss or restriction on use of rental or useable space or any amenity of the Leased Premises, damages arising from any adverse impact on marketing of space or delay in delivering possession to a subsequent tenant or purchaser, restoration of the Leased Premises to a condition not materially different from its original contour, appearance and condition; costs incurred in connection with any investigation of site conditions or any clean-up, remedial, removal or restoration work required by any federal, state or local governmental agency, political subdivision, court order or lender of the Landlord; costs of removal and lawful disposal off site of all Hazardous Materials; all sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees.

The foregoing indemnities shall survive termination or expiration of the Lease and shall also accrue to the benefit of the employees, agents, officers, directors and/or partners of Landlord.

2. Indemnitor agrees to pay to Landlord, from time to time, upon demand therefor, an amount equal to any and all expenses therefore incurred by Landlord for which Landlord is entitled to indemnification. Any sums not so paid shall thereafter bear interest at a rate of two percent (2%) per month until paid in full.

3. The rights and remedies of Landlord under this indemnity shall be in addition to any rights or remedies available to Landlord under the terms of the Lease. The obligations of Indemnitor hereunder shall not be affected or impaired by: (i) the assertion by Landlord against Tenant of any rights or remedies reserved to Landlord pursuant to provisions of the Lease; (ii) the commencement of summary or any other proceedings against Tenant; (iii) failure of the Landlord to enforce any of its rights against Tenant pursuant to the Lease or otherwise; (iv) the granting by Landlord of any extensions of time to Tenant; (v) the assignment or transfer of the Lease by Tenant; (vi) with release or discharge of Tenant from its obligations under the Lease in any creditors', receivership, bankruptcy or other proceedings or the commencement or pendency of any such proceedings; or (vii) the impairment, limitation or modification of the liability of Tenant or the estate of Tenant in bankruptcy, or of any remedy for the enforcement of tenant's liability under the Lease, resulting from the operation of any present or future bankruptcy code or other statute, or from the decision of any court.

4. Until all Tenants obligations under the Lease are fully performed, Indemnitor (i) waives any right of subrogation which it might have against Tenant by reason of any payments or acts of performance by Indemnitor pursuant to its obligations hereunder; (ii) waives any other right which Indemnitor may have against Tenant by reason of any one or more payments or acts in compliance with its obligations hereunder; and (iii) subordinates any liability or indebtedness of tenant held by Indemnitor to the obligations of Tenant to Landlord under the Lease.

5. All notices for or allowed hereunder shall be deemed given and received with (a) personally delivered, or (b) at the time the same is deposited in the United States mail, postage prepaid, first class mail, or addressed to the applicable party at the address indicated below for such party, or as to each party, at such other address as shall be designated by such party in a written notice to the other party:

If to Indemnitor, to:

Heska Corporation
Attention: Facilities Manager
1613 Prospect Parkway
Fort Collins, CO 80525

If to Landlord, to:

GB Ventures
4875 Pearl East Circle #300
Boulder, CO 80301

6. In the event of default in its obligations hereunder, Indemnitor agrees to reimburse Landlord for reasonable attorneys' fees and costs incurred by Landlord in the enforcement of such obligations.

7. This Environmental Indemnity Agreement shall apply to the Lease and any extension or renewal thereof, and any holdover term following the term thereof, or any such extension or renewal.

8. This Environmental Indemnity Agreement shall be governed by and construed in accordance with the laws of the State of Colorado.

9. The covenants and agreements herein contained shall extend to and be binding upon the parties hereto and their respective successors and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this Environmental Indemnity Agreement on the day and year first above written.

/s/ R. L. HENDRICK
"Indemnitor"- HESKA CORPORATION

/s/ W. W. REYNOLDS

"Landlord" - GB VENTURES

EXHIBIT "A"

[SITE PLAN]

EXHIBIT "C"

LANDLORD AND TENANT'S CONSTRUCTION OBLIGATIONS

Tenant shall take the Premises in "as is" condition. Landlord has no construction obligations.

EXHIBIT "D"

[SIGN CODE OBLIGATIONS]

LEASE AGREEMENT
OFFICE AND INDUSTRIAL SPACE

This Lease Agreement is made and entered into as of the 24th day of August, 1999, by and between GB Ventures ("Landlord"), whose address is 4875 Pearl East Cr. #300, Boulder, CO 80301, and Heska Corporation ("Tenant"), whose address is 1613 Prospect Parkway, Fort Collins, CO 80525.

In consideration of the covenants, terms, conditions, agreements and payments as herein set forth, the Landlord and Tenant hereby enter into the following Lease:

1. Definitions. Whenever the following words or phrases are used in this Lease, said words or phrases shall have the following meaning:

A. "Area" shall mean the parcel of land depicted on Exhibit "A" attached hereto and commonly known and referred to as Plum Tree Plaza, Fort Collins , Colorado. The Area includes the Leased Premises and one or more buildings. The Area may include Common Areas.

B. "Building" shall mean a building located in the Area.

C. "Common Areas" shall mean all entrances, exits, driveways, curbs, walkways, hallways, parking areas, landscaped areas, restrooms, loading and service areas, and like areas or facilities which are located in the Area and which are designated by the Landlord as areas or facilities available for the nonexclusive use in common by persons designated by the Landlord.

D. "Leased Premises" shall mean the premises herein leased to the Tenant by the Landlord.

E. "Tenant's Prorata Share as to the Building in which the Leased Premises are located shall mean an amount (expressed as a percentage) equal to the number of square feet included in the Leased Premises divided by the total number of leasable square feet included in said Building. The Tenant's Prorata Share as to Common Areas shall mean an amount (expressed as a percentage) equal to the number of square feet included in the Leased Premises divided by the total number of leasable square feet included in all Buildings located in the Area. The Tenant's Prorata Share for Common Areas may change from time to time as the leasable square footage in all Buildings located in the Area is increased or decreased.

2. Leased Premises. The Landlord hereby leases unto the Tenant, and the Tenant hereby leases from the Landlord, the following described premises:

Space D, E, F in Building 2601 Midpoint Drive
consisting of Approximately 7433 square feet, all as
depicted on Exhibit "B" attached hereto.

3. Base Term. The term of this Lease shall commence at 12:00 noon on October 4, 1999 , and, unless sooner terminated as herein provided for, shall end at 12:00 noon on October l, 2004 ("Lease Term"). Except as specifically provided to the contrary herein, the Leased Premises shall, upon the termination of this Lease, by virtue of the expiration of the Lease Term or otherwise, be returned to the Landlord by the Tenant in as good or better condition than when entered upon by the Tenant, ordinary wear and tear excepted.

4. Rent. Tenant shall pay the following rent for the Leased Premises:

A. Base Monthly Rent. Tenant shall pay to Landlord, without notice and without setoff, at the address of Landlord as herein set forth, the following Base Monthly Rent ("Base Monthly Rent"), said Base Monthly Rent to be paid in advance on the first day of each month during the term hereof. In the event that this Lease commences on a date other than the first day of a month, the Base Monthly Rent for the first month of the Lease Term shall be prorated for said partial month. Below is a schedule of Base Monthly Rental payments as agreed upon:

	During Lease Term	
For Period Starting	To Period Ending	A Base Monthly Rent of
October 4, 1999	November 1, 1999	$5,035.26 NNN
November 1, 1999	October 1, 2004	$5,574.75/month NNN with annual CPI Adjustments on: October 1, 2000; October 1, 2001; October 1, 2002; and October 1, 2003.

B. Lease Term Adjustment. If, for any reason, other than delays caused by the Tenant, the Leased Premises are not ready for Tenants occupancy on October 4, 1999, the Tenant's rental obligation and other monetary expenses (i.e. taxes, utilities, etc.) shall be abated in direct proportion to the number of days of delay. It is hereby agreed that the premises shall be deemed ready for occupancy on the day the Landlord receives a T.C.O. or C.O. from the appropriate authority, or on the day the Landlord gives Tenant the keys to the Leased Premises if a building permit has not been applied for and/or is not required by the appropriate authority.

C. Cost of Living Adjustment. The Base Monthly Rental specified in paragraph 4A above shall be recalculated for each Lease Year as defined hereinafter following the first Lease Year of this Lease Agreement. The recalculated Base Monthly Rental shall be hereinafter referred to as the "Adjusted Monthly Rental". The Adjusted Monthly Rental for each Lease Year after the first Lease Year shall be the greater of: (i) the amount of the

previous year's Adjusted Monthly Rental, (or the Base Monthly Rental if calculating the Adjusted Monthly Rental for the second Lease Year), or (ii) an amount calculated by the rent adjustment formula set forth below. In applying the rent adjustment formula, the following definitions shall apply:

(1) "Lease Year" shall mean a period of twelve (12) consecutive full calendar months with the first Lease Year commencing on the date of the commencement of the term of this Lease and each succeeding Lease Year commencing upon the anniversary date of the first Lease Year; however, if this Lease does not commence on the first day of a month, then, the first Lease Year and each succeeding Lease Year shall commence on the first day of the first month following each anniversary date of this Lease;

(2) "Bureau" shall mean the Bureau of Labor Statistics of the United States Department of Labor or any successor agency that shall issue the Price Index referred to in this Lease Agreement.

(3) "Price Index" shall mean the "Consumer Price Index-All Urban Consumers-All Items (CPI-U) U.S. City Average (1982-84=100)" issued from time to time by the Bureau. In the event the Price Index shall hereafter be converted to a different standard reference base or otherwise revised, the determination of the increase in the Price Index shall be made with the use of such conversion factor, formula or table as may be published by Prentice-Hall, Inc. or failing such publication, by another nationally recognized publisher of similar statistical information. In the event the Price Index shall cease to be published, then, for the purposes of this paragraph 4C there shall be substituted for the Price Index such other index as the Landlord and the Tenant shall agree upon, and if they are unable to agree within sixty (60) days after the Price Index ceases to be published, such matter shall be determined by arbitration in accordance with the Rules of the American Arbitration Association.

(4) "Base Price Index" shall mean the Price Index released to the public during the second calendar month preceding the commencement of this Lease Agreement.

(5) "Revised Price Index" shall mean the Price Index released to the public during the second calendar month preceding the Lease Year for which the Base Annual Rental is to be adjusted;

(6) "Basic Monthly Rental" shall mean the Basic Monthly Rental set forth in subparagraph 4A above. The rent adjustment formula used to calculate the Adjusted Monthly Rental is as follows:

$$\text{Adjusted Monthly Rental} = \frac{\text{Revised Price Index}}{\text{Base Price Index}} \times \text{Base Monthly Rental}$$

Notwithstanding the above formula, the Adjusted Monthly Rental shall not be less than 103% or greater than 106% of the previous year's Adjusted Monthly Rental, or the Basic Monthly Rental if such adjustment is for the Second Lease Year. The Adjusted Monthly Rental as herein above provided shall continue to be payable monthly as required in paragraph 4A above without necessity of any further notice by the Landlord to the Tenant.

D. Total Net Lease. The Tenant understands and agrees that this Lease is a total net lease (a "net, net, net lease"), whereby the Tenant has the obligation to reimburse the Landlord for a share of all costs and expenses (taxes, assessments, other charges, insurance, trash removal, Common Area operation and maintenance and like costs and expenses), incurred by the Landlord as a result of the Landlord's ownership and operation of the Area. Major capital improvements, such as total replacement of the roof or parking lot are not considered to be maintenance items as described in this Paragraph 6D.

5. Security Deposit. Landlord acknowledges receipt from the Tenant of the sum of Five Thousand Five Hundred Seventy Five Dollars ($5,575.00) to be retained by Landlord without responsibility for payment of interest thereon, as security for performance of all the terms and conditions of this Lease Agreement to be performed by Tenant, including payment of all rent due under the terms hereof. Deductions may be made by Landlord from the amount so retained for the reasonable cost of repairs to the Leased Premises (ordinary wear and tear excepted), for any rent delinquent under the terms hereof and/or for any sum used in any manner to cure any default of Tenant under the terms of this Lease. In the event deductions are so made, the Tenant shall, upon notice from the Landlord, redeposit with the Landlord such amounts so expended so as to maintain the deposit in the amount as herein provided for, and failure to so redeposit shall be deemed a failure to pay rent under the terms hereof. Nothing herein contained shall limit the liability of Tenant as to any damage to the Leased Premises, and Tenant shall be responsible for the total amount of any damage and/or loss occasioned by actions of Tenant. Landlord may deliver the funds deposited hereunder by Tenant to any purchaser of Landlord's interest in the Leased Premises in the event such interest shall be sold, and thereupon Landlord shall be discharged from any further liability with respect to such deposit.

6. Use of Premises. Tenant shall use the Leased Premises only for Office, warehouse, Laboratory, Light Manufacturing, Assembly and for no other purpose whatsoever except with the written consent of Landlord. Tenant shall not allow any accumulation of trash or debris on the Leased Premises or within any portion of the Area. All receiving and delivery of goods and merchandise and all removal of garbage and refuse shall be made only by way of the rear and/or other service door provided therefore. In the event the Leased Premises shall have no such door, then these matters shall be handled in a manner satisfactory to Landlord. No storage of any material outside of the Leased Premises shall be allowed unless first approved by Landlord in writing, and then in only such areas as are designated by Landlord. Tenant shall not commit or suffer any waste on the Leased Premises nor shall Tenant permit any nuisance to be maintained on the Leased Premises or permit any disorderly conduct or other activity having a tendency to annoy or disturb any occupants of any part of the

Area and/or any adjoining property.

7. Laws and Regulations. - Tenant Responsibility. The Tenant shall, at its sole cost and expense, comply with all laws and regulations of any governmental entity, board, commission or agency having jurisdiction over the Leased Premises. Tenant agrees not to install any electrical equipment that overloads any electrical paneling, circuitry or wiring and further agrees to comply with the requirements of the insurance underwriter or any governmental authorities having jurisdiction thereof.

8. Landlord's Rules and Regulations. Landlord reserves the right to adopt and promulgate rules and regulations applicable to the Leased Premises and from time to time amend or supplement said rules or regulations. Notice of such rules and regulations and amendments and supplements thereto shall be given to Tenant, and Tenant agrees to comply with and observe such rules and regulations and amendments and supplements thereto provided that the same apply uniformly to all Tenants of the Landlord in the Area.

9. Parking. If the Landlord provides off street parking for the common use of Tenants, employees and customers of the Area, the Tenant shall park all vehicles of whatever type used by Tenant and/or Tenant's employees only in such areas thereof as are designated by Landlord for this purpose, and Tenant accepts the responsibility of seeing that Tenant's employees park only in the areas so designated. Tenant shall, upon the request of the Landlord, provide to the Landlord license numbers of the Tenant's vehicles and the vehicles of Tenant's employees.

10. Control of Common Areas. - Exclusive control of the Landlord. All Common Areas shall at all times be subject to the exclusive control and management of Landlord, notwithstanding that Tenant and/or Tenant's employees and/or customers may have a nonexclusive right to the use thereof. Landlord shall have the right from time to time to establish, modify and enforce rules and regulations with respect to the use of said facilities and Common Areas.

11. Taxes.

A. Real Property-Taxes and Assessments. The Tenant shall pay to the Landlord on the first day of each month, as additional rent, the Tenant's Prorata Share of all real estate taxes and special assessments levied and assessed against the Building in which the Leased Premises are located and the Common Areas. If the first and last years of the Lease Term are not calendar years, the obligations of the Tenant hereunder shall be prorated for the number of days during the calendar year that this Lease is in effect. The monthly payments for such taxes and assessments shall be $935.00 until the Landlord receives the first tax statement for the referred to properties. Thereafter, the monthly payments shall be based upon 1/12th of the prior year's taxes and assessments. Once each year the Landlord shall determine the actual Tenant's Prorata Share of taxes and assessments for the prior year and if the Tenant has paid less than the Tenant's Prorata Share for the prior year the Tenant shall pay the deficiency to the Landlord with the next payment of Base Monthly Rent, or, if the Tenant has paid in excess of the Tenant's Prorata Share for the prior year the Landlord shall forthwith refund said excess to the Tenant. Additionally, upon Lease expiration or termination Landlord shall also determine Tenant's Prorata Share of taxes and assessments for the calendar year in which the Lease expires or terminates based on the most recent valuation and estimate of taxes provided by Boulder County. If the Tenant has paid less than the Tenant's prorated Prorata Share for the current year the Tenant shall pay the deficiency, or, if the Tenant has paid in excess of the Tenant's prorated Prorata Share for the current year the Landlord shall forthwith refund the excess to the Tenant.

B. Personal Property Taxes. Tenant shall be responsible for, and shall pay promptly when due, any and all taxes and/or assessments levied and/or assessed against any furniture, fixtures, equipment and items of a similar nature installed and/or located in or about the Leased Premises by Tenant.

C. Rent Tax. If a special tax, charge or assessment is imposed or levied upon the rents paid or payable hereunder or upon the right of the Landlord to receive rents hereunder (other than to the extent that such rents are included as a part of the Landlord's income for the purpose of an income tax), the Tenant shall reimburse the Landlord for the amount of such tax within fifteen (15) days after demand therefore is made upon the Tenant by the Landlord.

D. Other Taxes, Fees and Charges. Tenant shall pay to Landlord, on the first day of each month, as additional rent, Tenant's Pro Rata Share of any "Other Charges" (as hereinafter defined) levied, assessed, charged or imposed against the Area, as a whole. Unless paid directly by Tenant to the authority levying, assessing, charging or imposing same, Tenant shall also pay to Landlord, on the first day of the month following payment of same by Landlord, the entire costs of any such "Other Charges" levied, assessed, charged or imposed against the Leased Premises, Tenant's use of same, or Tenant's conduct of business thereon. For purposes of this provision, "Other Charges" shall mean and refer to any and all taxes, assessments, impositions, user fees, impact fees, utility fees, transportation fees, infrastructure fees, system fees, license fees, and any other charge or assessment imposed by any governmental authority or applicable subdivision on the Area, the Leased Premises or the ownership or use of the Area or Leased Premises, or the business conducted thereon, whether or not formally denominated as a tax, assessment, charge, or other nominal description, whether now in effect or hereafter enacted or imposed (excluding, however, Landlord's income taxes).

E. Should Landlord protest and win a reduction in the real estate taxes for the Building and Area, Tenant shall be obligated to pay its Prorata Share of the cost of such protest, if the protest is handled by a party other than the Landlord.

12. Insurance.

A. Landlord's Insurance. Landlord shall obtain and maintain such fire and casualty insurance on the core and shell of the Building in which the Leased Premises are located and the Common Areas, as well as such loss of rents, business interruption, liability or any other insurance, as it deems appropriate, with such companies and on such terms and conditions as Landlord deems acceptable. Such insurance shall not be required to cover any of Tenant's inventory, furniture, furnishings, fixtures, equipment or tenant improvements (whether or not installed on the Leased Premises by or for Tenant and whether or not included within the tenant finish provided by Landlord), and Landlord shall not be obligated to repair any damage thereto or replace any of same, and Tenant shall have no interest in any proceeds of Landlord's insurance.

B. Tenants Insurance. Tenant shall, at its sole cost and expense, obtain and maintain throughout the term of this Lease, on a full replacement cost basis, "all risk" insurance covering all of Tenants inventory, furniture, furnishings, fixtures, equipment and all tenant improvements or tenant finish (whether or not installed by Landlord) and betterments located on or within the Leased Premises. In addition, Tenant shall obtain and maintain, at its sole cost and expense, comprehensive general public liability insurance providing coverage from and against any loss or damage occasioned by an accident or casualty on, about or adjacent to the Leased Premises, including protection against death, personal injury and property damage. Such liability coverage shall be written on an "occurrence" basis, with limits of not less than $1,000,000.00 combined single limit coverage.

All policies of insurance required to be carried by Tenant hereunder shall be written by an insurance company licensed to do business in the State of Colorado, and shall name Landlord as an additional named insured and/or loss payee, as Landlord may direct. Each such policy shall provide that same shall not be changed or modified without at least thirty (30) days' prior written notice to Landlord and any mortgagee of Landlord. Certificates evidencing the extent and effectiveness of all Tenant's insurance shall be delivered to Landlord. The limits of such insurance shall not, under any circumstances, limit the liability of Tenant under this Lease.

In the event that Tenant fails to maintain any of the insurance required of it pursuant to this provision, Landlord shall have the right (but not the obligation) at Landlord's election, to pay Tenant's premiums or to arrange substitute insurance with an insurance company of Landlord's choosing, in which event any premiums advanced by Landlord shall constitute additional rent payable under this Lease and shall be payable by Tenant to Landlord immediately upon demand for same. Landlord shall also have the right, but no the obligation, whether or not Tenant maintains coverage to carry any such insurance as Landlord may elect in order to provide coverage in the event Tenant fails to properly maintain such insurance.

The rights of Landlord hereunder shall be in addition to, and not in lieu of, of any other rights or remedies available to Landlord under this Lease or provided by law or in equity. Without limiting the foregoing, in the event that coverage of any risk for which Tenant is responsible pursuant to this Section 12 is ultimately provided by coverage maintained by Landlord, whether due to Tenant's failure to provided or maintain such insurance or otherwise, Tenant shall promptly reimburse Landlord for an amount equal to any deductible incurred, immediately upon demand for same.

C. Tenant's High Pressure Steam Boiler Insurance. If Tenant makes use of any kind of steam or other high pressure boiler or other apparatus which presents a risk of damage to the Leased Premises or to the Building or other improvements of which the Leased Premises are a part or to the life or limb of persons within such premises, Tenant shall secure and maintain appropriate boiler insurance in an amount satisfactory to Landlord. The Landlord shall be named insured in any such policy or policies. Certificates for such insurance shall be delivered to Landlord and shall provide that said insurance shall not be changed, modified, reduced or canceled without thirty (30) days prior written notice thereof being given to Landlord.

D. Tenant's Share of Landlord Insurance. Tenant shall pay the Landlord as additional rent Tenant's Prorata Share of the insurance secured by the Landlord pursuant to "12A" above. Payment shall be made on the first day of each month as additional rent. The monthly payments for such insurance shall be $19.00 until changed by Landlord as a result of an increase or decrease in the cost of such insurance.

E. Mutual Subrogation Waiver. Landlord and Tenant hereby grant to each other, on behalf of any insurer providing fire and extended coverage to either of them covering the Leased Premises, Buildings or other improvements thereon or contents thereof, a waiver of any right of subrogation any such insurer of one party may acquire against the other or as against the Landlord or Tenant by virtue of payments of any loss under such insurance. Such a waiver shall be effective so long as the Landlord and Tenant are empowered to grant such waiver under the terms of their respective insurance policy or policies and such waiver shall stand mutually terminated as of the date either Landlord or Tenant gives notice to the other that the power to grant such waiver has been so terminated.

13. Utilities.

A. Tenant shall be solely responsible for and promptly pay all charges for heat, water, gas, electric, sewer service and any other utility service used or consumed on the Leased Premises. For all utility services used or consumed on the Leased Premises which are included in utility services to an area larger than the Leased Premises, Tenant shall pay monthly, commencing with the first month of the Lease Term, as additional rent due under the terms hereof, a sum equal to Tenant's Prorata Share of the estimated costs for said twelve (12) month period, divided by 12. The estimated initial monthly costs are $31.00 for water. Once each year the Landlord shall determine the actual costs of the foregoing expenses for the prior year and if the actual costs are greater than the estimated costs, the Tenant shall pay its Tenant's

Prorata Share of the difference between the estimated costs and the actual costs to the Landlord with the next payment of Base Monthly Rent, or, if the actual costs are less than the estimated costs, the Landlord shall forthwith refund the amount of the Tenant's excess payment to the Tenant. Additionally, upon Lease expiration or termination Landlord shall also determine Tenant's Prorata Share of the annualized actual costs of the foregoing expenses for the number of days the Lease is in effect during the calendar year in which the Lease expires or terminates. If the annualized actual costs are greater than the estimated costs, the Tenant shall pay its Tenant's Prorata Share of the difference between the estimated costs and the annualized actual costs to the Landlord, or, if the annualized actual costs are less than the estimated costs, the Landlord shall forthwith refund the excess payment to the Tenant. For purposes of calculating Tenant's share of expenses under this paragraph, annualized actual costs shall be the sum of actual costs for the year at the time of reconciliation plus the total estimated costs prorated for the number of days from the date the last actual cost was paid to the end of the year. For all utility services used or consumed on the Leased Premises in which the utility service is used solely on the Leased Premises, the Tenant shall forthwith upon taking occupancy of the Leased Premises make arrangements with the Public Service Company, U.S. West or other appropriate utility company to pay the utilities used on the Leased Premises and to have the same billed to the Tenant at the address designated by the Tenant. Should there be a time where the Landlord remains responsible for utilities supplied to the Leased Premises, the Landlord shall bill the Tenant therefore and the Tenant shall promptly reimburse the Landlord therefore. In no event shall Landlord be liable for any interruption or failure in the supply of any such utility to the Leased Premises.

In the event the utility company supplying water and/or sewer to the Leased Premises determines that an additional service fee, impact fee, and/or. assessment, or any other type of payment or penalty is necessary due to Tenant's use and occupancy of the Building, nature of operation and/or consumption of utilities, said expense shall be borne solely by the Tenant. Said expense shall be paid promptly and any repairs requested by the utility company shall be performed by Tenant immediately and without any delay.

B. Landlord Controls Selection. Landlord has advised Tenant that presently Public Service Company of Colorado ("Utility Service Provider") is the utility company selected by Landlord to provide electricity and gas service for the Building. Notwithstanding the foregoing, if permitted by Law, Landlord shall have the right at any time and from time to time during the Lease Term to either contract for service from a different company or companies providing electricity and/or gas service (each such company shall hereinafter be referred to as an ("Alternative Service Provider") or continue to contract for service from the Utility Service Provider.

C. Tenant Shall Give Landlord Access. Tenant shall cooperate with Landlord, Utility Service Provider, and any Alternative Service Provider at all times and, as reasonably necessary, shall allow Landlord, Utility Service. Provider, and any Alternative Service Provider reasonable access to the Building's electric lines, feeders, risers, wiring, gas lines, and any other machinery within the Premises.

D. Landlord Not Responsible for Interruption of Service. Landlord shall in no way be liable or responsible for any loss, damage, or expense that Tenant may sustain or incur by reason of any change, failure, interference, disruption, or defect in the supply or character of the electrical and/or gas energy furnished to the Premises, or if the quantity or character of the electric and/or gas energy supplied by the Utility Service Provider or any Alternate Service Provider is no longer available or suitable for Tenant's 'requirements, and no such change, failure, defect, unavailability, or unsuitability shall constitute an actual or constructive eviction, in whole or in part, or entitle Tenant to any abatement or diminution of rent, or relieve Tenant from any of its obligations under the Lease.

14. Maintenance 0bligations of Landlord. Except as herein otherwise specifically provided for, and not including capital improvement. Landlord shall keep and maintain the roof and exterior of the Building of which the Leased Premises are a part in good repair and condition. Tenant shall repair and pay for any damage to roof, foundation and external walls caused by Tenant's action, negligence or fault.

15. Maintenance Obligations of the Tenant. Subject only to the maintenance obligations of the Landlord as herein provided for, the Tenant shall, during the entire Lease Term, including all extensions thereof, at the Tenant's sole cost and expense, keep and maintain the Leased Premises in good condition and repair, including specifically the following:

A. Electrical Systems. Tenant agrees to maintain in good working order and to make all required repairs and replacements to the electrical systems for the Leased Premises. Tenant upon signing this Lease acknowledges that Tenant has inspected the existing electrical systems and all such systems are in good repair and working order.

B. Plumbing Systems. Tenant agrees to maintain in good working order and to make all required repairs or replacements to the plumbing systems for the Leased Premises. Tenant upon signing this Lease acknowledges that Tenant has inspected the existing plumbing systems and all such systems are in good repair and working order.

C. Inspections and Service. Upon termination of Lease Agreement, Tenant agrees, before vacating premises, to employ at Tenant's sole cost and expense, a licensed contractor to inspect, service and write a written report on the systems referred to in "A" and "B" of this Paragraph. Landlord shall have the right to order such an inspection if Tenant fails to provide evidence of such inspection, and, to follow the recommendations of such reports and to charge the expense thereof to the Tenant.

D. Tenant's Responsibility for Building and Area Repairs. Tenant shall

be responsible for any repairs required for any part of the Building or Area of which the Leased Premises are a part if such repairs are necessitated by the actions or inactions of Tenant.

E. Cutting Roof. Tenant must obtain in writing the Landlord's approval prior to making any roof penetrations. Failure by Tenant to obtain written permission to penetrate a roof shall relieve Landlord of any roof repair obligations as set forth in Paragraph "14" hereof. Tenant further agrees to repair, at its sole cost and expense, all roof penetrations made by the Tenant and to use, if so requested by Landlord, a licensed contractor selected by the Landlord to make such penetrations and repairs.

F. Glass and Doors. The repair and replacement of all glass and doors on the Leased Premises shall be the responsibility of the Tenant. Any such replacements or repairs shall be promptly completed at the expense of the Tenant.

G. Liability for Overload. Tenant shall be responsible for the repair or replacement of any damage to the Leased Premises, the Building or the Area which result from the Tenant's movement of heavy articles therein or thereon. Tenant shall not overload the floors of any part of the Leased Premises.

H. Liability for Overuse and Overload of Operating Systems. Tenant shall be responsible for the repair, upgrade, modification, and/or replacement of any operating systems servicing the Leased Premises and/or all or part of the Building which is necessitated by Tenant's change or increase in use of or non-disclosed use of all or a part of the Leased Premises. Operating systems include, but are not limited to, electrical systems; plumbing systems (both water and natural gas); heating, ventilating, and air conditioning systems; telecommunications systems; computer and network systems; lighting systems, fire sprinkler systems; security systems; and building control systems, if any.

I. Inspection of Leased Premises - "As Is" Conditions. Tenant has inspected the Leased Premises and accepts the Leased Premises in the condition that they exist as of the date of this Lease, including, but not limited to, all mechanical, plumbing, and electrical systems and the conditions of the interior except: Except as shown on Exhibit "B".

J. Failure of Tenant to Maintain Premises. Should Tenant neglect to keep and maintain the Leased Premises as required herein, the Landlord shall have the right, but not the obligation, to have the work done and any reasonable costs plus a ten percent (10%) overhead charge therefore shall be charged to Tenant as additional rental and shall become payable by Tenant with the payment of the rental next due.

16. Common Area Maintenance. Tenant shall be responsible for Tenant's Prorata share of the total costs incurred for the operation, maintenance and repair of the Common Areas, including, but not limited to, the costs and expenses incurred for the operation, maintenance and repair of parking areas (including restriping and repaving); removal of snow; utilities for common lighting and signs; normal HVAC maintenance and elevator maintenance (if applicable); trash removal; security to protect and secure the Area; common entrances, exits, and lobbies of the Building; all common utilities, including water to maintain landscaping; replanting in order to maintain a smart appearance of landscape areas; supplies; depreciation on the machinery and equipment used in such operation, maintenance and repair; the cost of personnel to implement such services; the cost of maintaining in good working condition tile HVAC system(s) for the Leased premises; the cost of maintaining in good working condition the elevator(s) for the Leased Premises, if applicable; costs to cover Landlord's management fees paid for the property. These costs shall be estimated on an annual basis by the Landlord and shall be adjusted upwards or downwards depending on the actual costs for the preceding twelve months. Tenant shall pay monthly, commencing with the first month of the Lease Term, as additional rent due under the terms hereof, a sum equal to Tenant's Prorata Share of the estimated costs for said twelve (12) month period, divided by 12. The estimated initial monthly costs are $496.00. Once each year the Landlord shall determine the actual costs of the foregoing expenses for the prior year and if the actual costs are greater than the estimated costs, the Tenant shall pay its Tenant's Prorata Share of the difference between the estimated costs and the actual costs to the Landlord with the next payment of Base Monthly Rent, or, if the actual costs are less than the estimated costs, the Landlord shall forthwith refund the amount of the Tenant's excess payment to the Tenant.

Additionally, upon Lease expiration or termination Landlord shall also determine Tenant's prorated Prorata Share of the annualized actual costs of the foregoing expenses for the number of days the Lease is in effect during the calendar year in which the Lease expires or terminates. If the annualized actual costs are greater than the estimated costs, the Tenant shall pay its prorated Tenant's Prorata Share of the difference between the estimated costs and the annualized actual costs to the Landlord, or, if the annualized actual costs are less than the estimated costs, the Landlord shall forthwith refund the excess to the Tenant. For purposes of calculating Tenant's share of expenses under this paragraph, annualized actual costs shall be the sum of actual costs for the year at the time of reconciliation plus the total estimated costs prorated for the number of days from the date the last actual cost was paid to the end of the year.

17. Inspection of and Right of Entry to Leased Premises--Regular, Emergency, Reletting. Landlord and/or Landlord's agents and employees, shall have the right to enter the Leased Premises at all times during regular business hours and, at all times during emergencies, to examine the Leased Premises, to make such repairs, alterations, improvements or additions as Landlord deems necessary, and Landlord shall be allowed to take all materials into and upon said Leased Premises that may be required therefore without the same constituting an eviction of Tenant in whole or in part, and the rent reserved shall in no way abate while such repairs, alterations, improvements or additions are being made, by reason of loss or interruption of business of Tenant or otherwise. During the six months prior to the expiration of the term of this Lease or any renewal

thereof, Landlord may exhibit the Leased Premises to prospective tenants and/or purchasers and may place upon the Leased Premises the usual notices indicating that the Leased Premises are for lease and/or sale.

18. Alteration-Changes and Additions-Responsibility. Unless the Landlord's approval is first secured in writing, the Tenant shall not install or erect inside partitions, add to existing electric power service, add telephone outlets, add light fixtures, install additional heating and/or air conditioning or make any other changes or alterations to the interior or exterior of the Leased Premises. Any such changes or alterations shall be made at the sole cost and expense of the Tenant. At the end of this Lease, all such fixtures, equipment, additions, changes and/or alterations (except trade fixtures installed by Tenant) shall be and remain the property of Landlord; provided, however, Landlord shall have the option to require Tenant to remove any or all such fixtures, equipment, additions and/or alterations and restore the Leased Premises to the condition existing immediately prior to such change and/or installation, normal wear and tear excepted, all at Tenant's cost and expense. All such work shall be done in a good and workmanlike manner and shall consist of new materials unless agreed to otherwise by Landlord. Any and all repairs, changes and/or modifications thereto shall be the responsibility of, and at the cost of, Tenant. Landlord may require adequate security from Tenant assuring no mechanics' liens on account of work done on the Leased Premises by Tenant and may post the Leased Premises, or take such other action as is then permitted by law, to protect the Landlord and the Leased Premises against mechanics' liens. Landlord may also require adequate security to assure Landlord that the Leased Premises will be restored to their original condition upon termination of this Lease.

19. Sign Approval. Except for signs which are located inside of the Leased Premises and which are not attached to any part of the Leased Premises, the Landlord must approve in writing any sign to be placed in or on the interior or exterior of the Leased Premises, regardless of size or value. Specifically, signs attached to windows of the Leased Premises must be so approved by the Landlord. As a condition to the granting of such approval, Landlord shall have the right to require Tenant to furnish a bond or other security acceptable to Landlord sufficient to insure completion of and payment for any such sign work to be so performed. Tenant shall, during the entire Lease Term, maintain Tenant's signs in good condition and repair at Tenant's sole cost and expense. Tenant shall, remove all signs at the termination of this Lease, at Tenant's sole risk and expense and shall in a workmanlike manner properly repair any damage and close any holes caused by the installation and/or removal of Tenant's signs. Tenant shall give Landlord prior notice of such removal so that a representative of Landlord shall have the opportunity of being present when the signage is removed, or shall pre-approve the manner and materials used to repair damage and close the holes caused by removal.

20. Right of Landlord to Make Changes and Additions. Landlord reserves the right at any time to make alterations or additions to the Building or Area of which the Leased Premises are a part. Landlord also reserves the right to construct other buildings and/or improvements in the Area and to make alterations or additions thereto, all as Landlord shall determine. Easements for light and air are not included in the leasing of the Leased Premises to Tenant. Landlord further reserves the exclusive right to the roof of the Building of which the Leased Premises are a part. Landlord also reserves the right at any time to relocate, vary and adjust the size of any of the improvements or Common Areas located in the Area, provided, however, that all such changes shall be in compliance with the requirements of governmental authorities having jurisdiction over the Area. Nothing in this Lease will require Tenant to indemnify, hold harmless or release Landlord for any claim, loss, expense, cost judgement and/or demand, or fees, arising from the negligence or willful misconduct of Landlord, its agents, employees or contractors, or a breach of the obligations of the Landlord hereunder.

21. Damage or Destruction of Leased Premises. In the event the Leased Premises and/or the Building of which the Leased Premises are a part shall be totally destroyed by fire or other casualty or so badly damaged that, in the opinion of Landlord and Tenant, it is not feasible to repair or rebuild same, Landlord shall have the right to terminate this Lease upon written notice to Tenant. If the Leased Premises are partially damaged by fire or other casualty, except if caused by Tenant's negligence, and said Leased Premises are not rendered untenable thereby, as determined by Landlord and Tenant, appropriate reduction of the rent shall be allowed for the unoccupied portion of the Leased Premises until repair thereof shall be substantially completed. If the Landlord elects to exercise the right herein vested in it to terminate this Lease as a result of damage to or destruction of the Leased Premises or the Building in which the Leased Premises are located, said election shall be made by giving notice thereof to the Tenant within thirty (30) days after the date of said damage or destruction.

22. Governmental Acquisition of Property. The parties agree that Landlord shall have complete freedom of negotiation and settlement of all matters pertaining to the acquisition of the Leased Premises, the Building, the Area, or any part thereof, by any governmental body or other person or entity via the exercise of the power of eminent domain, it being understood and agreed that any financial settlement made or compensation paid respecting said land or improvements to be so taken, whether resulting from negotiation and agreement or legal proceedings, shall be the exclusive property of Landlord, there being no sharing whatsoever between Landlord and Tenant of any sum so paid. In the event of any such taking, Landlord shall have the right to terminate this Lease on the date possession is delivered to the condemning person or authority. Such taking of the property shall not be a breach of this Lease by Landlord nor give rise to any claims in Tenant for damages or compensation from Landlord. Nothing herein contained shall be construed as depriving the Tenant of the right to retain as its sole property any compensation paid for any tangible personal property owned by the Tenant which is taken in any such condemnation proceeding.

23. Assignment or Subletting. Tenant may not assign this Lease, or sublet the Leased Premises or any part thereof, without the written consent of Landlord,

such consent shall not be unreasonably withheld. No such assignment or subletting if approved by the Landlord shall relieve Tenant of any of its obligations hereunder, and, the performance or nonperformance of any of the covenants herein contained by subtenants shall be considered as the performance or the nonperformance by the Tenant. In the event of an acquisition, merger, or reorganization, the assignment of the Lease shall not be unreasonably withheld by Landlord.

24. Warranty of Title. Subject to the provisions of the following three (3) paragraphs hereof, Landlord covenants it has good right to lease the Leased Premises in the manner described herein and that Tenant shall peaceably and quietly have, hold, occupy and enjoy the Leased Premises during the term of the Lease.

25. Access. Landlord shall provide Tenant nonexclusive access to the Leased Premises through and across land and/or other improvements owned by Landlord. Landlord shall have the right, during the term of this Lease, to designate, and to change, such nonexclusive access.

26. Subordination. Tenant agrees that this Lease shall be subordinate to any mortgages, trust deeds or ground leases that may now exist or which may hereafter be placed upon said Leased Premises and to any and all advances to be made thereunder, and to the interest thereon, and all renewals, replacements and extensions thereof. Tenant shall execute and deliver whatever instruments may be required for the above purposes, and failing to do so within ten (10) days after demand in writing, does hereby make, constitute and irrevocably appoint Landlord as its attorney-in-fact and in its name, place and stead so to do. Tenant shall in the event of the sale or assignment of Landlord's interest in the Area or in the Building of which the Leased Premises form a part, or in the event of any proceedings brought for the foreclosure of or in the event of exercise of the power of sale under any mortgage made by Landlord covering the Leased Premises, attorn to the purchaser and recognize such purchaser as Landlord under this Lease.

27. Easements. The Landlord shall have the right to grant any easement on, over, under and above the Area for such purposes as Landlord determines, provided that such easements do not materially interfere with Tenants occupancy and use of the Leased Premises.

28. Indemnification and Waiver. Except in the case of a breach or default in the performance of any obligation under this Lease, each party shall indemnify, defend and hold harmless the other party and nothing in this Lease shall be construed as imposing any liability on them for any loss, costs, expense (including reasonable attorney's fees), or any claims, suits, actions or damages arising from the ownership, use, control or occupancy of any portion of the Project including the Building, Common Areas and Premises unless such loss, cost, expense, claim, suit or action is a result of or caused by the negligent acts or omissions of such other party or its agents, servants, employees, contractors, or invitees.

Tenant shall not indemnify Landlord for acts or failure to observe or comply with any of the rules by any other Tenant or occupant of the Building or Project that adversely affect Tenant's use and occupancy in which Landlord has been put on notice of such adverse impact to Tenant.

29. Acts or Omission of Others. The Landlord, or its employees or agents, or any of them, shall not be responsible or liable to the Tenant or to the Tenant's guests, invitees, employees, agents or any other person or entity, for any loss or damage that may be caused by the acts or omissions of other tenants, their guests or invitees, occupying any other part of the Area or by persons who are trespassers on or in the Area, or for any loss or damage caused or resulting from the bursting, stoppage, backing up or leaking of water, gas, electricity or sewers or caused in any other manner whatsoever, unless such loss or damage is caused by or results from the negligent acts of the Landlord, its agents or contractors.

30. Interest on Past Due Obligations. Any amount due to Landlord not paid when due shall bear interest at one and one half (1-1/2%) percent per month from due date until paid. Payment of such interest shall not excuse or cure any default by Tenant under this Lease.

31. Holding Over-Double Last Month's Rent. If Tenant shall remain in possession of the Leased Premises after the termination of this Lease, whether by expiration of the Lease Term or otherwise, without a written agreement as to such possession, then Tenant shall be deemed a month-to-month Tenant. The rent rate during such holdover tenancy shall be equivalent to double the monthly rent paid for the last full month of tenancy under this Lease, excluding any free rent concessions which may have been made for the last full month of the Lease. No holding over by Tenant shall operate to renew or extend this Lease without the written consent of Landlord to such renewal or extension having been first obtained. Tenant shall indemnify Landlord against loss or liability resulting from the delay by Tenant in surrendering possession of the Leased Premises including, without limitation, any claims made with regard to any succeeding occupancy bounded by such holdover period.

32. Modification or Extensions. No modification or extension of this Lease shall be binding upon the parties hereto unless in writing and unless signed by the parties hereto.

33. Notice Procedure. All notices, demands and requests which may be or are required to be given by either party to the other shall be in writing and such that are to be given to Tenant shall be deemed to have been properly given if served on Tenant or an employee of Tenant or sent to Tenant by United States registered or certified mail, return receipt requested, properly sealed, stamped and addressed to Tenant at 1613 Prospect Parkway, Fort Collins, CO 80525, Attention Facilities Manager or at such other place as Tenant may from time to time designate in a written notice to Landlord; and, such as are to be given to Landlord shall be deemed to have been properly given if personally served on

Landlord or if sent to Landlord, United States registered or certified mail, return receipt requested, properly sealed, stamped and addressed to Landlord at 4875 Pearl East Cr. #300, Boulder, CO 80301 or at such other place as Landlord may from time to time designate in a written notice to Tenant. Any notice given by mailing shall be effective as of the date of mailing.

34. Memorandum of Lease-Notice to Mortgagee. The Landlord and Tenant agree not to place this Lease of record, but upon the request of either party to execute and acknowledge so the same may be recorded a short form lease indicating the names and respective addresses of the Landlord and Tenant, the Leased Premises, the Lease Term, the dates of the commencement and termination of the Lease Term and options for renewal, if any, but omitting rent and other terms of this Lease. Tenant agrees to an assignment by Landlord of rents and of the Landlord's interest in this Lease to a mortgagee, if the same be made by Landlord. Tenant further agrees if requested to do so by the Landlord that it will give to said mortgagee a copy of any request for performance by Landlord or notice of default by Landlord; and in the event Landlord fails to cure such default, the Tenant will give said mortgagee a sixty (60) day period in which to cure the same. Said period shall begin with the last day on which Landlord could cure such default before Tenant has the right to exercise any remedy by reason of such default. All notices to the mortgagee shall be sent by United States registered or certified mail, postage prepaid, return receipt requested.

35. Controlling Law. The Lease, and all terms hereunder shall be construed consistent with the laws of the State of Colorado. Any dispute resulting in litigation hereunder shall be resolved in court proceedings instituted in Larimer County and in no other jurisdiction.

36. Landlord Not a Partner With the Tenant. Nothing contained in this Lease shall be deemed, held or construed as creating Landlord as a partner, agent, associate of or in joint venture with Tenant in the conduct of Tenant's business, it being expressly understood and agreed that the relationship between the parties hereto is and shall at all times remain that of Landlord and Tenant.

37. Partial Invalidity. If any term, covenant or condition of this Lease or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease or the application of such term, covenant or condition to persons and circumstances other than those to which it has been held invalid or unenforceable, shall not be affected thereby, and each term, covenant and condition of this Lease shall be valid and shall be enforced to the fullest extent permitted by law.

38. Default-Remedies of Landlord. Should Tenant be in default of rental charges (monetary expenses to Tenant) Landlord shall give Tenant a cure period of ten (10) days; if such default is non-monetary, a cure period of thirty (30) days shall be given after written notice from Landlord.

A. The occurrence of any of the following events shall constitute a default by Tenant under this Lease:

(1) Failure to make due and punctual payment of rent or any other charges, assessments or amounts due or payable or required to be paid under this Lease; or

(2) Neglect or failure by Tenant to perform or observe, or any other breach of, any other term, covenant or condition of this Lease; or

(3) Adjudication of Tenant as bankrupt or insolvent, or filing by or against Tenant of any petition in bankruptcy or for reorganization or for the adoption of any arrangement under the Bankruptcy Code; application is made for the appointment of receiver or conservator for Tenant's business or property; or assignment by Tenant is made of its property for the benefit of its creditors; or Tenant's interest in this Lease or any substantial amount of Tenant's other real or personal property is levied or executed upon by process of law; or

(4) Petition or other proceeding is made by or against Tenant for its dissolution or liquidation; or voluntary dissolution or liquidation of Tenant; or

(5) Abandonment of the Leased Premises, or any part thereof, by Tenant for a period of time in excess of thirty (30) consecutive days.

B. If Tenant shall default in the payment, of rent or in the keeping of any of the terms, covenants or conditions of this Lease to be kept and/or performed by Tenant or shall otherwise commit any event of default as defined above, Landlord may upon the expiration of any applicable cure, immediately, or at any time thereafter, reenter the Leased Premises, remove all persons and property therefrom, without being liable to indictment, prosecution for damage therefore, or for forcible entry and detainer and repossess and enjoy the Leased Premises, together with all additions thereto or alterations and improvements thereof. Landlord may, at its option, at any time and from time to time thereafter, relet the Leased Premises or any part thereof for the account of Tenant or otherwise, and receive and collect the rents therefore and apply the same first to the payment of such expenses as Landlord may have incurred in recovering possession and for putting the same in good order and condition for rerental, and expense, commissions and charges paid by Landlord in reletting the Leased Premises. Any such reletting may be for the remainder of the term of this Lease or for a longer or shorter period. In lieu of reletting such Leased Premises, Landlord may occupy the same or cause the same to be occupied by others. Whether or not the Leased Premises or any part thereof be relet, Tenant shall pay the Landlord the rent and all other charges required to be paid by Tenant up to the time of the expiration of this Lease or such recovered possession, as the case may be and thereafter, Tenant, if required by Landlord, shall pay to Landlord until the end of the term of this Lease, the equivalent of the amount of all rent reserved herein and all other charges required to be paid by Tenant, less the net amount received by Landlord for such reletting, if any, unless waived by written notice from Landlord to Tenant. No action by Landlord to obtain possession of the Leased Premises and/or to recover any amount due to

Landlord hereunder shall be taken as a waiver of Landlord's right to require full and complete performance by Tenant of all terms hereof, including payment of all amounts due hereunder or as an election on the part of Landlord to terminate this Lease Agreement. If the Leased Premises shall be reoccupied by Landlord, then, from and after the date of repossession, Tenant shall be discharged of any obligations to Landlord under the provisions hereof for the payment of rent. If the Leased Premises are reoccupied by the Landlord pursuant hereto, and regardless of whether the Leased Premises shall be relet or possessed by Landlord, all fixtures, additions, furniture, and the like then on the Leased Premises, excluding any equipment, fixtures, and furniture that Tenant may be leasing from a third party, may be retained by Landlord. In the event Tenant is in default under the terms hereof and, by the sole determination of Landlord, has abandoned the Leased Premises, Landlord shall have the right to remove all the Tenant's property from the Leased Premises and dispose of said property in such a manner as determined best by Landlord, at the sole cost and expense of Tenant and without liability of Landlord for the actions so taken and without liability on the part of Landlord for any action so taken.

C. In the event an assignment of Tenant's business or property shall be made for the benefit of creditors, or, if the Tenant's leasehold interest under the terms of this Lease Agreement shall be levied upon by execution or seized by virtue of any writ of any court of law, or, if application be made for the appointment of a receiver for the business or property of Tenant, or, if a petition in bankruptcy shall be filed by or against Tenant, then and in any such case, at Landlord's option, with or without notice, Landlord may terminate this Lease and immediately retake possession of the Leased Premises without the same working any forfeiture of the obligations of Tenant hereunder.

D. [Intentionally left blank]

E. In addition to all rights and remedies granted to Landlord by the terms hereof, Landlord shall have available any and all rights and remedies available at law or in equity, or under the statutes of the State of Colorado. No remedy herein or otherwise conferred upon or reserved to Landlord shall be considered exclusive of any other remedy but shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. Further, all powers and remedies given by this Lease to Landlord may be exercised, from time to time, and as often as occasion may arise or as may be deemed expedient. No delay or omission of Landlord to exercise any right or power arising from any default shall impair any such right or power or shall be considered to be a waiver of any such default or acquiescence thereof. The acceptance of rent by Landlord shall not be deemed to be a waiver of any breach of any of the covenants herein contained or of any of the rights of Landlord to any remedies herein given.

F. If Tenant shall, for any reason, vacate the Leased Premises before the current expiration date, landlord shall have the right to accelerate rental payments and any and all future rent payments due during the course of the Lease Term shall become immediately payable in full to the Landlord.

G. Upon default by Landlord, Tenant shall give Landlord written notice of said default, with particulars. The landlord shall have thirty days to cure such default, unless the reasonable time to cure exceeds thirty days, in which case Landlord must have taken substantial steps toward curing the default within said thirty days. In addition, Tenant shall be entitled to all the rights and remedies of a commercial tenant under Colorado Law.

39. Legal Proceedings-Responsibilities. In the event of proceeding at law or in equity by either party hereto, the defaulting party shall pay all costs and expenses, including all reasonable attorney's fees incurred by the non-defaulting party in pursuing such remedy, if such non-defaulting party is awarded substantially the relief requested.

40. Administrative Charges. In the event any check, bank draft or negotiable instrument given for any money payment hereunder shall be dishonored at any time and from time to time, for any reason whatsoever not attributable to Landlord, Landlord shall be entitled, in addition to any other remedy that may be available, (1) to make an administrative charge of $100.00 or three times the face value of the check, bank draft or negotiable instrument, whichever is smaller, and (2) at Landlord's sole option, to require Tenant to make all future rental payments in cash or cashiers check.

41. Hazardous Materials and Environmental Considerations.

A. Tenant covenants and agrees that Tenant and its agents, employees, contractors and invitees shall comply with all Hazardous Materials Laws (as hereinafter defined). Without limiting the foregoing, Tenant covenants and agrees that it will not use, generate, store or dispose of, nor permit the use, generation, storage or disposal of Hazardous Materials (as hereinafter defined) on, under or about the Leased Premises, nor will it transport or permit the transportation of Hazardous Materials to or from the Leased Premises, except in full compliance with any applicable Hazardous Materials Laws. Any Hazardous Materials located on the Leased Premises shall be handled in an appropriately controlled environment which shall include the use of such equipment (at Tenant's expense) as is necessary to meet or exceed standards imposed by any Hazardous Materials Laws and in such a way as not to interfere with any other tenant's use of its premises. Upon breach of any covenant contained herein, Tenant shall, at Tenant's sole expense, cure such breach by taking all action prescribed by any applicable Hazardous Materials Laws or by any governmental authority with jurisdiction over such matters.

B. Tenant shall inform Landlord at any time of (i) any Hazardous Materials it intends to use, generate, handle, store or dispose of, on or about or transport from, the Leased Premises and (ii) of Tenant's discovery of any event or condition which constitutes a violation of any applicable Hazardous Materials Laws. Tenant shall provide to Landlord copies of all communications, to or from any governmental authority or any other party relating to Hazardous Materials affecting the Leased Premises.

C. Tenant shall indemnify and hold Landlord harmless from any and all claims, judgments, damages, penalties, fines, costs, liabilities, expenses or losses (including, without limitation, diminution on value of the Leased Premises, damages for loss or restriction on use of all or part of the Leased Premises, sums paid in settlement of claims, investigation of site conditions, or any cleanup, removal or restoration work required by any federal, state or local governmental agency, attorney's fees, consultant fees, and expert fees) which arise as a result of or in connection with any breach of the foregoing covenants or any other violation of any Hazardous Materials laws by Tenant. The indemnification contained herein shall also accrue to the benefit of the employees, agents, officers, directors and/or partners of Landlord.

D. Upon termination of this Lease and/or vacation of the Leased Premises, Tenant shall properly remove all Hazardous Materials and shall then provide to Landlord a Phase I environmental audit report, prepared by a professional consultant satisfactory to Landlord and at Tenant's sole expense, certifying that the Leased Premises have not been subjected to environmental harm caused by Tenant's use and occupancy of the Leased Premises. Landlord shall grant to Tenant and its agents or contractors such access to the Leased Premises as is necessary to accomplish such removal and prepare such report.

E. "Hazardous Materials" shall mean (a) any chemical, material, substance or pollutant which poses a hazard to the Leased Premises or to persons on or about the Leased Premises or would cause a violation of or is regulated by any Hazardous Materials Laws, and (b) any chemical, material or substance defined as or included in the definitions of "hazardous substances", "hazardous wastes", "extremely hazardous waste", "restricted hazardous waste", "toxic substances", "regulated substance", or words of similar import under any applicable federal, state or local law or under the regulations adopted or publications promulgated pursuant thereto, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Sec. 9601, et seq: the Hazardous Materials Transportation Act, as amended, 49 U.S.C. Sec. 1801, et seq; the Resource Conservation and Recovery Act as amended, 42 U.S.C. Sec 6901, et seq; the Solid Waste Disposal Act, 42 U.S.C. Sec. 6991, et seq; the Federal Water Pollution Control Act, as amended, 33 U.S.C. Sec. 1251, et seq; and Sections 25-15-101, et seq., 25-16-101, et seq., 25-7-101, et seq., and 25-8-101, et seq., of the Colorado Revised Statutes. "Hazardous Materials Laws" shall mean any federal state or local laws, ordinances, rules, regulations, or policies (including, but not limited to, those laws specified above) relating to the environment, health and safety or the use, handling, transportation, production, disposal, discharge or storage of Hazardous Materials, or to industrial hygiene or the environmental conditions on, under or about the Leased Premises. Said term shall be deemed to include all such laws as are now in effect or as hereafter amended and all other such laws as may hereafter be enacted or adopted during the term of this Lease.

F. All obligations of Tenant hereunder shall survive and continue after the expiration of this Lease or its earlier termination for any reason.

G. Tenant further covenants and agrees that it shall not install any storage tank (whether above or below the ground) on the Leased Premises without obtaining the prior written consent of the Landlord, which consent may be conditioned upon further requirements imposed by Landlord with respect to, among other things, compliance by Tenant with any applicable laws, rules, regulations or ordinances and safety measures or financial responsibility requirements.

H. Should any local governmental entity having jurisdiction over the Leased Premises require any type of environmental audit or report prior to or during the occupancy of the Leased Premises by the Tenant, such cost of the audit or report shall be the sole responsibility of the Tenant.

I. Notwithstanding anything to the contrary contained in this Paragraph 41, Tenant shall not be responsible for any conditions which existed prior to its tenancy, nor shall it be responsible if conditions which are determined not to be caused by action or inaction of Tenant.

42. Entire Agreement. It is expressly understood and agree by and between the parties hereto that this Lease sets forth all the promises, agreements, conditions, and understandings between Landlord and/or its agents and Tenant relative to the Leased Premises and that there are no promises, agreements, conditions, or understandings either oral or written, between them other than that are herein set forth.

43. [Intentionally left blank]

44. Estoppel Certificates. Within no more than 5 days after receipt of written request, the Tenant shall furnish to the owner a certificate, duly acknowledged, certifying, to the extent true:

A. That this Lease is in full force and effect.
B. That the Tenant knows of no default hereunder on the part of the owner, or if it has reason to believe that such a default exists, the nature thereof in reasonable detail.
C. The amount of the rent being paid and the last date to which rent has been paid.
D. That this Lease has not been modified, or if it has been modified, the terms and dates of such modifications.
E. That the term of this Lease has commenced.
F. The commencement and expiration dates.
G. Whether all work to be performed by the owner has been completed.
H. Whether the renewal term option has been exercised if applicable.
I. Whether there exist any claims or deductions from, or defenses to, the payment of rent.
J. Such other matters as may be reasonably requested by owner.

If the Tenant fails to execute and deliver to the owner a completed certificate as required under this section, the Tenant hereby appoints the owner as its

Attorney-In-Fact to execute and deliver such certificate for and on behalf of the Tenant.

45. Financial Statements. As requested by the Landlord, Tenant shall provide copies of its most recent financial statements and shall also provide Landlord with up to three (3) prior years of financial statements, if so requested.

46. Brokers. Tenant represents and warrants that it has dealt only with N/A (the "Broker") in the negotiation of this Lease. Landlord shall make payment of the commission according to the terms of a separate agreement with the Broker. Tenant hereby agrees to Indemnify and hold Landlord harmless of an from any and all loss, costs, damages or expenses (including, without limitation, all attorney's fees and disbursements) by reason of any claim of, or liability to, any other broker or person claiming through Tenant and arising out of this Lease. Additionally, Tenant acknowledges and agrees that Landlord shall have no obligation for payment of any brokerage fee or similar compensation to any person with whom Tenant has dealt or may deal with in the future with respect to leasing of any additional or expansion space in the Building or any renewals or extensions of this Lease unless specifically provided for by separate written agreement with Landlord. In the event any claim shall be made against Landlord by any other broker who shall claim to have negotiated this Lease on behalf of Tenant or to have introduced Tenant to the Building or to Landlord, Tenant hereby indemnifies Landlord, and Tenant shall be liable for the payment of all reasonable attorney's fees, costs, and expenses incurred by Landlord in defending against the same, and in the event such broker shall be successful in any such action, Tenant shall, upon demand, make payment to such broker.

47. Lease Exhibits Attached. This Lease includes the following Lease Exhibits which are incorporated herein and made a part of this Lease Agreement:

Exhibit "A" - Site Plan Depicting Area
Exhibit "B" - Interior Space Plan
Exhibit "C" - Landlord and Tenant's Construction Obligations
Exhibit "D" - Sign Code Obligations

48. Miscellaneous. All marginal notations and paragraph headings are for purposes of reference and shall not affect the true meaning and intent of the terms hereof. Throughout this Lease, wherever the words "Landlord" and "Tenant" are used they shall include and imply to the singular, plural, persons both male and female, companies, partnerships and corporations, and in reading said Lease, the necessary grammatical changes required to make the provisions hereof mean and apply as aforesaid shall be made in the same manner as though originally included in said Lease.

IN WITNESS WHEREOF, the parties have executed this Lease as of the date hereof.

LANDLORD: GB VENTURES

By: /s/ W.W. REYNOLDS

TENANT: HESKA CORPORATION

By: /s/ R. L. HENDRICK

R. L. HENDRICK, EXECUTIVE VICE PRESIDENT & CHIEF FINANCIAL OFFICER

ENVIRONMENTAL INDEMNITY AGREEMENT

THIS INDEMNITY is given as of this 24th day of August, 1999, by Heska Corporation ("Indemnitor," whether one or more), to and for the benefit of GB Ventures ("Landlord").

WHEREAS, GB Ventures is Landlord under a proposed Lease Agreement dated August 24, 1999, ("the Lease") in which Heska Corporation, a Delaware Corporation is the proposed tenant ("Tenant"), regarding the Leased Premises commonly known as 2601 Midpoint Drive, Suite D, E, & F, Fort Collins, Co 80525 ("Leased Premises"); and

WHEREAS, Landlord is unwilling to enter into the Lease with Tenant unless the Indemnitor agrees to the indemnities hereinafter provided.

NOW, THEREFORE, in consideration of the matters recited above and to induce Landlord to enter into the Lease with Tenant, Indemnitor undertakes and agrees as follows:

1. Indemnitor shall indemnify, defend and hold Landlord harmless from and against any and all suits, actions, legal or administrative proceedings, demands, claims, judgements, damages, penalties, fines, costs, liabilities, expenses or losses which arise during or after the lease term as a result of or in connection with the presence, use, storage, disposal, transportation or discharge, by or on behalf of Tenant, of any Hazardous Materials (as defined in the Lease) on, in or under or affecting all or any portion of the Leased Premises or any surrounding areas, or the disposition or transportation of any Hazardous Materials therefrom, or any breach by Tenant of the provisions concerning Environmental Considerations as contained in paragraph 41 of the Lease, or the failure of the Tenant to comply with any applicable Hazardous Materials Laws (as defined in the Lease), or otherwise resulting from or arising out of any action or non-action of Tenant or Tenant's operations on the Leased Premises.

Without limiting the generality of the foregoing, it is expressly agreed by Indemnitor that such Indemnity shall also include the following: diminution in value of the Leased Premises, damages for loss or restriction on use of rental

or useable space or any amenity of the Leased Premises, damages arising from any adverse impact on marketing of space or delay in delivering possession to a subsequent tenant or purchaser, restoration of the Leased Premises to a condition not materially different from its original contour, appearance and condition; costs incurred in connection with any investigation of site conditions or any clean-up, remedial, removal or restoration work required by any federal, state or local governmental agency, political subdivision, court order or lender of the Landlord; costs of removal and lawful disposal off site of all Hazardous Materials; all sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees.

The foregoing indemnities shall survive termination or expiration of the Lease and shall also accrue to the benefit of the employees, agents, officers, directors and/or partners of Landlord.

2. Indemnitor agrees to pay to Landlord, from time to time, upon demand therefor, an amount equal to any and all expenses therefore incurred by Landlord for which Landlord is entitled to indemnification. Any sums not so paid shall thereafter bear interest at a rate of two percent (2%) per month until paid in full.

3. The rights and remedies of Landlord under this indemnity shall be in addition to any rights or remedies available to Landlord under the terms of the Lease. The obligations of Indemnitor hereunder shall not be affected or impaired by: (i) the assertion by Landlord against Tenant of any rights or remedies reserved to Landlord pursuant to provisions of the Lease; (ii) the commencement of summary or any other proceedings against Tenant; (iii) failure of the Landlord to enforce any of its rights against Tenant pursuant to the Lease or otherwise; (iv) the granting by Landlord of any extensions of time to Tenant; (v) the assignment or transfer of the Lease by Tenant; (vi) with release or discharge of Tenant from its obligations under the Lease in any creditors', receivership, bankruptcy or other proceedings or the commencement or pendency of any such proceedings; or (vii) the impairment, limitation or modification of the liability of Tenant or the estate of Tenant in bankruptcy, or of any remedy for the enforcement of tenant's liability under the Lease, resulting from the operation of any present or future bankruptcy code or other statute, or from the decision of any court.

4. Until all Tenants obligations under the Lease are fully performed, Indemnitor (i) waives any right of subrogation which it might have against Tenant by reason of any payments or acts of performance by Indemnitor pursuant to its obligations hereunder; (ii) waives any other right which Indemnitor may have against Tenant by reason of any one or more payments or acts in compliance with its obligations hereunder; and (iii) subordinates any liability or indebtedness of tenant held by Indemnitor to the obligations of Tenant to Landlord under the Lease.

5. All notices for or allowed hereunder shall be deemed given and received with (a) personally delivered, or (b) at the time the same is deposited in the United States mail, postage prepaid, first class mail, or addressed to the applicable party at the address indicated below for such party, or as to each party, at such other address as shall be designated by such party in a written notice to the other party:

If to Indemnitor, to:

Heska Corporation
Attention: Facilities Manager
1613 Prospect Parkway
Fort Collins, CO 80525

If to Landlord, to:

GB Ventures
4875 Pearl East Circle #300
Boulder, CO 80301

6. In the event of default in its obligations hereunder, Indemnitor agrees to reimburse Landlord for reasonable attorneys' fees and costs incurred by Landlord in the enforcement of such obligations.

7. This Environmental Indemnity Agreement shall apply to the Lease and any extension or renewal thereof, and any holdover term following the term thereof, or any such extension or renewal.

8. This Environmental Indemnity Agreement shall be governed by and construed in accordance with the laws of the State of Colorado.

9. The covenants and agreements herein contained shall extend to and be binding upon the parties hereto and their respective successors and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this Environmental Indemnity Agreement on the day and year first above written.

/s/ R. L. HENDRICK
"Indemnitor"- HESKA CORPORATION

/s/ W. W. REYNOLDS
"Landlord" - GB VENTURES

EXHIBIT "A"

[SITE PLAN]

For almost 25 years, the W.W. Reynolds Companies has provided Colorado businesses with premium quality facilities In which to grow and prosper. Plum Tree Plaza, located In Fort Collins' Prospect East Business Park with easy access to 1-25 and the Denver metropolitan area, is built around the FlexSpace Concept, providing maximum adaptability for space planning.

This four-building, 72,800 square-foot project reflects an unyielding dedication to quality with such benefits as:

* FlexSpace concept from 2,400 to 23,000 square feet, with customized finishes at affordable rates

* Two minutes to 1-25; no more than five minutes from downtown and South College shopping and most of Fort Collins' finest residential areas; immediate access to Poudre River Trail

* Upscale appearance with lush landscaping, generous window area with mountain views, and plenty of parking

* On-site property management providing immediate, high-quality, and convenient management services

* Child care facility within the business park

* Proven location for many fine companies, Including Advanced Energy, Chemagnetics, Hewlett-Packard, Otsuka Electronics, and Vipont Pharmaceuticals.

The W.W. Reynolds Companies is committed to the long-term success of our clients. We are more than a developer - we are a partner you can depend upon year after year. Whether yours is a small company taking its first big step toward growth, or an established firm looking for a permanent home in which to continue growth and prosperity, The W.W. Reynolds Companies is the name to remember.

EXHIBIT "B"

[INTERIOR SPACE PLAN]

EXHIBIT "C"

LANDLORD AND TENANT'S CONSTRUCTION OBLIGATIONS

Tenant shall take the Premises in "as is" condition with the following exceptions:

Landlord shall be responsible for:

1. Repair and repaint all interior walls, including the new walls to be installed.
2. Repaint warehouse floors.
3. Re-carpet where carpet exists, except for one room, highlighted in Pink, on Exhibit "B".
4. Add demising walls to separate Suite C & Suite D, these walls are in red on Exhibit "B".
5. Remove one wall (approximately 10') highlighted in green on Exhibit "B".
6. Remove and replace all rubber base.
7. Stub existing copper above ceiling.
8. Replace laminate in kitchen and bathrooms.
9. Replace damaged and missing ceiling tiles.
10. Add carpet to the area highlighted in yellow, as shown on Exhibit "B".

Tenant shall be responsible for the costs associated with:

1. Installation of VCT in the room, highlighted in Pink, as shown on Exhibit "B". This is the room where the carpet is to be pulled.
2. Tenant shall contract with Rincon to remove and reinstall lab cabinets and countertops from 1825 Sharp Point Drive, Fort Collins, Colorado to 2601 Midpoint Drive, Suite D, E, & F, Fort Collins, Colorado. Heska to pay Rincon directly for labor and any expense involved with this relocation of the cabinets and countertops.
3. Tenant shall be responsible for the repair, upgrade, modification, and/or replacement of any operating systems servicing the Leased Premises and/or all or part of the Premises which is necessitated by Tenant's change or increase use in of or non-disclosed use of all or part of the Leased Premises. Operating systems include, but are not limited to, electrical systems, plumbing systems, heating, ventilating and air conditioning systems; telecommunications systems, computer and network systems; lighting systems, fire sprinkler systems, security systems and building control systems, if any.
4. Tenant shall be responsible for any change orders which may occur during tenant finish. Payment shall be made upon occupancy of the Premises.

In order for Landlord to have the space ready for occupancy by October 4, 1999, Landlord must have signed off plans, and an executed Lease Agreement by August 20, 1999.

EXHIBIT "D"

[SIGN CODE OBLIGATIONS]

LEASE ADDENDUM #1

THIS LEASE ADDENDUM #1 is made and entered this 6th day of October, 1999.

LANDLORD: The Landlord is GB Ventures.

TENANT: The Tenant is Heska Corporation.

LEASE AGREEMENT: That certain Lease Agreement dated August 24,1999.

PREMISES: The Leased Premises presently consist of Suites D, E, F in Building 2601 Midpoint Drive of Plum Tree Plaza, Fort Collins, Colorado, comprised of approximately 7,433 square feet.

The new Leased Premises shall consist of approximately 11,628 square feet and are comprised of Suites B, C, D, E, & F in Building 2601 Midpoint Drive of Plum Tree Plaza, Fort Collins, Colorado.
To further clarify, Tenant shall rent an additional 4195 square feet (Suite B,C) adjacent to its present Premises at 2601 Midpoint. Tenant shall be leasing a total of 11,628 square feet at 2601 Midpoint Drive.

Tenant shall begin paying for the additional square footage on October 4, 1999, and continue through the end of the Lease Term, i.e. October 1, 2004.

TENANT IMPROVEMENTS: Tenant leases the additional 4195 square feet located at 2601 Midpoint Drive, Suite B/C, Fort Collins, Colorado in "as is" condition. Landlord shall remove the walls and carpeting as indicated on Exhibit A. Landlord shall also replace the floor tile and counter-top laminate in the kitchen area (highlighted in orange). Tenant will be given a $16,177 allowance to be used towards Tenant Improvements for Suite B/C. Tenant Finish shall be contracted by Rincon Development and completed prior to December 31, 1999. Any change orders exceeding the allowance shall be payable by Tenant within 30 days of receiving a billing from Rincon Development. All space plans must be approved by Landlord, prior to construction.

CURRENT LEASE EXPIRATION: October 1, 2004

BASE RENTAL RATE: The Monthly Base Rental Rate shall be as follows:

October 4, 1999 to November 1, 1999	$7,877.03 NNN
November 1, 1999 to October 1, 2004	$8,721.00 NNN with annual CPI's on October 1, 2000; October 1, 2001; October 1, 2002; and October 1, 2003

ADDITIONAL SECURITY DEPOSIT: Tenant shall deposit an additional Three Thousand One Hundred Forty Six Dollars ($3,146.00). This additional Security Deposit shall be added to the existing Five Thousand Five Hundred Seventy Five Dollars ($5,575.00) for a total of Eight Thousand Seven Hundred Twenty One Dollars ($8,721.00) to be held with Landlord.

TERMS AND CONDITIONS: All other terms and conditions of the Lease Agreement dated August 24, 1999 shall not be superseded by this Lease Addendum #1 shall remain the same.

OFFER PERIOD: This offer shall remain effect through October 6, 1999.

LANDLORD	TENANT
GB VENTURES	HESKA CORPORATION
/S/ W. W. REYNOLDS	/S/ R. L. HENDRICK

SUBSIDIARIES OF COMPANY

CMG-Heska Allergy Products S.A., a corporation incorporated under the laws of Switzerland
Diamond Animal Health, Inc., an Iowa corporation
Heska AG, a corporation incorporated under the laws of Switzerland
Heska Holding AG, a corporation incorporated under the laws of Switzerland
Sensor Devices, Inc., a Wisconsin corporation

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Annual Report on Form 10-K, into Heska Corporation's previously filed Registration Statement File No. 333-30951, Registration Statement File No. 333-34111, Registration Statement File No. 333-47129, Registration Statement File No. 333-72155, Registration Statement File No. 333-39448, Registration Statement File No. 333-55112, Registration Statement File No. 333-55602, Registration Statement File No. 333-82096 and Registration Statement File No. 333-76374.

/s/ ARTHUR ANDERSEN LLP

Denver, Colorado
April 1, 2002

EXHIBIT 99.1

April 1, 2002

Securities and Exchange Commission
Washington, D.C. 20549

Ladies and Gentlemen:

Arthur Andersen LLP made the following representation to Heska Corporation and subsidiaries pursuant to Temporary Note 3T to Section 210.2-02 of Regulation S-X on April 1, 2002:

"We have audited the consolidated financial statements of Heska Corporation and Subsidiaries as of December 31, 2001 and for the year then ended and have issued our report dated February 1, 2002, except with respect to the matters discussed in Note 15, as to which the date is March 13, 2002. We represent that this audit was subject to our quality control system for the U.S. accounting and auditing practice to provide reasonable assurance that the engagement was conducted in compliance with professional standards, that there was appropriate continuity of Arthur Andersen personnel working on the audit, availability of national office consultation, and availability of personnel at foreign affiliates of Arthur Andersen to conduct the relevant portions of the audit."

Very truly yours,

Ronald L. Hendrick
Executive Vice President &
Chief Financial Officer