UNITED STATES
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, 2006

OR

o **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 (State or other jurisdiction of incorporation or organization)	**77-0192527** (I.R.S. Employer Identification Number)
3760 Rocky Mountain Avenue **Loveland, Colorado** (Address of principal executive offices)	**80538** (Zip Code)

Registrant's telephone number, including area code: **(970) 493-7272**

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $.001 par value (Title of Class)	**Nasdaq Capital Market** (Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No x

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 o

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. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

The aggregate market value of voting common stock held by non-affiliates of the Registrant was approximately $45,215,637 as of June 30, 2006 based upon the closing price on the Nasdaq Capital Market reported for such date. This calculation does not reflect a determination that certain persons are affiliates of the Registrant for any other purpose.

50,832,279 shares of the Registrant's Common Stock, $.001 par value, were outstanding at March 26, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10 (as to directors), 11, 12, 13 and 14 of Part III incorporate by reference information from the Registrant's Proxy Statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the Registrant's 2007 Annual Meeting of Stockholders.

TABLE OF CONTENTS

i-STAT is a registered trademark of Abbott Laboratories. SPOTCHEM is a trademark of Arkray, Inc. TRI-HEART is a registered trademark of Schering-Plough Animal Health Corporation ("SPAH") in the United States and is a trademark of Heska Corporation in other countries. HESKA, ALLERCEPT, AVERT, E.R.D.-HEALTHSCREEN, E-SCREEN, FELINE ULTRANASAL, SOLO STEP, THYROMED and VET/OX are registered trademarks and CBC-DIFF, ERD, G2 DIGITAL and VET/IV are trademarks of Heska Corporation in the United States and/or other countries. This 10-K also refers to trademarks and trade names of other organizations.

Statement Regarding Forward Looking Statements

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. For this purpose, any statements contained herein that are not statements of current or historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, 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 "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this Form 10-K. Readers are cautioned not to place undue reliance on these forward-looking statements.

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 or for statements incorporated by reference from the 2007 definitive proxy statement on Schedule 14A, as of the date of the Schedule 14A.

Internet Site

Our Internet address is www.heska.com. We make publicly available free of charge on our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Information contained on our website is not a part of this annual report on Form 10-K.

Where You Can Find Additional Information

You may review a copy of this annual report on Form 10-K, including exhibits and any schedule filed therewith, and obtain copies of such materials at prescribed rates, at the Securities and Exchange Commission's Public Reference Room in Room 1580, 100 F Street, NE, Washington, D.C. 20549-0102. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains a website (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants, such as Heska, that file electronically with the Securities and Exchange Commission.

PART I

Item 1. Business.

We discover, develop, manufacture, market, sell, distribute and support veterinary products. Our core focus is on the canine and feline companion animal health markets where we strive to provide high value products for latent needs and advance the state of veterinary medicine.

Our business is comprised of two reportable segments, Core Companion Animal Health and Other Vaccines, Pharmaceuticals and Products. The Core Companion Animal Health segment ("CCA") includes diagnostic and other instruments and supplies as well as single use diagnostic and other tests, vaccines and pharmaceuticals, primarily for canine and feline use. These products are sold directly by us as well as through independent third party distributors and other distribution relationships. The Other Vaccines, Pharmaceuticals and Products segment ("OVP"), previously reported as Diamond Animal Health, includes private label vaccine and pharmaceutical production, primarily for cattle but also for other animals including small mammals and fish. All OVP products are sold by third parties under third party labels.

Our principal executive offices are located at 3760 Rocky Mountain Avenue, Loveland, Colorado 80538, our telephone number is (970) 493-7272 and our internet address is www.heska.com. We were incorporated in California in 1988, and we reincorporated in Delaware in 1997.

Background

We were incorporated as Paravax, Inc. in 1988 and conducted research on vaccines to prevent infections by parasites. In 1991, we moved our headquarters from California to northern Colorado in order to be located closer to the research facilities of the College of Veterinary Medicine and Biomedical Sciences of Colorado State University. In 1995, we changed our name to Heska Corporation. Between 1996 and 1998, we expanded our business, making several acquisitions and significantly increasing our sales and marketing activities. During 1999 and 2000, we restructured and refocused our business, making several divestitures. We continued to be a research and development-focused company, devoting substantial resources to the research and development of innovative products for the companion animal health market.

We continued to pursue operating efficiencies and rationalize our business in 2001 and 2002. In late 2001, we modified our sales strategy to a distributor-focused model and entered into distribution agreements with over 20 third-party veterinary distributors. We eliminated several direct sales positions as a result. We also consolidated our European operations into one facility in the fourth quarter of 2001. In the first half of 2002, we eliminated several positions, primarily in research and development, to lower our expense base. In July 2002, we licensed to Intervet Inc. certain rights to patents, trademarks and know-how for our Flu AVERT I.N. equine influenza vaccine, the world's first intranasal influenza vaccine for horses. This was the result of a strategic decision to focus our resources on the canine and feline veterinary markets. In the years since 2003, we have continued to focus our efforts on operating improvements, selling consumables into the installed base of instruments we have built and seeking new product opportunities with third parties.

Core Companion Animal Health Segment

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

Veterinary Instruments

We offer a line of veterinary diagnostic and other instruments which are described below. We also market and sell consumable supplies for these instruments. Our line of veterinary instruments includes the following:

- *Electrolytes and Blood Gases.* The i-STAT Handheld Clinical Analyzer is a handheld, portable clinical analyzer that provides quick, easy analysis of blood gases and other key analytes, such as sodium, potassium and glucose, in whole blood. In January 2007, we introduced the i-STAT 1 Handheld Clinical Analyzer, with improvements over the original analyzer including expanded testing capabilities, upgraded storage capacity and ergonomic improvements. We are supplied

these instruments and affiliated cartridges and supplies under a contractual agreement with i-STAT Corporation (currently a unit of Abbott Laboratories which is to be sold to General Electric Company based on a January 17, 2007 announcement).

- *Blood Chemistry.* The SPOTCHEM EZ Automated Dry Chemistry System is a compact benchtop 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. We are supplied this instrument and affiliated test strips and supplies under a contractual agreement with Arkray Global Business, Inc. ("Arkray").

- *Hematology.* The HESKA CBC-DIFF Veterinary Hematology System 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. We are supplied this instrument and affiliated reagents and supplies under a contractual agreement with Boule Medical AB ("Boule").

- *IV Pumps.* 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.

Point-of-Care Diagnostic and Other Tests

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.

We currently market and sell heartworm diagnostic tests for both dogs and cats. SOLO STEP CH for dogs and SOLO STEP FH for cats are available in point-of-care, single use formats that can be used by veterinarians on site. We also offer SOLO STEP CH Batch Test Strips, 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. We obtain SOLO STEP CH, SOLO STEP FH and SOLO STEP Batch Test Strips under a contractual agreement with Quidel Corporation (“Quidel”).

Early Renal Damage Detection Products. Renal damage is a leading cause of death in both dogs and cats. Several inflammatory, infectious or neoplastic diseases can damage an animal’s kidneys. It is estimated that 70% to 80% of kidney function is already destroyed before veterinarians can detect renal damage using traditional tests. Early detection is key to eliminate the causes and to mitigate the effects of kidney damage. Identification and treatment of the underlying cause of kidney damage can slow the progression of disease and add quality years to an animal’s life.

Our E.R.D.-HEALTHSCREEN Canine Urine Test and our E.R.D.-HEALTHSCREEN Feline Urine Test are rapid in-clinic immunoassay tests designed to detect microalbuminuria, the most sensitive indicator of renal damage.

Veterinary Diagnostic Laboratory Services and Products

Allergy Diagnostic Services. Allergy is common in companion animals, and it has been 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.

We have veterinary diagnostic laboratories in Loveland, Colorado and Fribourg, Switzerland. Both diagnostic laboratories offer blood testing using our ALLERCEPT Definitive Allergen Panels, which provide the most accurate determination of the specific allergens to which an animal, such as a dog, cat or horse, is reacting. The panels use a highly specific recombinant version of the natural IgE receptor to test 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 serve as the basis for prescription ALLERCEPT Allergy Treatment Sets, discussed later in this document. In our Fribourg diagnostic laboratory, we also offer preliminary blood testing to screen for the presence of allergen-specific IgE using products based on our ALLERCEPT Definitive Allergen Panels. Animals testing positive for allergen-specific IgE are candidates for further evaluation using our ALLERCEPT Definitive Allergen Panels.

Other Products and Services. Outside of the United States, we sell kits to conduct blood testing using our ALLERCEPT Definitive Allergen Panels to third-party veterinary diagnostic laboratories. We also sell products to screen for the presence of allergen-specific IgE to third party veterinary diagnostic laboratories outside of the United States — we sell kits to conduct preliminary blood testing using products based on our ALLERCEPT Definitive Allergen Panels as well as a similar test requiring less technical sophistication, our ALLERCEPT E-SCREEN Test.

We sell ERD Reagent Packs used to detect microalbuminuria, the most sensitive indicator of renal damage, to Antech Diagnostics, the laboratory division of VCA Antech, Inc., for use in its veterinary diagnostic laboratories.

Our Loveland veterinary diagnostic laboratory currently also offers testing using our canine and feline heartworm, renal damage, immune status and flea bite allergy assays as well as other diagnostic services including polymerase chain reaction, or PCR, based tests for certain infectious diseases. Our Loveland diagnostic laboratory is currently staffed by medical technologists experienced in animal disease and several additional technical staff.

We intend to continue to use our Loveland veterinary 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 for in-clinic use are initially validated in the veterinary diagnostic laboratory and may be offered commercially in this format in the future.

Vaccines and other Biologicals

Allergy Treatment. 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 canine, feline and equine immunotherapy treatment products.

Feline Respiratory Disease. 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. While there is one competitive non-injectable two-way vaccine, all other competitive products are injectable formulations.

We sell the FELINE ULTRANASAL FVRCP Vaccine, a three-way modified live vaccine combination to prevent disease caused by the three most common respiratory viruses of cats: calicivirus, rhinotracheitis virus and panleukopenia virus. Our two-way modified live vaccine combination, FELINE ULTRANASAL FVRC, prevents disease caused by calicivirus and rhinotracheitis. These vaccines are administered without needle injection by dropping the liquid preparation into the nostrils of cats. Our vaccines avoid injection site side effects, and we believe they are very efficacious.

Pharmaceuticals and Supplements

Heartworm Prevention. We have an agreement with Schering-Plough Animal Health Corporation ("SPAH"), the worldwide animal health care business of Schering-Plough Corporation, granting SPAH the distribution and marketing rights in the United States for TRI-HEART Plus Chewable Tablets, our canine heartworm prevention product. TRI-HEART Plus Chewable Tablets (ivermectin/pyrantel) are indicated for use as a monthly preventive treatment of canine heartworm infection and for treatment and control of ascarid and hookworm infections. We manufacture TRI-HEART Plus Chewable Tablets at our Des Moines, Iowa production facility. Our TRI-HEART Plus Chewable Tablets also have been approved for sale in Japan and South Korea.

Nutritional Supplements. We sell 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.

Hypothyroid Treatment. We sell a chewable thyroid supplement, THYROMED Chewable Tablets, for treatment of hypothyroidism in dogs. Hypothyroidism is one of the most common endocrine disorders diagnosed in older dogs, treatment of which requires a daily hormone supplement for the lifetime of the animal. THYROMED Chewable Tablets contain the active ingredient *Levothyroxine Sodium*, which is a clinically proven replacement for the naturally occurring hormone secreted by the thyroid gland. The chewable formulation makes this daily supplement convenient and easy to administer.

Other Vaccines, Pharmaceuticals and Products Segment

We have developed our own line of bovine vaccines that are licensed by the United States Department of Agriculture ("USDA"). We have a long-term agreement with a distributor, Agri Laboratories, Ltd., ("AgriLabs"), for the marketing and sale of certain of these vaccines which are sold primarily under the TitaniumÒ and MasterGuardÒ brands — registered trademarks of AgriLabs. AgriLabs has rights to sell these bovine vaccines in the United States, Africa, China, Mexico and Taiwan to December 2013. Subject to minimum purchase requirements, AgriLabs' rights in these regions will be exclusive at least to December 2009 and could remain exclusive up to December 2013 based on other contractual arrangements. We have the right to sell these bovine vaccines to any party of our choosing in other regions of the world. AgriLabs has non-exclusive rights to these vaccines in Canada to December 2009. We also manufacture other bovine products not covered under the agreement with AgriLabs.

We manufacture biological and pharmaceutical products for a number of other animal health companies. We manufacture products for animals including small mammals and fish. Our offerings range 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 our customers as well as validation support and distribution services.

Marketing, Sales, Distribution and Customer Support

We estimate that there are approximately 40,000 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. In 2006, our products were sold to approximately 13,500 such clinics in the United States. Veterinarians may obtain our products directly from us or indirectly from others, such as independent third-party distributors. All our Core Companion Animal Health Products are ultimately sold to or through veterinarians. In many cases, veterinarians will markup their costs to the end user. The acceptance of our products by veterinarians is critical to our success.

We currently market our Core Companion Animal Health products in the United States to veterinarians through a direct sales force, a telephone sales force, independent third-party distributors, as well as through trade shows and print advertising and other distribution relationships, such as SPAH in the case of our heartworm preventive. Our direct sales force currently consists of 26 territory managers and 3 regional managers responsible for sales in various parts of the United States. Our inside sales force consists of 23 persons.

Our independent third-party distributors in the U.S. purchase and market our Core Companion Animal Health products utilizing their direct sales forces. We currently have agreements with 18 regional distributors with approximately 721 field representatives. We believe that one of our largest competitors, IDEXX Laboratories, Inc. ("IDEXX"), in effect prohibits its distributors from selling competitive products, including our diagnostic instruments and heartworm diagnostic tests. As a result, 11 of these 18 regional distributors with approximately 158 field representatives carry our full distribution product line. We believe the IDEXX restrictions limit our ability to engage national independent third party distributors to sell our full distribution line of products.

We have a staff dedicated to customer and product support in our Core Companion Animal Health segment including veterinarians, technical support specialists and service technicians. Individuals from our research and development group may also be used as a resource in responding to certain product inquiries.

Internationally, we market our Core Companion Animal Health products to veterinarians primarily through third-party veterinary diagnostic laboratories, independent third-party distributors and Novartis Agro K.K., Tokyo ("Novartis Japan"). These entities typically have distribution rights and provide customer support. Novartis Japan exclusively markets and distributes SOLO STEP CH and has exclusive marketing rights to our TRI-HEART Plus Chewable Tablets in Japan.

All OVP products are marketed and sold by third parties under third party labels. AgriLabs currently has exclusive sales and marketing rights to certain of our bovine vaccines, which are sold primarily under the TitaniumÒ and MasterGuardÒ labels, in the United States and certain international regions.

We grant third parties rights to certain of our existing products as well as to our intellectual property, with our compensation often taking the form of royalties and/or milestone payments. For example, we have an agreement with Nestlé Purina PetCare Company ("Purina"), a unit of Nestlé S.A., under which Purina pays royalties on certain pet food products it markets based on our patent-protected science.

Manufacturing

The majority of our product revenue is from proprietary products manufactured by third parties. Third parties manufacture our veterinary instruments, including affiliated consumables and supplies, as well as other products including our heartworm point-of-care diagnostic tests, our allergy treatment products and our E.R.D.-HEALTHSCREEN Urine Tests. Our handheld analyzers and affiliated supplies are supplied under a contractual agreement with i-STAT Corporation (currently a unit of Abbott Laboratories which is to be sold to General Electric Company based on a January 17, 2007 announcement), our chemistry analyzers and affiliated supplies are supplied under a contractual agreement with Arkray, and our hematology analyzers and affiliated supplies are supplied under a contractual agreement with Boule. ALK-Abelló, Inc. manufactures our immunotherapy treatment products. Diagnostic Chemicals Limited manufactures our ERD Reagent Packs used to detect microalbuminuria in veterinary diagnostic laboratories and our E.R.D.-HEALTHSCREEN Urine Tests. Quidel and we, at our Des Moines facility, manufacture our heartworm point-of-care diagnostic tests.

Our facility in Des Moines, Iowa is a USDA, Food and Drug Administration ("FDA"), and Drug Enforcement Agency ("DEA") licensed biological and pharmaceutical manufacturing facility. This facility currently has the capacity to manufacture more than 50 million doses of vaccine each year. We expect that we will manufacture most or all of our biological and pharmaceutical products at this facility, as well as most or all of our recombinant proteins and other proprietary reagents for our diagnostic tests. We currently manufacture our canine heartworm prevention product, our FELINE ULTRANASAL Vaccines and all our OVP segment products at this facility. Our OVP segment's customers purchase products in both bulk and finished format, and we perform all phases of manufacturing, including growth of the active bacterial and viral agents, sterile filling, lyophilization and packaging at this facility. We manufacture our various allergy diagnostic products at our Des Moines facility, our Loveland facility and our Fribourg facility. We believe the raw materials for products we manufacture are available from several sources.

Product Development

We are committed to providing innovative products to address latent health needs of companion animals. We may obtain such products from external sources, external collaboration or internal research and development.

We are committed to identifying external product opportunities and creating business and technical collaborations that lead to high value veterinary 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. We have collaborated, and intend to continue to do so, with a number of companies and universities. Examples of such collaborations include:

- Quidel for the development of SOLO STEP CH Cassettes, SOLO STEP CH Batch Test Strips and SOLO STEP FH Cassettes;

- Diagnostic Chemicals, Ltd., for the development of the canine and feline E.R.D.-HEALTHSCREEN Urine Tests and ERD Reagent Packs to detect microalbuminuria;

- Boule Medical AB for the development of veterinary applications for the HESKA CBC-DIFF Hematology System and associated reagents.

Internal research and development is managed on a case-by-case basis. We employ individuals with microbiology, immunology, genetics, biochemistry, molecular biology, parasitology as well as veterinary expertise and will form multidisciplinary product-associated teams as appropriate. We incurred expenses of

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$5.9 million, $3.7 million and $3.5 million in the years ended December 31, 2004, 2005 and 2006, respectively, in support of our research and development activities.

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. The proprietary technologies of our OVP segment and Heska AG, our operating subsidiary in Switzerland, are primarily protected through trade secret protection of, for example, our manufacturing processes in these areas.

We actively seek patent protection both in the United States and abroad. Our issued and pending patent portfolios primarily relate to allergy, flea control, heartworm control, infectious disease vaccines, diagnostic and detection tests, immunomodulators, instrumentation, nutrition, pain control and vaccine delivery technologies. As of December 31, 2006, we owned, co-owned or had rights to 157 issued U.S. patents and 50 pending U.S. patent applications expiring at various dates from June 2008 to August 2022. Applications corresponding to pending U.S. applications have been or will be filed in other countries. Our corresponding foreign patent portfolio as of December 31, 2006 included 58 issued patents and 57 pending applications in various foreign countries.

We have entered into a number of out-licensing agreements to realize additional value in certain of our intellectual property assets in fields outside of our core focus. For example, in 1998 we obtained rights from ImmuLogic Pharmaceutical Corporation to an intellectual property portfolio including a number of major allergens and the genes that encode them for use in veterinary as well as human allergy applications. In order to realize additional value from that portfolio, we granted licenses and options for licenses to several companies for the use of those allergens in the fields of diagnosis and treatment of human allergy. In December 2006, we sold this intellectual property portfolio to Allergopharma Joachim Ganzer KG and obtained an exclusive license to veterinary rights for this intellectual property portfolio as part of the agreement.

We also have obtained exclusive and non-exclusive licenses for numerous other patents held by academic institutions and biotechnology and pharmaceutical companies.

Seasonality

We expect the last six months of the year will outperform the first half of the year, both in terms of revenue and profitability. We expect to experience less seasonality than we have in the past due to factors including increased instrument consumable revenue, which does not tend to be seasonal, and changes in the timing of certain product promotions.

Government Regulation

Although the majority of our product revenue is from the sale of unregulated items, many of our products or products that we may develop are, or may be, 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 to achieve and the 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 single use, 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, single use, point-of-care diagnostics can typically be licensed by the USDA in about two years, 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 and target 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 livestock animals, as food safety issues relating to tissue residue levels are not applicable.

- *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 products, numerous regulatory requirements typically 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 products such as our E.R.D.-HEALTHSCREEN Urine Tests and our ALLERCEPT panels, as well as other reference lab tests, are not regulated by either the USDA or FDA. Similarly, none of our veterinary instruments requires regulatory approval to be marketed and sold in the United States. 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 subject to foreign regulatory requirements governing regulatory licensing and approval for many of our products. Licensing and approval by comparable regulatory authorities of foreign countries must be obtained before we can market products in those countries. Product licensing approval processes and requirements vary 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; in Japan, which is governed by the Japanese

Ministry of Agriculture, Forestry and Fisheries, or MAFF; and in certain European and other Asian countries requiring such approval.

Core Companion Animal Health products previously discussed which have received regulatory approval in the United States and/or elsewhere are summarized below.

Products	Country	Regulated	Agency	Status
E.R.D.-HEALTHSCREEN Canine Urine Test	United States	No	MAFF	Licensed
	EU	No-in most countries		
	Canada	No		
	Japan	Yes		
E.R.D.-HEALTHSCREEN Feline Urine Test	United States	No	MAFF	Licensed
	EU	No-in most countries		
	Canada	No		
	Japan	Yes		
FELINE ULTRANASAL FVRC Vaccine	United States	Yes	USDA	Licensed
FELINE ULTRANASAL FVRCP Vaccine	United States	Yes	USDA	Licensed
SOLO STEP CH	United States	Yes	USDA	Licensed
	EU	No-in most countries	CFIA	Licensed
	Canada	Yes	MAFF	Licensed
	Japan	Yes		
SOLO STEP CH Batch Test Strips	United States	Yes	USDA	Licensed
	Canada	Yes	CFIA	Licensed
SOLO STEP FH	United States	Yes	USDA	Licensed
TRI-HEART Plus Heartworm Preventive	United States	Yes	FDA	Licensed
	Japan	Yes	MAFF	Licensed
	South Korea	Yes	NVRQS	Licensed

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. We also compete with independent, third party distributors, including distributors who sell products under their own private labels. In the point-of-care diagnostic testing market, our major competitors include IDEXX, Abaxis, Inc. and Synbiotics Corporation. The products manufactured by our OVP segment for sale by third parties compete with similar products offered by a number of other companies, some of which have substantially greater financial, technical, research and other resources than us and may have more established marketing, sales, distribution and service organizations than our OVP segment’s customers. Companies with a significant presence in the animal health market such as Bayer AG, Intervet International bv (a unit of Akzo Nobel), Merial Limited, Novartis AG, Pfizer Inc., Schering-Plough Corporation, Virbac S.A. and Wyeth may be marketing or developing products that compete with our products or would compete with them if successfully developed. These and other competitors and potential competitors may have substantially greater financial, technical, research and other resources and larger, more established marketing, sales, distribution and service organizations than we do. Our competitors may offer broader product lines and have greater name recognition than we do. We believe that one of our largest competitors, IDEXX, in effect prohibits its distributors from selling competitive products, including our diagnostic instruments and heartworm diagnostic tests.

Environmental Regulation

In connection with our product development activities and manufacturing of our biological, pharmaceutical and diagnostic and detection 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, 2006, we and our subsidiaries employed 299 people, of whom 123 were in sales, marketing, distribution and customer support, 99 were in production and veterinary diagnostic laboratories, 54 were in management and administration and 23 were in research, development and regulatory affairs. 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.

Executive Officers

Our executive officers and their ages as of March 30, 2007 are as follows:

Name	Age	Position
Robert B. Grieve, Ph.D.	55	Chairman of the Board and Chief Executive Officer
Jason A. Napolitano	38	Executive Vice President and Chief Financial Officer
Joseph H. Ritter, D.V.M.	58	Executive Vice President, Global Business Operations
Michael A. Bent	52	Vice President, Principal Accounting Officer and Controller
John R. Flanders	51	Vice President, General Counsel and Secretary
Todd M. Gilson	36	Vice President, Marketing
Michael J. McGinley, Ph.D.	46	Vice President, Operations and Technical Affairs and General Manager, Heska Des Moines

G. Lynn Snodgrass	37	Vice President, Sales
Nancy Wisnewski, Ph.D.	44	Vice President, Product Development and Technical Customer Service

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.

Jason A. Napolitano was appointed Executive Vice President and Chief Financial Officer in May 2002. He also served as our Secretary from May 2002 to December 2006. Prior to joining us formally, he was a financial consultant. From 1990 to 2001, Mr. Napolitano held various positions at Credit Suisse First Boston, an investment bank, including Vice President in health care investment banking and Director in mergers and acquisitions. He holds a B.S. degree from Yale University.

Joseph H. Ritter, D.V.M. was appointed Executive Vice President, Global Business Operations in March 2006. From February 2004 to February 2006, he was Vice President, Marketing and International Business. Also during part of 2004 Dr. Ritter was responsible for our sales force. From October 2002 until February 2004, he was Heska's Vice President of International Business. From 1995 until 2002 he was President and owner of Veterinary Specialties, Inc., a veterinary products distribution company. From 1984 to 1995, Dr. Ritter held various senior positions at Mallinckrodt Veterinary, Inc. including Group Vice President, America and Asia. He holds a Doctorate of Veterinary Medicine from the University of Illinois and a M.B.A. with an emphasis on international finance from the American Graduate School of International Management.

Michael A. Bent was appointed Vice President, Principal Accounting Officer and Controller in May 2002. From September 1999 until April 2002, he was Corporate Controller. From November 1993 until September 1999, Mr. Bent was Director, Accounting Operations at Coors Brewing Company. Mr. Bent holds a B.S. in accounting from the University of Wyoming. Mr. Bent is a CPA in Colorado and Wyoming.

John R. Flanders was appointed Vice President, General Counsel and Secretary in December 2006. Prior to joining Heska, Mr. Flanders held the same title at Orange Glo International, Inc., a privately held consumer products company, from 2002 to 2006. Mr. Flanders held various positions at Coors Brewing Company from 1988 to 2002, including Vice President, Deputy General Counsel. Mr. Flanders holds a Juris Doctor from the University of Denver, College of Law and a B.A. from Colorado State University. Mr. Flanders is admitted to practice law in the State and Federal courts of Colorado.

Todd M. Gilson was appointed Vice President, Marketing in January 2007. From July 2005 to December 2006, Mr. Gilson was Director, Marketing for Heska Corporation. From August 2003 to July 2005 he served as Marketing Manager for Heska. Mr. Gilson served as Product Manager at the Hain-Celestial Group from March 2003 to August 2003. He held various positions including Senior Marketing Manager for Waterpik Technologies, Inc. from January 2001 to March 2003. He held various marketing positions within Procter & Gamble from 1996 through 2001. Mr. Gilson holds a B.S. in Business Administration from Bowling Green State University.

Michael J. McGinley, Ph.D. was appointed Vice President, Operations and Technical Affairs and General Manager, Heska Des Moines in January 2002. He was Vice President, Scientific Affairs for our Diamond Animal Health, Inc. subsidiary from January 1999 to January 2002 and also served as Director, Research and Development from June 1997 to January 1999. Prior to joining Heska, Dr. McGinley held positions with Bayer Animal Health and Fort Dodge Laboratories. He holds both a Doctorate and M.S. degree in Immunobiology from Iowa State University.

G. Lynn Snodgrass was appointed Vice President, Sales in January 2007. From January 2005 to December 2006, he was Senior Director, Sales for Heska Corporation. He held various sales positions at Heska from August 1999 through December 2004. Prior to joining Heska, he held various sales positions with Luitpold Pharmaceuticals, GPC Incorporated, Merck and Company and TV Fanfare, Inc. Mr. Snodgrass holds a B.S. in Biomedical Science from Texas A&M University.

Nancy Wisnewski, Ph.D., was appointed Vice President, Product Development and Technical Customer Service in December 2006. From January 2006 to November 2006, Dr. Wisnewski was Vice President, Research and Development. She served as Senior Director, Research and Development from April 2001 until December 2005. Dr. Wisnewski held various positions in Heska's Research and Development organization between 1993 and 2001. She received a Doctorate in Parasitology/Biochemistry from the University of Notre Dame and a B.S. in Biology from Lafayette College.

Item 1A. Risk Factors

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 may be unable to successfully market, sell and distribute our products.

We may not successfully develop and maintain marketing, sales or distribution capabilities, and we may not be able to make arrangements with third parties to perform these activities on satisfactory terms. If our marketing, sales and distribution strategy is unsuccessful, our ability to sell our products will be negatively impacted and our revenues will decrease.

The market for companion animal healthcare products is highly fragmented. Because our Core Companion Animal Health proprietary products are generally available only to veterinarians or by prescription and our medical instruments require technical training to operate, we ultimately sell our Core Companion Animal Health products only to or through veterinarians. The acceptance of our products by veterinarians is critical to our success. Changes in our ability to obtain or maintain such acceptance or changes in veterinary medical practice could significantly decrease our anticipated sales.

We currently sell most of our Core Companion Animal Health products in the United States to veterinarians through an outside sales force of approximately 29 individuals, an inside sales force of approximately 23 individuals, approximately 11 independent third-party distributors who carry our full distribution line and approximately 7 independent third-party distributors who carry portions of our distribution line. To be successful in these endeavors, we will have to effectively market our products and continue to develop and train our direct sales force as well as sales personnel of our independent third-party distributors.

Independent third party distributors may be effective in increasing sales of our products to veterinarians, although we would expect a corresponding lower gross margin as such distributors typically buy products from us at a discount to end user prices. It is possible new or existing independent third party distributors could cannibalize our direct sales efforts and lower our total gross margin. To be effective when working with an independent third party distributor, the distributor must agree to market and/or sell our products and we must provide proper economic incentives to the distributor as well as contend effectively for the distributor's time and focus given other products the distributor may be carrying, potentially including those of our competitors. If we fail to be effective with new or existing independent third party distributors, our financial performance may suffer. In addition, most of our independent third party distributor agreements can be terminated on 60 days notice and we believe that IDEXX, one of our largest competitors, in effect prohibits its distributors from selling competitive products, including our diagnostic instruments and heartworm diagnostic tests. We believe this restriction limits our ability to engage national independent third party distributors to sell our full distribution line of products. In 2002, one of our largest distributors informed us that they were going to carry IDEXX products and that they no longer would carry our diagnostic instruments and heartworm diagnostic tests. In late 2004, this distributor acquired another of our distributors. We believe IDEXX in effect prohibits this distributor from carrying our diagnostic instruments and heartworm diagnostic tests as a condition for having access to buy the IDEXX product line. In the second quarter of 2005, one of our distributors purchased an IDEXX distributor and subsequently informed us that they no longer would carry our instruments and heartworm diagnostic tests. We believe IDEXX in effect prohibits this distributor from carrying our diagnostic instruments and heartworm diagnostic tests as a condition for having access to buy the IDEXX product line.

We rely substantially on third-party suppliers. The loss of products or delays in product availability from one or more third-party supplier could substantially harm our business.

To be successful, we must contract for the supply of, or manufacture ourselves, current and future products of appropriate quantity, quality and cost. Such products must be available on a timely basis and be in compliance with any regulatory requirements. Failure to do so could substantially harm our business.

We rely on third party suppliers to manufacture those products we do not manufacture ourselves. Proprietary products provided by these suppliers represent a majority of our product revenue. We currently rely on these suppliers for our veterinary instruments and consumable supplies for these instruments, for our point-of-care diagnostic and other tests, for the manufacture of our allergy immunotherapy treatment products as well as for the manufacture of other products. Major suppliers who sell us proprietary products which are responsible for more than 5% or more of our revenue are Arkray, Boule, i-STAT Corporation (currently a unit of Abbott Laboratories which is to be sold to General Electric Company based on a January 17, 2007 announcement) and Quidel. None of these suppliers sell us proprietary products which are responsible for more than 20% of our revenue, although the proprietary products of one is responsible for more than 15% of our revenue and two others are each responsible for more than 10% of our revenue. We often purchase products from our suppliers under agreements that are of limited duration or potentially can be terminated on an annual basis. In the case of our veterinary diagnostic instruments, we are typically entitled to non-exclusive access to consumable supplies for a defined period upon expiration of exclusive rights, which could subject us to competitive pressures in the period of non-exclusive access. Although we believe we have agreements in place to ensure supply of our major product offerings in the marketplace through at least the end of 2007 and we believe we are in compliance with such agreements, there can be no assurance that our suppliers will meet their obligations under these agreements or that we will be able to compel them to do so. Risks of relying on suppliers include:

- *The loss of product rights upon expiration or termination of an existing agreement.* Unless we are able to find an alternate supply of a similar product, we would not be able to continue to offer our customers the same breadth of products and our sales and operating results would likely suffer. In the case of an instrument supplier, we could also potentially suffer the loss of sales of consumable supplies, which would be significant in cases where we have built a significant installed base, further harming our sales prospects and opportunities. Even if we were able to find an alternate supply, we would likely face increased competition from the product whose rights we lost being marketed by a third party or the former supplier and it may take us additional time and expense to gain the necessary approvals and launch an alternative product.

- *High switching costs.* In certain of our diagnostic instrument products we would lose the consumable revenues from the installed base of those instruments if we were to switch to a competitive instrument. If we need to change to other commercial manufacturing contractors for certain of our regulated products, additional regulatory licenses or approvals must be obtained for these contractors prior to our use. This would require new testing and compliance inspections prior to sale thus resulting in potential delays. Any new manufacturer would have to be educated in, or develop substantially equivalent processes necessary for the production of our products. We likely would have to train our sales force, distribution network employees and customer support organization on the new product and spend significant funds marketing the new product to our customer base.

- *Loss of exclusivity.* Current agreements, or agreements we may negotiate in the future, with suppliers may require us to meet minimum annual sales levels to maintain our position as the exclusive distributor of these products. 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 significantly, reducing our revenues and/or decreasing our margins.

- *Inability to meet minimum obligations.* Current agreements, or agreements we may negotiate in the future, may commit us to certain minimum purchase or other spending obligations. It is possible we will not be able to create the market demand to meet such obligations, which could create a drain on our financial resources and liquidity. Some such agreements may require minimum purchases and/or sales to maintain product rights and we may be significantly harmed if we are unable to meet such requirements and lose product rights.

- *The involuntary or voluntary discontinuation of a product line.* Unless we are able to find an alternate supply of a similar product in this or similar circumstances with any product, we would not be able to continue to offer our customers the same breadth of products and our sales would likely suffer. Even if we are able to identify an alternate supply, it may take us additional time and expense to gain the necessary approvals and launch an alternative product, especially if the product is discontinued unexpectedly. An example of such a situation arose in 2006 when Dolphin Medical Inc. (a majority-owned subsidiary of OSI Systems, Inc.) discontinued production of our VET/OX G2 DIGITAL Monitor as part of an agreement with Masimo Corporation to settle a patent dispute.

- *Limited capacity or ability to scale capacity.* If market demand for our products increases suddenly, our current suppliers 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. If we consistently generate more demand for a product than a given supplier is capable of handling, it could lead to large backorders and potentially lost sales to competitive products that are readily available. This could require us to seek or fund new sources of supply, which may be difficult to find unless it is under terms that are less advantageous.

- *Inconsistent or inadequate quality control.* We may not be able to control or adequately monitor the quality of products we receive from our suppliers. Poor quality items could damage our reputation with our customers.

- *Regulatory risk.* Our manufacturing facility and those of some of our third party suppliers 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 suppliers' compliance with these regulations and standards. Violations could potentially lead to interruptions in supply that could cause us to lose sales to readily available competitive products.

- *Developmental delays.* We may experience delays in the scale-up quantities needed for product development that could delay regulatory submissions and commercialization of our products in development, causing us to miss key opportunities.

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

Potential problems with suppliers such as those discussed above could substantially decrease sales, lead to higher costs, damage our reputation with our customers due to factors such as poor quality goods or

delays in order fulfillment, resulting in our being unable to effectively sell our products and substantially harm our business.

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.

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. We also compete with independent, third party distributors, including distributors who sell products under their own private labels. In the point-of-care diagnostic testing market, our major competitors include IDEXX, Abaxis, Inc. and Synbiotics Corporation. The products manufactured by our OVP segment for sale by third parties compete with similar products offered by a number of other companies, some of which have substantially greater financial, technical, research and other resources than us and may have more established marketing, sales, distribution and service organization's than our OVP segment's customers. Competitors may have facilities with similar capabilities to our OVP segment, which they may operate at a lower unit price to their customers, which could cause us to lose customers. Companies with a significant presence in the companion animal health market, such as Bayer AG, Intervet International bv (a unit of Akzo Nobel N.V.), Merial Limited, Novartis AG, Pfizer Inc., Schering-Plough Corporation, Virbac S.A. and Wyeth, may be marketing or developing products that compete with our products or would compete with them if developed. These and other competitors and potential competitors may have substantially greater financial, technical, research and other resources and larger, more established marketing, sales, distribution and service organizations than we do. Our competitors may 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 health care market. Moreover, we may not have the financial resources, technical expertise or marketing, distribution or support capabilities to compete successfully. We believe that one of our largest competitors, IDEXX, in effect prohibits its distributors from selling competitive products, including our diagnostic instruments and heartworm diagnostic tests. If we fail to compete successfully, our ability to achieve sustained profitability will be limited and sustained profitability, or profitability at all, may not be possible.

If the third parties to whom we granted substantial marketing rights for certain of our existing products or future products under development are not successful in marketing those products, then our sales and financial position may suffer.

Our agreements with our corporate marketing partners generally contain no or small minimum purchase requirements in order for them to maintain their exclusive or co-exclusive marketing rights. We are party to an agreement with SPAH which grants distribution and marketing rights in the U.S. for our canine heartworm preventive product, TRI-HEART Plus Chewable Tablets. AgriLabs has the exclusive right to sell certain of our bovine vaccines in the United States, Africa, China, Mexico and Taiwan. Novartis Japan markets and distributes our SOLO STEP CH heartworm test in Japan under an exclusive arrangement and has exclusive rights to our TRI-HEART Plus Chewable Tablets in Japan. One or more of these marketing partners may not devote sufficient resources to marketing our products. Furthermore, there may be nothing to prevent these partners from pursuing alternative technologies or products that may compete with our products in current or future agreements. 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. In addition, both our agreements with SPAH and AgriLabs require us to potentially pay penalties if we are unable to supply product over an extended period of time.

We often depend on third parties for products we intend to introduce in the future. If our current relationships and collaborations are not successful, we may not be able to introduce the products we intend to in the future.

We are often dependent on third parties and collaborative partners to successfully and timely perform research and development activities to successfully develop new products. For example, we jointly developed point-of-care diagnostic products with Quidel. In other cases, we have discussed Heska marketing in the veterinary market an instrument being developed by a third party for use in the human health care market. In the future, one or more of these third parties or collaborative partners may not complete research and development activities in a timely fashion, or at all. Even if these third parties are successful in their research and development activities, we may not be able to come to an economic agreement with them. If these third parties or collaborative partners fail to complete research and development activities, fail to complete them in a timely fashion, or if we are unable to negotiate economic agreements with such third parties or collaborative partners, our ability to introduce new products will be impacted negatively and our revenues may decline.

Our stock price has historically experienced high volatility, which may increase in the future, and which could 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 microcap and smallcap companies have in the past been, and can in the future be expected to be, especially volatile. During the past 12 months, our closing stock price has ranged from a low of $1.01 to a high of $1.86. 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:

- stock sales by large stockholders or by insiders;
- our quarterly operating results, including as compared to our revenue, earnings or other guidance and in comparison to historical results;
- termination of our third party supplier relationships;
- announcements of technological innovations or new products by our competitors or by us;
- litigation;
- regulatory developments, including delays in product introductions;
- developments in our relationships with collaborative partners;
- developments or disputes concerning patents or proprietary rights;
- availability of our revolving line of credit and compliance with debt covenants;
- releases of reports by securities analysts;
- changes in regulatory policies;
- 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, it is likely

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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.

Our future revenues depend on successful research, development, commercialization and/or market acceptance, any of which can be slower than we expect or may not occur.

The research, development and regulatory approval process for many of our potential products is extensive and may take substantially longer than we anticipate. Research projects may fail. New products that we are developing for the veterinary marketplace may not perform up to our expectations. Because we have limited resources to devote to product development and commercialization, any delay in the research or development of one product or reallocation of resources to product development efforts that prove unsuccessful may delay or jeopardize the development of other product candidates. If we fail to successfully develop new products and bring them to market in a timely manner, our ability to generate additional revenue will decrease.

Even if we are successful in the research and development of a product, we may experience delays in commercialization and/or market acceptance. For example, veterinarians may be slow to adopt a product or there may be delays in producing large volumes of a product. The former is particularly likely where there is no comparable product available or historical use of such a product. For example, while we believe our E.R.D.-HEALTHSCREEN urine tests for dogs and cats represent a significant scientific breakthrough in companion animal annual health examinations, these products have achieved significantly lower market acceptance than we anticipated. The ultimate adoption of a new product by veterinarians, the rate of such adoption and the extent veterinarians choose to integrate such a product into their practice are all important factors in the economic success of one of our new products and are factors that we do not control to a large extent. If our products do not achieve a significant level of market acceptance, demand for our products will not develop as expected and our revenues will be lower than we anticipate.

Obtaining and maintaining regulatory approvals in order to market our regulated products may be costly and delay the marketing and sales of our products.

Many of the products we develop, market or manufacture 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 some 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.

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. Such delays in approval may cause us to forego a significant portion of a new product's sales in its first year due to seasonality and advanced booking periods associated with certain products. 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 facilities and/or the facilities of our third party manufacturers conform to current Good Manufacturing Practices. Our manufacturing facilities and those of our third party manufacturers must also conform to certain 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, manufacturing suspensions, 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. In addition, certain of our agreements require us to pay penalties if we are unable to supply products, including for failure to maintain regulatory approvals. Any of these events, alone or in unison, could damage our business.

The loss of significant customers could harm our operating results.

SPAH accounted for approximately 13% of our consolidated accounts receivable at December 31, 2006. No single customer accounted for more than 10% of our consolidated accounts receivable at December 31, 2005. While sales to no single customer accounted for more than 10% of consolidated revenue for the twelve month periods ended on December 31, 2006, December 31, 2005 and December 31, 2004, respectively, the loss of significant customers who, for example, are historically large purchasers or who are considered leaders in their field could damage our business and financial results. For example, Henry Schein, Inc. ("Henry Schein") acquired NLS Animal Health ("NLS") in the second quarter of 2006. Henry Schein was our largest independent third-party distributor at the time and NLS was a distributor of IDEXX products. We believe IDEXX in effect prohibits its distributors from selling competitive products, including our diagnostic instruments and heartworm diagnostic tests. Henry Schein subsequently informed us that they would no longer carry our diagnostic instruments and heartworm diagnostic tests. Henry Schein and we have agreed that Henry Schein will carry our products that do not compete directly with IDEXX under an amended distribution agreement. Henry Schein customers' purchases of our products will likely decline as it is unlikely we will completely recover purchases by these customers through direct sales and sales to other distributors. We believe IDEXX in effect prohibits Henry Schein from carrying our diagnostic instruments and heartworm diagnostic tests as a condition for having access to buy the IDEXX product line.

We may not be able to achieve sustained profitability.

Prior to 2005, we have incurred net losses on an annual basis since our inception in 1988 and, as of December 31, 2006, we had an accumulated deficit of $208.0 million. 2005 and 2006 are the only years we have achieved positive net income, and we were not profitable in every quarter of these years. Our ability to be profitable in future periods will depend, in part, on our ability to increase sales in our Core Companion Animal Health segment, including maintaining and growing our installed base of instruments and related consumables, to maintain or increase gross margins and to limit the increase in our operating expenses to a reasonable level. 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 for an extended period, we may not be able to fund our expected cash needs, including the repayment of debt as it comes due, or continue our operations.

Our common stock is listed on the Nasdaq Capital Market and we may not be able to maintain that listing, which may make it more difficult for you to sell your shares.

Our common stock is listed on the Nasdaq Capital Market. The Nasdaq has several quantitative and qualitative requirements companies must comply with to maintain this listing, including a $1.00 minimum bid price. While we believe we are currently in compliance with all Nasdaq requirements, we have not always been able to maintain compliance in the past and there can be no assurance we will maintain compliance in the future. For example, in 2005 we received two communications from Nasdaq advising us we had failed to comply with the minimum $1.00 per share bid price requirement and the $35 million minimum value of listed securities requirement, respectively. While we subsequently received communications from Nasdaq advising

us we have regained compliance in both matters and that both matters are now closed, there can be no assurance we will continue to meet these requirements or other requirements in the future. If we are delisted from the Nasdaq Capital Market, our common stock may be considered a penny stock under the regulations of the SEC and would therefore be subject to rules that impose additional sales practice requirements on broker-dealers who sell our securities. The additional burdens imposed upon broker-dealers may discourage broker-dealers from effecting transactions in our common stock, which could severely limit market liquidity of the common stock and your ability to sell our securities in the secondary market. This lack of liquidity would also make it more difficult for us to raise capital in the future.

We may face costly legal disputes, including related to our intellectual property or technology or that of our suppliers or collaborators.

We may face legal disputes related to our business. Even if meritless, these disputes may require significant expenditures on our part and could entail a significant distraction to members of our management team or other key employees. A legal dispute leading to an unfavorable ruling or settlement could have significant material adverse consequences on our business.

We have United States and foreign-issued patents and are currently prosecuting patent applications in the United States and 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.

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.

We license technology from a number of third parties. 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 and suppliers have received, and may in the future receive, notices from third parties claiming infringement and invitations to take licenses under third party patents. While we currently do not have any unresolved notices of infringement, there is no assurance that there will be none in the future. Any legal action against us or our collaborators and suppliers may require us or our collaborators and suppliers to obtain one or more licenses in order to market or manufacture affected products or services. However, we or our collaborators and suppliers may not be able to obtain licenses for technology patented by others on commercially reasonable terms, or at all, may not be able to develop alternative approaches if unable to obtain licenses, or current and future licenses may not be adequate

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for the operation of our businesses. An example of such a situation arose in 2006 when Dolphin Medical Inc. (a majority-owned subsidiary of OSI Systems, Inc.) discontinued production of our VET/OX G2 DIGITAL Monitor as part of an agreement with Masimo Corporation to settle a patent dispute. Failure to obtain necessary licenses or to identify and implement alternative approaches could prevent us and our collaborators and suppliers from commercializing our products under development and could substantially harm our business.

Interpretation of existing legislation, regulations and rules or implementation of future legislation, regulations and rules could cause our costs to increase or could harm us in other ways.

The Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”) has increased our required administrative actions as a public company. The increase in general and administrative costs of complying with Sarbanes-Oxley will depend on how it is interpreted over time. Of particular concern are the level and timing of standards for internal control evaluation and reporting adopted under Section 404 of Sarbanes-Oxley. If our regulators and/or auditors adopt or interpret more stringent standards than we are anticipating, we and/or our auditors may be unable to conclude that our internal controls over financial reporting are designed and operating effectively, which could adversely affect investor confidence in our financial statements. Even if we and our auditors are able to conclude that our internal controls over financial reporting are designed and operating effectively in such a circumstance, our general and administrative costs are likely to increase. We may be required to obtain an audit of our internal controls as of December 31, 2007 and are currently required to obtain an audit of our internal controls as of December 31, 2008. Thus, our general and administrative costs are likely to increase in the future. In addition, actions by other entities, such as enhanced rules to maintain our listing on the Nasdaq Capital Market, could also increase our general and administrative costs or have other adverse effects on us, as could further legislative, regulatory or rule-making action or more stringent interpretations of existing legislation, regulations and rules.

Many of our expenses are fixed and if factors beyond our control cause our revenue to fluctuate, this fluctuation could cause greater than expected losses, cash flow and liquidity shortfalls.

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

- supply of products from third party suppliers or termination of such relationships;
- the introduction of new products by our competitors or by us;
- competition and pricing pressures from competitive products;
- our ability to maintain relationships with independent third party distributors;
- large customers failing to purchase at historical levels, including changes in independent third party distributor purchasing patterns and inventory levels;
- fundamental shifts in market demand;
- manufacturing delays;
- shipment problems;
- regulatory and other delays in product development;
- product recalls or other issues which may raise our costs;
- changes in our reputation and/or market acceptance of our current or new products; and
- changes in the mix of products sold.

We have high operating expenses for personnel 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.

If we are unable to maintain various financial and other covenants under our credit facility agreement we will be unable to borrow any funds under the agreement and fund our operations.

Under our credit and security agreement with Wells Fargo Bank, National Association ("Wells Fargo"), as amended and restated in December 2005 and under prior agreements, we are required to comply with various financial and non-financial covenants in order to borrow under the agreement. The availability of borrowings under this agreement is essential to continue to fund our operations. Among the financial covenants is a requirement to maintain minimum liquidity (cash plus excess borrowing base) of $1.5 million. Additional requirements include covenants for minimum capital monthly and minimum net income quarterly. Although we believe we will be able to maintain compliance with all these covenants and any covenants we may negotiate in the future, there can be no assurance thereof. We have not always been able to maintain compliance with all covenants in the past. Although Wells Fargo granted us a waiver of non-compliance in each case, there can be no assurance we will be able to obtain similar waivers or other modifications if needed in the future on economic terms, if at all.

Failure to comply with any of the covenants, representations or warranties, or failure to modify them to allow future compliance, could result in our being in default under the loan and could cause all outstanding amounts and loans with our other lenders to become immediately due and payable, or impact our ability to borrow under the agreement. We intend to rely on available borrowings under the credit and security agreement to fund our operations in the future. If we are unable to borrow funds under this agreement, we will need to raise additional capital from other sources to continue our operations, which capital may not be available on acceptable terms, or at all.

We have historically not consistently generated positive cash flow from operations and may need additional capital and any required capital may not be available on acceptable terms or at all.

If our actual performance deviates from our operating plan, which anticipates we will be profitable in fiscal 2007, we may be required to raise additional capital in the future. If necessary, we expect to raise these additional funds by the sale of equity or debt securities or refinancing loans currently outstanding on assets with historical appraised values in excess of related debt. There is no guarantee that additional capital will be available from these sources on acceptable terms, if at all, and certain of these sources may require approval by existing lenders. The public markets may be unreceptive to equity financings and we may not be able to obtain additional private equity or debt financing. Any equity financing would likely be dilutive to stockholders and additional debt financing, if available, may include restrictive covenants and increased interest rates that would limit our currently planned operations and strategies. If we relinquish rights to certain of our intellectual property, or sell certain of our assets, products or marketing rights it may limit our future prospects. Additionally, amounts we expect to be available under our existing revolving line of credit may not be available and other lenders could refuse to provide us with additional debt financing. Furthermore, even if additional capital is available, it may not be of the magnitude required to meet our needs under these or other scenarios. If additional funds are required and are not available, it would likely have a material adverse effect on our business, financial condition and our ability to continue as a going concern.

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 other key personnel. The loss of the services of members of our senior management or other key personnel may significantly delay or prevent the achievement of our business objectives. Although we have an employment agreement with many of these individuals, all are at-will employees, which means that either the employee or Heska may terminate employment at any time without prior notice. If we lose the services of, or fail to recruit, key personnel, the growth of our business could be substantially impaired. We do not maintain key person life insurance for any of our senior management or key personnel.

Changes to financial accounting standards may affect our results of operations and cause us to change our business practices.

We prepare our financial statements in conformance with United States generally accepted accounting principles, or GAAP. These accounting principles are established by and are subject to interpretation by the Financial Accounting Standards Board, the American Institute of Certified Public Accountants, the SEC and various bodies formed to interpret and create appropriate accounting policies. A change in those policies can have a significant effect on our reported results and may affect our reporting of transactions completed before a change is made effective. Changes to those rules may adversely affect our reported financial results or the way we conduct our business.

We may face product returns and product liability litigation in excess of or not covered by our insurance coverage. 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 substantially 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, be required to make substantial payments which could exceed our financial capacity and/or lose or fail to achieve market acceptance. Furthermore, our agreements with some suppliers of our instruments contain limited warranty provisions, which may subject us to liability if a supplier fails to meet its warranty obligations if a defect is traced to our instrument or if we cannot correct errors reported during the warranty period. If our contractual limitations are unenforceable in a particular jurisdiction, a successful claim could require us to pay substantial damages.

We may be held liable for the release of hazardous materials, which could result in extensive clean up costs or otherwise harm our business.

Certain of our products and development programs produced at our Des Moines, Iowa facility 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, significant remediation costs and potential legal liability. In addition, we may incur substantial costs to comply with environmental regulations if we choose to expand our manufacturing capacity.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties.

Our principal administrative and research and development activities are located in Loveland, Colorado. We currently lease approximately 60,000 square feet at a facility in Loveland, Colorado under an 18-year lease agreement which expires in 2023. Our principal production facility 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 testing products, located in Carlisle, Iowa. Our European facility in Fribourg, Switzerland is leased under an agreement which expires in 2012.

Item 3. Legal Proceedings.

From time to time, we may be involved in litigation relating to claims arising out of our operations. On September 9, 2005, United Vaccines, Inc. (“United”), a customer of our OVP segment, filed a lawsuit in Madison, Wisconsin against our Diamond Animal Health, Inc. subsidiary (“Diamond”) and Heska Corporation alleging various claims, including breach of contract and breach of warranty, and demanding compensatory and punitive damages. On October 20, 2005, we filed counterclaims on behalf of Diamond as well as a motion to dismiss all claims against Heska Corporation. United filed an amended complaint on November 16, 2005 and Diamond filed an amended counterclaim on January 25, 2006. The matter proceeded to a jury trial. On October 18, 2006, all remaining claims against Diamond and Heska Corporation were dismissed and United was found in breach of contract with corresponding damages owed to Diamond. In the course of the litigation, we discovered that United had dissolved as of December 29, 2005. We also came to believe that United had transferred substantially all its assets to an Indiana Domestic Limited Liability Company (“LLC”). On December 28, 2006, United filed a Notice of Appeal with the Seventh Circuit Court of Appeals. Under a settlement and release agreement effective March 23, 2007, United agreed to have approximately $1.6 million paid to Diamond for product Diamond had previously shipped to United and other contractual obligations and all other remaining claims involving this matter were waived.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of stockholders during the fourth quarter ended December 31, 2006.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is quoted on the Nasdaq Capital Market under the symbol “HSKA.” The following table sets forth the high and low closing prices for our common stock as reported by the Nasdaq Capital Market for the periods indicated below.

	High	Low
2005		
First Quarter	$ 1.28	$ 0.75
Second Quarter	0.84	0.56
Third Quarter	0.93	0.61
Fourth Quarter	1.35	0.85
2006		
First Quarter	1.71	1.13
Second Quarter	1.18	1.02
Third Quarter	1.86	1.01
Fourth Quarter	1.78	1.50
2007		
First Quarter (through March 26)	1.73	1.56

As of March 26, 2007, there were approximately 328 holders of record of our common stock and approximately 2,981 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 than dividends payable solely in stock, under the terms of our credit facility. We currently intend to retain future earnings, if any, for the development of our business.

Equity Compensation Plan Information

The following table sets forth information about our common stock that may be issued upon exercise of options and rights under all of our equity compensation plans as of December 31, 2006, including the 1988 Stock Option Plan, the 1997 Stock Incentive Plan, the 2003 Stock Incentive Plan and the 1997 Employee Stock Purchase Plan. Our stockholders have approved all of these plans.

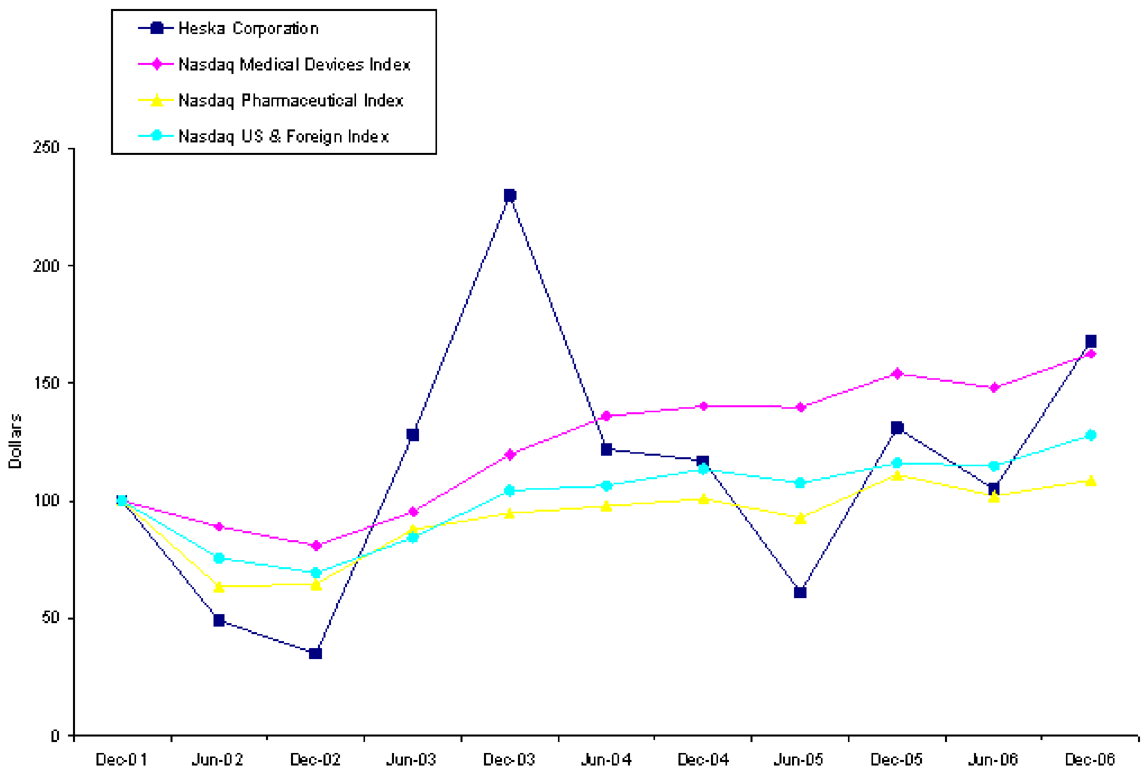
Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights	Weighted-Average Exercise Price of Outstanding Options and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
Equity Compensation Plans Approved by Stockholders	11,818,823	$ 1.36	3,963,440(1)
Equity Compensation Plans Not Approved by Stockholders	None	None	None
Total	11,818,823	$ 1.36	3,963,440

(1) Excludes shares authorized for issuance in connection with our 1997 Stock Incentive Plan which are subject to an automatic annual increase of 1,500,000 shares on January 1, 2007.

STOCK PRICE PERFORMANCE GRAPH

The following graph provides a comparison over the five-year period ended December 31, 2006 of the cumulative total stockholder return from a $100 investment in the Company's common stock with the Center for Research in Securities Prices Total Return Index for Nasdaq Medical Devices, Instruments and Supplies, Manufacturers and Distributors Stocks (the "Nasdaq Medical Devices Index"), the CRSP Total Return Index for Nasdaq Pharmaceutical Stocks (the "Nasdaq Pharmaceutical Index") and the CRSP Total Return Index for the Nasdaq Stock Market (U.S. and Foreign) (the "Nasdaq U.S. & Foreign Index").

Comparison of Cumulative Total Return Among Heska Corporation, the Nasdaq Medical Devices Index, the Nasdaq Pharmaceutical Index and the Nasdaq U.S. and Foreign Index



Item 6. Selected Consolidated Financial Data.

The following consolidated statement of operations and consolidated 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,				
	2002	2003	2004	2005	2006
	(in thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Revenue:					
Products, net of sales returns and allowances	$ 50,151	$ 64,033	$ 65,687	$ 67,549	$ 71,815
Research, development and other	1,175	1,292	2,004	1,888	3,245
Total revenue	51,326	65,325	67,691	69,437	75,060
Cost of revenue:					
Cost of products sold	30,201	38,399	42,253	42,515	43,000
Cost of research, development and other	734	626	729	1,095	1,414
Total cost of revenue	30,935	39,025	42,982	43,610	44,414
Gross profit	20,391	26,300	24,709	25,827	30,646
Operating expenses:					
Selling and marketing	13,128	15,750	15,616	14,020	14,356
Research and development	7,836	6,146	5,891	3,749	3,483
General and administrative	6,755	7,083	7,442	7,187	9,887
Restructuring expenses, (gain) on sale of assets and other	1,007	515	—	—	(155)
Total operating expenses	28,726	29,494	28,949	24,956	27,571
Income (loss) from operations	(8,335)	(3,194)	(4,240)	871	3,075
Interest and other expense, net	334	214	575	774	1,041
Income (loss) before income taxes	(8,669)	(3,408)	(4,815)	97	2,034
Income tax expense (benefit)	—	51	—	(185)	206
Net income (loss)	$ (8,669)	$ (3,459)	$ (4,815)	$ 282	$ 1,828
Basic net income (loss) per share	$ (0.18)	$ (0.07)	$ (0.10)	$ 0.01	$ 0.04
Diluted net income (loss) per share	$ (0.18)	$ (0.07)	$ (0.10)	$ 0.01	$ 0.03
Shares used for basic net income (loss) per share	47,720	48,115	49,029	49,650	50,347
Shares used for diluted net income (loss) per share	47,720	48,115	49,029	50,438	52,932
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 6,026	$ 4,877	$ 4,982	$ 5,231	$ 5,275
Total current assets	24,700	28,717	28,442	26,845	30,652
Total assets	35,585	38,896	38,724	36,784	38,495
Line of credit	7,596	7,528	10,375	9,453	8,022
Current portion of long-term debt and capital leases	2,338	783	302	1,263	1,275
Total current liabilities	19,274	18,516	23,269	20,722	21,980
Long-term debt and capital leases	770	1,746	1,466	2,703	1,927
Long-term deferred revenue and other	6,331	11,978	11,410	10,126	7,840
Total stockholders' equity	9,210	6,656	2,579	3,233	6,748

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 profit margins, selling and marketing expenses, research and development 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 Item 1A. "Risk Factors," 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 March 30, 2007, and we undertake no duty to update this information.

Overview

We discover, develop, manufacture, market, sell, distribute and support veterinary products. Our business is comprised of two reportable segments, Core Companion Animal Health, which represented 83% of 2006 product revenue, and Other Vaccines, Pharmaceuticals and Products, previously reported as Diamond Animal Health, which represented 17% of 2006 product revenue.

The Core Companion Animal Health segment ("CCA") includes diagnostic and other instruments and supplies as well as single use diagnostic and other tests, vaccines and pharmaceuticals, primarily for canine and feline use.

Diagnostic and other instruments and supplies represented approximately 45% of our 2006 product revenue. Many products in this area involve placing an instrument in the field and generating future revenue from consumables, including items such as supplies and service, as that instrument is used. Approximately 32% of our 2006 product revenue resulted from the sale of such consumables to an installed base of instruments and approximately 13% of our product revenue was from new hardware sales. A loss of or disruption in supply of consumables we are selling to an installed base of instruments could substantially harm our business. All products in this area are supplied by third parties, who typically own the product rights and supply the product to us under marketing and/or distribution agreements. In many cases, we have collaborated with a third party to adapt a human instrument for veterinary use. Major products in this area include our handheld electrolyte instrument, our chemistry instrument and our hematology instrument and their affiliated operating consumables. Revenue from products in these three areas, including revenue from consumables, represented approximately 40% of our 2006 product revenue.

Single use diagnostic and other tests, vaccines and pharmaceuticals represented approximately 38% of our 2006 product revenue. Since items in this area are single use by their nature, our aim is to build customer satisfaction and loyalty for each product, generate repeat annual sales from existing customers and expand our customer base in the future. Products in this area are both supplied by third parties and provided by us. Major products in this area include our heartworm diagnostic tests, our heartworm preventive, our allergy immunotherapy, our allergy diagnostic tests and our allergy diagnostic kits. Combined revenue from heartworm-related products and allergy-related products represented approximately 35% of 2006 product revenue.

We consider the Core Companion Animal Health segment to be our core business and devote most of our management time and other resources to improving the prospects for this segment. Maintaining a

continuing, reliable and economic supply of products we currently obtain from third parties is critical to our success in this area. Virtually all of our sales and marketing expenses are in the Core Companion Animal Health segment. The majority of our research and development spending is dedicated to this segment, as well. We strive to provide high value products and advance the state of veterinary medicine.

All our Core Companion Animal Health products are ultimately sold to or through veterinarians. In many cases, veterinarians will mark up their costs to the end user. The acceptance of our products by veterinarians is critical to our success. Core Companion Animal Health products are sold directly by us as well as through independent third party distributors and other distribution relationships, such as corporate agreements. Revenue from direct sales, independent third-party distributors and other distribution relationships represented approximately 51%, 26% and 23% of Core Companion Animal Health 2006 product revenue, respectively.

Independent third-party distributors may be effective in increasing sales of our products to veterinarians, although we would expect a corresponding lower gross margin as such distributors typically buy products from us at a discount to end user prices. To be effective when working with an independent third-party distributor, the distributor must agree to market and/or sell our products and we must provide proper economic incentives to the distributors as well as contend effectively for the distributor’s time and focus given other products the distributor may be carrying, potentially including those of our competitors. We believe that one of our largest competitors, IDEXX, in effect prohibits its distributors from selling competitive products, including our diagnostic instruments and heartworm diagnostic tests. We believe the IDEXX restrictions limit our ability to engage national distributors to sell our full distribution line of products.

We intend to sustain profitability through a combination of revenue growth, gross margin improvement and expense control. Accordingly, we closely monitor product revenue growth trends in our Core Companion Animal Health segment. Product revenue in this segment grew 10% in 2006 as compared to 2005 and has grown at a compounded annual growth rate of 19% since 1998, our first full year as a public company.

The Other Vaccines, Pharmaceuticals and Products segment (“OVP”) includes our 168,000 square foot USDA- and FDA-licensed production facility in Des Moines, Iowa. We view this facility as a strategic asset which will allow us to control our cost of goods on any vaccines and pharmaceuticals that we may commercialize in the future. We are increasingly integrating this facility with our operations elsewhere. For example, virtually all our U.S. inventory is now stored at this facility and fulfillment logistics are managed there. CCA segment products manufactured at this facility are transferred at cost and are not recorded as revenue for our OVP segment. We view OVP reported revenue as revenue primarily to cover the overhead costs of the facility and to generate incremental cash flow to fund our Core Companion Animal Health segment.

Our OVP segment includes private label vaccine and pharmaceutical production, primarily for cattle but also for other animals including small mammals and fish. All OVP products are sold by third parties under third party labels.

We have developed our own line of bovine vaccines that are licensed by the USDA. We have a long-term agreement with a distributor, Agri Laboratories, Ltd., (“AgriLabs”), for the marketing and sale of certain of these vaccines which are sold primarily under the TitaniumÒ and MasterGuardÒ brands which are registered trademarks of AgriLabs. This agreement generates a significant portion of our OVP segment’s revenue. Subject to certain purchase minimums, under our long term agreement, AgriLabs has the exclusive right to sell the aforementioned bovine vaccines in the United States, Africa, China, Mexico and Taiwan until

at least December 2009. This exclusivity may be extended under certain conditions. Our OVP segment also produces vaccines and pharmaceuticals for other third parties.

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 livestock product purposes.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon the consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expense during the periods. These estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. We have identified those critical accounting policies used in reporting our financial position and results of operations based upon a consideration of those accounting policies that involve the most complex or subjective decisions or assessment. We consider the following to be our critical policies.

Revenue Recognition

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

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

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

Recording revenue from the sale of products involves the use of estimates and management judgment. We must make a determination at the time of sale whether the customer has the ability to make payments in accordance with arrangements. While we do utilize past payment history, and, to the extent available for new customers, public credit information in making our

assessment, the determination of whether collectibility is reasonably assured is ultimately a judgment decision that must be made by management. We must also make estimates regarding our future obligation relating to returns, rebates, allowances and similar other programs.

License revenue under arrangements to sell or license product rights or technology rights is recognized as obligations under the agreement are satisfied, which generally occurs over a period of time. Generally, licensing revenue is deferred and recognized over the estimated life of the related agreements, products, patents or technology. Nonrefundable licensing fees, marketing rights and milestone payments received under contractual arrangements are deferred and recognized over the remaining contractual term using the straight-line method. Revenue from licensing technology and product rights is reported in our Research, development and other revenue line item. An example of the former, i.e. licensing technology, is a patent we own under which we have granted a third-party exclusive rights to the human healthcare market for the life of the patent in exchange for an upfront payment and royalty payments on sales of any product based on the patent. The upfront payment will be amortized over the life of the patent and reported along with any affiliated royalty payments in our Research, development and other revenue line item. An example of the latter, i.e. product rights, is our July 2002 agreement to license Intervet Inc. certain rights to patents, trademarks and know-how for our Flu AVERT I.N. equine influenza vaccine, the world's first intranasal influenza vaccine for horses. As we have no further rights to manufacture, market or sell this vaccine without Intervet Inc.'s permission, we are reporting the amortization of the upfront payment we received in this agreement along with any affiliated royalty payments in our Research, development and other revenue line item. The upfront payment is being amortized over the estimated life of the product.

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

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

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts receivable based on client-specific allowances, as well as a general allowance. Specific allowances are maintained for clients which are determined to have a high degree of collectibility risk based on such factors, among others, as: (i) the aging of the accounts receivable balance; (ii) the client's past payment experience; (iii) a deterioration in the client's financial condition, evidenced by weak financial condition and/or continued poor operating results, reduced credit ratings, and/or a bankruptcy filing. In addition to the specific allowance, the Company maintains a general allowance for credit risk in its accounts

receivable which is not covered by a specific allowance. The general allowance is established based on such factors, among others, as: (i) the total balance of the outstanding accounts receivable, including considerations of the aging categories of those accounts receivable; (ii) past history of uncollectible accounts receivable write-offs; and (iii) the overall creditworthiness of the client base. A considerable amount of judgment is required in assessing the realizability of accounts receivable. Should any of the factors considered in determining the adequacy of the overall allowance change, an adjustment to the provision for doubtful accounts receivable may be necessary.

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 of an inventory item is less than its recorded value. We review the carrying cost of our inventories by product each quarter to determine the adequacy of our reserves for obsolescence. In accounting for inventories we must make estimates regarding the estimated net realizable value of our inventory. This estimate is based, in part, on our forecasts of future sales and shelf life of product.

Capitalized Patent Costs

In the years ended December 31, 2004, 2005 and 2006, we deferred and capitalized certain costs, including payments to third-party law firms for patent prosecution to expand the scope of our patents, related to the technology or patents underlying a variety of long-term licensing agreements. We owned a portfolio of patents not then utilized in our product development or manufacture. Several entities paid upfront licensing fees to utilize the technology supported by these patents in their own product development and commercialization efforts. Because we believed that we had an obligation to protect the underlying patents, we deferred the revenue associated with these long-term agreements and the direct and incremental costs of prosecuting the patents that supported the agreements. We use the term “patent prosecution” in this context in the narrow sense often used by intellectual property professionals — to describe activities where we seek to expand the scope of existing patents such as geographically, where we may look to expand patent protection into new countries, or for broader applications, such as for newly contemplated uses or expanded claim breadth coverage of the technology defined by those licensing our technology within existing geographies. A situation where a third party has violated our intellectual property rights by using our patented technology without permission and we have filed a corresponding lawsuit would not meet this definition of “patent prosecution” and we would therefore expense the corresponding legal expenses as incurred. In accordance with SFAS No. 95, paragraph 17(c), we classified patent prosecution expenditures which were capitalized as cash used for investing activities since, like a capital expenditure to improve a building or add a piece of equipment, the cost is a necessary investment into a productive asset to maintain our future revenue process. No internal costs were capitalized. These capitalized costs were amortized over the same period as the licensing revenue related to those patents was recognized. Costs in excess of the amount of remaining related deferred licensing revenue were not capitalized, but expensed as incurred. We capitalized approximately $292 thousand, $187 thousand and $541 thousand for the years ended December 31, 2006, 2005 and 2004, respectively, and amortized approximately $334 thousand, $157 thousand and $393 thousand for the same periods, respectively. In December 2006, we sold all patents for which we had capitalized patent costs and, accordingly, we have no capitalized patent costs on our balance sheet as of December 31, 2006. We do not expect to capitalize any patent costs in the future.

Deferred Tax Assets – Valuation Allowance

Our deferred tax assets, such as a net operating loss carryforward (“NOL”), are reduced by an offsetting valuation allowance based on judgmental assessment of available evidence if we are unable to conclude that it is more likely than not that some or all of the related deferred tax assets will be realized. If we are able to conclude it is more likely than not that we will realize a future benefit from an NOL, we will reduce the related valuation allowance by an amount equal to the estimated quantity of income taxes we would pay in cash if we were not to utilize our NOL in the future. The first time this occurs in a given jurisdiction, it will result in a net deferred tax asset on our balance sheet and an income tax benefit of equal magnitude in our statement of operations in the period we make the determination. In future periods, we will then recognize as income tax expense the estimated quantity of income taxes we would have paid in cash had we not utilized our NOL. The corresponding journal entry will be a reduction of our deferred tax asset. If there is a change regarding our tax position in the future, we will make a corresponding adjustment to the related valuation allowance. As an example, in 2005 we reduced our valuation allowance related to the NOL for our Swiss operating subsidiary which resulted in a net deferred tax asset on our balance sheet and we increased this valuation allowance based on agreements subsequently obtained from tax authorities in Switzerland in 2006. Our domestic NOL represents a deferred tax asset, which has been completely offset by a valuation allowance. Based on our domestic cumulative operating losses in recent years, as well as other factors including uncertainties regarding our future operations, we have been unable to conclude that it was more likely than not that we will realize a future benefit from our domestic NOL. Accordingly, a valuation allowance has been established for the entire domestic deferred tax asset at December 31, 2006. We expect to consider this situation throughout 2007. Should we conclude it is more likely than not that we will realize a future benefit from our domestic NOL, we likely would recognize a very large income tax benefit and a corresponding deferred tax asset on our balance sheet at that time.

Results of Operations

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

	Year Ended December 31,		
	2004	2005	2006
	(in thousands except per share amounts)		

Consolidated Statement of Operations Data:			
Revenue:			
Product revenue, net:			
Core companion animal health	$ 52,719	$ 54,716	$ 59,936
Other vaccines, pharmaceuticals and products	12,968	12,833	11,879
Total product revenue	65,687	67,549	71,815
Research, development and other	2,004	1,888	3,245
Total revenue, net	67,691	69,437	75,060
Cost of revenue:			
Cost of products sold	42,253	42,515	43,000
Cost of research, development and other	729	1,095	1,414
Total cost of revenue:	42,982	43,610	44,414
Gross profit	24,709	25,827	30,646
Operating expenses:			
Selling and marketing	15,616	14,020	14,356
Research and development	5,891	3,749	3,483
General and administrative	7,442	7,187	9,887
(Gain) on sale of assets	—	—	(155)
Total operating expenses	28,949	24,956	27,571
Income (loss) from operations	(4,240)	871	3,075
Interest and other expense, net	575	774	1,041
Income (loss) before income taxes	(4,815)	97	2,034
Income tax expense (benefit)	—	(185)	206
Net income (loss)	$ (4,815)	$ 282	$ 1,828
Basic net income (loss) per share	$ (0.10)	$ 0.01	$ 0.04
Diluted net income (loss) per share	$ (0.10)	$ 0.01	$ 0.03

Revenue

Total revenue, which includes product revenue, research and development and other revenue, increased 8% to $75.1 million in 2006 compared to $69.4 million in 2005. Total revenue for 2005 increased 3% to $69.4 million from $67.7 million in 2004. Product revenue increased 6% to $71.8 million in 2006 compared to $67.5 million in 2005. Product revenue increased 3% to $67.5 million in 2005 compared to $65.7 million in 2004.

Core Companion Animal Health segment product revenue increased 10% to $59.9 million in 2006 compared to $54.7 million in 2005. Key factors in the increase were higher sales of our instrument consumables, our heartworm preventive, our heartworm diagnostic tests and our IV pumps, somewhat offset by lower sales of our hematology instruments.

2005 product revenue from our Core Companion Animal Health segment increased 4% to $54.7 million compared to $52.7 million in 2004. Key factors in the increase were higher sales of our instrument consumables, our heartworm preventive and our microalbumin laboratory packs, the latter of which we began to sell in 2005, somewhat offset by lower sales of our hematology instruments due to an offer

to certain customers who had previously purchased a hematology analyzer to upgrade to our new hematology analyzer during 2004 which was not repeated in 2005, and of our heartworm diagnostic tests.

Other Vaccines, Pharmaceuticals and Products segment (“OVP”) product revenue decreased 7% to $11.9 million in 2006 compared to $12.8 million in 2005. A key factor in the decline was lower sales of our bovine vaccines under our contract with AgriLabs, including purchases under this contract by Intervet Inc. which occurred in the first quarter of 2005 but not 2006, somewhat offset by increased sales of our bulk bovine biologicals. Intervet Inc. launched a line of bovine vaccines competitive with ours in 2005.

2005 product revenue from OVP decreased 1% to $12.8 million compared to $13.0 million in 2004. The decrease in 2005 was due to lower sales of small mammal vaccines, somewhat offset by increased sales of our bovine vaccines under our contract with AgriLabs and our fish vaccines.

Revenue from research and development and other items increased by 72% to $3.2 million in 2006 from $1.9 million in 2005. This increase was primarily due to the acceleration of approximately $1.5 million in previously deferred licensing fees recognized upon completion of the sale of a worldwide patent portfolio covering a number of major allergens and the genes that encode them (the “Allergopharma Portfolio”) in December 2006. We recognized approximately $2.1 million in licensing revenue related to the Allergopharma Portfolio in 2006, including revenue from the amortization of previous upfront payments and other payments from third parties. While we have an exclusive veterinary license to the Allergopharma Portfolio and have a service agreement related to the Allergopharma Portfolio under which we expect to generate 2007 revenue, we expect a significant decline in revenue related to the Allergopharma Portfolio in 2007 as compared to 2006.

The 2005 decrease of 6% to $1.9 million from $2.0 million in 2004 was primarily due to the reduced level of activity for research and development efforts for third parties. We recognized approximately $269 thousand and $175 thousand in 2005 and 2006, respectively, for the acceleration of deferred revenue related to terminated licensing agreements.

In 2007, we expect continued growth in our Core Companion Animal Health segment. We anticipate 2007 OVP revenue of around $13.5 million, a slight increase as compared to 2006. We expect research, development and other revenue to be approximately $1.25 million in 2007, a significant decline when compared to 2006.

Cost of Revenue

Cost of revenue consists of two components: 1) cost of products sold and 2) cost of research, development and other revenue, both of which correspond to their respective revenue categories. Cost of revenue totaled $44.4 million for the twelve months ended December 31, 2006, a 2% increase as compared to $43.6 million for the corresponding period in 2005. Gross profit increased 19% to $30.6 million for 2006 as compared to $25.8 million in 2005. Gross Margin, i.e. gross profit divided by total revenue, increased to 40.8% for 2006 as compared to 37.2% in 2005. Cost of revenue totaled $43.6 million for 2005, a 2% increase as compared to $43.0 million for 2004. Gross profit increased 5% to $25.8 million for 2005 as compared to $24.7 million in 2004. Gross Margin increased to 37.2% for 2005 as compared to 36.5% in 2004.

Cost of products sold increased 1% to $43.0 million in the twelve months ended December 31, 2006 from $42.5 million in 2005. Gross profit on product revenue increased 15% to $28.8 million for 2006 from $25.0 million in the prior year. Product Gross Margin, i.e. gross profit on product revenue divided by product revenue, increased to 40.1% in 2006 as compared to 37.1% in 2005. Key factors in the improvement were higher sales and margins in our heartworm preventive product, where we now have taken in house certain manufacturing operations we previously outsourced; higher sales and margins in our heartworm diagnostic

tests, where agreements under which we paid certain royalties expired in 2005 and 2006; and a greater proportion of product sales from instrument consumables, which typically have a higher than average gross margin. Cost of products sold increased 1% to $42.5 million in 2005 as compared to $42.3 million in 2004. Gross profit on product revenue increased 7% to $25.0 million for 2005 from $23.4 million in 2004. Product Gross Margin increased to 37.1% in 2005 as compared to 35.7% in 2004. Key factors in the improvement were higher sales and margins in our heartworm preventive product, where we now have taken in house certain manufacturing operations we previously outsourced and increased instrument consumable sales, which typically carry a higher than average gross margin, somewhat offset by certain supplier price increases resulting from a contract renegotiation in the second half of 2004.

Cost of research, development and other revenue increased 29% to $1.4 million in the twelve months ended December 31, 2006 as compared to $1.1 million in 2005. Gross profit on research, development and other revenue increased 131% to $1.8 million for 2006 from $793 thousand in 2005. Other Gross Margin, i.e. gross profit on research, development and other revenue divided by research, development and other revenue, increased to 56.4% for 2006 as compared to 42.0% in 2005. The primary reason for the increase in gross margin was the acceleration of certain previously deferred upfront licensing fees which were recognized in 2006 due to the sale of the Allergopharma Portfolio in December 2006. Cost of research, development and other revenue increased 50% to $1.1 million in 2005 as compared to $729 thousand in 2004. Gross profit on research, development and other revenue decreased 38% to $793 thousand for the twelve months ended December 31, 2005 from $1.3 million in 2004. Other Gross Margin decreased to 42.0% for 2005 as compared to 63.6% in 2004. The primary reason for the decrease is a greater proportion of patent-related costs being expensed as incurred in 2005 rather than capitalized when compared to the prior year.

We expect our gross margin on product sales will increase in 2007 as compared to 2006 as we expect to sell a greater proportion of total sales in relatively higher margin products.

Operating Expenses

Selling and marketing expenses increased by 2% to $14.4 million in 2006 compared to $14.0 million in 2005 primarily due to increased expenditures on marketing programs. Selling and marketing expenses decreased by 10% to $14.0 million in 2005 as compared to $15.6 million in 2004 primarily due to marketing spending related to the initial rollout of our new hematology instrument and greater outside consulting fees related to corporate branding in 2004.

Research and development expenses decreased by 7% to $3.5 million in 2006 from $3.7 million in 2005. A key factor in the decline was lower personnel costs. Research and development expenses decreased by 36% to $3.7 million in 2005 from $5.9 million in 2004. Key factors in the decrease were lower personnel costs and spending on clinical trials.

General and administrative expenses increased by 38% to $9.9 million in 2006 from $7.2 million in 2005. Key factors in the increase include increased compensation expense, primarily related to the accrual of our 2006 Management Incentive Plan (“MIP”) payouts and options granted to management which were expensed for accounting purposes in 2006 but not 2005, increased legal fees, primarily related to litigation with United Vaccines, Inc. (a former customer of our OVP segment), and increased rent expense. General and administrative expenses decreased by 3% to $7.2 million in 2005 from $7.4 million in 2004. Key factors in the decrease were lower consulting fees and legal fees, somewhat offset by an increase in rent expense.

In 2006, we recognized a gain of approximately $155 thousand on the sale of the Allergopharma Portfolio. The gain is equal to the sales price less the net book value of the Allergopharma Portfolio, which included all of our unamortized capitalized patent costs. We had no similar transactions in 2005 or 2004.

In 2007, we expect total operating expenses to increase as compared to 2006. We expect operating expenses generally will increase more slowly than increases in revenue from existing operations.

Interest and Other Expense, Net

Interest expense increased to $1.2 million in 2006 from $1.1 million in 2005 and $690 thousand in 2004. The increase in 2006 as compared to 2005 primarily reflects increased interest on borrowings under our credit and security agreement with Wells Fargo Bank, National Association (“Wells Fargo”) due to increases in Wells Fargo’s prime rate. The increase in 2005 as compared to 2004 reflects the greater usage of borrowings under our credit and security agreement with Wells Fargo, negotiated spread rate increases with Wells Fargo and increases in Wells Fargo's prime rate. The 2005 increase in interest expense was partially offset by a $249 thousand gain in Other, net, primarily due to gains on foreign currency translation of approximately $224 thousand. This foreign currency gain resulted primarily from a transaction under which funds were transferred from Heska AG, our operating subsidiary in Switzerland, to the United States-based parent company via an intercompany receivable/payable and certain inventory transactions involving non-U.S. dollar currencies. Because this intercompany loan was to be repaid in the foreseeable future, changes in the amount of U.S. dollars receivable by Heska AG resulting from changes in foreign currency exchange rates are required to be recorded through earnings or loss. The impact of the foreign currency exchange rate changes resulted in a gain on the loan due to a strengthening U.S. dollar relative to the Swiss franc.

We expect net interest expense to decrease in 2007 due to anticipated lower use of our revolving credit facility and lower interest rate spreads under our agreement with Wells Fargo.

Income Tax Expense (Benefit)

Historically, we have not been consistently profitable and, accordingly, have not recognized a tax benefit on our pre-tax losses. Based on the profitable operating performance of our operating subsidiary in Switzerland, Heska AG, in the fourth quarter of 2005 we concluded that our NOL in Switzerland was realizable on a more-likely-than-not basis. We reduced the related valuation allowance in the fourth quarter of 2005, resulting in an income tax benefit of approximately $185 thousand. This resulted in a net deferred tax asset of $185 thousand — equal to the estimated quantity of income taxes we would have recognized in our future statements of operations as income tax expense that we would not have to actually pay in cash as we utilized our NOL in Switzerland.

We subsequently obtained agreements from the tax authorities in the canton of Fribourg regarding the determination of our taxable income which reduced our taxable income in Switzerland in 2005 and 2006 from previous estimates for financial reporting purposes and we expect to reduce our taxable income, and thus our tax obligation, in future years as compared to prior expectations. Given our corresponding lower income expectations in Switzerland, we no longer believe we will utilize all of our NOL in Switzerland before it fully expires at the end of 2008. Accordingly, we reduced our net deferred tax asset related to this NOL and recognized a corresponding income tax expense in the fourth quarter of 2006. In addition, we recognized approximately $58 thousand of income tax expense in the fourth quarter of 2006 related to alternative minimum tax obligations in the United States.

We expect income tax expense to be less in 2007 than it was in 2006, primarily due to lower estimated taxable income in Switzerland as a result of the aforetomentioned agreements from the tax authorities in the canton of Fribourg.

Net Income (Loss)

In 2006, we recorded the second consecutive year of profitability in our history. Our 2006 net income was $1.8 million as compared to $282 thousand in 2005 and an annual loss of $4.8 million in 2004. The 2006 improvement over 2005 was due to higher revenue and higher Gross Margin, somewhat offset by increased operating expenses. The improvement from 2004 to 2005 was due to increased product revenue, higher gross profit percentage on product sales, lower operating expenses and reversal of valuation allowances against our Swiss net operating loss deferred income tax assets for Heska AG.

In 2007, we expect to increase our net income primarily due to increased revenue and increased gross margins somewhat offset by increased operating expenses.

Liquidity, Capital Resources and Financial Condition

We have incurred net cumulative negative cash flow from operations since inception in 1988. For the year ended December 31, 2006, we had total revenue of $75.1 million and net income of $1.8 million. In 2006, net cash provided by operations was $1.1 million. At December 31, 2006, we had $5.3 million of cash and cash equivalents, working capital of $8.7 million, $8.0 million of outstanding borrowings under our revolving line of credit, discussed below, and $3.2 million of other debt and capital leases.

Net cash flows from operating activities provided cash of $1.1 million in 2006 as compared to $148 thousand in 2005 and using $1.1 million in 2004. The major factors in the improvement in our cash provided from operations in 2006 as compared to 2005 was a $3.7 million increase in cash from accrued liabilities, the largest component of which was approximately $1.5 million in anticipated payouts under our MIP which were accrued at year end 2006 as compared to no such anticipated payouts in 2005, a $1.5 million improvement in our net income, a $1.1 million improvement in cash used for accounts payable and an approximately $700 thousand increase in stock-based compensation recognized for accounting purposes but not paid in cash. The latter primarily relates to the adoption of a new accounting standard related to the expensing of stock options. These factors were somewhat offset by a $3.8 million greater usage of cash from accounts receivable, primarily related to our revenue growth, an approximately $1.5 million greater usage of cash for inventory purchases and an approximately $1.0 million greater usage of cash related to deferred revenue and other long-term liabilities, primarily related to our recognition of approximately $1.5 million in previously deferred licensing fees upon completion of the sale of the Allergopharma Portfolio in December 2006. Major factors in the improvement in our cash provided from operations in 2005 as compared to the net used in 2004 were a $5.1 million improvement in our net income and an approximately $1.4 million improvement in cash provided by inventory; these items were somewhat offset by a $2.1 million decrease in cash provided by deferred revenue and other long term liabilities, primarily related to an upfront payment received for marketing rights in 2004 not repeated in 2005, a $2.0 million decrease in cash provided by accounts payable and a $1.1 million dollar decrease in accrued liabilities.

Net cash flows from investing activities provided cash of $159 thousand in 2006 as compared to using $1.5 million in 2005 and $1.4 million in 2004. Expenditures for property and equipment totaled approximately $1.2 million, $1.4 million and $1.3 million in 2006, 2005 and 2004, respectively. In 2006, the sale of certain intellectual property generated cash, after related costs, of approximately $1.6 million which was slightly larger than approximately $1.5 million in capital expenditures and capitalized patent costs. In 2004, approximately $1.8 million in capital expenditures and capitalized patent costs were somewhat offset by approximately $400 thousand of proceeds from the licensing of certain rights related to one of our products and $100 thousand of proceeds from the repayment of a loan.

Net cash flows from financing activities used cash of $1.4 million in 2006 as compared to providing $1.8 million in 2005 and $2.5 million in 2004. In 2006, the Company reduced its line of credit borrowings by

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$1.4 million and repaid principal on term debt of $763 thousand which was somewhat offset by $766 thousand in proceeds from the issuance of common stock upon option exercises and in our Employee Stock Purchase Plan. In 2005, the primary source of cash was $2.5 million from the Equipment Notes, somewhat offset by $922 thousand repayment of borrowings under our revolving line of credit with Wells Fargo. In 2004, the primary source of funds was $2.8 million in borrowings under our revolving credit facility.

At December 31, 2006, we had a $12.0 million asset-based revolving line of credit with Wells Fargo which has a maturity date of June 30, 2009 as part of our credit and security agreement with Wells Fargo. At December 31, 2006, $8.0 million was outstanding under this line of credit. Our ability to borrow under this line of credit varies based upon available cash, eligible accounts receivable and eligible inventory. On December 31, 2006, interest on the term note was charged at a stated rate of prime plus 2.5% and was payable monthly. We are required to comply with various financial and non-financial covenants, and we have made various representations and warranties. Among the financial covenants is a requirement to maintain a minimum liquidity (cash plus excess borrowing base) of $1.5 million. Additional requirements include covenants for minimum capital monthly and minimum net income quarterly. Failure to comply with any of the covenants, representations or warranties could result in our being in default on the loan and could cause all outstanding amounts payable to Wells Fargo, including those discussed above, as well as our other borrowings, to become immediately due and payable or impact our ability to borrow under the agreement. Any default under the Wells Fargo agreement could also accelerate the repayment of our other borrowings. We were in compliance with all financial covenants as of December 31, 2006. At December 31, 2006, our remaining available borrowing capacity based upon eligible accounts receivable and eligible inventory under our revolving line of credit was approximately $4.0 million.

At December 31, 2006, we also had outstanding obligations for long-term debt and capital leases totaling approximately $3.2 million primarily related to three term loans with Wells Fargo and a subordinated promissory note with a significant customer with the proceeds used for facilities enhancements. One term loan is secured by real estate in Iowa and had an outstanding balance at December 31, 2006 of approximately $693 thousand due in monthly installments of $17,658 plus interest, with a balloon payment of approximately $163 thousand due on June 30, 2009. The term loan had a stated interest rate of prime plus 2.5% on December 31, 2006. The other two term loans are secured by machinery and equipment at our Des Moines, Iowa and Loveland, Colorado locations (the “Equipment Notes”). The Equipment Notes had a stated interest rate of prime plus 2.5% on December 31, 2006. Principal payments on the Equipment Notes of $46,296 plus interest are due monthly with a balloon payment of approximately $602 thousand due upon maturity of the credit facility agreement on June 30, 2009. The subordinated promissory note is secured by our production facility, has a stated interest rate of prime plus 1.0% and a remaining balance of $500 thousand payable on May 31, 2007 and the lender has subordinated its first security interest to Wells Fargo. Our capital lease obligations totaled approximately $19 thousand at December 31, 2006.

Based on certain provisions in our agreement with Wells Fargo, we expect the interest rate on all borrowings will be prime plus 1.0% in the first quarter of 2007 and prime for the remainder of 2007.

At December 31, 2006, we had deferred revenue and other long term liabilities, net of current portion, of approximately $7.8 million. Included in this total is approximately $7.2 million of deferred revenue related to up-front fees that have been received for certain product rights and technology rights out-licensed. These deferred amounts are being recognized on a straight-line basis over the remaining lives of the agreements, products, patents or technology.

Our primary short-term need for capital, which is subject to change, is to fund our operations, which consist of continued sales and marketing, general and administrative and research and development efforts, working capital associated with increased product sales and capital expenditures relating to maintaining and

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developing our manufacturing operations. Our future liquidity and capital requirements will depend on numerous factors, including the extent to which our marketing, selling and distribution efforts, as well as those of third parties who market, sell and distribute our products, are successful in increasing revenue, the extent of the market acceptance of any new products, the extent to which currently planned products and/or technologies under research and development are successfully developed, changes required by us by regulatory bodies to maintain our operations and other factors.

Our financial plan for 2007 indicates that our available cash and cash equivalents, together with cash from operations and borrowings expected to be available under our revolving line of credit, will be sufficient to fund our operations through 2007 and into 2008. Our financial plan for 2007 expects that we will have positive cash flow from operations, primarily through increased revenue, improved gross margins and limiting any increase in operating expenses to a modest degree. However, our actual results may differ from this plan, and we may be required to consider alternative strategies. We may be required to raise additional capital in the future. If necessary, we expect to raise these additional funds through the sale of equity or debt securities or refinancing loans currently outstanding on assets with historical appraised values significantly in excess of related debt. There is no guarantee that additional capital will be available from these sources on acceptable terms, if at all, and certain of these sources may require approval by existing lenders. 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 through actions such as delaying or canceling budgeted research activities or marketing plans. These actions would likely extend the then available cash and cash equivalents, and then available borrowings. See “Risk Factors” In Item 1A.

A summary of our contractual obligations at December 31, 2006 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	$ 3,183	$ 1,267	$ 1,916	$ —	$ —
Capital Lease Obligations	19	8	11	—	—
Interest Payments on Debt	437	238	199	—	—
Line of Credit	8,022	8,022	—	—	—
Operating Leases	30,203	1,533	4,867	3,445	20,358
Unconditional Purchase Obligations	5,832	3,453	2,379	—	—
Total Contractual Cash Obligations	$ 47,696	$ 14,521	$ 9,372	$ 3,445	$ 20,358

In addition to those agreements considered above where our contractual obligation is fixed, we are party to commercial agreements which may require us to make milestone payments under certain circumstances. All milestone obligations which we believe are likely to be triggered but are not yet paid are included in "Unconditional Purchase Obligations" in the table above. We do not believe other potential milestone obligations, some of which we consider to be of remote likelihood of ever being triggered, will have a material impact on our liquidity, capital resources or financial condition in the foreseeable future.

Net Operating Loss Carryforwards

As of December 31, 2006, we had a net domestic operating loss carryforward, or NOL, of approximately $167.8 million, a domestic alternative minimum tax credit of approximately $81 thousand and a domestic research and development tax credit carryforward of approximately $307 thousand. The NOL and tax credit carryforwards are subject to alternative minimum tax limitations and to examination by the tax authorities. In addition, we had a "change of ownership" as defined under the provisions of Section 382 of the Internal Revenue Code of 1986, as amended (an "Ownership Change"). We believe the latest, and most restrictive, Ownership Change occurred at the time of our initial public offering in July 1997. We do not

believe this Ownership Change will place a significant restriction on our ability to utilize our NOLs in the future. We also have net operating loss carryforwards in Switzerland of approximately $1.9 million related to losses previously recorded by Heska AG. Heska AG also has a "tax holiday" from canton, municipal and church income taxes in the canton of Fribourg through August 31, 2007.

Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments -an amendment of FASB Statements No. 133 and 140," which simplifies accounting for certain hybrid financial instruments by permitting fair value remeasurement for any hybrid instrument that contains an embedded derivative that otherwise would require bifurcation and eliminates a restriction on the passive derivative instruments that a qualifying special-purpose entity may hold. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement (new basis) event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 will have no impact on our results of operations or our financial position.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140," which establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities by requiring that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. SFAS No. 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 156 will have no impact on our results of operations or our financial position.

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109," which establishes that the financial statement effects of a tax position taken or expected to be taken in a tax return are to be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 is not expected to have a material impact on our results of operations or our financial position.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS No. 157 is not expected to have a material impact on our results of operations or our financial position.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)," which requires a business entity to recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur. SFAS No. 158 also requires a business entity to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. As our defined benefit pension plans are currently overfunded and benefits are frozen, we recognized a corresponding asset on our balance sheet on December 31, 2006. As we do not consider this asset to be

material, the adoption of SFAS No. 158 did not have a material impact on our results of operations or our financial position.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Liabilities — including an amendment of FASB Statement No. 115”. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement will be effective for us January 1, 2008. We have not yet determined the impact, if any, that adopting this standard may have on our financial statements.

SFAS No. 123R, “Share-Based Payment” (Revised 2004)

Statement of Financial Accounting Standards No. 123 “Share-Based Payments” (“SFAS No. 123R”) was revised and promulgated in December 2004. We adopted this standard when required on January 1, 2006. On April 14, 2005, the SEC issued a release amending the compliance dates for SFAS No. 123R. Under the SEC’s new rule, companies in our position could implement SFAS No. 123R at the beginning of their next fiscal year, instead of the next reporting period as originally required under SFAS No. 123R, that begins after June 15, 2005. We originally intended to adopt SFAS No. 123R beginning on July 1, 2005 but based on the SEC’s action on April 14, 2005, we decided to adopt this standard effective on January 1, 2006. We adopted SFAS No. 123R under the modified prospective method of adoption. Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“SFAS No. 123”), which became effective in 1996, allowed for the continued measurement of compensation cost for stock-based compensation using the intrinsic value based method under Accounting Principles Board Opinion No. 25 “Accounting for Stock Issued to Employees” (“APB No. 25”), provided that pro forma disclosures were made of net income or loss, assuming the fair value based method of SFAS No. 123 had been applied. We have elected to account for our stock-based compensation plans under APB No. 25 in 2004 and 2005. Upon adoption of SFAS No. 123R, we were required to recognize compensation expense using the fair value-based model for options that vest after the effective date of SFAS No. 123R adoption, including those that were granted prior to the effective date of SFAS No. 123R adoption. This resulted in us recording compensation expense for periods after the effective date of SFAS No. 123R adoption. Historically, under APB No. 25, we have recorded minimal amounts of stock-based compensation. On December 2, 2004, the Compensation Committee of our Board of Directors considered the significant impact that the use of fair values, rather than intrinsic values, would have on our future results of operations, as well as factors including that the management team had requested that their salaries be frozen for 2005, many non-management employees’ 2005 raises were to be below market levels, no management bonus payments were made for 2004 and the 2005 management incentive plan called for a performance in excess of our internal budget before any bonus payments were to be made, and approved the acceleration of vesting of outstanding but unvested stock options with an exercise price greater than $1.08. These options were not “in-the-money” at that time, and therefore, there was no compensation expense recorded in accordance with APB No. 25 as a result of this modification. However, for pro forma purposes, in accordance with SFAS No. 123, the remaining unamortized compensation related to these options, calculated under SFAS No. 123 of approximately $2.1 million, was recorded in 2004. This action effected options to purchase approximately 2.2 million shares, approximately 1.1 million of which were held by our Directors and Executive Officers. Had this action not been taken, and had all approximately 2.2 million options continued to vest according to the vesting schedules in place prior to the acceleration, we would have recorded compensation expense related to these options of approximately $870 thousand on a pro forma basis for the year ending December 31, 2005. On February 24, 2005, our Board of Directors considered the significant impact that the use of fair values, rather than intrinsic values, would have on our future results of operations, as well as factors including that the management team had requested that their salaries be frozen for 2005, many non-management employees’ 2005 raises were to be below market levels, no management bonus payouts were made for 2004 and the 2005 management incentive plan calls for a performance in excess of our internal budget before any bonus payments are made, and authorized our Stock Option Committee, which consisted solely of our Chief

Executive Officer, to immediately vest all options granted from that date through June 30, 2005 and to accelerate the vesting of any outstanding but unvested stock options with a strike price that is not “in-the-money” at its discretion (the aggregate authorization to the Stock Option Committee to be known as the “Vesting Authorization”) through June 30, 2005; for similar reasons and understanding the SEC had issued a release amending the compliance date for SFAS No. 123R, on May 9, 2005 our Board of Directors approved the extension of the Vesting Authorization to our Stock Option Committee from June 30, 2005 to December 31, 2005. On March 30, 2005 our Stock Option Committee exercised its discretion and accelerated the vesting of outstanding but unvested stock options with a strike price greater than or equal to $0.82. These options were not “in-the-money” at that time, and therefore, there was no compensation expense recorded in accordance with APB No. 25 as a result of this modification. However, for pro forma purposes, in accordance with SFAS No. 123, the remaining unamortized compensation related to these options, calculated under SFAS No. 123 of approximately $540 thousand, was recorded in 2005. This action effected approximately 750 thousand options, approximately 55 thousand of which were held by our Directors and Executive Officers. Had this action not been taken, and had all approximately 750 thousand options continued to vest according to the vesting schedules in place prior to the acceleration, we would have recorded incremental compensation related to these options of approximately $275 thousand on a pro forma basis for the nine months ending December 31, 2005. We also have an employee stock purchase plan under which we expect to recognize compensation expense under SFAS No. 123R beginning on January 1, 2006.

There are four key inputs to the Black-Scholes model which we use to value our options: expected term, expected volatility, risk-free interest rate and expected dividends, all of which require us to make estimates. Our estimates for these inputs may not be indicative of actual future performance and changes to any of these inputs can have a material impact on the resulting fair value calculated for the option. Our expected term input was estimated in 2006 and 2005 based on our historical experience for time from option grant to option exercise for all employees and in 2004 based on a software program to which an input was our historical exercise experience for current employees; we treated all employees in one grouping in all three years. Our expected volatility input was estimated based on our historical stock price volatility in 2006 and 2005 and a combination of our historical price volatility and a peer group volatility in 2004. Our risk-free interest rate input was determined based on the U.S. Treasury yield curve at the time of option issuance in 2006, 2005 and 2004. Our expected dividends input was zero in 2006, 2005 and 2004. Different assumptions could materially impact the resulting option value calculated. In the twelve months ended December 31, 2006, we had stock option compensation of approximately $745 thousand related to recognition of the vesting of options to purchase approximately 1.1 million shares. The underlying assumptions made in valuing these stock options, weighted by number of options and stock fair value at the time of grant, were as follows: expected term of 2.89 years, expected volatility of 67%, risk-free interest rate of 4.65% and expected dividends of zero. A tranche of “at-the-money” options granted under these assumptions in the same number as above would require a fair value price of approximately $1.43 per share (the “Benchmark Tranche”) to yield the same value as above (the “Benchmark Value”). The following table represents the approximate decrease, in thousands of dollars, of the value of the Benchmark Tranche under different expected term and expected volatility assumptions assuming all other inputs are the same. For example, the Benchmark Tranche is “at-the-money” options to purchase approximately 1.1 million shares with a fair market stock value of $1.43 per share, and if the Benchmark Tranche is valued using an expected term of 2.89 years, expected volatility of 67%, a risk-free interest rate of 4.65% and expected dividends of zero, we obtain a fair value of approximately $745 thousand — the Benchmark Value. If we value the Benchmark Tranche under the same assumptions, except we assume an expected term of 5.0 years instead of 2.89 years and an expected volatility of 60% instead of 67%, we obtain a value of approximately $882 thousand, or an increase of approximately $137 thousand as compared to the Benchmark Value.

		Volatility									
		15%	30%	45%	60%	75%	90%	105%	120%	135%	150%
	1	612	523	431	342	255	169	87	8	(67)	(139)
	2	535	415	292	174	60	(48)	(149)	(243)	(328)	(404)
	3	467	328	185	48	(80)	(198)	(305)	(401)	(484)	(555)
	4	406	252	96	(52)	(188)	(311)	(418)	(510)	(586)	(650)
Time to	5	348	186	19	(137)	(277)	(400)	(504)	(589)	(657)	(711)
Expiration	6	294	125	(48)	(208)	(350)	(470)	(569)	(647)	(707)	(751)
(in years)	7	243	70	(108)	(271)	(412)	(528)	(621)	(691)	(743)	(779)
	8	194	19	(163)	(326)	(465)	(576)	(662)	(724)	(769)	(798)
	9	148	(28)	(211)	(374)	(510)	(616)	(695)	(750)	(788)	(811)
	10	105	(71)	(255)	(418)	(549)	(650)	(721)	(770)	(801)	(820)

Stock option compensation related to recognition of the vesting of options of approximately $745 thousand for the year ended on December 31, 2006 may not be indicative of the future impact of SFAS No. 123R. Assuming all options vest according to the vesting schedules in place at December 31, 2006, we have approximately $62 thousand of compensation cost to be recognized after December 31, 2006, approximately $60 thousand of which is to be recognized in the year ending December 31, 2007. The Compensation Committee of our Board of Directors is currently considering alternatives regarding different forms of long-term compensation for future use, including the continued use of stock options. The decisions of the Compensation Committee of our Board of Directors regarding stock options is likely to be a key factor in the future impact of SFAS No. 123R on our financial statements.

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.

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 effected by changes in market interest rates. At December 31, 2006, approximately $11.2 million was outstanding on these lines of credit and other borrowings with a weighted average interest rate of 10.68%. We also had approximately $5.3 million of cash and cash equivalents at December 31, 2006, the majority of which was invested in liquid interest bearing accounts. We had no interest rate hedge transactions in place on December 31, 2006. We completed an interest rate risk sensitivity analysis based on the above and an assumed one-percentage point increase/decrease in interest rates. If market rates increase/decrease by one percentage point, we would experience an increase/decrease in annual interest expense of approximately $59 thousand based on our outstanding balances as of December 31, 2006.

Foreign Currency Risk

Our investment in foreign assets consists primarily of our investment in our European subsidiary. Foreign currency risk may impact our results of operations. In cases where we purchase inventory in one currency and sell corresponding products in another, our gross margin percentage is typically at risk based on foreign currency exchange rates. In addition, in cases where we may be generating operating income in foreign currencies, the magnitude of such operating income when translated into U.S. dollars will be at risk based on foreign currency exchange rates. Our agreements with suppliers and customers vary significantly in regard to the existence and extent of currency adjustment and other currency risk sharing provisions. We had no foreign currency hedge transactions in place on December 31, 2006.

We have a wholly-owned subsidiary in Switzerland which uses the Swiss Franc as its functional currency. We purchase inventory in foreign currencies, primarily Japanese Yen and Euros, and sell corresponding products in U.S. dollars. We also sell products in foreign currencies, primarily Japanese Yen and Euros, where our inventory costs are in U.S. dollars. Based on our 2006 results of operations, if foreign currency exchange rates were to strengthen/weaken by 25% against the dollar, we would expect a resulting pre-tax loss/gain of approximately $878 thousand.

Item 8. Financial Statements and Supplementary Data.

HESKA CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Heska Corporation:

We have audited the accompanying consolidated balance sheet of Heska Corporation and its subsidiaries as of December 31, 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for the year then ended. In connection with our audit of these consolidated financial statements, we also have audited the financial statement schedule of valuation and qualifying accounts. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heska Corporation and its subsidiaries as of December 31, 2006, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related consolidated financial statement schedule of valuation and qualifying accounts, for the year ended December 31, 2006, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, as of January 1, 2006, the Company changed its method of accounting for Share-Based Payments in accordance with FASB Statement No. 123 (revised), *Share-Based Payment*. As discussed in Note 2 to the consolidated financial statements, as of January 1, 2006 the Company changed its method of accounting for defined benefit pension and other postretirement plans in accordance with FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R).*

/S/ Ehrhardt Keefe Steiner & Hottman PC

Denver, Colorado
March 23, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Heska Corporation:

We have audited the accompanying consolidated balance sheet of Heska Corporation (a Delaware corporation) and subsidiaries as of December 31, 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2004 and 2005. In connection with our audits of these consolidated financial statements, we also have audited the financial statement schedule of valuation and qualifying accounts as of December 31, 2005, and for the years ended December 31, 2004 and 2005. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heska Corporation and subsidiaries as of December 31, 2005, and the results of their operations and their cash flows for the years ended December 31, 2004 and 2005, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule of valuation and qualifying accounts, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/S/ KPMG LLP

Denver, Colorado
March 29, 2006

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

	December 31, 2005	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,231	$ 5,275
Accounts receivable, net of allowance for doubtful accounts of $88 and $98, respectively	9,008	11,372
Inventories, net	11,654	13,090
Other current assets	952	915
Total current assets	26,845	30,652
Property and equipment, net	7,428	6,948
Intangible assets, net	1,529	—
Goodwill	714	771
Deferred tax asset, net of current portion	110	32
Other assets	158	92
Total assets	$ 36,784	$ 38,495
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,186	$ 4,849
Accrued liabilities	1,481	2,489
Accrued compensation	427	2,006
Income taxes payable	—	58
Current portion of deferred revenue	2,912	3,281
Line of credit	9,453	8,022
Current portion of capital lease obligations	7	8
Current portion of long-term debt	1,256	1,267
Total current liabilities	20,722	21,980
Capital lease obligations, net of current portion	20	11
Long-term debt, net of current portion	2,683	1,916
Deferred revenue, net of current portion, and other	10,126	7,840
Total liabilities	33,551	31,747
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; 50,042,355 and 50,764,273 shares issued and outstanding, respectively	50	51
Additional paid-in capital	213,054	214,601
Accumulated other comprehensive income (loss)	(47)	92
Accumulated deficit	(209,824)	(207,996)
Total stockholders' equity	3,233	6,748
Total liabilities and stockholders' equity	$ 36,784	$ 38,495

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31, 2004	2005	2006
Revenue:			
Product revenue, net:			
Core companion animal health	$ 52,719	$ 54,716	$ 59,936
Other vaccines, pharmaceuticals and products	12,968	12,833	11,879
Total product revenue, net	65,687	67,549	71,815
Research, development and other	2,004	1,888	3,245
Total revenue, net	67,691	69,437	75,060
Cost of revenue:			
Cost of products sold	42,253	42,515	43,000
Cost of research, development and other	729	1,095	1,414
Total cost of revenue	42,982	43,610	44,414
Gross profit	24,709	25,827	30,646
Operating expenses:			
Selling and marketing	15,616	14,020	14,356
Research and development	5,891	3,749	3,483
General and administrative	7,442	7,187	9,887
(Gain) on sale of assets	—	—	(155)
Total operating expenses	28,949	24,956	27,571
Income (loss) from operations	(4,240)	871	3,075
Interest and other expense (income):			
Interest income	(25)	(63)	(69)
Interest expense	690	1,086	1,244
Other, net	(90)	(249)	(134)
Income (loss) before income taxes	(4,815)	97	2,034
Income tax expense (benefit)	—	(185)	206
Net income (loss)	$ (4,815)	$ 282	$ 1,828
Basic net income (loss) per share	$ (0.10)	$ 0.01	$ 0.04
Diluted net income (loss) per share	$ (0.10)	$ 0.01	$ 0.03
Weighted average outstanding shares used to compute basic net income (loss) per share	49,029	49,650	50,347
Weighted average outstanding shares used to compute diluted net income (loss) per share	49,029	50,438	52,932

See accompanying notes to consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
Balances, January 1, 2004	48,827	$ 49	$ 212,131	$ (165)	$ (68)	$ (205,291)	$ 6,656
Issuance of common stock related to options, ESPP and other	519	—	409	—	—	—	409
Cancellation of restricted stock	(7)	—	(7)	7	—	—	—
Recognition of stock based compensation	—	—	—	91	—	—	91
Comprehensive net income (loss):							
Net income (loss)	—	—	—	—	—	(4,815)	(4,815)
Minimum pension liability adjustments	—	—	—	—	31	—	31
Foreign currency translation adjustments	—	—	—	—	207	—	207
Comprehensive net income (loss)	—	—	—	—	—	—	(4,577)
Balances, December 31, 2004	49,339	49	212,533	(67)	170	(210,106)	2,579
Issuance of common stock related to options, ESPP and other	769	1	579	—	—	—	580
Repurchase of stock	(66)	—	(58)	—	—	—	(58)

Recognition of stock based compensation	—	—	—	67	—	—	67
Comprehensive net income (loss):							
Net income (loss)	—	—	—	—	—	282	282
Minimum pension liability adjustments	—	—	—	—	96	—	96
Unrealized gain on available for sale investments	—	—	—	—	27	—	27
Foreign currency translation adjustments	—	—	—	—	(340)	—	(340)
Comprehensive net income (loss)	—	—	—	—	—	—	65
Balances, December 31, 2005	50,042	50	213,054	—	(47)	(209,824)	3,233
Issuance of common stock related to options, ESPP and other	722	1	765	—	—	—	766
Recognition of stock based compensation	—	—	782	—	—	—	782
Comprehensive net income (loss):							
Net income (loss)	—	—	—	—	—	1,828	1,828
Minimum pension liability adjustments	—	—	—	—	(89)	—	(89)
Unrealized gain on available for sale investments	—	—	—	—	(5)	—	(5)
Foreign currency translation adjustments	—	—	—	—	233	—	233
Comprehensive net income (loss)	—	—	—	—	—	—	1,967
Balances, December 31, 2006	50,764	$ 51	$ 214,601	$ —	$ 92	$ (207,996)	$ 6,748

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31, 2004	2005	2006
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Net income (loss)	$ (4,815)	$ 282	$ 1,828
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Depreciation and amortization	1,337	1,850	1,671
Amortization of intangible assets	393	157	334
Deferred tax (benefit) expense	—	(185)	148
Stock based compensation	91	90	782
Loss (gain) on disposition of assets	—	17	(155)
Unrealized gain on foreign currency translation	—	(149)	(161)
Changes in operating assets and liabilities:			
Accounts receivable	2,067	1,585	(2,200)
Inventories	(1,398)	38	(1,419)
Other current assets	(261)	86	84
Other long-term assets	(2)	84	—
Accounts payable	511	(1,494)	(349)
Accrued liabilities and other	(199)	(1,265)	2,421
Income taxes payable	—	—	58
Deferred revenue and other long-term liabilities	1,138	(948)	(1,917)
Net cash provided by (used in) operating activities	(1,138)	148	1,125
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from licensing of technology and product rights	400	—	—
Proceeds from sale of assets, net of related costs	—	—	1,640
Proceeds from repayment of loan	—	100	—
Purchases of property and equipment	(1,290)	(1,376)	(1,189)
Capitalized patent costs	(541)	(187)	(292)
Net cash provided by (used in) investing activities	(1,431)	(1,463)	159
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	409	557	766
Repurchase of stock	—	(58)	—
Proceeds from (repayments of) line of credit borrowings, net	2,847	(922)	(1,431)
Proceeds from long-term debt	—	2,500	—
Repayments of debt and capital lease obligations	(761)	(302)	(763)
Net cash provided by (used in) financing activities	2,495	1,775	(1,428)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	179	(211)	188
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	105	249	44
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,877	4,982	5,231
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,982	$ 5,231	$ 5,275

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") discovers, develops, manufactures, markets, sells, distributes and supports veterinary products. Heska's core focus is on the canine and feline companion animal health markets. The Company has devoted substantial resources to the research and development of innovative products in these areas, where it strives to provide high value products for unmet needs and advance the state of veterinary medicine.

Heska is comprised of two reportable segments, Core Companion Animal Health and Other Vaccines, Pharmaceuticals and Products. The Core Companion Animal Health segment includes diagnostic and other instruments and supplies as well as single use diagnostic and other tests, vaccines and pharmaceuticals, primarily for canine and feline use. These products are sold directly by the Company as well as through independent third party distributors and other distribution relationships. The Other Vaccines, Pharmaceuticals and Products segment ("OVP"), previously reported as the Diamond Animal Health segment, includes private label vaccine and pharmaceutical production, primarily for cattle but also for other animals including small mammals and fish. All OVP products are sold by third parties under third party labels.

Cumulative net losses from inception of the Company in 1988 through December 31, 2006, have totaled $208.0 million. During the year ended December 31, 2006, the Company recorded a net income of approximately $1.8 million and operations provided cash of approximately $1.1 million. The Company's ability to achieve sustained profitable operations will depend primarily upon its ability to successfully market its products and commercialize new products. There can be no guarantee that the Company will be successful in these endeavors or attain quarterly, annual, or sustained profitability in the future.

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 of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are required when establishing the allowance for doubtful accounts and the provision for excess/obsolete inventory, in determining the period over which the Company's obligations are fulfilled under agreements to license product rights and/or technology rights, evaluating long-lived assets for impairment and in determining the need for, and the amount of, a valuation allowance on deferred tax assets.

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on historical write-off experience. The Company reviews its allowance for doubtful accounts monthly. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents and accounts receivable. The Company maintains the majority of its cash and cash equivalents 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 currency foreign hedging arrangements. Its accounts receivable balances are due primarily from domestic veterinary clinics and individual veterinarians, and both domestic and international corporations.

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. The Company valued its European Euro and Japanese Yen cash accounts at the spot market foreign exchange rate as of each balance sheet date, with changes due to foreign exchange fluctuations recorded in current earnings. The Company held 1,001,317 and 1,607,633 Euros at December 31, 2005 and 2006, respectively. The Company held 30,178,209 and 50,954,278 Yen at December 31, 2005 and 2006, respectively. The Company held 1,034,905 and 1,347,692 Swiss Francs at December 31, 2005 and 2006, respectively. The Company held 1,970 and 1,202 British Pounds at December 31, 2005 and 2006, respectively.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, short-term trade receivables and payables and notes payable, including the revolving line of credit. The carrying values of cash and cash equivalents and short-term trade receivables and payables approximate fair value. The fair value of notes payable is estimated based on current rates available for similar debt with similar maturities and collateral, and at December 31, 2005 and 2006, approximates the carrying value due primarily to the floating rate of interest on such debt instruments.

Inventories

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

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

	December 31, 2005	December 31, 2006
Raw materials	$ 3,002	$ 5,337
Work in process	3,090	3,426
Finished goods	6,318	5,851
Allowance for excess or obsolete inventory	(756)	(1,524)
	$ 11,654	$ 13,090

Property and Equipment

Property and equipment are recorded at cost and depreciated on a straight-line 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.

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

	Estimated Useful Life	December 31, 2005	December 31, 2006
Land	N/A	$ 377	$ 377
Building	10 to 20 years	2,678	2,678
Machinery and equipment	3 to 15 years	20,427	19,503
Leasehold and building improvements	7 to 15 years	4,931	5,230
		28,413	27,788
Less accumulated depreciation and amortization		(20,985)	(20,840)
		$ 7,428	$ 6,948

Depreciation and amortization expense for property and equipment was $1.3 million, $1.9 million and $1.7 million for the years ended December 31, 2004, 2005 and 2006, respectively.

Realizability of Long-Lived Assets

The Company continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision, or that the remaining balance of these assets may not be recoverable. When deemed necessary, the Company completes this evaluation by comparing the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. If such evaluations indicate that the future undiscounted cash flows of amortizable long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their estimated fair values.

Goodwill and Other Intangible Assets

Goodwill is subject to an annual assessment for impairment. Impairment is indicated when the carrying amount of the related reporting unit is greater than its estimated fair value.

The Company's recorded goodwill relates to the 1997 acquisition of Heska AG, the Company's Swiss operating subsidiary. This goodwill is reviewed at least annually for impairment. At December 31, 2005 and 2006, goodwill was approximately $714 thousand and $771 thousand, respectively, and is included in the assets of the Core Companion Animal Health segment. The Company completed its annual analysis of the fair value of its goodwill at December 31, 2006 and determined there was no indicated impairment of its goodwill. The change in carrying value of the goodwill between years was solely due to foreign currency rate changes. There can be no assurance that future goodwill impairments will not occur. There are no other intangible assets that are not being amortized on a periodic basis.

The Company incurred costs, paid to third-party law firms, to prosecute patents on its proprietary technologies. The Company capitalized qualifying costs related to its patents. At December 31, 2005, the cost basis of the capitalized patent costs was approximately $2.3 million, the accumulated amortization was approximately $748 thousand, and the net book value was approximately $1.5 million. These costs were amortized over an average life of 15 years which was the estimated life of the patents. Related amortization expense for the years ended December 31, 2004, 2005 and 2006, was approximately $393 thousand, $157 thousand and $334 thousand, respectively. In December 2006, the Company sold the patents underlying these capitalized patent costs for a gain of approximately $155 thousand over the then book value affiliated with the sale of these patents, which included these capitalized patent costs. Accordingly, the Company had no capitalized patent costs at December 31, 2006.

Derivative Instruments and Hedging Activities

The Company has utilized derivative financial instruments to reduce financial market risks in the past. If used, 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 had no hedging activities in 2004, 2005 and 2006.

Revenue Recognition

The Company generates its revenues through sale of products and services, licensing of product and technology rights, and research and development services. Revenue is accounted for in accordance with the guidelines provided by SEC Codification of Staff Accounting Bulletins, Topic 13: Revenue Recognition. 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, if required, with an appropriate provision for estimated returns and other 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. The Company maintains an allowance for sales returns based upon its customer policies and historical experience. Shipping and handling costs charged to customers is included as revenue, and the related costs are recorded as a component of cost of products sold.

In addition to its direct sales force, the Company utilizes independent 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.

Upfront payments received by the Company under arrangements for product, patent or technology rights in which the Company retains an interest in the underlying product, patent or technology are initially deferred, and revenue is subsequently recognized over the estimated life of the agreement, product, patent or technology. The Company received approximately $3.2 million, $560 thousand and $295 thousand of such

payments in 2004, 2005 and 2006, respectively. Revenue from royalties is recognized based upon historical experience or as the Company is informed of sales to which it is entitled to royalties.

For multiple-element arrangements that are not subject to a higher level of authoritative literature, the Company follows the guidelines of the Financial Accounting Standards Board's ("FASB") Emerging Issues Task Force ("EITF") Issue No. 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"), in determining the separate units of accounting. For those arrangements subject to the separation criteria of EITF 00-21, the Company accounts for each of the individual units of accounting as a separate and discrete earnings process considering, among other things, whether a delivered item has value to the client on a standalone basis. For such multiple-element arrangements, total revenue is allocated to the separate units of accounting based upon objective and reliable evidence of the fair value of the undelivered item. The determination of separate units of accounting, and the determination of objective and reliable evidence of fair value of the undelivered item, both require judgments to be made by the Company.

Cost of Products Sold

Royalties payable in connection with certain licensing agreements (see Note 9) are reflected in cost of products sold as incurred.

Stock-Based Compensation

During the years ended December 31, 2004 and 2005, the Company accounted for its stock-based compensation plans using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), and related interpretations, and follows the disclosure provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123") and Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure" ("SFAS No. 148"). Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004) "Share-Based

Payment" ("SFAS No. 123R"). Any accounting difference between SFAS No. 123R and SFAS No. 123, as historically applied by the Company, shall be defined as the "123R Effect". During the year ended December 31, 2006, the 123R Effect reduced the Company's income from continuing operations, income before income taxes and net income by $782 thousand, basic and diluted earnings per share by $0.02 and $0.01 per share, respectively, and did not have a material impact on cash flow from operations and cash flow from financing. At December 31, 2006, the Company had two stock-based compensation plans. See Note 6 for a description of these plans and additional disclosures regarding the plans. The Company recorded compensation expense of $91 thousand and $67 thousand for the years ended December 31, 2004 and 2005, respectively, related to grants of restricted common stock. The Company recognized $23 thousand of compensation expense related to the exercise of one option in 2005. For the year ended December 31, 2006, the Company recorded compensation expense of approximately $782 thousand related to its stock-based compensation plans.

Had compensation expense for the Company's stock-based compensation plans been based on the fair value at the grant dates for awards under those plans, consistent with the methodology of SFAS No. 123, the Company's net loss and net loss per share for the years ended December 31, 2004 and 2005 would approximate the pro forma amounts as follows (in thousands, except per share amounts):

	Year Ended December 31, 2004	Year Ended December 31, 2005
	(in thousands except per share data)	
Net income (loss) as reported	$ (4,815)	$ 282
Stock-based employee compensation expense included in the determination of net loss, as reported	91	90
Stock-based employee compensation expense as if the fair value based method had been applied to all awards	(4,129)	(3,175)
Net income (loss), pro forma	$ (8,853)	$ (2,803)
Net income (loss) per share:		
Basic and diluted — as reported	$ (0.10)	$ 0.01
Basic and diluted — pro forma	$ (0.18)	$ (0.06)

As discussed in more detail in Note 6, in December 2004 and March 2005 the vesting of options to purchase approximately 2.2 million shares and 750 thousand shares, respectively, was accelerated. These options were not "in-the-money" at the time of acceleration and, therefore, there was no compensation expense recorded in accordance with APB No. 25 as a result of the modifications. However, for pro forma purposes in accordance with SFAS No. 123, the remaining unamortized compensation related to these options, calculated under SFAS No. 123 of approximately $2.1 million and $540 thousand was recorded in 2004 and 2005, respectively, and included in the table above.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expenses were $712 thousand, $353 thousand and $443 thousand for the years ended December 31, 2004, 2005 and 2006, respectively.

Income Taxes

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

Basic and Diluted Net Income (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. In 2004, due to the Company's net loss, all potentially dilutive securities are anti-dilutive and as a result, basic net loss per share is the same as diluted net loss per share for all periods prior to 2005. At December 31, 2005 and 2006, securities that have been excluded from diluted net income (loss) per share because they would be anti-dilutive are outstanding options to purchase 7,918,601 and 3,721,800 shares, respectively, of the Company's

common stock. Securities included in the diluted net income per share calculation at December 31, 2005 and 2006, using the treasury stock method, were outstanding options to purchase approximately 788 thousand and 2.6 million shares of the Company's common stock, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss), as shown in the Consolidated Statement of Stockholders' Equity, includes net income (loss) adjusted for the results of certain stockholders' equity changes. Such changes include foreign currency items and minimum pension liability adjustments. At December 31, 2006, Accumulated Other Comprehensive Income consists of $159 thousand gain for cumulative translation adjustments, $89 thousand for unrealized pension liability and $22 thousand of unrealized gain on available for sale investments. At December 31, 2005, Accumulated Other Comprehensive Income consists of $74 thousand loss for cumulative translation loss adjustments and $27 thousand of unrealized gain on available for sale securities. At December 31, 2004, Accumulated Other Comprehensive Loss consists of cumulative translation loss adjustments of $311 thousand and income from minimum pension liability adjustments and other of $141 thousand.

Foreign Currency Translation

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

New Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments -an amendment of FASB Statements No. 133 and 140," which simplifies accounting for certain hybrid financial instruments by permitting fair value remeasurement for any hybrid instrument that contains an embedded derivative that otherwise would require bifurcation and eliminates a restriction on the passive derivative instruments that a qualifying special-purpose entity may hold. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement (new basis) event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 will have no impact on the Company's results of operations or the Company's financial position.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140," which establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities by requiring that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. SFAS No. 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 156 will have no impact on the Company's results of operations or financial position.

In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109," which establishes that the financial statement effects of a tax position taken or expected to be taken in a tax return are to be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. FIN 48 is effective for fiscal years beginning after December 15, 2006. The

adoption of FIN 48 is not expected to have a material impact on the Company's results of operations or financial position.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS No. 157 is not expected to have a material impact on the Company's results of operations or financial position.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)," which requires a business entity to recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur. SFAS No. 158 also requires a business entity to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. The Company's defined benefit pension plan is currently overfunded and benefits are frozen. The adoption of SFAS No. 158 has been reflected in the Company's results of operations and financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Liabilities — including an amendment of FASB Statement No. 115". SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement will be effective for us January 1, 2008. The Company has not yet determined the impact, if any, that adopting this standard may have on its financial statements.

The Company adopted SFAS No. 123R effective January 1, 2006 under the modified prospective method of adoption. This pronouncement requires companies to measure the cost of employee services received in exchange for an award of equity instruments (including stock options) based on the grant-date fair value of the award. The fair value is estimated using option pricing models where applicable. The resulting cost is recognized over the period during which an employee is required to provide service in exchange for the award, usually the vesting period. This represents a change in accounting for the Company's stock option plans and employee stock purchase plan. Prior to the Company's adoption of SFAS No. 123R on January 1, 2006, the Company measured stock-based compensation under the intrinsic value based method of APB No. 25 with pro forma disclosures of net income or loss assuming the fair value method of SFAS No. 123, which became effective in 1996, had been applied.

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. At December 31, 2005 and 2006, the Company had capitalized machinery and equipment under capital leases with a gross value of approximately $38 thousand and $38 thousand, respectively, and net book value of approximately $25 thousand and $17 thousand, respectively. The capitalized cost of the equipment under capital leases is included in the accompanying consolidated 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 2009, at interest rates ranging from 11.0% to 14.0% 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, 2006 were as follows (in thousands):

Year Ending December 31,	
2007	$ 10
2008	10
2009	2
2010	—
Total future minimum lease payments	22
Less amount representing interest	3
Present value of future minimum lease payments	19
Less current portion	8
Total long-term capital lease obligations	$ 11

4. LONG-TERM DEBT

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

	December 31, 2005	December 31, 2006
Promissory note to the City of Des Moines was paid in full in June 2006.	$ 34	$ —
Real estate mortgage loan with a commercial bank, due in monthly installments, with the balance due of $163 thousand in full June 30, 2009, with a stated interest rate of prime plus 2.75% at December 31, 2005 and prime plus 2.5% at December 31, 2006 (10.0% and 10.75%, respectively).	905	693
Term loan with a commercial bank, secured by machinery and equipment, due in monthly installments beginning February 2006 with the balance due of $481 thousand in full June 30, 2009, with a stated interest rate of prime plus 2.75% at December 31, 2005 and prime plus 2.5% at December 31, 2006 (10.0% and 10.75%, respectively).	2,000	1,592
Term loan with a commercial bank, secured by machinery and equipment, due in monthly installments beginning February 2006 with the balance due of $120 thousand in full June 30, 2009, with a stated interest rate of prime plus 2.75% at December 31, 2005 and prime plus 2.5% at December 31, 2006 (10.0% and 10.75%, respectively).	500	398
Subordinated promissory note with a significant customer for facilities improvements in Des Moines, secured by the manufacturing facility, due in May 2007, with a stated interest rate of prime plus 1.0% at December 31, 2005 and December 31, 2006 (8.25% and 9.25%, respectively).	500	500
	3,939	3,183
Less installments due within one year	(1,256)	(1,267)
	$ 2,683	$ 1,916

The Company has a credit and security agreement with Wells Fargo Bank, National Association which expires June 30, 2009. The agreement includes the real estate mortgage loan and term loans above, and a $12.0 million asset-based revolving line of credit with a stated interest rate at December 31, 2006 of prime plus 2.5%. Amounts due under the credit facility are secured by a first security interest in essentially all of the Company's assets. 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 monthly minimum liquidity. The amount available for borrowings under the line of credit varies based upon available cash, eligible accounts receivable and eligible inventory. As of December 31, 2006, approximately $8.0 million was outstanding on the line of credit and there was $4.0 million available capacity for additional borrowings under the line of credit agreement.

Maturities of long-term debt as of December 31, 2006 were as follows (in thousands):

Year Ending December 31,	
2007	$1,267
2008	767
2009	1,149
2010	—
	$3,183

5. INCOME TAXES

As of December 31, 2006, the Company had a net domestic operating loss carryforward ("NOL"), of approximately $167.8 million, a domestic alternative minimum tax credit of approximately $81 thousand and a domestic research and development tax credit carryforward of approximately $307 thousand. The NOL and tax credit carryforwards are subject to alternative minimum tax limitations and to examination by the tax authorities. In addition, the Company had a "change of ownership" as defined under the provisions of Section 382 of the Internal Revenue Code of 1986, as amended (an "Ownership Change"). The Company believes the latest, and most restrictive, Ownership Change occurred at the time of its initial public offering in July 1997. The Company does not believe this Ownership Change will place a significant restriction on its ability to utilize its NOL in the future. The Company also had an NOL of approximately $1.9 million in Switzerland at December 31, 2006 related to losses previously recorded by Heska AG, the Company's operating subsidiary in Switzerland.

Based on the profitable operating performance of Heska AG, the Company's evaluation determined that its NOL in Switzerland was realizable on a more-likely-than-not basis and the related valuation allowance was released in the fourth quarter of 2005, resulting in an income tax benefit of approximately $185 thousand and a corresponding net deferred tax asset of approximately $185 thousand on December 31, 2005. The Company subsequently obtained agreements from the tax authorities in the canton of Fribourg (the "Tax Agreements") regarding the Company's determination of taxable income. The Company anticipates the Tax Agreements will reduce the Company's taxable income and therefore tax obligation in Switzerland in future years as compared to prior expectations. In addition, the Tax Agreements reduced the Company's taxable income in Switzerland in 2005 and 2006 from previous estimates for financial reporting purposes. Accordingly, due to the Company's lower income expectations in Switzerland related to the Tax Agreements, the Company no longer believes it will be able to utilize all of its NOL in Switzerland before it fully expires and has made an associated reduction in its net deferred tax asset via an increase in the related valuation allowance along with a corresponding income tax expense journal entry in the fourth quarter of 2006. At December 31, 2006 the Company had total deferred tax assets of approximately $49 thousand. As a result of the Tax Agreements, the Company has a smaller net deferred tax asset, lower foreign taxable income and greater domestic taxable income than the Company estimated when it reported its results for the year ended December 31, 2005. Heska AG has a "tax holiday" from canton, municipal and church income taxes in the canton of Fribourg through August 31, 2007. These tax holidays reduce the amount of deferred tax asset that would otherwise be recorded by approximately $14 thousand. The Company does not have a "tax holiday" for federal taxes in Switzerland. The Company also recognized approximately $58 thousand of income tax expense for the year ended December 31, 2006 related to alternative minimum income tax obligations in the United States. The Company's domestic NOL represents a deferred tax asset, which has been completely offset by a valuation allowance. Based on the Company's domestic cumulative operating losses in recent years, as well as other factors including uncertainties regarding the Company's future operations, the Company has been unable to conclude that it was more likely than not on December 31, 2006 that the Company will realize a future benefit from its domestic NOL. Accordingly, a valuation allowance has been established for the entire domestic deferred tax asset and no benefit for domestic income taxes has been recognized in the accompanying consolidated statements of operations.

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

	Year Ended December 31,		
	2004	2005	2006
Domestic	$ (5,718)	$ (1,080)	$ 1,976
Foreign	903	1,177	58
	$ (4,815)	$ 97	$ 2,034

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

	December 31,	
	2005	2006
Current deferred tax assets (liabilities):		
Inventory	$ 309	$ 555
Accrued compensation	17	52
Net operating loss carryforwards—foreign	75	17
Other	317	347
	718	971
Valuation allowance	(643)	(954)
Total current deferred tax assets (liabilities)	$ 75	$ 17
Noncurrent deferred tax assets (liabilities):		
Research and development and other credits	$ 330	$ 388
Deferred revenue	4,853	4,217
Amortization of intangible assets	(584)	—
Property and equipment	945	925
Net operating loss carryforwards—domestic	65,635	64,345
Net operating loss carryforwards—foreign	110	32
	71,289	69,907
Valuation allowance	(71,179)	(69,875)
Total noncurrent deferred tax assets (liabilities)	$ 110	$ 32

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

	Year Ended December 31,		
	2004	2005	2006
Current income tax expense (benefit):			
Federal	$ —	$ —	$ 58
State	—	—	—
Foreign	—	—	—

Total current expense (benefit)	—	—	58
Deferred income tax expense (benefit):			
Federal	(1,790)	—	—
State	(231)	—	—
Foreign	—	(185)	148
Total deferred benefit	(2,021)	(185)	148
Valuation allowance	2,021	—	—
Total income tax expense (benefit)	$ —	$ (185)	$ 206

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, 2004	2005	2006
Statutory federal tax rate	(34)%	34%	35%
State income taxes, net of federal benefit	(4)%	4%	4%
Other permanent differences	1%	107%	9%
Foreign NOL utilization	—	(95)%	—
Foreign rate difference	—	(199)%	2%
Current year impact of foreign tax holiday	—	(166)%	(1)%
Loss of foreign NOL benefit under new tax rate agreement	—	—	7%
Swiss NOL carryforward	—	(190)%	(1)%
Change in valuation allowance	37%	352%	(50)%
Other	—	(38)%	5%
Effective income tax rate	0%	(191)%	10%

6. CAPITAL STOCK

Stock Option Plans

The Company has two stock option plans which authorize 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. In May 2003, the stockholders approved a new plan, the 2003 Stock Incentive Plan, which allows for the granting of options for up to 2,390,500 shares of the Company's common stock. The number of shares reserved for issuance under all plans as of January 1, 2007 was 4,910,988.

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

There are four key inputs to the Black-Scholes model which the Company uses to estimate fair value for options which it issues: expected term, expected volatility, risk-free interest rate and expected dividends, all of which require the Company to make estimates. The Company's estimates for these inputs may not be indicative of actual future performance and changes to any of these inputs can have a material impact on the resulting estimated fair value calculated for the option. The Company's expected term input was estimated based on the Company's historical experience for time from option grant to option exercise for all employees in 2006 and 2005 and based on a software program to which an input was the Company's historical exercise experience for current employees in 2004; the Company treated all employees in one grouping in all three years. The Company's expected volatility input was estimated based on the Company's historical stock price volatility in 2006 and 2005 and a combination of the Company's historical stock price volatility and a peer group volatility in 2004. The Company's risk-free interest rate input was determined based on the U.S. Treasury yield curve at the time of option issuance in 2006, 2005 and 2004. The Company's expected

dividends input was zero in 2006, 2005 and 2004. Weighted average assumptions used in 2006, 2005 and 2004 for each of these four key inputs are listed in the following table.

	2004	2005	2006
Risk-free interest rate	3.62%	4.17%	4.81%
Expected lives	4.5 years	2.8 years	2.8 years
Expected volatility	76%	86%	65%

Expected dividend yield	0%	0%	0%

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

	Year Ended December 31,					
	2004		2005		2006	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of period	7,954,648	$ 1.5163	9,350,959	$ 1.4509	11,989,582	$ 1.3251
Granted at Market	2,575,830	$ 1.8890	3,999,897	$ 1.0130	1,078,891	$ 1.5175
Granted above Market	418	$ 2.6300	—	$ —	—	$ —
Cancelled	(792,963)	$ 3.8742	(821,161)	$ 1.6345	(681,377)	$ 1.3042
Exercised	(386,974)	$ 0.7476	(540,113)	$ 0.7222	(568,273)	$ 1.0418
Outstanding at end of period	9,350,959	$ 1.4509	11,989,582	$ 1.3251	11,818,823	$ 1.3575
Exercisable at end of period	7,939,567	$ 1.5532	11,765,335	$ 1.3373	11,792,445	$ 1.3585

The total estimated fair value of stock options granted during the years ended December 31, 2006, 2005 and 2004 were computed to be approximately $718 thousand, $2.2 million and $3.0 million, respectively. The amounts are amortized ratably over the vesting periods of the options. The weighted average estimated fair value of options granted during the years ended December 31, 2006, 2005 and 2004 was computed to be approximately $0.68, $0.56 and $1.16, respectively. The total intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 were $251 thousand, $123 thousand and $483 thousand, respectively. The cash proceeds from options exercised during the years ended December 31, 2006, 2005 and 2004 were $592 thousand, $390 thousand and $289 thousand. The Company does not consider the tax benefit realized as a result of the exercise of these options to be material given the Company's relatively large NOL in the United States.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2006.

	Options Outstanding			Options Exercisable	
Exercise Prices	Number of Options Outstanding at December 31, 2006	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number of Options Exercisable at December 31, 2006	Weighted Average Exercise Price
$0.34 — $0.87	1,994,613	6.15	$ 0.6457	1,982,402	$ 0.6454
$0.88 — $1.05	2,364,021	7.71	$ 0.9008	2,364,021	$ 0.9008
$1.06 — $1.24	1,964,429	5.71	$ 1.1220	1,950,262	$ 1.1222
$1.25 — $1.68	2,937,738	7.95	$ 1.3822	2,937,738	$ 1.3822
$1.69 — $13.75	2,558,022	6.50	$ 2.4869	2,558,022	$ 2.4869
$0.34 — $13.75	11,818,823	6.91	$ 1.3575	11,792,445	$ 1.3585

As of December 31, 2006, there was $62 thousand of total unrecognized compensation expense related to outstanding stock options. That cost is expected to be recognized over a weighted-average period of 0.4 years with all cost to be recognized by the end of May 2008, assuming all options vest according to the

vesting schedules in place at December 31, 2006. As of December 31, 2006, the aggregate intrinsic value of outstanding options was approximately $5.9 million and the aggregate intrinsic value of exercisable options was approximately $5.9 million.

Modifications to and Vesting of Certain Stock Option Grants

On December 2, 2004 the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") considered the significant impact that the use of fair values, rather than intrinsic values, would have on the Company's future results of operations, as well as factors including that the management team had requested that their salaries be frozen for 2005, many non-management employees' 2005 raises were to be below market levels, no management bonus payments were made for 2004 and the 2005 management incentive plan called for a performance in excess of the Company's internal budget before any bonus payments were to be made, and approved the acceleration of vesting of outstanding but unvested stock options with an exercise price greater than $1.08. These options were not "in-the-money" at that time, and therefore, there was no compensation expense recorded in accordance with APB No. 25 as a result of this modification. However, for pro forma purposes, in accordance with SFAS No. 123, the remaining unamortized compensation related to these options, calculated under SFAS No. 123 of approximately $2.1 million, was recorded in 2004. This action effected options to purchase approximately 2.2 million shares, approximately 1.1 million of which were held by the Company's Directors and Executive Officers. Had this action not been taken, and had all approximately 2.2 million options continued to vest according to the vesting schedules in place prior to the acceleration, compensation expense related to these options of $870 thousand would have been recorded on a pro forma basis during the year ended December 31, 2005, with the remainder, approximately $1.2 million, recorded as compensation expense after the adoption of SFAS 123R when required on January 1, 2006. On February 24, 2005, the Company's Board of Directors (the "Board of Directors") considered the significant impact that the use of fair values, rather than intrinsic values, would have on the Company's future results of operations, as well as factors including that the management team had requested that their salaries be frozen for 2005, many non-management employees' 2005 raises were to be below market levels, no management bonus payments were made for 2004 and the 2005 management incentive plan called for a performance in excess of the Company's internal budget before any bonus payments were to be made, and authorized the Company's Stock Option Committee (the "Stock Option Committee"), which consisted solely of the Company's Chief Executive Officer, to immediately vest all options granted from that date through June 30, 2005 and to accelerate the vesting of any outstanding but unvested stock options with a strike price that is not "in-the-money" at its discretion (the aggregate authorization to the Stock Option Committee to be known as the "Vesting Authorization") through June 30, 2005; for similar reasons and understanding the SEC had issued a release amending the compliance date for SFAS No. 123R, on May 9, 2005, the Board of Directors approved the extension of the Vesting Authorization to the Stock Option Committee from June 30, 2005 to December 31, 2005. On March 30, 2005, the Stock Option Committee exercised its discretion and accelerated the vesting of outstanding but unvested stock options with a strike price greater than or equal to $0.82. These options were not "in-the-money" at that time, and therefore, there was no compensation expense recorded in accordance with APB No. 25 as a result of this modification. However, for pro forma purposes, in accordance with SFAS No. 123, the remaining unamortized compensation related to these options, calculated under SFAS No. 123 of approximately $540 thousand, was recorded in 2005. This action effected options to purchase approximately 750 thousand shares, approximately 55 thousand of which were held by the Company's Directors and Executive Officers. Had this action not been taken and had all approximately 750 thousand options continued to vest according to the vesting schedules in place prior to the acceleration, compensation expense related to these options of $275 thousand would have been recorded on a pro forma basis during the nine months ended December 31, 2005, with the remainder, approximately $265 thousand, recorded as compensation expense after the adoption of SFAS 123R when required on January 1, 2006. All options granted in 2005 on or after March 30, 2005, which totaled options to purchase approximately 3.9 million shares, were granted with immediate vesting.

Employee Stock Purchase Plan (the "ESPP")

Under the 1997 Employee Stock Purchase Plan, the Company is authorized to issue up to 2,750,000 shares of common stock to its employees, of which 2,197,548 had been issued as of December 31, 2006. 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. Each enrollment period is one year, with six-month measurement periods ending June 30 and December 31. The purchase price of the stock for June 30 and December 31 was 85% of the end-of-measurement-period market price.

For the years ended December 31, 2004, 2005 and 2006, the weighted-average fair value of the purchase rights granted was $0.44, $0.27 and $0.36 per share, respectively. Pro forma stock-based compensation was approximately $58 thousand and $65 thousand in 2004 and 2005, respectively, for the ESPP. Beginning in 2006, stock-based compensation was expensed.

Restricted Stock Exchange

On August 9, 2001, the Board of Directors approved a proposal to give Colorado-based 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 value of the restricted stock at the time of the exchange was $0.68 per share. The restricted stock vested over 48 months beginning November 1, 2001. This exchange resulted in deferred compensation of approximately $710 thousand that was recognized over the vesting period of the restricted stock. The Company recognized $91 thousand and $67 thousand of non-cash compensation expense from this exchange in 2004 and 2005, respectively. A total of approximately 728 thousand shares vested under the exchange offer. The final vesting date was October 1, 2005 and employees may sell previously vested shares.

7. MAJOR CUSTOMERS

The Company had no customers in 2004, 2005 and 2006 who represented 10% or more of total revenue. At December 31, 2006, the Company had one customer, Schering-Plough Animal Health Corporation ("SPAH"), who represented 13% of total accounts receivable. No customer represented 10% or more of total accounts receivable at December 31, 2005.

8. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	Year Ended December 31,		
	2004	2005	2006
		(in thousands)	
Cash paid for interest	$ 690	$ 1,004	$ 1,178
Purchase of assets under capital lease financing	$ 24	$ —	$ —

9. COMMITMENTS AND CONTINGENCIES

The Company holds certain rights to market and manufacture all products developed or created under certain research, development and licensing agreements with various entities. In connection with such agreements, the Company has agreed to pay the entities royalties on net product sales. In the years ended December 31, 2004, 2005 and 2006, royalties of $1.0 million, $895 thousand and $722 thousand became payable under these agreements, respectively.

The Company has contracts with two suppliers for unconditional annual minimum inventory purchases totaling approximately $3.5 million in fiscal 2007 and $2.4 million through 2010.

The Company has entered into operating leases for its office and research facilities and certain equipment with future minimum payments as of December 31, 2006 as follows (in thousands):

Year Ending December 31,	
2007	$ 1,533
2008	1,584
2009	1,622
2010	1,661
2011	1,702
Thereafter	22,101
	$ 30,203

The Company had rent expense of $774 thousand, $1.4 million and $1.8 million in 2004, 2005 and 2006, respectively.

From time to time, the Company may be involved in litigation relating to claims arising out of its operations. For example, on September 9, 2005, United Vaccines, Inc. (“United”), a customer of our OVP segment, filed a lawsuit in Madison, Wisconsin against our Diamond Animal Health, Inc. subsidiary (“Diamond”) and Heska Corporation alleging various claims, including breach of contract and breach of warranty, and demanding compensatory and punitive damages. On October 20, 2005, we filed counterclaims on behalf of Diamond as well as a motion to dismiss all claims against Heska Corporation. United filed an amended complaint on November 16, 2005 and Diamond filed an amended counterclaim on January 25, 2006. The matter proceeded to a jury trial. On October 18, 2006, all remaining claims against Diamond and Heska Corporation were dismissed and United was found in breach of contract with corresponding damages owed to Diamond. In the course of the litigation, we discovered that United had dissolved as of December 29, 2005. We also came to believe that United had transferred substantially all its assets to an Indiana Domestic Limited Liability Company (“LLC”). On December 28, 2006, United filed a Notice of Appeal with the Seventh Circuit Court of Appeals. The parties to this matter ultimately signed a settlement and release agreement, as outlined in Note 12. As of December 31, 2006, the Company was not party to any legal proceedings other than the above that are expected, individually or in the aggregate, to have a material effect on its business, financial condition or operating results.

The Company generally warrants that its products and services will conform to published specifications. The typical warranty period is one year from delivery of the product or service. The typical remedy for breach of warranty is to correct or replace any defective product, and if not possible or practical, the Company will accept the return of the defective product and refund the amount paid. Historically, the Company has incurred minimal warranty costs, and as a result, does not maintain a warranty reserve.

The Company’s licensing arrangements generally include a product indemnification provision that will indemnify and defend a licensee in actions brought against the licensee that claim the Company’s patents infringe upon a copyright, trade secret or valid patent. Historically, the Company has not incurred any significant costs related to product indemnification claims, and as a result, does not maintain a reserve for such exposure.

10. SEGMENT REPORTING

The Company is comprised of two reportable segments, Core Companion Animal Health (“CCA”) and Other Vaccines, Pharmaceuticals and Products (“OVP”). The Core Companion Animal Health segment includes diagnostic and monitoring instruments and supplies, as well as single use diagnostic and other tests, vaccines and pharmaceuticals, primarily for canine and feline use. These products are sold directly by the Company as well as through independent third-party distributors and other distribution relationships. CCA segment products manufactured at the Des Moines, Iowa production facility included in the OVP segment’s

assets are transferred at cost and are not recorded as revenue for the OVP segment. The Other Vaccines, Pharmaceuticals and Products segment includes private label vaccine and pharmaceutical production, primarily for cattle but, also for other animals including small mammals and fish. All OVP products are sold by third parties under third party labels.

Additionally, the Company generates non-product revenue from research and development projects for third parties, licensing of technology and royalties. The Company performs these research and development projects for both companion animal and livestock purposes.

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

	Core Companion Animal Health	Other Vaccines, Pharmaceuticals and Products	Total
2004:			
Total revenue	$ 54,474	$ 13,217	$ 67,691
Operating income (loss)	(5,704)	1,464	(4,240)
Total assets	23,357	15,367	38,724
Capital expenditures	277	1,013	1,290
Depreciation and amortization	378	959	1,337
Amortization of intangible assets	393	—	393
Interest expense	372	318	690

	Core Companion Animal Health	Other Vaccines, Pharmaceuticals and Products	Total
2005:			
Total revenue	$ 56,604	$ 12,833	$ 69,437
Operating income (loss)	(595)	1,466	871
Total assets	22,848	13,936	36,784
Capital expenditures	931	445	1,376
Depreciation and amortization	846	1,004	1,850
Amortization of intangible assets	157	—	157
Interest expense	652	434	1,086

	Core Companion Animal Health	Other Vaccines, Pharmaceuticals and Products	Total

2006:			
Total revenue	$ 62,968	$ 12,092	$ 75,060
Operating income (loss)	2,780	295	3,075
Total assets	26,112	12,383	38,495
Capital expenditures	810	379	1,189
Depreciation and amortization	765	906	1,671
Amortization of intangible assets	334	—	334
Interest expense	809	435	1,244

Total revenue by principal geographic area was as follows (in thousands):

	For the Years Ended December 31, 2004	2005	2006
United States	$ 59,452	$ 60,849	$ 63,828
Europe	4,484	4,151	5,974
Other International	3,755	4,437	5,258
Total	$ 67,691	$ 69,437	$ 75,060

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

	December 31, 2004	2005	2006
United States	$ 35,123	$ 33,414	$ 33,395
Europe	3,601	3,370	5,100
Other International	—	—	—
Total	$ 38,724	$ 36,784	$ 38,495

11. QUARTERLY FINANCIAL INFORMATION (unaudited)

The following summarizes selected quarterly financial information for each of the two years in the periods ended December 31, 2005 and 2006 (amounts in thousands, except per share data).

	Q1	Q2	Q3	Q4	Total
2005:					
Total revenue	$ 17,154	$ 16,565	$ 19,340	$ 16,378	$ 69,437
Gross profit	5,918	5,525	7,678	6,706	25,827
Operating income (loss)	(1,103)	(707)	1,472	1,209	871
Net income (loss)	(1,308)	(767)	1,234	1,123	282
Net income (loss) per share — basic and diluted	(0.03)	(0.02)	0.02	0.02	0.01
2006:					
Total revenue	$ 17,500	$ 18,537	$ 18,605	$ 20,418	$ 75,060
Gross profit	6,853	7,629	7,936	8,228	30,646
Operating income (loss)	42	622	1,150	1,261	3,075
Net income (loss)	(239)	302	864	901	1,828
Net income (loss) per share — basic	(0.00)	0.01	0.02	0.02	0.04
Net income (loss) per share — diluted	(0.00)	0.01	0.02	0.02	0.03

12. SUBSEQUENT EVENT

Under a settlement and release agreement effective on March 23, 2007, United agreed to have approximately $1.6 million paid to Diamond for product Diamond had previously shipped to United and other contractual obligations and all other remaining claims involving this matter were waived. See Note 9 – Commitments and Contingencies for historical information on this matter.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) *Evaluation of Disclosure Controls and Procedures*. Our management, with the participation of our chief executive officer and our chief financial officer, evaluated the effectiveness of our disclosure controls and procedures, as defined by Rule 13a-15 of the Exchange Act, as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our chief executive officer and our chief financial officer have concluded that our disclosure controls and procedures are adequate to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) *Changes in Internal Control over Financial Reporting*. There was no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

As of June 30, 2006, we did not meet the definition of "accelerated filer," as defined by Rule 12b-2 of the Exchange Act and, thus, are not required by the Sarbanes-Oxley Act of 2002 to include an assessment of our internal control over financial reporting and attestation from our independent registered public accounting firm in our Annual Report on Form 10-K for our fiscal year ended December 31, 2006.

Item 9B. Other Information.

None.

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 2007 Annual Meeting of Stockholders.

Item 10. Directors and Executive Officers of the Registrant.

Executive Officers

The information required by this item with respect to executive officers is incorporated by reference to Item 1 of this report and can be found under the caption "Executive Officers."

Directors

The information required by this section with respect to our directors will be incorporated by reference to the information in the sections entitled "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

Code of Ethics

Our Board of Directors has adopted a code of ethics for senior executive and financial officers (including our principal executive officer, principal financial officer and principal accounting officer). The code of ethics is available on our website at www.heska.com. We intend to disclose any amendments to or waivers from the code of ethics at that location.

Audit Committee

The information required by this section with respect to our Audit Committee will be incorporated by reference to the information in the section entitled "Directors and Executive Officers" in the Proxy Statement.

Item 11. Executive Compensation.

The information required by this section will be incorporated by reference to the information in the sections entitled "Director Compensation" and "Executive Compensation" in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by this section will be incorporated by reference to the information in the section entitled "Common Stock Ownership of Certain Beneficial Owners and Management" in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions.

The information required by this section will be incorporated by reference to the information in the sections entitled "Executive Compensation—Employment, Severance and Change of Control Agreements," "Certain Transactions and Relationships" and "Directors and Executive Officers" in the Proxy Statement.

Item 14. Principal Accountant Fees and Services.

The information required by this section will be incorporated by reference to the information in the section entitled "Auditor Fees and Services" in the Proxy Statement.

The information required by Part III to the extent not set forth herein, will be incorporated herein by reference to our definitive Proxy Statement for the 2007 Annual Meeting of Stockholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(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
(amounts in thousands)

	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, 2004	$ 192	$ (32)	—	$ (65) (a)	$ 95
December 31, 2005	$ 95	$ 43	—	$ (50) (a)	$ 88
December 31, 2006	$ 88	$ 46	—	$ (36) (a)	$ 98
Allowance for restructuring charges					
Year ended:					
December 31, 2004	$ 121	$ —	—	$ (106) (b)	$ 15
December 31, 2005	$ 15	$ —	—	$ (15) (b)	$ —
Allowance for tax valuation					
Year ended:					
December 31, 2004	$ 69,375	$ 2,105	—	$ —	$ 71,480
December 31, 2005	$ 71,480	$ 342	—	$ —	$ 71,822
December 31, 2006	$ 71,822	$ —	—	$ (999) (c)	$ 70,823

(a) Write-offs of uncollectible accounts.
(b) Payments for personnel severance costs, contractual obligations and facility closing costs.
(c) Utilization of tax benefits from net operating loss carryforwards.

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(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)	(4)	Restated Certificate of Incorporation of the Registrant.
3(ii)	(5)	Bylaws of the Registrant.
10.1+	(2)	Supply Agreement between Registrant and Quidel Corporation, dated July 3, 1997.
10.2+	(3)	Exclusive Distribution Agreement between Registrant and Novartis Agro K.K., dated August 18, 1998.
10.3	(3)	Right of First Refusal Agreement between Registrant, Novartis Animal Health, Inc. and Novartis Agro K.K., dated August 18, 1998.
10.4+	(6)	Amended and Restated Distribution Agreement between Registrant and i-STAT Corporation, dated February 9, 1999.
10.5+	(6)	First Amendment to Product Supply Agreement between Registrant and Quidel Corporation, dated March 15, 1999.
10.6+	(7)	Amended and Restated Bovine Vaccine Distribution Agreement between Diamond Animal Health, Inc. and Agri Laboratories, Ltd., dated September 30, 2002.

10.7+		Distribution Agreement between Registrant and Arkray Inc., dated February 16, 2001.
10.8*		1997 Incentive Stock Plan of Registrant, as amended and restated.
10.9*		1997 Incentive Stock Plan Employees and Consultants Option Agreement.
10.10*		1997 Incentive Stock Plan Outside Directors Option Agreement.
10.11*	(10)	1997 Employee Stock Purchase Plan of Registrant, as amended.
10.12*		2003 Equity Incentive Plan.
10.13*		2003 Equity Incentive Plan Option Agreement.
10.14*	(1)	Form of Indemnification Agreement entered into between Registrant and its directors and certain officers.
10.15*	(11)	Amended and Restated Employment Agreement with Robert B. Grieve, dated March 29, 2006.
10.16*	(8)	Employment Agreement between Registrant and Michael A. Bent, dated May 1, 2000.
10.17*		Employment Agreement between Registrant and Michael McGinley, dated May 1, 2000.
10.18*		Employment Agreement between Registrant and Nancy Wisnewski, dated April 15, 2002.
10.19*	(8)	Employment Agreement between Registrant and Jason A. Napolitano, dated May 6, 2002.
10.20*	(9)	Employment Agreement between Registrant and Joseph H. Ritter, dated May 1, 2004.
10.21*		Employment Agreement between Registrant and John R. Flanders, dated December 11, 2006.
10.22		Separation and Release Agreement between Registrant and Carol Talkington Verser, dated December 31, 2006.
10.23+		Distribution Agreement between Registrant and Arkray Global Business Inc., dated November 1, 2004.
10.24+		Supply and Distribution Agreement between Registrant and Boule Medical AB, dated June 17, 2003, Letter Amendment to Supply and Distribution Agreement between Registrant and Boule Medical AB, dated June 1, 2004 and Letter Amendment to Supply and Distribution Agreement between Registrant and Boule Medical AB, dated December 31, 2004.
10.25+		Distribution Agreement between Registrant and i-STAT Corporation, dated October 1, 2004.
10.26+		Second Amendment to Amended and Restated Bovine Vaccine Distribution Agreement between Diamond Animal Health, Inc. and Agri Laboratories, Ltd., dated December 10, 2004.
10.27+		Third Amended and Restated Credit and Security Agreement between Registrant, Diamond Animal Health, Inc. and Wells Fargo Business Credit, Inc., dated December 30, 2005.
10.28+		First Amendment to Third Amended and Restated Credit and Security Agreement between Registrant, Diamond Animal Health, Inc. and Wells Fargo Bank, National Association, dated December 5, 2006.
10.29+		Supply and License Agreement between Registrant and Schering-Plough Animal Health Corporation, dated August 1, 2003.
10.30	(9)	Net Lease Agreement between Registrant and CCMRED 40 LLC, dated May 24, 2004.
10.31	(10)	First Amendment to Net Lease Agreement and Development Agreement between Registrant and CCMRED 40, LLC, dated February 11, 2005.
10.32	(10)	Second Amendment to Net Lease Agreement between Registrant and CCMRED 40 LLC, dated July 14, 2005.
10.33+		Third Amendment to Amended and Restated Bovine Vaccine Distribution Agreement between Diamond Animal Health, Inc. and Agri Laboratories, Ltd., dated May 26, 2006.
10.34*	(12)	Management Incentive Plan Master Document.
10.35*		2007 MIP Plan.
10.36*	(14)	Director Compensation Policy, effective January 1, 2007.
21.1		Subsidiaries of the Company.
23.1		Consent of Ehrhardt Keefe Steiner & Hottman, PC, Independent Registered Public Accounting Firm.
23.2		Consent of KPMG LLP, Independent Registered Public Accounting Firm.
24.1		Power of Attorney (See page 77 of this Form 10-K).
31.1		Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
31.2		Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
32.1		Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Notes

* Indicates management contract or compensatory plan or arrangement.
\+ Portions of the exhibit have been omitted pursuant to a request for confidential treatment.
(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-Q for the quarter ended June 30, 2000.
(5) Filed with the Registrant's Form 10-Q for the quarter ended June 30, 2001.
(6) Filed with the Registrant's Form 10-K for the year ended December 31, 2001.
(7) Filed with the Registrant's Form 10-Q for the quarter ended September 30, 2002.
(8) Filed with the Registrant's Form 10-K for the year ended December 31, 2002.
(9) Filed with the Registrant's Form 10-K for the year ended December 31, 2004.
(10) Filed with the Registrant's Form 10-Q for the quarter ended June 30, 2005.
(11) Filed with the Registrant's Form 10-K for the year ended December 31, 2005.
(12) Filed with the Registrant's Form 10-Q for the quarter ended March 31, 2006.
(13) Filed with the Registrant's Form 10-Q for the quarter ended June 30, 2006.
(14) Filed with the Registrant's Form 8-K dated March 5, 2007.

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 March 30, 2007.

	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, Jason A. Napolitano and Michael A. Bent, 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	March 30, 2007
/s/ JASON A. NAPOLITANO Jason A. Napolitano	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 30, 2007
/s/ MICHAEL A. BENT Michael A. Bent	Vice President, Controller (Principal Accounting Officer)	March 30, 2007
/s/ WILLIAM A. AYLESWORTH William A. Aylesworth	Director	March 30, 2007
/s/ ELISABETH DEMARSE Elisabeth DeMarse	Director	March 30, 2007
/s/ A. BARR DOLAN A. Barr Dolan	Director	March 30, 2007
/s/ PETER EIO Peter Eio	Director	March 30, 2007
/s/ G. IRWIN GORDON G. Irwin Gordon	Director	March 30, 2007
/s/ JOHN F. SASEN, Sr. John F. Sasen, Sr.	Director	March 30, 2007

Exhibit 10.7

[***] — Certain information in this exhibit have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

DISTRIBUTION AGREEMENT

THIS AGREEMENT entered into as of this 16th day of February, 2001 (“Effective Date”), by and between ARKRAY Inc., a Japanese corporation, having its principal office at 57 Nishi Aketa-cho, Higashikujo, Minami-ku, Kyoto 601-8045, Japan (hereinafter referred to as “ARK”), and Heska Corporation, Delaware corporation having its principal office at 1613 Prospect Parkway, Fort Collins, Colorado 80525, U.S.A. (hereinafter referred to as “Heska”).

WITNESSETH

WHEREAS, ARK is a manufacturer and distributor of clinical diagnostic instruments and Heska is a manufacturer and/or distributor of hematology instruments, reagents and other products targeted to veterinary markets.

WHEREAS, ARK desires to appoint Heska as a distributor and Heska wishes to obtain such distribution rights to market and sell Automated Clinical Chemistry Analyzer Model SP-4430 (hereinafter referred to as “Product”) as defined herein, effective from the date of the execution of this Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and of the mutual covenants herein contained, the parties hereby agree as follows:

ARTICLE I

ARK appoints Heska as a distributor to promote, market, service and sell Product effective from the date of execution of this Agreement, and Heska agrees to accept such appointment subject to and in accordance with the following terms and conditions.

1.1 Product
Product means product to be comprised of Automated Clinical Chemistry Analyzer Model SP-4430 (“Analyzer”) and those related spare parts, consumables and reagents manufactured by ARK to be used to analyze blood in patients as listed in Appendix A and as amended from time to time by mutual written agreement of the parties.

1.2 Branding
ARK and Heska agree that the brand name and logotype of Product shall be a combination of “ARKRAY” and “HESKA” in a format to be mutually agreed upon by the parties.

1.3 Distribution Right
Heska shall have an exclusive right to promote, market, sell and distribute Product, with the right to appoint sub-distributors, in North America (“Territory”) and only in the veterinary market (“Field”). The exclusivity referred to in this Agreement applies between Heska and ARK or the ARK- appointed distributors.

Heska agrees that, during the term of this Agreement, (a) Heska shall not develop or make commercially available or acquire a product(s) with features identical to Product, and (b) Heska shall not handle or otherwise provide any “off-brand” and/or “generic” form of spare part, consumables and reagents to be used with Product unless such consumables and reagents are not available from Arkray; provided, however, this section will not apply to common laboratory transfer pipettes, common QC serum materials and primary blood collection tubes that fit commercially available external centrifuges.

1.4 Sales Responsibility
Heska assumes all sales responsibilities for Product to be sold in the Territory and Field under this Agreement. “Sales Responsibilities” as used herein includes all sales force training, maintenance and support activities, as well as pricing, advertising, promotion, and demonstration. ARK will provide Heska with specifications, test procedures and manuals written in English that may be reasonably necessary for Heska to fulfill its Sales Responsibilities.

1.5 Relationship of Parties
Each party shall be considered an independent contractor of the other party. Nothing in this Agreement shall be construed as establishing a joint venture or partnership or principal/agent, or employee relationship. No party is authorized to make any statement, claim, representation or warranty or to act on behalf of any other party with respect to any of the provisions of this Agreement, except as provided for herein or as specifically authorized in writing by other party.

1.6 Term and Renewal
This Agreement shall continue in full force and effective for a period of three (3) years from the date of execution of this Agreement and shall be automatically renewed for additional one year periods unless a party provides notice to the other party of its intent not to renew this Agreement at least one hundred eighty (180) days prior to the current expiration date of this Agreement, unless this Agreement is terminated earlier as set forth in Section 1.7.

1.7 Termination
Either party may cancel this Agreement by a written notice at any time in the event that the other party shall have been in material breach of any of the provisions of this Agreement and such breach shall have been continued for sixty (60) days after such a written notice thereof was provided to the breaching party by the non-breaching party. Either of the parties may terminate this Agreement at any time without giving any notice to the other party if that party is declared insolvent or bankrupt by a court of competent jurisdiction. If Heska fails to meet the agreed upon minimum annual purchases for two (2) consecutive years, then Heska shall lose all rights to distribute Analyzer. However, ARK shall continue to supply Heska with Consumables as provided in Section 2.3.

Upon any such termination of this Agreement, the terminating party may (but has no obligation to) cancel any and all unshipped sales orders concluded hereunder. Unless otherwise provided herein, each party waives any claims for compensation or damages in connection with such cancellation of undelivered Products from the other party.

The provisions of Sections 2.3 (Spare Parts, Consumables and Reagents), 2.4 (Patents), 4.2 (Confidentiality), 4.3 (Indemnification), 4.6 (Publicity), and 4.10 (Law of Contract Jurisdiction) shall survive termination of this Agreement.

ARTICLE II

2.1 Warranty and Quality
ARK warrants that Product to be delivered hereunder shall be free and clear of any and all liens, encumbrances or defects in title and shall be conveyed to Heska with lawful and marketable title. ARK warrants that Product shall satisfy the performance specifications set forth in Appendix B. ARK will not make any changes to Product without first notifying Heska in writing at least ninety (90) days in advance of such changes and providing Heska with evidence that such changes do not alter the performance specifications of Product and obtaining Heska's consent in writing. ARK shall input normal reference ranges for animals supplied by Heska in writing into the Analyzers without modification by ARK.

In the event that Heska determines that any shipment of Product to be delivered to it hereunder fail/s to conform to the performance specifications set forth in Appendix B, Heska shall promptly notify ARK and reasonably specify the manner in which Product fail/s to conform. ARK shall have the rights to make its own inspection and evaluation of the allegedly non-conforming Product and shall notify Heska, within twenty one (21) days after receipt of such information, including samples of the allegedly non-conforming Product from Heska, whether it has confirmed and accepted Heska's claim that Product are/is non-conforming.

If ARK determines and confirms that Product are/is non-conforming, ARK shall replace, at no cost to Heska, the non-conforming Product at the earliest date after confirmation of Product non- conformance. ARK shall also bear the freight charges, insurance, duties and tariffs for return of all non-conforming Product to ARK from Heska.

If, after evaluating the allegedly non-conforming Product, ARK believes that Product in question are/is conforming, ARK shall supply Heska with its written findings and request Heska to submit additional samples of Product to an independent third party, acceptable to both parties, for testing in accordance with and against the performance specifications set forth in Appendix B. The decision of such third party shall be final with respect to the alleged non-conforming Product and binding on both parties to this Agreement.

If the decision of the third party is that Product are/is non-conforming, ARK shall pay the return freight, insurance, duties and tariffs with respect to Product shipped to Heska as well as all costs and expenses relating to the testing of Product by the independent third party. In addition, ARK shall supply Heska with a Certificate of Destruction certifying that Product have/has been destroyed in an environmentally safe manner.

If the decision of the third party is that Product conform/s to the applicable specifications, Heska shall accept Product and shall be responsible for the return freight, insurance, duties, tariffs and all costs and expenses relating to the testing of Product by the independent third party.

Each Product is warranted by ARK to be free from defects in materials and workmanship for a period of sixteen (16) months from the date of shipment from ARK to Heska. During the warranty period, ARK will provide Heska with all necessary warranty replacement parts at no charge. ARK's warranty obligation under this Article is limited to the repair or replacement of Product.

2.2 Trademark
ARK grants to Heska a limited license to use on a non-exclusive basis ARK's trademarks and brand names as set forth in Appendix C for the purposes specified in this Agreement. Except as specified in this Section and Section 1.2, no party to this Agreement will derive any legal rights to the other party's trademarks. No party shall adopt, use or register in any country, without the written consent of the other party, a trademark for any similar, related or competitive product which is likely to be confused with a trademark of the other party.

2.3 Spare Parts, Consumables and Reagents
ARK agrees that spare parts, consumables and reagents used with Analyzer (collectively called "Consumables") will continue to be furnished to Heska at the prices fixed on the basis of the price negotiation every year for a period of five (5) years following the last shipment of Analyzer from ARK to Heska as long as Heska continues to have exclusive distribution rights to sell Analyzer. Should Heska lose ARK's exclusive distribution rights to sell Analyzer, ARK agrees to allow Heska to be a supplier of Consumables to Heska's customers for a period of twelve (12) months from the loss of exclusive distribution rights to sell Analyzer. Thereafter, ARK agrees to supply Consumables to Heska's customers during the time ARK sells Consumables in North America directly or through a distributor.

2.4 Patents
ARK warrants and represents to Heska, and without admitting any infringement, to the best of its current actual knowledge neither Product of this Agreement nor its manufacture, use, importation or sale infringe upon any issued patent or proprietary rights held by a third party.

ARK shall defend, indemnify and hold Heska and its subsidiary or affiliated companies, and customers thereof, harmless from any damages, including without limitation reasonable attorneys' fees, with respect to any and all claims that the manufacture, use, rental or sale of any of Product of this Agreement infringes upon any patent or proprietary rights of a third party.

ARTICLE III

3.1 Orders and Forecasts

The forecast provided for below will include a firm purchase commitment covering the first five (5) months of the forecast. Therefore, Heska will issue periodic purchase orders within the terms specified below. Such purchase orders shall not bind ARK unless or until accepted by ARK. ARK shall notify Heska of its decision on acceptance within ten (10) days after receipt of a purchase order.

Heska shall provide ARK, on a quarterly basis by the end of each Calendar quarter, a non-binding rolling one (1) year forecast of its anticipated purchases of Product. ARK shall keep Heska notified immediately of any events that may significantly impact ARK's ability to deliver, such as interruptions by suppliers, labor troubles, discovered defects, and the like. ARK agrees to ship to Heska (i) Consumab1es within ninety (90) days of ARK's acceptance of a purchase order for Consumab1es, and (ii) Analyzers within one hundred twenty (120) days of ARK's acceptance of a purchase order for Analyzers.

3.2 Minimum Purchase
ARK and Heska shall separately discuss and agree on a minimum annual purchase of Product to be made by Heska from ARK for every calendar year three (3) months prior to the beginning of every calendar year during the effective period of this Agreement.

3.3 Pricing
ARK will sell Product to Heska in accordance with the prices agreed upon, which shall be denominated in Japanese yen. Upon thirty (30) day prior written notice from one party to the other, the parties agree to discuss in good faith any adjustment to the prices of Product in an attempt to reach a mutually satisfactory agreement. If a mutually satisfactory agreement cannot be reached, the prices of Product then in effect shall remain applicable.

3.4 Shipping of Products, Reagents, Spare Parts and etc.
ARK will immediately confirm the receipt of each purchase order from Heska in order that Heska has assurance that each purchase order is duly received by ARK. ARK shall try its best efforts to ship all of Product ordered by Heska as specified by Heska. In the event of its inability to make a complete shipment as specified by Heska, ARK shall notify Heska immediately of the possible shipping date. Both parties shall discuss and amicably agree to adjust the shipping date if ARK's shipping date causes Heska any inconvenience. Should ARK upon acceptance of a purchase order fail to ship Product from Japan within ten (10) business days of specified shipping dates twice within a twelve (12) month period, ARK agrees to renegotiate the annual minimum.

3.5 Payment Terms
At Heska's sole option, Heska will provide a letter of credit or prepay in Japanese yen one week in advance of the shipment of Products under a purchase order; provided Heska receives a timely firm shipment date in writing from ARK. Ark agrees to renegotiate the payment terms within twelve (12) months of the Effective Date.

3.6 Packing
Product shall be labeled, packaged and shipped to Heska in accordance with the ARK's quality standard to satisfy the requirements for Product Specifications set forth in Appendix B. Labels for Products shall be mutually agreed upon by the Parties.

3.7 Freight Insurance
ARK will ship Heska Product ordered by Heska under the terms of FCA Osaka and/or Kobe, Japan as defined in Incoterms 2000. Heska shall be responsible for payment of all air and/or sea freight, insurance, duties and tariffs for shipments of Product to Heska, except as both parties agree.

ARTICLE IV

4.1 Report
Heska shall make periodic reports on a quarterly basis to ARK on the sales activities and the sales promotion plans of Product, and the market conditions including information on the competitive products.

4.2 Confidentiality
(a) "Confidential Information" means any technical, manufacturing, business and marketing information including, without limitation, patent applications, patent disclosure, data, inventions, concept, idea, structures, formulas, techniques, processes, apparatus, know-how disclosed orally or in tangible form such as documents, memoranda, reports, correspondence, machine readable tapes or disks, drawings, notes or other media. All confidential information disclosed in this Agreement which is writing or other tangible form shall be clearly marked as "Confidential" or if communicated orally or obtained through observations, shall be confirmed in writing within thirty (30) business days.

(b) The party receiving information ("Receiving party") agrees that the party disclosing ("Disclosing party") is the owner of the confidential information and that the Receiving party will not use any confidential information for any purpose except for the execution of this Agreement. Each Receiving party agrees not to disclose any confidential information to any third party or to employees of the Receiving party, except to those employees who are required to have the information in order to be engaged in the execution of this Agreement. Receiving party's obligations with regard to the confidentiality and nonuse of such information shall not extend to any information that:

(1) was in the public domain at the time it was disclosed or becomes part of public domain after disclosure, including, without limitation, disclosure in a U.S. or foreign patent or disclosure in a printed publication which is generally available to the public, or through the unrestricted sale of Product embodying the same to the extent that such confidential information is ascertainable from such Product; or

(2) was known to the Receiving party at the time of its disclosure or becomes known to the receiving party without breach of this Agreement, provided that the Receiving party shall have the burden of proving such knowledge: or

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(3) is independently developed by the persons of the Receiving party who have not been exposed to the confidential information as evidenced by written records; or

(4) is disclosed by a Disclosing party to a third party without restrictions on such third party's rights to disclose or use the same; or

(5) is disclosed by the Disclosing party pursuant to judicial order, a requirement of a governmental agency or by operation of law, provided that the Receiving party shall (i) give the Disclosing party prompt notice of any such possible disclosure of confidential information and (ii) permit the Disclosing party, at its expense, to take all reasonable actions to prevent or limit the scope of such disclosure and/or to obtain protective orders to protect the confidentiality of such confidential information; or

(6) is approved for release upon the Disclosing party's prior written consent; or

(7) is disclosed by the Disclosing party to the Receiving party after written notification is delivered by the Receiving party to the Disclosing party that it will not accept any further confidential information in confidence.

(c) Each Receiving party agrees that it shall take all reasonable measures to protect the secrecy of and avoid unauthorized use of the confidential information and that any disclosure of the confidential information within the Receiving party will only be such as is reasonably necessary to its evaluation and will only be to employees of the Receiving party who are bound by written agreements with the Receiving party to maintain the confidential information in confidence. Each Receiving party shall immediately notify the Disclosing party in the event of any unauthorized use or disclosure of the confidential information.

(d) The obligations imposed on the parties under this Article shall survive for five (5) years following the termination of this Agreement.

4.3 Indemnification
ARK agrees that it will defend, indemnify and hold harmless Heska, its directors, officers, employees, agents and affiliates from and against all costs, damages, loss, expense (including reasonable attorney's fees), claims by or judgments in favor of third parties for bodily injury, property damage, or any other damage or injury caused or alleged to have been caused by the manufacture, sale or use of the Product, except to the extent that such damage or injury results substantially from the gross negligence or wrongful acts of Heska. Furthermore, each party agrees that it shall defend, indemnify and hold the other party, its directors, officers, employees, agents and affiliates harmless from all costs, damages, loss, expense (including reasonable attorney's fees), or any other damage caused by, arising out of, or resulting from (i) such party's failure of performance of the terms of this Agreement, or (ii) such party's failure to comply with any and all laws (statutory and common) and regulations applicable to such performance. Heska shall defend, indemnify and hold ARK, its directors, officers, employees, agents and affiliates harmless from all costs, damages, loss, expense (including reasonable attorney's fees), or any other damage caused by, arising out of, or resulting from the reference ranges supplied by Heska under Section 2.1.

Each party agrees to give the other prompt notice in writing of the institution of any suit, or any claims made by a third party, including any claims asserted or made by any governmental authority having jurisdiction over the parties and Product of this Agreement. ARK and Heska agree to cooperate with each other in the defense of such suits or claims and to provide all necessary information to enable the defending party to carry on the defense of such suit or any appeal from a judgment or decree rendered therein.

4.4 Force Majeure
Except with respect to the allocation obligation of ARK provided for in Paragraph 4.3, no party shall be liable to the other in any manner for failure or delay to fulfill all or part of this Agreement, directly or indirectly, owing to acts of God, governmental orders or restriction, war, threat of war, warlike conditions, hostilities, sanctions, mobilization, blockade, embargo, detention, revolution, riot, looting, strike, lockout or other labor troubles, fire, typhoon, earthquake, lightning, accident of any other causes or circumstances beyond its control.

4.5 Notices
Every notice, consent, instruction, order or decision given under this Agreement shall hereunder be given or made in writing in English, and if required to be given promptly shall be given as expeditiously as possible, and in any event, within seven (7) business days, and shall be delivered personally or if by mail, shall be mailed registered or certified mail, return receipt requested, as follows:

If to ARK:
57 Nishi Aketa-cho
Higashi-kujo, Minami-ku
Kyoto 601-8045, Japan
Attention:

If to Heska:
1613 Prospect Parkway
Fort Collins Colorado 80525
USA
Attention: Chief Executive Officer
Copy to: Vice President,
Intellectual Property and
Business Development

4.6 Publicity
Neither party shall announce nor disclose the existence of this Agreement or its terms and conditions, or advertise or release any publicity regarding this Agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld. This provision shall not apply to the disclosure of information required to satisfy disclosure obligations imposed by law, court order or regulations, including, but not limited to, the reporting requirements of the United States Securities and Exchange Commission.

4.7 Assignability
This Agreement and the rights and obligations hereunder shall not be assigned or transferred to any third party by either of the parties hereto without the prior written approval of the other party; provided, however, no prior consent shall be required for the assignment or transfer of substantially all the assets of a party relating to the subject matter of this Agreement or related to a change of control of a party.

4.8 Waivers
No delay or omission in the exercise of any right or remedy of any party or any default by another shall impair any right or remedy otherwise available nor shall it be construed as a waiver of any right or remedy. Any waiver by any party of any default must be in writing and shall not be a waiver of any other default concerning the same or any other provision.

4.9 Entire Agreement
This Agreement contains the entire understanding of the parties with respect to the subject matter hereof. All express or implied agreements and understandings, either oral or written, heretofore made are expressly superseded by this Agreement. This Agreement may be modified only by written agreement duly executed by the parties.

4.10 Law of Contract Jurisdiction
This Agreement shall be governed by and construed under the laws of the district where the contracting party is a defendant who defends against the other party, with regard to the construction or interpretation of the Agreement. The English language employed herein shall be controlling and this Agreement shall be deemed to have been executed at Fort Collins, Colorado, United States of America and Osaka, Japan. Any dispute, controversy or difference arising between the parties, out of or in relation to or in connection with this Agreement, or the breach thereof, which cannot otherwise be settled between the parties within a period of ninety (90) days shall be submitted to an arbitration before a competent arbitration tribunal in Colorado, United States of America in case Heska is a defendant, and Osaka, Japan in case ARK is a defendant, for binding resolution in accordance with the rules selected by the arbitrator(s), provided the proceedings are conducted in the English language.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

4.11 Effect of Headings
Subject headings of the Sections of this Agreement are included for purposes of convenience only and shall not affect the construction or interpretation of its provisions.

4.12 Execution in Counterparts
This Agreement may be executed in two (2) counterparts, each of which shall be deemed an original but all of which together shall be deemed for all purposes one and the same instrument.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their authorized representatives.

ARKRAY Inc.
By: [***]
[***]
Title: Executive
Date: February 16, 2001
Place: Fort Collins, CO USA

Heska Corporation
By: /s/ JAMES H. FULLER
JAMES H. FULLER
Title: President and COO
Date: February 16, 2001
Place: Fort Collins, CO USA

By: [***]
[***]
Title: Executive Officer
Date: February 27, 2001
Place: Kyoto

APPENDIX A

PRICE LIST
PL2001-01 (Second version)

ARKRAY (Logo)

Date: January 23, 2001

Distributor:

Heska Corporation
1613 Prospect Parkway, Fort Collins, Colorado 80525 U.S.A.
Phone 970-493-7272

Territory:

North America

Payment Terms:

D/A within 30 days after the Bill of Lading date

Delivery Terms:

FCA Osaka/Kobe, Japan

We reserve the right to change the prices with 30 days prior notice.

Code No.18303

SPOTCHEM EZ Model: "SP-4430"

Specification:

Sample	: Serum, Plasma, Whole Blood (only Hb)
Reagent	: SPOTCHEM II Reagent Strip
Measurement Items	: Glu, UA, T-Cho, TG, BUN, T-Bil, Ca, TP, Alb, GOT, GPT, LDH, CPK, Hb, Amy, GGT, ALP, Cre, HDL-C, FRA, IP, Mg, **Total Test Items = 22 **Max. 9 items can be measured simultaneously
Warm-Up	: 10 minutes
Display	: 20 digits X 2 lines LCD (Character)
Operation Panel	: Sheet Key
Calibration	: Calibration by Magnetic Card or by Calibration Kit
Data Storage	: 100 Measurements
Dimension & Weight	: 338 X 203 X 167 (WDH), Approx.5.4kg

Including:
Thermal Printer Paper(1), Power Cord(1), AC Adapter(1), Accessory case(1), Operating Manual(1), Warranty Card(1), Tip(10), Cleaning Wire(1), Cleaning Set(1), Nozzle Set(1), Wrench Set(1), Centrifuge Tube(10), Tip Waste Case(2), Protective Cover(2)

***minimum ordering unit = to be decided later

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Optional Consumable Accessories:

CODE NO.	DESCRIPTION	@ PRICE FCA Japan
10067	Thermal Printer Paper (For Built in Printer, 58 mm width)	¥[***]
10204	Serum Sample Tube (100 pieces, blue cap)	¥[***]
10191	Serum Sample Tube (500 pieces, blue cap)	¥[***]
10202	Whole Blood Sample Tube (100 pieces, orange cap)	¥[***]
10192	Whole Blood Sample Tube (500 pieces, orange cap)	¥[***]
10200	Diluent for Hb measurement (20 mL, 50 pieces)	¥[***]
10206	Pippete Tip for Hb Meas. (100L, 960 pieces)	¥[***]
10207	Pippete Tip for Hb Meas. (1000L, 960 pieces)	¥[***]
77041	Calibrator Kit (Low and High, 2 vials each, 2 vials of dilution)	¥[***]
77042	Calibrator Hb Kit (Calibrator and dilution for Hb meas)	¥[***]
77043	Calibration Check (4 pieces of lyophilized serum 3 mL)	¥[***]
10711	Tip Set (EZ) 100 pieces	¥[***]
10712	Centrifuge Cup (100 pieces)	¥[***]
10743	Tip Set (EZ) (500 pieces)	¥[***]
10692	AC Adaptor	¥[***]
10698	Cleaning wire	¥[***]
10208	Cleaner Set (Brush, 5 cotton swabs)	¥[***]
10193	Pippete for Solution (For 3 mL)	¥[***]
10194	Pippete for Hb Meas (For 40 mL,200L 1 each)	¥[***]
10199	Sample Rack (For 30 sample tubes)	¥[***]
10699	Nozzle Set (EZ) (Replacement Nozzle, O-ring)	¥[***]
10700	Tool Set for Nozzle Replacement	¥[***]
10701	Waste Case (2 pieces)	¥[***]
10702	Protective Cover (2 pieces)	¥[***]
18204	Portable Centrifuge (CF-9520)	¥[***]
10703	RS-232C, Connection Cable	¥[***]
10704	Carrying Case	¥[***]

Optional Parts:
"Optional Parts List" to be supplied separately

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

SPOTCHEM II Reagent Strips (Single Type)

CODE NO.	DESCRIPTION	@ PRICE FCA JAPAN
77240	Glu	[***]
77241	UA	[***]
77242	T-Cho	[***]
77243	TG	[***]
77244	BUN	[***]
77245	T-Bil	[***]
77246	Ca	[***]
77247	T-Pro	[***]
77248	Alb	[***]
77249	GOT	[***]
77250	GPT	[***]
77251	LDH	[***]
77252	CPK	[***]
77253	Hb	[***]
77254	Amy	[***]
77255	GGT	[***]
77256	ALP	[***]
77257	Cre	[***]
77258	HDL-C Kit	[***]
77259	FRA	[***]
77268	IP	[***]
77269	Mg	[***]

* 25 Strips/Box

SPOTCHEM II Reagent Strips (Multi Type)

CODE NO.	DESCRIPTION	@ PRICE FCA JAPAN
77262	Panel-1	JPY [***]
	Vet multi panel	JPY [***]

* 25 Strips/Box

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

APPENDIX B
PRODUCT SPECIFICATIONS

INSTRUMENT

SPOTCHEM EZ MODEL: "SP-4430"

SAMPLE:	Serum, Plasma, Whole Blood (only Hb)
REAGENT:	SPOTCHEM II Reagent Strip
MEASUREMENT ITEMS:	Glu, Ua, T -Cho, TG, BUN, T -Bil, Ca, TP, Alb, GOT, GPT, LDH, CPK, Hb, Amy, GGT, ALP, Cre, HDL-C, FRA, IP, Mg TOTAL TESTS: 22, 9 simultaneously
WARM-UP:	10 Minutes
DISPLAY:	20 digits x 2 lines LCD (character)
OPERATION PANEL:	Sheet key
CALIBRATION:	Magnetic card or kit
DATA STORAGE:	100 measurements
DIMENSION & WEIGHT	338 X 203X167 (WDH), Approx 5.4 kg
SOTWARE:	Menu sub routine for species selection & normal values
WARRANTY:	16 Months

REAGENTS
[***]

	[***]				
	[***]	[***]	[***]	[***]	
GLU	[***]	[***]	[***]	[***]	
BUN	[***]	[***]	[***]	[***]	
T-BIL	[***]	[***]	[***]	[***]	
CA	[***]	[***]	[***]	[***]	
T-PRO	[***]	[***]	[***]	[***]	
ALB	[***]	[***]	[***]	[***]	
GPT	[***]	[***]	[***]	[***]	
AMY	[***]	[***]	[***]	[***]	
GGT	[***]	[***]	[***]	[***]	
ALP	[***]	[***]	[***]	[***]	
CRE	[***]	[***]	[***]	[***]	
IP	[***]	[***]	[***]	[***]	
GOT	[***]	[***]	[***]	[***]	
FRA					[***]
CPK	[***]	[***]	[***]	[***]	
Mg	[***]	[***]	[***]	[***]	
TG	[***]	[***]	[***]	[***]	
UA	[***]	[***]	[***]	[***]	
T-CHO	[***]	[***]	[***]	[***]	
LDH	[***]	[***]	[***]	[***]	
Hb	[***]	[***]	[***]	[***]	
HDL-C(D)	[***]	[***]	[***]	[***]	
PANEL-1	[***]	[***]	[***]	[***]	
	[***]				

[***]
[***]

Color specifications

Basic design system
1-7-1

ARKRAY blue

ARKRAY mark is expressed in the two colors, ARKRAY blue and ARKRAY orange. ARKRAY blue

(Example of color)

If D1C641 is not available
— C100 + M60
— PANTONE293

is the corporate
color, representing fair, good faith and “truthful”
stated in our corporate philosophy.

ARKRAY orange

ARKRAY orange indicates vitality, meaning “active”
in the corporate philosophy.

(Example of color)

If DIC205 is not available
— M50 + Y90
— PANTONE136

ARKRAY logo should be painted in black.
In case the number of color is limited,
follow the coloring specifications below.

Coloring instruction

Color type

(Example of ARKRAY logo)

Prototype (basically used)

(Example of ARKRAY logo)

If the prototype cannot be used due to the
limitation of the number of colors, use
ARKRAY blue and ARKRAY orange as
shown above.

Monochrome types

(Example of ARKRAY logo)

Monochrome type 1

Use black and meshed black 40% as shown
above. If the black is not available to use, use
ARKRAY blue (or the most similar color) instead
of black.

(Example of ARKRAY logo)

Monochrome type 2

If the meshed black is not clearly shown in
monochrome print, use black only.

Reversed color type

(Example of ARKRAY logo)

If the ARKRAY colors don’t look attractive due to the
color of foundation the ARKRAY brand is on, use
white only shown at the left.

APPENDIX C

ARKRAY brand specifications 1

Basic design system
1-4-1

Prototype

(Example of ARKRAY logo)

ARKRAY brand consists of
ARKRAY mark and logo.

Basically the prototype should be used.

Sub-design

(Example of ARKRAY logo)

If the prototype cannot be used due to the
size of space, use the sub-design instead.

Isolation
— Prototype

(Example of ARKRAY logo)

— Sub-design

(Example of ARKRAY logo)

The isolation is the minimum
sized space surrounding the ARKRAY
brand to set it apart from other factors in
order to
make the design prominent. Do NOT allow
other factors to
enter the space.

Exhibit 10.8

HESKA CORPORATION

1997 STOCK INCENTIVE PLAN

(AS AMENDED MARCH 6, 2007)

TABLE OF CONTENTS

HESKA CORPORATION

1997 STOCK INCENTIVE PLAN

ARTICLE 1. INTRODUCTION.

The Plan was adopted by the Board effective March 15, 1997. The purpose of the Plan is to promote the long-term success of the Company and the creation of stockholder value by (a) encouraging Employees, Outside Directors and Consultants to focus on critical long-range objectives, (b) encouraging the attraction and retention of Employees, Outside Directors and Consultants with exceptional qualifications and (c) linking Employees, Outside Directors and Consultants directly to stockholder interests through increased stock ownership. The Plan seeks to achieve this purpose by providing for Awards in the form of Restricted Shares or Options (which may constitute incentive stock options or nonstatutory stock options).

The Plan shall be governed by, and construed in accordance with, the laws of the State of Colorado (except their choice-of-law provisions).

ARTICLE 2. ADMINISTRATION.

2.1 **Committee Composition.** The Plan shall be administered by the Committee. The Committee shall consist exclusively of two or more directors of the Company, who shall be appointed by the Board. In addition, the composition of the Committee shall satisfy:

(a) Such requirements as the Securities and Exchange Commission may establish for administrators acting under plans intended to qualify for exemption under Rule 16b-3 (or its successor) under the Exchange Act; and

(b) Such requirements as the Internal Revenue Service may establish for outside directors acting under plans intended to qualify for exemption under section 162(m)(4)(C) of the Code.

The Board may also appoint one or more separate committees of the Board, each composed of one or more directors of the Company who need not satisfy the foregoing requirements, who may administer the Plan with respect to Employees and Consultants who are not considered officers or directors of the Company under section 16 of the Exchange Act, may grant Awards under the Plan to such Employees and Consultants and may determine all terms of such Awards.

2.2 **Committee Responsibilities.** The Committee shall (a) select the Employees, Outside Directors and Consultants who are to receive Awards under the Plan, (b) determine the type, number, vesting requirements and other features and conditions of such Awards, (c) interpret the Plan and (d) make all other decisions relating to the operation of the Plan. The Committee may adopt such rules or guidelines as it deems appropriate to implement the Plan. The Committee's determinations under the Plan shall be final and binding on all persons.

ARTICLE 3. SHARES AVAILABLE FOR GRANTS.

3.1 **Basic Limitation.** Common Shares issued pursuant to the Plan may be authorized but unissued shares or treasury shares. The aggregate number of Options and Restricted Shares awarded under the Plan shall not exceed (a) 1,350,000 plus (b) the aggregate number of Common Shares remaining available for grants under the Predecessor Plans on March 15, 1997, plus (c) the additional Common Shares described in Sections 3.2 and 3.3. No additional grants shall be made under the Predecessor Plans after March 15, 1997. The limitation of this Section 3.1 shall be subject to adjustment pursuant to Article 9.

3.2 **Annual Increase in Shares.** As of January 1 of each year, commencing with the year 1998 and continuing through January 1, 2007, the aggregate number of Options and Restricted Shares that may be awarded under the Plan shall be increased by a number of Common Shares equal to the lesser of (a) 5% of the total number of Common Shares outstanding as of the next preceding December 3 1 or (b) 1,500,000. After the annual increase on January 1, 2007, there shall be no further annual increases under the Plan unless and until stockholder approval of such increase has been obtained.

3.3 **Additional Shares.** If Options granted under this Plan or under the Predecessor (Plans are forfeited or terminate for any other reason before being exercised, then the corresponding Common Shares shall become available for the grant of Options and Restricted Shares under this Plan. If Restricted Shares are forfeited, then the corresponding Common Shares shall again become available for the grant of NQOs and Restricted Shares under the Plan. The aggregate number of Common Shares that may be issued under the Plan upon the exercise of ISOs shall not be increased when Restricted Shares are forfeited.

ARTICLE 4. ELIGIBILITY.

4.1 **Nonstatutory Stock Options and Restricted Shares.** Only Employees, Outside Directors and Consultants shall be eligible for the grant of NQOs and Restricted Shares.

4.2 **Incentive Stock Options.** Only Employees who are common-law employees of the Company, a Parent or a Subsidiary shall be eligible for the grant of ISOs. In addition, an Employee who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Company or any of its Parents or Subsidiaries shall not be eligible for the grant of an IS0 unless the requirements set forth in section 422(c)(6) of the Code are satisfied.

ARTICLE 5. OPTIONS.

5.1 **Stock Option Agreement.** Each grant of an Option under the Plan shall be evidenced by a Stock Option Agreement between the Optionee and the Company. Such Option shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The Stock Option Agreement shall specify whether the Option is an IS0 or an NQO. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical. Options may be granted in

consideration of a cash payment or in consideration of a reduction in the Optionee's other compensation. A Stock Option Agreement may provide that a new Option will be granted automatically to the Optionee when he or she exercises a prior Option and pays the Exercise Price in the form described in Section 6.2.

5.2 **Number of Shares.** Each Stock Option Agreement shall specify the number of Common Shares subject to the Option and shall provide for the adjustment of such number in accordance with Article 9. Options granted to any Optionee in a single fiscal year of the Company shall not cover more than 500,000 Common Shares, except that Options granted to a new Employee in the fiscal year of the Company in which his or her service as an Employee first commences shall not cover more than one million Common Shares. The limitations set forth in the preceding sentence shall be subject to adjustment in accordance with Article 9.

5.3 **Exercise Price.** Each Stock Option Agreement shall specify the Exercise Price; provided that the Exercise Price under an IS0 shall in no event be less than 100% of the Fair Market Value of a Common Share on the date of grant and the Exercise Price under an NQO shall in no event be less than 85% of the Fair Market Value of a Common Share on the date of grant. In the case of an NQO, a Stock Option Agreement may specify an Exercise Price that varies in accordance with a predetermined formula while the NQO is outstanding.

5.4 **Exercisability and Term.** Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable. The Stock Option Agreement shall also specify the term of the Option; provided that the term of an IS0 shall in no event exceed 10 years from the date of grant. A Stock Option Agreement may provide for accelerated exercisability in the event of the Optionee's death, disability or retirement or other events and may provide for expiration prior to the end of its term in the event of the termination of the Optionee's service. NQOs may also be awarded in combination with Restricted Shares, and such an Award may provide that the NQOs will not be exercisable unless the related Restricted Shares are forfeited.

5.5 **Effect of Change in Control.** The Committee may determine, at the time of granting an Option or thereafter, that such Option shall become exercisable as to all or part of the Common Shares subject to such Option in the event that a Change in Control occurs with respect to the Company, subject to the following limitations:

(a) In the case of an ISO, the acceleration of exercisability shall not occur without the Optionee's written consent.

(b) If the Company and the other party to the transaction constituting a Change in Control agree that such transaction is to be treated as a "pooling of interests" for financial reporting purposes, and if such transaction in fact is so treated, then the acceleration of exercisability shall not occur to the extent that the surviving entity's independent public accountants determine in good faith that such acceleration would preclude the use of "pooling of interests" accounting.

5.6 **Modification or Assumption of Options.** Within the limitations of the Plan, the Committee may modify, extend or assume outstanding options or may accept the cancellation of outstanding options (whether granted by the Company or by another issuer) in return for the grant of new options for the same or a different number of shares and at the same or a different exercise price. The foregoing notwithstanding, no modification of an Option shall, without the consent of the Optionee, alter or impair his or her rights or obligations under such Option.

5.7 **Buyout Provisions.** The Committee may at any time (a) offer to buy out for a payment in cash or cash equivalents an Option previously granted or (b) authorize an Optionee to elect to cash out an Option previously granted, in either case at such time and based upon such terms and conditions as the Committee shall establish.

ARTICLE 6. PAYMENT FOR OPTION SHARES.

6.1 **General Rule.** The entire Exercise Price of Common Shares issued upon exercise of Options shall be payable in cash or cash equivalents at the time when such Common Shares are purchased, except as follows:

(a) In the case of an IS0 granted under the Plan, payment shall be made only pursuant to the express provisions of the applicable Stock Option Agreement. The Stock Option Agreement may specify that payment may be made in any form(s) described in this Article 6.

(b) In the case of an NQO, the Committee may at any time accept payment in any form(s) described in this Article 6.

6.2 **Surrender of Stock.** To the extent that this Section 6.2 is applicable, all or any part of the Exercise Price may be paid by surrendering, Common Shares that are already owned by the Optionee. Such Common Shares shall be valued at their Fair Market Value on the date when the new Common Shares are purchased under the Plan. The Optionee shall not surrender, Common Shares in payment of the Exercise Price if such action would cause the Company to recognize compensation expense (or additional compensation expense) with respect to the Option for financial reporting purposes.

6.3 **Exercise/Sale.** To the extent that this Section 6.3 is applicable, all or any part of the Exercise Price and any withholding taxes may be paid by delivering (on a form prescribed by the Company) an irrevocable direction to a securities broker approved by the Company to sell all or part of the Common Shares being purchased under the Plan and to deliver all or part of the sales proceeds to the Company.

6.4 **Exercise/Pledge.** To the extent that this Section 6.4 is applicable, all or any part (of the Exercise Price and any withholding taxes may be paid by delivering (on a form prescribed by the Company) an irrevocable direction to pledge all or part of the Common Shares being purchased under the Plan to a securities broker or lender approved by the Company, as security for a loan, and to deliver all or part of the loan proceeds to the Company.

6.5 **Promissory Note.** To the extent that this Section 6.5 is applicable, all or any part of the Exercise Price and any withholding taxes may be paid by delivering (on a form prescribed by the Company) a full-recourse promissory note; provided that the par value of the Common Shares being purchased under the Plan shall be paid in cash or cash equivalents.

6.6 **Other Forms of Payment.** To the extent that this Section 6.6 is applicable, all or (any part of the Exercise Price and any withholding taxes may be paid in any other form that is consistent with applicable laws, regulations and rules.

ARTICLE 7. [Reserved]

ARTICLE 8. RESTRICTED SHARES.

8.1 **Time, Amount and Form of Awards.** Awards under the Plan may be granted in the form of Restricted Shares. Restricted Shares may also be awarded in combination with NQOs, and such an Award may provide that the Restricted Shares will be forfeited in the event that the related NQOs are exercised.

8.2 **Payment for Awards.** To the extent that an Award is granted in the form of newly issued Restricted Shares, the Award recipient, as a condition to the grant of such Award, shall be required to pay the Company in cash or cash equivalents an amount equal to the par value of such Restricted Shares. To the extent that an Award is granted in the form of Restricted Shares from the Company’s treasury, no cash consideration shall be required of the Award recipients. Any amount not paid in cash may be paid with a full recourse promissory note.

8.3 **Vesting Conditions.** Each Award of Restricted Shares may or may not be subject to vesting. Vesting shall occur, in full or in installments, upon satisfaction of the conditions specified in the Stock Award Agreement. A Stock Award Agreement may provide for accelerated vesting in the event of the Participant’s death, disability or retirement or other events. The Committee may determine, at the time of granting Restricted Shares or thereafter, that all or part of such Restricted Shares shall become vested in the event that a Change in Control occurs with respect to the Company, except as provided in the next following sentence. If the Company and the other party to the transaction constituting a Change in Control agree that such transaction is to be treated as a “pooling of interests” for financial reporting purposes, and if such transaction in fact is so treated, then the acceleration of vesting shall not occur to the extent that the surviving entity’s independent public accountants determine in good faith that such acceleration would preclude the use of “pooling of interests” accounting.

8.4 **Voting and Dividend Rights.** The holders of Restricted Shares awarded under the Plan shall have the same voting, dividend and other rights as the Company’s other stockholders. A Stock Award Agreement, however, may require that the holders of Restricted Shares invest any cash dividends received in additional Restricted Shares. Such additional Restricted Shares shall be subject to the same conditions and restrictions as the Award with respect to which the dividends were paid.

ARTICLE 9. PROTECTION AGAINST DILUTION.

9.1 **Adjustments.** In the event of a subdivision of the outstanding Common Shares, a declaration of a dividend payable in Common Shares, a declaration of a dividend payable in a form other than Common Shares in an amount that has a material effect on the price of Common Shares, a combination or consolidation of the outstanding Common Shares (by reclassification or otherwise) into a lesser number of Common Shares, a recapitalization, a spin-off or a similar occurrence, the Committee shall make such adjustments as it, in its sole discretion, deems appropriate in one or more of (a) the number of Options and Restricted Shares available for future Awards under Article 3, (b) the limitations set forth in Section 5.2, (c) the number of Common Shares covered by each outstanding Option or (d) the Exercise Price under each outstanding Option. Except as provided in this Article 9, a Participant shall have no rights by reason of any issue by the. Company of stock of any class or securities convertible into stock of any class, any subdivision or consolidation of shares of stock of any class, the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class.

9.2 **Dissolution or Liquidation.** To the extent not previously exercised, Options shall terminate immediately prior to the dissolution or liquidation of the Company.

9.3 **Reorganizations.** In the event that the Company is a party to a merger or other reorganization, outstanding Options and Restricted Shares shall be subject to the agreement of merger or reorganization. Such agreement may provide, without limitation, for the continuation of outstanding Awards by the Company (if the Company is a surviving corporation), for their assumption by the surviving corporation or its parent or subsidiary, for the substitution by the surviving corporation or its parent or subsidiary of its own awards for such Awards, for accelerated vesting and accelerated expiration, or for settlement in cash or cash equivalents.

ARTICLE 10. AWARDS UNDER OTHER PLANS.

The Company may grant awards under other plans or programs. Such awards may be settled in the form of Common Shares issued under this Plan. Such Common Shares shall be treated for all purposes under the Plan like Restricted Shares and shall, when issued, reduce the number of Common Shares available under Article 3.

ARTICLE 11. LIMITATION ON RIGHTS.

11.1 **Retention Rights.** Neither the Plan nor any Award granted under the Plan shall be deemed to give any individual a right to remain an Employee, Outside Director or Consultant. The Company and its Parents, Subsidiaries and Affiliates reserve the right to terminate the service of any Employee, Outside Director or Consultant at any time, with or without cause, subject to applicable laws, the Company's certificate of incorporation and by-laws and a written employment agreement (if any).

11.2 **Stockholders' Rights.** A Participant shall have no dividend rights, voting rights or other rights as a stockholder with respect to any Common Shares covered by his or her Award prior to the time when a stock certificate for such Common Shares is issued or, in

the case of an Option, the time when he or she becomes entitled to receive such Common Shares by filing a notice of exercise and paying the Exercise Price. No adjustment shall be made for cash dividends or other rights for which the record date is prior to such time, except as expressly provided in the Plan.

11.3 **Regulatory Requirements.** Any other provision of the Plan notwithstanding, the obligation of the Company to issue Common Shares under the Plan shall be subject to all applicable laws, rules and regulations and such approval by any regulatory body as may be required. The Company reserves the right to restrict, in whole or in part, the delivery of Common Shares pursuant to any Award prior to the satisfaction of all legal requirements relating to the issuance of such Common Shares, to their registration, qualification or listing or to an exemption from registration, qualification or listing.

ARTICLE 12. WITHHOLDING TAXES.

12.1 **General.** To the extent required by applicable federal, state, local or foreign law, a Participant or his or her successor shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan. The Company shall not be required to issue any Common Shares or make any cash payment under the Plan until such obligations are satisfied.

12.2 **Share Withholding.** The Committee may permit a Participant to satisfy all or part of his or her withholding or income tax obligations by having the Company withhold all or a portion of any Common Shares that otherwise would be issued to him or her or by surrendering all or a portion of any Common Shares that he or she previously acquired. Such Common Shares shall be valued at their Fair Market Value on the date when taxes otherwise would be withheld in cash.

ARTICLE 13. FUTURE OF THE PLAN.

13.1 **Term of the Plan.** The Plan, as set forth herein, shall become effective on March 14, 1997. The Plan shall remain in effect until it is terminated under Section 13.2, except that no ISOs shall be granted after March 14, 2007.

13.2 **Amendment or Termination.** The Board may, at any time and for any reason, amend or terminate the Plan. An amendment of the Plan shall be subject to the approval of the Company's stockholders only to the extent required by applicable laws, regulations or rules. No Awards shall be granted under the Plan after the termination thereof. The termination of the Plan, or any amendment thereof, shall not affect any Award previously granted under the Plan.

ARTICLE 14. DEFINITIONS.

14.1 "**Affiliate**" means any entity other than a Subsidiary, if the Company and/or one or more Subsidiaries own not less than 50% of such entity.

14.2 "**Award**" means any award of an Option or a Restricted Share under the Plan.

14.3 “**Board**” means the Company’s Board of Directors, as constituted from time to time.

14.4 “**Change in Control**” shall mean:

(a) The consummation of a merger or consolidation of the Company with or into another entity or any other corporate reorganization, if more than 50% of the combined voting power of the continuing or surviving entity’s securities outstanding immediately after such merger, consolidation or other reorganization is owned by persons who were not stockholders of the Company immediately prior to such merger, consolidation or other reorganization;

(b) The sale, transfer or other disposition of all or substantially all of the Company’s assets;

(c) A change in the composition of the Board, s a result of which fewer than 50% of the incumbent directors are directors who either (i) had been directors of the Company on the date 24 months prior to the date of the event that may constitute a Change in Control (the “original directors”) or (ii) were elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the aggregate of the original directors who were still in office at the time of the election or nomination and the directors whose election or nomination was previously so approved; or

(d) Any transaction as a result of which any person is the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing at least 30% of the total voting power represented by the Company’s then outstanding voting securities. For purposes of this Paragraph (d), the term “person” shall have the same meaning as when used in sections 13(d) and 14(d) of the Exchange Act but shall exclude (i) any person, or person affiliated with said person, who, on March 15, 1997, is the beneficial owner of securities of the Company representing at least 20% of the total voting power represented by the Company’s then outstanding voting securities (11,607,764), (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or of a Parent or Subsidiary and (iii) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of the common stock of the Company.

A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company’s incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company’s securities immediately before such transaction.

14.5 “**Code**” means the Internal Revenue Code of 1986, as amended.

14.6 “**Committee**” means a committee of the Board, as described in Article 2.

14.7 “**Common Share**” means one share of the common stock of the Company.

14.8 “**Company**” means either (a) Heska Corporation, a California corporation (prior to the formation of Heska Corporation, a Delaware corporation), or (b) Heska Corporation, a Delaware corporation (following its formation).

14.9 “**Consultant**” means a consultant or adviser who provides bona fide services to the Company, a Parent, a Subsidiary or an Affiliate as an independent contractor. Service as a Consultant shall be considered employment for all purposes of the Plan, except as provided in Section 4.2.

14.10 “**Employee**” means a common-law employee of the Company, a Parent, a Subsidiary or an Affiliate.

14.11 “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

14.12 “**Exercise Price**” means the amount for which one Common Share may be purchased upon exercise of such Option, as specified in the applicable Stock Option Agreement.

14.13 “**Fair Market Value**” means the market price of Common Shares, determined by the Committee in good faith on such basis as it deems appropriate. Whenever possible, the determination of Fair Market Value by the Committee shall be based on the prices reported in The Wall Street Journal. Such determination shall be conclusive and binding on all persons.

14.14 “**ISO**” means an incentive stock option described in section 422(b) of the Code.

14.15 “**NQO** means a stock option not described in sections 422 or 423 of the Code.

14.16 “**Option**” means an IS0 or NQO granted under the Plan and entitling the holder to purchase Common Shares.

14.17 “**Optionee**” means an individual or estate who holds an Option.

14.18 “**Outside Director**” shall mean a member of the Board who is not an Employee. Service as an Outside Director shall be considered employment for all purposes of the Plan, except as provided in Section 4.2.

14.19 “**Parent**” means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations other than the Company owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Parent on a date after the adoption of the Plan shall be considered a Parent commencing as of such date.

14.20 “**Participant**” means an individual or estate who holds an Award.

14.21 “**Plan**” means this Heska Corporation 1997 ,Stock Incentive Plan, as amended from time to time.

14.22 “**Predecessor Plans**” means (a) the 1988 Heska Corporation Stock Plan and (b) the Heska Corporation 1994 Key Executive Stock Plan.

14.23 “**Restricted Share**” means a Common Share awarded under the Plan.

14.24 “**Stock Award Agreement**” means the agreement between the Company and the recipient of a Restricted Share that contains the terms, conditions and restrictions pertaining to such Restricted Share.

14.25 “**Stock Option Agreement**” means the agreement between the Company and an Optionee that contains the terms, conditions and restrictions pertaining to his or her Option.

14.26 “**Subsidiary**” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

ARTICLE 15. EXECUTION.

To record the adoption of the Plan by the Board, the Company has caused its duly authorized officer to execute this document in the name of the Company.

HESKA CORPORATION

By ______________________________
Executive Vice President and Chief Financial Officer

HESKA CORPORATION 1997 STOCK INCENTIVE PLAN

STOCK OPTION AGREEMENT
(EMPLOYEES AND CONSULTANTS)

Tax Treatment This option is intended to be an incentive stock option under section 422 of the Internal Revenue Code or a nonstatutory option, as provided in the Notice of Stock Option Grant.

Vesting/ Exercisability This option vests and becomes exercisable in installments, as shown in the Notice of Stock Option Grant. In addition, this option shall vest and become exercisable in full if one of the following events occurs:

· Your service as an Employee, Consultant or Outside Director of the Company or a Subsidiary terminates because of death, or

· The Company is a party to a merger or other reorganization while you are an Employee or Consultant of the Company or a Subsidiary, this option is not continued by the Company and is not assumed by the surviving corporation or its parent, and the surviving corporation or its parent does not substitute its own option for this option, or

· The Company is subject to a "Change in Control" while you are an Employee or Consultant of the Company or a Subsidiary and, within 12 months after the Change in Control, the surviving entity terminates your service without your consent and without Cause, as defined below. If the surviving entity demotes you to a lower position, materially reduces your authority or responsibilities, materially reduces your total compensation or announces its intention to relocate your principal place of work by more than 20 miles, then that action will be treated as a termination of your service.

· "Cause" shall mean (i) your failure to perform your assigned duties or responsibilities as an Employee or Consultant of the Company or a Subsidiary (other than a failure resulting from total and permanent disability, as discussed below) after notice thereof from the Company describing your failure to perform such duties or responsibilities; (ii) your material breach of any confidentiality agreement or invention assignment agreement between you and the Company or a Subsidiary; (iii) your engaging in any act of dishonesty, fraud, misrepresentation, moral turpitude or misappropriation of material property that was or is materially injurious to the Company or its affiliates; (iv) your violation of any federal or state law or regulation applicable to the Company's

business; or (v) your being convicted of, or entering a plea of nolo contendere to, any crime.

No additional shares become vested after your service as an Employee, Consultant or Outside Director of the Company or a Subsidiary has terminated for any reason other than those outlined herein.

Term This option expires in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Date of Grant, as shown in the Notice of Stock Option Grant. (It will expire earlier if your service terminates, as described below.)

Regular Termination If your service as an Employee, Consultant or Outside Director of the Company or a Subsidiary terminates for any reason except death or total and permanent disability, then this option will expire at the close of business at Company headquarters on the date three months after your termination date. The Company determines when your service terminates for this purpose.

Death If your service as an Employee, Consultant or Outside Director of the Company or a Subsidiary terminates because of your death, then this option will expire at the close of business at Company headquarters on the date 12 months after the date of death.

Disability If your service as an Employee, Consultant or Outside Director of the Company or a Subsidiary terminates because of your total and permanent disability, then this option will expire at the close of business at Company headquarters on the date 12 months after your termination date.

For all purposes under this Agreement, "total and permanent disability" means that you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than one year.

Leaves of Absence Vesting of this option shall be suspended during any unpaid leave of absence unless continued vesting is required by the terms of the leave or by applicable law.

For purposes of this option, your service does not terminate when you go on a military leave, a sick leave or another *bona fide* leave of absence, if the Company approved your leave in writing and if continued crediting of service is required by the terms of the leave or by applicable law.

For purposes of incentive stock options, no such leave may exceed 90 days, unless reemployment upon expiration of such leave is guaranteed by the terms of the leave or by applicable law. If reemployment upon expiration of a leave of absence approved by the Company is not so

guaranteed, then three months following the 91st day of such leave, an incentive stock option shall cease to be treated as an incentive stock option and shall be treated for tax purposes as a nonstatutory option.

Unless you immediately return to active work when the approved leave ends, your service will terminate.

Restrictions on Exercise The Company will not permit you to exercise this option if the issuance of shares at that time would violate any law or regulation.

Notice of Exercise When you wish to exercise this option, you must notify the Company by filing the proper "Notice of Exercise" form at the address given on the form. Your notice must specify how many shares you wish to purchase. The exercise will be effective when the Company receives the Notice of Exercise with the option exercise payment described herein.

If someone else wants to exercise this option after your death, that person must prove to the Company's satisfaction that he or she is entitled to do so.

Form of Payment When you submit your notice of exercise, you must include payment of the option exercise price for the shares you are purchasing. Payment may be made in one (or a combination of two or more) of the following forms:

- Your personal check, a cashier's check or a money order.

- Certificates for shares of Company stock that you own, along with any forms needed to affect a transfer of those shares to the Company. The value of the shares, determined as of the effective date of the option exercise, will be applied to the option exercise price. However, you may not surrender shares of Company stock in payment of the exercise price if your action would cause the Company to recognize compensation expense (or additional compensation expense) with respect to this option for financial reporting purposes.

- Irrevocable directions to a securities broker approved by the Company to sell all or part of your option shares and to deliver to the Company proceeds from the sale in an amount sufficient to pay the option exercise price and any withholding taxes. (The balance of the sale proceeds, if any, will be delivered to you.) The directions must be given by signing a special "Notice of Exercise" form provided by the Company.

Withholding Taxes and Stock Withholding You will not be allowed to exercise this option unless you make arrangements acceptable to the Company to pay any withholding taxes that may be due as a result of the option exercise. These arrangements may include (with the Company's approval) withholding shares of Company stock that otherwise would be issued to you when you

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exercise this option. The value of these shares, determined as of the effective date of the option exercise, will be applied to the withholding taxes.

Restrictions on Resale By signing this Agreement, you agree not to sell any option shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as you are an Employee, Consultant or Outside Director of the Company or a Subsidiary.

Transfer of Option Prior to your death, only you may exercise this option. You cannot transfer or assign this option. For instance, you may not sell this option or use it as security for a loan. You may, however, dispose of this option in your will, by the laws of descent and distribution or through a beneficiary designation.

Regardless of any marital property settlement agreement, the Company is not obligated to honor a notice of exercise from your former spouse, nor is the Company obligated to recognize your former spouse's interest in your option in any other way.

Retention Rights Neither your option nor this Agreement give you the right to be employed or otherwise retained by the Company or a Subsidiary in any capacity. The Company or a Subsidiary reserves the right to terminate your service at any time, with or without cause.

Stockholder Rights You, or your estate or heirs, have no rights as a stockholder of the Company until you have exercised this option by giving the required notice to the Company and paying the exercise price.

Applicable Law This Agreement will be interpreted and enforced under the laws of the State of Colorado (without giving effect to its conflict of laws provisions).

The Plan and Other Agreements The 1997 Stock Incentive Plan is incorporated in this Agreement by reference. Unless otherwise defined herein, all capitalized terms herein have the same defined meanings as in the 1997 Stock Incentive Plan.

This Agreement and the Plan constitute the entire understanding between you and the Company regarding this option. Any prior agreements, commitments or negotiations concerning this option are superseded. This Agreement may be amended only by another written agreement, signed by both parties.

BY SIGNING THE COVER SHEET OF THIS AGREEMENT, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE 1997 STOCK INCENTIVE PLAN.

EXHIBIT 10.10

HESKA CORPORATION 1997 STOCK INCENTIVE PLAN

STOCK OPTION AGREEMENT
(OUTSIDE DIRECTORS)

Tax Treatment This option is intended to be a nonstatutory option.

Vesting/ Exercisability This option is immediately exercisable, but subject to vesting as indicated in the Notice of Stock Option Grant. In the event of termination of your service as an Outside Director of the Company, any unvested shares issued upon exercise are subject to repurchase by the Company at the same price as the original Exercise Price Per Share. The Company's right to repurchase such shares shall lapse as the shares become vested as indicated in the Notice of Stock Option Grant.

In addition, this option becomes vested in full if one of the following events occurs:

- Your service as an Outside Director of the Company terminates because of death, total and permanent disability, or retirement at or after age 65, or

- A Change in Control with respect to the Company occurs while you are an Outside Director of the Company.

No additional shares become vested after your service as an Employee, Consultant or Outside Director of the Company or a Subsidiary has terminated for any reason other than those outlined herein.

Term This option expires in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Date of Grant, as shown in the Notice of Stock Option Grant. (It will expire earlier if your service terminates, as described below.)

Regular Termination If your service as an Employee, Consultant or Outside Director of the Company or a Subsidiary terminates for any reason except death or total and permanent disability, then this option will expire at the close of business at Company headquarters on the date three months after your termination date. The Company determines when your service terminates for this purpose.

Death If your service as an Employee, Consultant or Outside Director of the Company or a Subsidiary terminates because of your death, then this option will expire at the close of business at Company headquarters on the date 12 months after the date of death.

Disability If your service as an Employee, Consultant or Outside Director of the Company or a Subsidiary terminates because of your total and permanent disability, then this option will expire at the close of business at Company headquarters on the date 12 months after your termination date.

For all purposes under this Agreement, "total and permanent disability" means that you are unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than one year.

Restrictions on Exercise The Company will not permit you to exercise this option if the issuance of shares at that time would violate any law or regulation.

Notice of Exercise When you wish to exercise this option, you must notify the Company by filing the proper "Notice of Exercise" form at the address given on the form. Your notice must specify how many shares you wish to purchase. The exercise will be effective when the Company receives the Notice of Exercise with the option exercise payment described herein.

If someone else wants to exercise this option after your death, that person must prove to the Company's satisfaction that he or she is entitled to do so.

Exercise of Unvested Shares Exercise of unvested shares is allowed under the Plan. If you would like to exercise your option before it is vested, you must complete a Stock Repurchase Agreement, which provides for the repurchase of that portion of the shares that remain unvested at the time of your termination.

Form of Payment When you submit your notice of exercise, you must include payment of the option exercise price for the shares you are purchasing. Payment may be made in one (or a combination of two or more) of the following forms:

- Your personal check, a cashier's check or a money order.

- Certificates for shares of Company stock that you own, along with any forms needed to affect a transfer of those shares to the Company. The value of the shares, determined as of the effective date of the option exercise, will be applied to the option exercise price. However, you may not surrender shares of Company stock in payment of the exercise price if your action would cause the Company to recognize compensation expense (or additional compensation expense) with respect to this option for financial reporting purposes.

- Irrevocable directions to a securities broker approved by the Company to sell all or part of your option shares and to deliver to the Company proceeds from the sale in an amount sufficient to pay the option exercise price and any withholding taxes. (The balance of the sale proceeds, if any, will be delivered to you.) The directions must be given by signing a special "Notice of Exercise" form provided by the Company.

Withholding Taxes and Stock Withholding

You will not be allowed to exercise this option unless you make arrangements acceptable to the Company to pay any withholding taxes

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that may be due as a result of the option exercise. These arrangements may include (with the Company's approval) withholding shares of Company stock that otherwise would be issued to you when you exercise this option. The value of these shares, determined as of the effective date of the option exercise, will be applied to the withholding taxes.

Repurchase Rights

In the event that you exercise unvested shares through the execution of a Stock Repurchase Agreement, the Company will have 90 days to repurchase any shares that remain unvested at the time of your termination. The terms of any such repurchase will be set forth in the Stock Repurchase Agreement.

Restrictions on Resale

By signing this Agreement, you agree not to sell any option shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as you are an Employee, Consultant or Outside Director of the Company or a Subsidiary.

Transfer of Option

Prior to your death, only you may exercise this option. You cannot transfer or assign this option. For instance, you may not sell this option or use it as security for a loan. You may, however, dispose of this option in your will, by the laws of descent and distribution or through a beneficiary designation.

Regardless of any marital property settlement agreement, the Company is not obligated to honor a notice of exercise from your former spouse, nor is the Company obligated to recognize your former spouse's interest in your option in any other way.

Retention Rights

Neither your option nor this Agreement give you the right to be employed or otherwise retained by the Company or a Subsidiary in any capacity.

Stockholder Rights

You, or your estate or heirs, have no rights as a stockholder of the Company until you have exercised this option by giving the required notice to the Company and paying the exercise price.

Applicable Law

This Agreement will be interpreted and enforced under the laws of the State of Colorado (without giving effect to its conflict of laws provisions).

The Plan and Other Agreements

The 1997 Stock Incentive Plan is incorporated in this Agreement by reference. Unless otherwise defined herein, all capitalized terms herein have the same defined meanings as in the 1997 Stock Incentive Plan.

This Agreement and the Plan constitute the entire understanding between you and the Company regarding this option. Any prior agreements, commitments or negotiations concerning this option are superseded. This Agreement may be amended only by another written agreement, signed by both parties.

BY SIGNING THE COVER SHEET OF THIS AGREEMENT, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE 1997 STOCK INCENTIVE PLAN.

HESKA CORPORATION

2003 EQUITY INCENTIVE PLAN

HESKA CORPORATION hereby establishes the Heska Corporation 2003 Equity Incentive Plan, effective as of April 15, 2003.

SECTION 1
BACKGROUND AND PURPOSE

1.1 Background. The Plan permits the grant of certain awards, including but not limited to, Nonqualified Stock Options, Incentive Stock Options, SARs, Restricted Stock, Performance Units, and Performance Shares.

1.2 Purpose of the Plan. The Plan is intended to attract, motivate, and retain (a) employees of the Company and its Affiliates, (b) consultants who provide significant services to the Company and its Affiliates, and (c) directors of the Company who are employees of neither the Company nor any Affiliate. The Plan also is designed to encourage stock ownership by Participants, thereby aligning their interests with those of the Company's shareholders.

SECTION 2
DEFINITIONS

The following words and phrases shall have the following meanings unless a different meaning is plainly required by the context:

2.1 "1934 Act" means the Securities Exchange Act of 1934, as amended. Reference to a specific section of the 1934 Act or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

2.2 "Affiliate" means any corporation or any other entity (including, but not limited to, partnerships and joint ventures) controlling, controlled by, or under common control with the Company.

2.3 "Affiliated SAR" means a SAR that is granted in connection with a related Option, and which automatically will be deemed to be exercised at the same time that the related Option is exercised.

2.4 "Annual Revenue" means the Company's or a business unit's net sales for the Fiscal Year, determined in accordance with generally accepted accounting principles; provided, however, that prior to the Fiscal Year, the Committee shall determine whether any significant item(s) shall be

excluded or included from the calculation of Annual Revenue with respect to one or more Participants.

2.5 "Award" means, individually or collectively, a grant under the Plan of Nonqualified Stock Options, Incentive Stock Options, SARs, Restricted Stock, Performance Units, or Performance Shares.

2.6 "Award Agreement" means the written agreement setting forth the terms and provisions applicable to each Award granted under the Plan.

2.7 "Board" or "Board of Directors" means the Board of Directors of the Company.

2.8 "Cash Position" means the Company's level of cash and cash equivalents.

2.9 "Change in Control" means the occurrence of any of the following events:

(a) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;

(b) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(c) A change in the composition of the Board occurring within a two-year period, as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" means directors who either (A) are Directors as of the effective date of the Plan, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Directors at the time of such election or nomination (but will not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company); or

(d) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

2.10 "Code" means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

2.11 "Committee" means the Board or a committee appointed by the Board (pursuant to Section 3.1) to administer the Plan.

2.12 "Company" means Heska Corporation, a Delaware corporation, or any successor thereto.

2.13 "Consultant" means any consultant, independent contractor, or other person who provides significant services to the Company or its Affiliates, but who is neither an Employee nor a Director.

2.14 "Director" means any individual who is a member of the Board of Directors of the Company.

2.15 "Disability" means a permanent and total disability within the meaning of Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Committee in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Committee from time to time.

2.16 "Earnings Per Share" means as to any Fiscal Year, the Company's or a business unit's Net Income, divided by a weighted average number of common shares outstanding and dilutive common equivalent shares deemed outstanding, determined in accordance with generally accepted accounting principles.

2.17 "Employee" means any employee of the Company or of an Affiliate, whether such employee is so employed at the time the Plan is adopted or becomes so employed subsequent to the adoption of the Plan.

2.18 "Exercise Price" means the price at which a Share may be purchased by a Participant pursuant to the exercise of an Option.

2.19 "Fair Market Value" means the last quoted per share selling price for Shares on the relevant date, or if there were no sales on such date, the closing bid on the relevant date. If there are neither bids nor sales on the relevant date, then the Fair Market Value shall mean the arithmetic mean of the highest and lowest quoted selling prices on the nearest day before and the nearest day after the relevant date, as determined by the Committee. Notwithstanding the preceding, for federal, state, and local income tax reporting purposes, fair market value shall be determined by the Committee (or its delegate) in accordance with uniform and nondiscriminatory standards adopted by it from time to time.

2.20 "Fiscal Year" means the fiscal year of the Company.

2.21 "Freestanding SAR" means a SAR that is granted independently of any Option.

2.22 "Grant Date" means, with respect to an Award, the date that the Award was granted.

2.23 "Incentive Stock Option" means an Option to purchase Shares that is designated as an Incentive Stock Option and is intended to meet the requirements of Section 422 of the Code.

2.24 "Individual Objectives" means as to a Participant, the objective and measurable goals set by a "management by objectives" process and approved by the Committee (in its discretion).

2.25 "Net Income" means as to any Fiscal Year, the income after taxes of the Company for the Fiscal Year determined in accordance with generally accepted accounting principles, provided that prior to the Fiscal Year, the Committee shall determine whether any significant item(s) shall be included or excluded from the calculation of Net Income with respect to one or more Participants.

2.26 "Nonqualified Stock Option" means an option to purchase Shares that is not intended to be an Incentive Stock Option.

2.27 "Operating Cash Flow" means the Company's or a business unit's sum of Net Income plus depreciation and amortization less capital expenditures plus changes in working capital comprised of accounts receivable, inventories, other current assets, trade accounts payable, accrued expenses, product warranty, advance payments from customers and long-term accrued expenses, determined in accordance with generally acceptable accounting principles.

2.28 "Operating Income" means the Company's or a business unit's income from operations but excluding any unusual items, determined in accordance with generally accepted accounting principles.

2.29 "Option" means an Incentive Stock Option or a Nonqualified Stock Option.

2.30 "Participant" means an Employee, Consultant, or Director who has an outstanding Award.

2.31 "Performance Goals" means the goal(s) (or combined goal(s)) determined by the Committee (in its discretion) to be applicable to a Participant with respect to an Award. As determined by the Committee, the Performance Goals applicable to an Award may provide for a targeted level or levels of achievement using one or more of the following measures: (a) Annual Revenue, (b) Cash Position, (c) Earnings Per Share, (d) Individual Objectives, (e) Net Income, (f) Operating Cash Flow, (g) Operating Income, (h) Return on Assets, (i) Return on Equity, (j) Return on Sales, and (k) Total Shareholder Return. The Performance Goals may differ from Participant to Participant and from Award to Award.

2.32 "Performance Share" means an Award granted to a Participant pursuant to Section 8.

2.33 "Performance Unit" means an Award granted to a Participant pursuant to Section 8.

2.34 "Period of Restriction" means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. As provided in Section 7, such restrictions may be based on the passage of time, the achievement of target levels of performance, or the occurrence of other events as determined by the Committee, in its discretion.

2.35 "Plan" means the Heska Corporation 2003 Equity Incentive Plan, as set forth in this instrument and as hereafter amended from time to time.

2.36 "Restricted Stock" means an Award granted to a Participant pursuant to Section 7.

2.37 "Return on Assets" means the percentage equal to the Company's or a business unit's Operating Income before incentive compensation, divided by average net Company or business unit, as applicable, assets, determined in accordance with generally accepted accounting principles.

2.38 "Return on Equity" means the percentage equal to the Company's Net Income divided by average stockholder's equity, determined in accordance with generally accepted accounting principles.

2.39 "Return on Sales" means the percentage equal to the Company's or a business unit's Operating Income before incentive compensation, divided by the Company's or the business unit's, as applicable, revenue, determined in accordance with generally accepted accounting principles.

2.40 "Rule 16b-3" means Rule 16b-3 promulgated under the 1934 Act, and any future regulation amending, supplementing or superseding such regulation.

2.41 "Section 16 Person" means a person who, with respect to the Shares, is subject to Section 16 of the 1934 Act.

2.42 "Shares" means the shares of common stock of the Company.

2.43 "Stock Appreciation Right" or "SAR" means an Award, granted alone or in connection with a related Option, that pursuant to Section 6 is designated as a SAR.

2.44 "Subsidiary" means any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

2.45 "Tandem SAR" means a SAR that is granted in connection with a related Option, the exercise of which shall require forfeiture of the right to purchase an equal number of Shares under the related Option (and when a Share is purchased under the Option, the SAR shall be canceled to the same extent).

4.46 "Termination of Service" means (a) in the case of an Employee, a cessation of the employee-employer relationship between the Employee and the Company or an Affiliate for any reason, including, but not by way of limitation, a termination by resignation, discharge, death, Disability or the disaffiliation of an Affiliate, but excluding any such termination where there is a simultaneous reemployment by the Company or an Affiliate; and (b) in the case of a Consultant, a cessation of the service relationship between the Consultant and the Company or an Affiliate for any reason, including, but not by way of limitation, a termination by resignation, discharge, death, Disability, or the disaffiliation of an Affiliate, but excluding any such termination where there is a simultaneous re-engagement of the consultant by the Company or an Affiliate.

2.47 "Total Shareholder Return" means the total return (change in share price plus reinvestment of any dividends) of a Share.

SECTION 3
ADMINISTRATION

3.1 The Committee. The Plan shall be administered by the Committee. If the Committee is not the Board then the Committee shall consist of not less than two (2) Directors who shall be appointed from time to time by, and shall serve at the pleasure of, the Board of Directors. If the Committee is not the Board then the Committee shall be comprised solely of Directors who both are (a) "non-employee directors" under Rule 16b-3, and (b) "outside directors" under Section 162(m) of the Code.

3.2 Authority of the Committee. It shall be the duty of the Committee to administer the Plan in accordance with the Plan's provisions. The Committee shall have all powers and discretion necessary or appropriate to administer the Plan and to control its operation, including, but not limited to, the power to (a) determine which Employees, Consultants and Directors shall be granted Awards, (b) prescribe the terms and conditions of the Awards, (c) interpret the Plan and the Awards, (d) adopt such procedures and subplans as are necessary or appropriate to permit participation in the Plan by Employees and Directors who are foreign nationals or employed outside of the United States, (e) adopt rules for the administration, interpretation and application of the Plan as are consistent therewith, and (f) interpret, amend or revoke any such rules.

3.3 Delegation by the Committee. The Committee, in its sole discretion and on such terms and conditions as it may provide, may delegate all or any part of its authority and powers under the Plan to one or more Directors or officers of the Company; provided, however, that the Committee may not delegate its authority and powers (a) with respect to Section 16 Persons, or (b) in any way which would jeopardize the Plan's qualification under Section 162(m) of the Code or Rule 16b-3.

3.4 Decisions Binding. All determinations and decisions made by the Committee, the Board, and any delegate of the Committee pursuant to the provisions of the Plan shall be final, conclusive, and binding on all persons, and shall be given the maximum deference permitted by law.

SECTION 4
SHARES SUBJECT TO THE PLAN

4.1 Number of Shares. Subject to adjustment as provided in Section 4.3, the total number of Shares available for grant under the Plan shall not exceed 2,390,500. Shares granted under the Plan may be either authorized but unissued Shares or treasury Shares.

4.2 Lapsed Awards. If an Award is settled in cash, or is cancelled, terminates, expires, or lapses for any reason (with the exception of the termination of a Tandem SAR upon exercise of the related Option, or the termination of a related Option upon exercise of the corresponding Tandem SAR), any Shares subject to such Award again shall be available to be the subject of an Award.

4.3 Adjustments in Awards and Authorized Shares. In the event that any dividend or other distribution (whether in the form of cash, Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Shares or other securities of the Company, or other

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change in the corporate structure of the Company affecting the Shares occurs such that an adjustment is determined by the Committee (in its sole discretion) to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust the number and class of Shares which may be delivered under the Plan, the number, class, and price of Shares subject to outstanding Awards, and the numerical limits of Sections 5.1, 6.1, 7.1 and 8.1. Notwithstanding the preceding, the number of Shares subject to any Award always shall be a whole number.

SECTION 5
STOCK OPTIONS

5.1 Grant of Options. Subject to the terms and provisions of the Plan, Options may be granted to Employees, Consultants and Directors at any time and from time to time as determined by the Committee in its sole discretion. The Committee, in its sole discretion, shall determine the number of Shares subject to each Option, provided that during any Fiscal Year, no Participant shall be granted Options covering more than 500,000 Shares. Notwithstanding the foregoing limitation, in connection with a Participant’s initial service as an Employee, a Participant may be granted Options to purchase up to an additional 500,000 Shares. The Committee may grant Incentive Stock Options, Nonqualified Stock Options, or a combination thereof.

5.2 Award Agreement. Each Option shall be evidenced by an Award Agreement that shall specify the Exercise Price, the expiration date of the Option, the number of Shares to which the Option pertains, any conditions to exercise the Option, and such other terms and conditions as the Committee, in its discretion, shall determine. The Award Agreement shall also specify whether the Option is intended to be an Incentive Stock Option or a Nonqualified Stock Option.

5.3 Exercise Price. Subject to the provisions of this Section 5.3, the Exercise Price for each Option shall be determined by the Committee in its sole discretion.

5.3.1 Nonqualified Stock Options. In the case of a Nonqualified Stock Option, the Exercise Price shall be not less than one hundred percent (100%) of the Fair Market Value of a Share on the Grant Date.

5.3.2 Incentive Stock Options. In the case of an Incentive Stock Option, the Exercise Price shall be not less than one hundred percent (100%) of the Fair Market Value of a Share on the Grant Date; provided, however, that if on the Grant Date, the Employee (together with persons whose stock ownership is attributed to the Employee pursuant to Section 424(d) of the Code) owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any of its Subsidiaries, the Exercise Price shall be not less than one hundred and ten percent (110%) of the Fair Market Value of a Share on the Grant Date.

5.3.3 Substitute Options. Notwithstanding the provisions of Sections 5.3.1 and 5.3.2, in the event that the Company or an Affiliate consummates a transaction described in Section 424(a) of the Code (e.g., the acquisition of property or stock from an unrelated corporation), persons who become Employees, Directors or Consultants on account of such transaction may be granted Options in substitution for options granted by their former employer. If such substitute

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Options are granted, the Committee, in its sole discretion and consistent with Section 424(a) of the Code, may determine that such substitute Options shall have an exercise price less than one hundred percent (100%) of the Fair Market Value of the Shares on the Grant Date.

5.4 Expiration of Options.

5.4.1 Expiration Dates. Each Option shall terminate no later than the first to occur of the following events:

(a) The date for termination of the Option set forth in the written Award Agreement, or

(b) If no date for the termination of the Option is set forth in the written Award Agreement (other than reference to Section 5.4.1(c)), the expiration of three (3) months from the date of the Participant’s Termination of Service for any reason; or

(c) The expiration of ten (10) years from the Grant Date.

5.4.2 Committee Discretion. Subject to the limits of Section 5.4.1, the Committee, in its sole discretion, (a) shall provide in each Award Agreement when each Option expires and becomes unexercisable, and (b) may, after an Option is granted, extend the maximum term of the Option (subject to Section 5.8.4 regarding Incentive Stock Options).

5.5 Exercisability of Options. Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall determine in its sole discretion. After an Option is granted, the Committee, in its sole discretion, may accelerate the exercisability of the Option.

5.6 Payment. Options shall be exercised by the Participant's delivery of a written notice of exercise to the Secretary of the Company (or its designee), setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares.

Upon the exercise of any Option, the Exercise Price shall be payable to the Company in full in cash or its equivalent. The Committee, in its sole discretion, also may permit exercise (a) by tendering previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the total Exercise Price (such previously acquired Shares must have been held for the requisite period necessary to avoid a charge to the Company's earnings for the financial reporting purposes, unless otherwise determined by the Committee), or (b) by any other means which the Committee, in its sole discretion, determines to both provide legal consideration for the Shares, and to be consistent with the purposes of the Plan.

As soon as practicable after receipt of a written notification of exercise and full payment for the Shares purchased, the Company shall deliver to the Participant (or the Participant's designated broker), Share certificates (which may be in book entry form) representing such Shares.

5.7 Restrictions on Share Transferability. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option as it may deem advisable, including, but not limited to, restrictions related to applicable federal securities laws, the requirements of any

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national securities exchange or system upon which Shares are then listed or traded, or any blue sky or state securities laws.

5.8 Certain Additional Provisions for Incentive Stock Options.

5.8.1 Exercisability. The aggregate Fair Market Value (determined on the Grant Date(s)) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by any Employee during any calendar year (under all plans of the Company and its Subsidiaries) shall not exceed $100,000.

5.8.2 Termination of Service. No Incentive Stock Option may be exercised more than three (3) months after the Participant's Termination of Service for any reason other than Disability or death, unless (a) the Participant dies during such three-month period, and/or (b) the Award Agreement or the Committee permits later exercise. No Incentive Stock Option may be exercised more than one (1) year after the Participant's Termination of Service on account of death or Disability, unless the Award Agreement or the Committee permit later exercise.

5.8.3 Company and Subsidiaries Only. Incentive Stock Options may be granted only to persons who are employees of the Company or a Subsidiary on the Grant Date.

5.8.4 Expiration. No Incentive Stock Option may be exercised after the expiration of ten (10) years from the Grant Date; provided, however, that if the Option is granted to an Employee who, together with persons whose stock ownership is attributed to the Employee pursuant to Section 424(d) of the Code, owns stock possessing more than 10% of the total combined voting power of all classes of the stock of the Company or any of its Subsidiaries, the Option may not be exercised after the expiration of five (5) years from the Grant Date.

SECTION 6
STOCK APPRECIATION RIGHTS

6.1 Grant of SARs. Subject to the terms and conditions of the Plan, a SAR may be granted to Employees, Directors and Consultants at any time and from time to time as shall be determined by the Committee, in its sole discretion. The Committee may grant Affiliated SARs, Freestanding SARs, Tandem SARs, or any combination thereof.

6.1.1 Number of Shares. The Committee shall have complete discretion to determine the number of SARs granted to any Participant, provided that during any Fiscal Year, no Participant shall be granted SARs covering more than 500,000 Shares, except that such Participant may receive SARS covering up to an additional 500,000 Shares in the fiscal year of the Company in which his or her service as an Employee first commences.

6.1.2 Exercise Price and Other Terms. The Committee, subject to the provisions of the Plan, shall have complete discretion to determine the terms and conditions of SARs granted under the Plan. However, the exercise price of a Freestanding SAR shall be not less than one hundred percent (100%) of the Fair Market Value of a Share on the Grant Date. The exercise price of Tandem or Affiliated SARs shall equal the Exercise Price of the related Option.

6.2 Exercise of Tandem SARs. Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable. With respect to a Tandem SAR granted in connection with an Incentive Stock Option: (a) the Tandem SAR shall expire no later than the expiration of the underlying Incentive Stock Option; (b) the value of the payout with respect to the Tandem SAR shall be for no more than one hundred percent (100%) of the difference between the Exercise Price of the underlying Incentive Stock Option and the Fair Market Value of the Shares subject to the underlying Incentive Stock Option at the time the Tandem SAR is exercised; and (c) the Tandem SAR shall be exercisable only when the Fair Market Value of the Shares subject to the Incentive Stock Option exceeds the Exercise Price of the Incentive Stock Option.

6.3 Exercise of Affiliated SARs. An Affiliated SAR shall be deemed to be exercised upon the exercise of the related Option. The deemed exercise of an Affiliated SAR shall not necessitate a reduction in the number of Shares subject to the related Option.

6.4 Exercise of Freestanding SARs. Freestanding SARs shall be exercisable on such terms and conditions as the Committee, in its sole discretion, shall determine.

6.5 SAR Agreement. Each SAR grant shall be evidenced by an Award Agreement that shall specify the exercise price, the term of the SAR, the conditions of exercise, and such other terms and conditions as the Committee, in its sole discretion, shall determine.

6.6 Expiration of SARs. A SAR granted under the Plan shall expire upon the date determined by the Committee, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing, the rules of Section 5.4 also shall apply to SARs.

6.7 Payment of SAR Amount. Upon exercise of a SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

(a) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times

(b) The number of Shares with respect to which the SAR is exercised.

At the discretion of the Committee, the payment upon SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

SECTION 7
RESTRICTED STOCK

7.1 Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock to Employees, Directors and Consultants in such amounts as the Committee, in its sole discretion, shall determine. The Committee, in its sole discretion, shall determine the number of Shares to be granted to each Participant, provided that during any Fiscal Year, no Participant shall receive more than 100,000 Shares of Restricted Stock. In addition, no more than 500,000 Shares available for grant under the

Plan may be issued pursuant to Shares of Restricted Stock with a purchase price that is less than 100% of Fair Market Value.

7.2 Restricted Stock Agreement. Each Award of Restricted Stock shall be evidenced by an Award Agreement that shall specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Committee, in its sole discretion, shall determine. Unless the Committee determines otherwise, Shares of Restricted Stock shall be held by the Company as escrow agent until the restrictions on such Shares have lapsed.

7.3 Transferability. Except as provided in this Section 7, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.

7.4 Other Restrictions. The Committee, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate, in accordance with this Section 7.4.

7.4.1 General Restrictions. The Committee may set restrictions based upon the achievement of specific performance objectives (Company-wide, divisional, or individual), applicable federal or state securities laws, or any other basis determined by the Committee in its discretion.

7.4.2 Section 162(m) Performance Restrictions. For purposes of qualifying grants of Restricted Stock as “performance-based compensation” under Section 162(m) of the Code, the Committee, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals shall be set by the Committee on or before the latest date permissible to enable the Restricted Stock to qualify as “performance-based compensation” under Section 162(m) of the Code. In granting Restricted Stock which is intended to qualify under Section 162(m) of the Code, the Committee shall follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Restricted Stock under Section 162(m) of the Code (e.g., in determining the Performance Goals).

7.4.3 Legend on Certificates. The Committee, in its discretion, may legend the certificates representing Restricted Stock to give appropriate notice of such restrictions.

7.5 Removal of Restrictions. Except as otherwise provided in this Section 7, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall be released from escrow as soon as practicable after the last day of the Period of Restriction. The Committee, in its discretion, may accelerate the time at which any restrictions shall lapse or be removed. After the restrictions have lapsed, the Participant shall be entitled to have any legend or legends under Section 7.4.3 removed from his or her Share certificate, and the Shares shall be freely transferable by the Participant.

7.6 Voting Rights. During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Committee determines otherwise.

7.7 Dividends and Other Distributions. During the Period of Restriction, Participants holding Shares of Restricted Stock shall be entitled to receive all dividends and other distributions paid with respect to such Shares unless otherwise provided in the Award Agreement. If any such dividends or distributions are paid in Shares, the Shares shall be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

7.8 Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed shall revert to the Company and again shall become available for grant under the Plan.

SECTION 8
PERFORMANCE UNITS AND PERFORMANCE SHARES

8.1 Grant of Performance Units/Shares. Performance Units and Performance Shares may be granted to Employees, Directors and Consultants at any time and from time to time, as shall be determined by the Committee, in its sole discretion. The Committee shall have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant provided that during any Fiscal Year, (a) no Participant shall receive Performance Units having an initial value greater than $1,000,000, except that such Participant may receive Performance Units in the fiscal year of the Company in which his or her service as an Employee first commences with an initial value no greater than $2,000,000, and (b) no Participant shall receive more than 500,000 Performance Shares, except that such Participant may receive up to an additional 500,000 Performance Shares in the fiscal year of the Company in which his or her service as an Employee first commences.

8.2 Value of Performance Units/Shares. Each Performance Unit shall have an initial value that is established by the Committee on or before the Grant Date. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the Grant Date.

8.3 Performance Objectives and Other Terms. The Committee shall set performance objectives in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid out to the Participants. The time period during which the performance objectives must be met shall be called the "Performance Period." Each Award of Performance Units/Shares shall be evidenced by an Award Agreement that shall specify the Performance Period, and such other terms and conditions as the Committee, in its sole discretion, shall determine.

8.3.1 General Performance Objectives. The Committee may set performance objectives based upon the achievement of Company-wide, divisional, or individual goals, applicable federal or state securities laws, or any other basis determined by the Committee in its discretion.

8.3.2 Section 162(m) Performance Objectives. For purposes of qualifying grants of Performance Units/Shares as "performance-based compensation" under Section 162(m) of the Code, the Committee, in its discretion, may determine that the performance objectives applicable to Performance Units/Shares shall be based on the achievement of Performance Goals. The Performance Goals shall be set by the Committee on or before the latest date permissible to enable

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the Performance Units/Shares to qualify as "performance-based compensation" under Section 162(m) of the Code. In granting Performance Units/Shares which are intended to qualify under Section 162(m) of the Code, the Committee shall follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Performance Units/Shares under Section 162(m) of the Code (e.g., in determining the Performance Goals).

8.4 Earning of Performance Units/Shares. After the applicable Performance Period has ended, the holder of Performance Units/Shares shall be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives have been achieved. After the grant of a Performance Unit/Share, the Committee, in its sole discretion, may reduce or waive any performance objectives for such Performance Unit/Share.

8.5 Form and Timing of Payment of Performance Units/Shares. Payment of earned Performance Units/Shares shall be made as soon as practicable after the expiration of the applicable Performance Period. The Committee, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.

8.6 Cancellation of Performance Units/Shares. On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares shall be forfeited to the Company, and again shall be available for grant under the Plan.

SECTION 9
MISCELLANEOUS

9.1 Change in Control.

9.1.1 Options and SARs.

(a) In the event of a Change in Control, each outstanding Option and SAR shall be assumed or an equivalent option or right substituted by the successor corporation or a parent or Subsidiary of the successor corporation.

(b) In the event that the successor corporation refuses to assume or substitute for the Option or SAR, then the Options and SARs held by such Participant shall become one hundred percent (100%) exercisable. If an Option or SAR becomes fully vested and exercisable in lieu of assumption or substitution in the event of a Change in Control, the Company shall notify the Participant in writing or electronically that the Option or SAR shall be fully vested and exercisable (subject to the consummation of the Change in Control) for a period of fifteen (15) days from the date of such notice, and the Option or SAR shall terminate upon the expiration of such period.

(c) For the purposes of this Section 9.1.1, the Option or SAR shall be considered assumed if, following the Change in Control, the option or right confers the right to purchase or receive, for each Share subject to the Option or SAR immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the

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Change in Control by holders of Shares for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the Change in Control is not solely common stock of the successor corporation or its parent, the Committee or the Board may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or SAR, for each Share subject to the Option or SAR, to be solely common stock of the successor corporation or its parent equal in fair market value to the per share consideration received by holders of Shares in the Change in Control, as determined on the date of the Change in Control.

9.1.2 Restricted Stock. In the event of a Change in Control, any Company repurchase or reacquisition right with respect to outstanding Shares of Restricted Stock held by the Participant will be assigned to the successor corporation. In the event that the successor corporation refuses to accept the assignment of any such Company repurchase or reacquisition right, such Company repurchase or reacquisition right will lapse and the Participant will become one hundred percent (100%) vested in such Shares of Restricted Stock immediately prior to the Change in Control.

9.1.3 Performance Shares and Performance Units. In the event of a Change in Control, the Committee or the Board, in its discretion, may provide for any one or more of the following with respect to the Performance Shares and Units: (a) any outstanding Performance Shares and Units shall be assumed by the successor corporation or a parent or Subsidiary of the successor corporation, (b) any outstanding Performance Shares and Units shall be terminated immediately prior to the Change in Control, or (c) with respect to a Change in Control that occurs prior to a Participant's Termination of Service, one hundred percent (100%) of any outstanding Performance Shares or Units shall be deemed to be earned and shall be immediately payable to the Participant, or, in cases where a Participant has received a target award of Performance Units or Shares, up to one hundred percent (100%) of the target amount shall vest. In the event any outstanding Performance Shares and Units are assumed, the successor corporation shall have the ability to reasonably and equitably adjust the Performance Goals.

9.2 Deferrals. The Committee, in its sole discretion, may permit a Participant to defer receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award. Any such deferral elections shall be subject to such rules and procedures as shall be determined by the Committee in its sole discretion.

9.3 No Effect on Employment or Service. Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment or service at any time, with or without cause. For purposes of the Plan, transfer of employment of a Participant between the Company and any one of its Affiliates (or between Affiliates) shall not be deemed a Termination of Service. Employment with the Company and its Affiliates is on an at-will basis only.

9.4 Participation. No Employee or Consultant shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

9.5 Indemnification. Each person who is or shall have been a member of the Committee, or of the Board, shall be indemnified and held harmless by the Company against and from (a) any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan or any Award Agreement, and (b) from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such claim, action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Certificate of Incorporation or Bylaws, by contract, as a matter of law, or otherwise, or under any power that the Company may have to indemnify them or hold them harmless.

9.6 Successors. All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business or assets of the Company.

9.7 Beneficiary Designations. If permitted by the Committee, a Participant under the Plan may name a beneficiary or beneficiaries to whom any vested but unpaid Award shall be paid in the event of the Participant's death. Each such designation shall revoke all prior designations by the Participant and shall be effective only if given in a form and manner acceptable to the Committee. In the absence of any such designation, any vested benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate and, subject to the terms of the Plan and of the applicable Award Agreement, any unexercised vested Award may be exercised by the administrator or executor of the Participant's estate.

9.8 Limited Transferability of Awards. No Award granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will, by the laws of descent and distribution, or to the limited extent provided in Section 9.6. All rights with respect to an Award granted to a Participant shall be available during his or her lifetime only to the Participant. Notwithstanding the foregoing, the Participant may, in a manner specified by the Committee, (a) transfer a Nonqualified Stock Option to a Participant's spouse, former spouse or dependent pursuant to a court-approved domestic relations order which relates to the provision of child support, alimony payments or marital property rights, and (b) transfer a Nonqualified Stock Option by bona fide gift and not for any consideration, to (i) a member or members of the Participant's immediate family, (ii) a trust established for the exclusive benefit of the Participant and/or member(s) of the Participant's immediate family, (iii) a partnership, limited liability company of other entity whose only partners or members are the Participant and/or member(s) of the Participant's immediate family, or (iv) a foundation in which the Participant and/or member(s) of the Participant's immediate family control the management of the foundation's assets.

9.9 No Rights as Stockholder. Except to the limited extent provided in Sections 7.6 and 7.7, no Participant (nor any beneficiary) shall have any of the rights or privileges of a stockholder of the Company with respect to any Shares issuable pursuant to an Award (or exercise thereof), unless

and until certificates representing such Shares shall have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Participant (or beneficiary).

SECTION 10
AMENDMENT, TERMINATION, AND DURATION

10.1 Amendment, Suspension, or Termination. The Board, in its sole discretion, may amend, suspend or terminate the Plan, or any part thereof, at any time and for any reason. The amendment, suspension, or termination of the Plan shall not, without the consent of the Participant, alter or impair any rights or obligations under any Award theretofore granted to such Participant. No Award may be granted during any period of suspension or after termination of the Plan. Notwithstanding the foregoing, the Board may not, without stockholder approval, (a) reduce the exercise price of any outstanding Award, (b) cancel and re-grant Options at a lower exercise price (including entering into a 6-month-and-1-day cancellation and re-grant program), (c) replace underwater Options with other Awards in an exchange, buy-back or other scheme, or (d) replace Awards with an Award of the same type having a lower exercise price or accelerated vesting schedule in an exchange, buy-back or other scheme.

10.2 Duration of the Plan. The Plan shall be effective as of April 15, 2003, and subject to Section 10.1 (regarding the Board's right to amend or terminate the Plan), shall remain in effect thereafter. However, without further stockholder approval, no Incentive Stock Option may be granted under the Plan after April 15, 2013.

SECTION 11
TAX WITHHOLDING

11.1 Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof), the Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, and local taxes (including the Participant's FICA obligation) required to be withheld with respect to such Award (or exercise thereof).

11.2 Withholding Arrangements. The Committee, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (a) electing to have the Company withhold otherwise deliverable Shares, or (b) delivering to the Company already-owned Shares having a Fair Market Value equal to the minimum amount required to be withheld. The amount of the withholding requirement shall be deemed to include any amount which the Committee agrees may be withheld at the time the election is made, not to exceed the amount determined by using the maximum federal, state or local marginal income tax rates applicable to the Participant with respect to the Award on the date that the amount of tax to be withheld is to be determined. The Fair Market Value of the Shares to be withheld or delivered shall be determined as of the date that the taxes are required to be withheld.

SECTION 12
LEGAL CONSTRUCTION

12.1 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

12.2 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

12.3 Requirements of Law. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

12.4 Securities Law Compliance. With respect to Section 16 Persons, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of the Plan, Award Agreement or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

12.5 Governing Law. The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the State of California.

12.6 Captions. Captions are provided herein for convenience only, and shall not serve as a basis for interpretation or construction of the Plan.

EXECUTION

IN WITNESS WHEREOF, the Company, by its duly authorized officer, has executed this Plan on the date indicated below.

HESKA CORPORATION

Dated: April 15, 2003	By:	
	Title:	Chief Executive Officer

HESKA CORPORATION 2003 EQUITY INCENTIVE PLAN

STOCK OPTION AGREEMENT
(EMPLOYEES AND CONSULTANTS)

Tax Treatment	This option is intended to be an incentive stock option under section 422 of the Internal Revenue Code or a nonstatutory option, as provided in the Notice of Stock Option Grant. To the extent this option is designated an incentive stock option and it does not qualify as an incentive stock option under applicable laws, it will be treated as a nonstatutory option.
Vesting/ Exercisability	This option vests and becomes exercisable in installments, as shown in the Notice of Stock Option Grant. In addition, in the event your service as an Employee, Director or Consultant terminates because of your death, your option shall become fully vested and exercisable as to the total number of shares subject thereto immediately upon the date of your death. No additional shares become vested after your Termination of Service and the option shall terminate as to any shares that are unvested as of the end of business on the date of your Termination of Service.
Term	This option expires in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Date of Grant, as shown in the Notice of Stock Option Grant. (It will expire earlier if your service terminates, as described below.)
Regular Termination	In the event of your Termination of Service for any reason except death or Disability, then this option will expire as to unexercised vested option shares at the close of business at Company headquarters on the date three months after your termination date. The Company determines when your service terminates for this purpose.
Death	In the event of your Termination of Service because of your death or your death within three months after your Termination of Service, then this option will expire as to unexercised vested option shares at the close of business at Company headquarters on the date one year after your date of death.

Disability	In the event of your Termination of Service because of your Disability, then this option will expire as to unexercised vested option shares at the close of business at Company headquarters on the date one year after your termination date.
Leaves of Absence	Vesting of this option shall be suspended during any unpaid leave of absence unless continued vesting is required by the terms fo the leave or by applicable law.
Change in Control	This option shall vest and become exercisable in full if (i) the Company is subject to a Change in Control, (ii) this option is not continued by the Company and (iii) this option is not either assumed by the surviving corporation or its parent or substituted for by the surviving corporation’s or its parent’s issuing its own option in replacement of this option.
Restrictions on Exercise	The Company will not permit you to exercise this option if the issuance of shares at that time would violate any law or regulation, and the Company will have no liability for failure to issue or deliver any shares upon exercise of this option if the issuance or delivery would violate any law or regulation as determined by the Company in consultation with its legal counsel. This option may not be exercised for a fraction of a share.
Notice of Exercise	When you wish to exercise this option, you must notify the Company by filing the proper “Notice of Exercise” form at the address given on the form. Your notice must specify how many shares you wish to purchase. The exercise will be effective when the Company receives the Notice of Exercise with the option exercise payment described herein. If someone else wants to exercise this option after your death, that person must prove to the Company’s satisfaction that he or she is entitled to do so.
Form of Payment	When you submit your notice of exercise, you must include payment of the option exercise price for the shares you are purchasing. Payment may be made in one (or a combination of two or more) of the following forms: · Cash, check or wire transfer. · Certificates for shares of Company stock that you own, along with any forms needed to affect a transfer of those shares to the Company. The value of the shares, determined as of the effective date of the option exercise, will be applied to the option exercise price. However, the Company may restrict your ability to surrender shares of Company stock (including your ability to surrender any particular shares of Company Stock held by you) in payment of the

exercise price if your doing so would result in the Company's recognizing additional compensation expense with respect to this option for financial reporting purposes.

· Irrevocable directions to a securities broker approved by the Company to sell all or part of your option shares and to deliver to the Company proceeds from the sale in an amount sufficient to pay the option exercise price and any withholding taxes. (The balance of the sale proceeds, if any, will be delivered to you.) The directions must be given by signing a special "Notice of Exercise" form provided by the Company.

Withholding Taxes and Stock Withholding	You will not be allowed to exercise this option unless you make arrangements acceptable to the Company to pay any withholding taxes that may be due as a result of the option exercise. These arrangements may include (with the Company's approval) withholding shares of Company stock that otherwise would be issued to you when you exercise this option. The value of these shares, determined as of the effective date of the option exercise, will be applied to the withholding taxes.
Restrictions on Resale	By signing this Agreement, you agree not to sell any option shares at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale. This restriction will apply as long as you are an Employee, Consultant or Outside Director of the Company or a Subsidiary.
Transfer of Option	Prior to your death, only you may exercise this option. You cannot sell, transfer, pledge or assign this option. For instance, you may not sell this option or use it as security for a loan. You may, however, dispose of this option in your will, by the laws of descent and distribution or through a beneficiary designation.
	Regardless of any marital property settlement agreement, the Company is not obligated to honor a notice of exercise from your former spouse, nor is the Company obligated to recognize your former spouse's interest in your option in any other way.
Retention Rights	Neither your option nor this Agreement give you the right to be employed or otherwise retained by the Company in any capacity. The Company reserves the right to terminate your service at any time, with or without cause.
Stockholder Rights	You, or your estate or heirs, have no rights as a stockholder of the Company until you have exercised this option by giving the required notice to the Company and paying the exercise price.

Applicable Law	This Agreement will be interpreted and enforced under the laws of the State of Colorado (without giving effect to its conflict of laws provisions).
The Plan and Other Agreements	The 2003 Equity Incentive Plan is incorporated in this Agreement by reference. Unless otherwise defined herein, all capitalized terms herein have the same defined meanings as in the 2003 Equity Incentive Plan. In the event of any conflict between the terms and provisions of the Plan and this Agreement, the Plan terms and provisions shall govern.
	This Agreement and the Plan constitute the entire understanding between you and the Company regarding this option. Any prior agreements, commitments or negotiations concerning this option are superseded. This Agreement may be amended only by another written agreement, signed by both parties.

BY SIGNING THE COVER SHEET OF THIS AGREEMENT, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE 2003 EQUITY INCENTIVE PLAN.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (“Agreement”) is entered into by and between Diamond Animal Health, Inc., an Iowa corporation with its principal office at 2538 S.E. 43rd Street, Des Moines, Iowa (“Company”) and **Michael McGinley** (“Employee”), effective as of **May 1, 2000**.

W I T N E S S E T H:

Whereas Company desires to employ Employee to act as its **Vice President, Scientific Affairs** in an at-will capacity; and

Whereas Employee wishes to act as Company’s **Vice President, Scientific Affairs** as an employee in an at-will capacity;

NOW, THEREFORE, in consideration of the mutual covenants and warranties contained herein, the parties agree as follows:

1. Employment. Company hereby employs Employee as its **Vice President, Scientific Affairs**, and Employee hereby accepts such employment.

2. Duties and Responsibilities. Employee shall serve as **Vice President, Scientific Affairs** of Company, with such duties and responsibilities as may be assigned to **him** from time to time by **his** superior officers (the “Senior Management”) and/or the Board of Directors of Company, and with such on-going daily duties and responsibilities as are typically entailed in such position. The Senior Management and/or the Board of Directors shall be entitled to change such title, duties and responsibilities from time to time, in their discretion. Employee shall devote **his** full time and energies to such duties.

3. Compensation. Company shall pay Employee, as compensation for services rendered under this Agreement, a “base salary” per year, the amount of which shall initially be **$118,000**, which may be increased from time-to-time by the Company in its discretion. If for any reason during any given year, Employee does not work an entire year, other than normal vacations as provided hereunder, the compensation will be prorated to compensate only for the actual time worked.

4. Expenses. Company shall reimburse Employee for **his** reasonable out-of-pocket expenses incurred in connection with the business of Company, including travel away from the Company’s facilities, upon presentation of appropriate written receipts and reports and subject to the customary practices and limitations of the Company.

5. Employee Benefits. During the term of **his** employment hereunder, Employee shall be entitled to receive the same benefits that the Board of Directors establishes generally for the officers and other employees of Company. These may include, from time to time, medical insurance, life insurance, paid vacation time and medical disability insurance.

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6. Termination.

(a) At-Will. This is an at-will employment agreement and does not bind either of the parties to any specific term or duration.

(i) Employee is free to terminate employment with Company at any time, for any reason, or for no reason, for cause or without cause, and without any prior notice.

(ii) Company is free to terminate the employment of Employee at any time, for any reason or for no reason, for cause or without cause, and without any prior notice.

(b) Termination “Without Cause” — Separation Benefits.

(i) Upon “involuntary termination” of **his** employment with Company for other than a “change of control”, as defined in Paragraph 6(c)(iii) below, Employee will be entitled to severance pay as provided in Paragraph 6(b)(ii) below, unless **he** is terminated for “cause” as defined in Paragraph 6(d)(ii) below. Employee’s entitlement to any severance pay is dependent on **his** execution of a complete release of claims against Company and its affiliates.

(ii) In the event that severance pay is due to Employee as a result of the “involuntary termination” of **his** employment “without cause”, Employee will be paid six months’ “base salary” at the rate in effect immediately prior to the termination in six equal monthly installments (subject to all applicable taxes and other deductions), with the first such installment due 15 days after the date of such termination and with the following five installments due no later than monthly thereafter on Company’s then regular payroll dates. The Company will also pay the employer contribution and administrative cost of the health insurance premiums for the medical and dental insurance coverage previously maintained by the Company for Employee and **his** eligible dependents during this six month period or until Employee is provided or obtains medical and dental insurance coverage by another employer or entity, whichever first occurs.

(c) Change of Control — Separation Benefits.

(i) Upon “involuntary termination” of **his** employment due to a “change of control” of Company, Employee will be entitled to severance pay as provided in Paragraph 6(c)(iv) below, unless **he** is terminated for “cause”, as defined in Paragraph 6(d)(ii) below. Employee’s entitlement to any severance pay is dependent on **his** execution of a complete release of claims against Company and its affiliates.

(ii) For the purposes of this Employment Agreement, “change of control” is defined as the merger, acquisition or sale of Company or all or substantially all of its assets with, into, or to a previously unaffiliated third party entity, other than a merger in which the shareholders of Company prior to the merger, by reason of such shareholdings, own more than 50% of the outstanding shares of the company after the merger.

(iii) The parties agree that for the purposes of this Employment Agreement, an "involuntary termination" due to a "change of control" will be deemed to have occurred when Employee is no longer employed by the Company's successor following a "change of control" because the Employee's position is eliminated within nine (9) months of the "change of control" or when Employee's job responsibilities are materially and negatively changed within nine (9) months of the "change of control", and Employee elects to resign.

(iv) In the event that severance pay is due to Employee as a result of the "involuntary termination" of **his** employment without "cause" due to a "change of control", Employee will be paid one (1) year's "base salary" at the rate in effect immediately prior to termination in twelve equal monthly installments (subject to all applicable taxes and other deductions), with the first such installment due 15 days after the date of such termination and with the following eleven installments due no later than monthly thereafter on Company's then regular payroll dates. The Company will also pay the employer contribution and administrative cost of the health insurance premiums for the medical and dental insurance coverage previously maintained by the Company for Employee and **his** eligible dependents during this one year period or until Employee is provided or obtains medical and dental insurance coverage by another employer or entity, whichever first occurs.

(d) Termination "For Cause"; Voluntary Resignation.

(i) If Company or its successor terminates Employee for "cause" or if Employee's employment terminates for any reason other than a termination by the Company "without cause" (as set forth in paragraph 6(b) or due to a "change of control" (as set forth in Paragraph 6(c)), Employee will not be entitled to any severance pay and shall only receive pay and benefits which Employee earned as of the date of termination.

(ii) The parties agree that for the purposes of this Employment Agreement, a termination for "cause" will be deemed to have occurred when Company terminates Employee's employment because of the occurrence of any of the following events:

(A) Employee shall refuse to accept a change or modification of his title, duties or responsibilities by senior management and/or the Board of Directors;

(B) Employee shall refuse to accept a reasonable transfer not arising from a change in control to a position with comparable responsibility and salary with any affiliated company that does not involve commuting more than fifty (50) miles each way from the Company's location in the Des Moines, Iowa area;

(C) Employee shall die, be adjudicated to be mentally incompetent or become mentally or physically disabled to such an extent that Employee is unable to perform **his** duties under this Employment Agreement for a period of ninety (90) consecutive days;

(D) Employee shall commit any breach of **his** obligations under this Agreement;

(E) Employee shall commit any breach of any material fiduciary duty to Company;

(F) Employee shall be convicted of, or enter a plea of *nolo contendere* to, any crime involving moral turpitude or dishonesty, whether a felony or misdemeanor, or any crime which reflects so negatively on Company as to be detrimental to Company's image or interests;

(G) Employee shall commit insubordination or refusal to comply with any request of **his** supervisor or the Board of Directors of Company relating to the scope or performance of Employee's duties;

(H) Employee shall possess any illegal drug on Company premises or Employee shall be under the influence of illegal drugs or abusing prescription drugs or alcohol while on Company business or on Company premises; or

(I) Employee shall conduct **himself** in a manner that, in the good faith and reasonable determination of the Senior Management and/or the Board of Directors, demonstrates Employee's unfitness to serve.

7. Proprietary Information. Employee agrees that, if **he** has not already done so, he will promptly execute Company's standard employee proprietary information and assignment of inventions agreement.

8. Arbitration; Attorney's Fees. If any dispute arises under this Agreement or by reason of any asserted breach of it, or from the Parties' employment relationship or any other relationship, the Company, at its sole discretion, may elect to have the dispute resolved through arbitration, so long as all of the arbitrator's fees and expenses are

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borne exclusively by the Company. The arbitration shall be conducted pursuant to the rules of the American Arbitration association, with the arbitrator being selected by mutual agreement of the parties. Regardless of whether the dispute is resolved through arbitration or litigation, the prevailing party shall be entitled to recover all costs and expenses, including reasonable attorneys' fees, incurred in enforcing or attempting to enforce any of the terms, covenants or conditions, including costs incurred prior to commencement of arbitration or legal action, and all costs and expenses, including reasonable attorneys' fees, incurred in any appeal from an action brought to enforce any of the terms, covenants or conditions. For purposes of this section, "prevailing party" includes, without limitation, a party who agrees to dismiss a suit or proceeding upon the other's payment of performance of substantially the relief sought.

9. Notices. Any notice to be given to Company under the terms of this Agreement shall be addressed to Company at the address of its principal place of business. Any notice to be given to Employee shall be addressed to **him** at **his** home address last shown on the records of Company, or to such other address as Employee shall have given notice of hereunder.

10. Miscellaneous. This Agreement shall be governed by the laws of the State of Iowa as applied to contracts between residents of that state to be performed wholly within that state. This Agreement is the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior understandings and agreements. This Agreement may be modified only by a written document signed by both parties, except that the Company, in its discretion, may modify any policies, guidelines or other directives, none of which shall constitute a binding agreement or impose any contractual obligations. This Agreement shall be binding upon and shall inure to the benefit of the successors and assigns of the parties.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year hereinabove written.

DIAMOND ANIMAL HEALTH, INC.

By: /s/ ROBERT B. GRIEVE
Robert B. Grieve

Title: Chairman

EMPLOYEE

Name: /s/ MICHAEL McGINLEY
Michael McGinley

Exhibit 10.18

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into by and between Heska Corporation, a Delaware corporation with its principal office at 1613 Prospect Parkway, Fort Collins, Colorado 80525 ("Company") and Nancy Wisnewski ("Employee"), effective as of April 15, 2002.

W I T N E S S E T H:

Whereas Company desires to employ Employee to act as its Senior Director, Pharmaceuticals in an at-will capacity; and

Whereas Employee wishes to act as Company's Senior Director, Pharmaceuticals, as an employee in an at-will capacity;

NOW, THEREFORE, in consideration of the mutual covenants and warranties contained herein, the parties agree as follows:

1. Employment. Company hereby employs Employee as its Senior Director, Pharmaceuticals and Employee hereby accepts such employment.

2. Duties and Responsibilities. Employee shall serve as Senior Director, Pharmaceuticals of Company, with such duties and responsibilities as may be assigned to her from time to time by her superior officers (the "Senior Management") and/or the Board of Directors of Company, and with such on-going daily duties and responsibilities as are typically entailed in such position. The Senior Management and/or the Board of Directors shall be entitled to change such title, duties and responsibilities from time to time, in their discretion. Employee shall devote her full time and energies to such duties.

3. Compensation. Company shall pay Employee, as compensation for services rendered under this Agreement, a "base salary" per year, the amount of which shall initially be $117,500, which may be increased from time-to-time by the Company in its discretion. If for any reason during any given year, Employee does not work an entire year, other than normal vacations as provided hereunder, the compensation will be prorated to compensate only for the actual time worked.

4. Expenses. Company shall reimburse Employee for her reasonable out-of-pocket expenses incurred in connection with the business of Company, including travel away from the Company's facilities, upon presentation of appropriate written receipts and reports and subject to the customary practices and limitations of Company.

5. Employee Benefits. During the term of her employment hereunder, Employee shall be entitled to receive the same benefits that the Board of Directors establishes generally for the officers and other employees of Company. These may include, from time to time, medical insurance, life insurance, paid vacation time and medical disability insurance.

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6. Termination.

(a) At-Will. This is an at-will employment agreement and does not bind either of the parties to any specific term or duration.

(i) Employee is free to terminate employment with Company at any time, for any reason, or for no reason, for cause or without cause, and without any prior notice.

(ii) Company is free to terminate the employment of Employee at any time, for any reason or for no reason, for cause or without cause, and without any prior notice.

(b) Termination "Without Cause" — Separation Benefits.

(i) Upon "involuntary termination" of her employment with Heska Corporation for other than a "change of control", as defined in Paragraph 6(c)(iii) below, Employee will be entitled to severance pay as provided in Paragraph 6(b)(ii) below, unless she is terminated for "cause", as defined in Paragraph 6(d)(ii) below. Employee's entitlement to any severance pay is dependent on her execution of a complete release of claims against Company and its affiliates.

(ii) In the event that severance pay is due to Employee as a result of the "involuntary termination" of her employment "without cause", Employee will be paid six months' "base salary" at the rate in effect immediately prior to the termination in six equal monthly installments (subject to all applicable taxes and other deductions), with the first such installment due 15 days after the date of such termination and with the following five installments due no later than monthly thereafter on Company's then regular payroll dates. The Company will also pay the employer contribution and administrative cost of the health insurance premiums for the medical and dental insurance coverage previously maintained by the Company for Employee and her eligible dependents during this six month period or until Employee is provided or obtains medical and dental insurance coverage by another employer or entity, whichever first occurs.

(c) Change of Control — Separation Benefits.

(i) Upon "involuntary termination" of her employment due to a "change of control" of Heska Corporation, Employee will be entitled to severance pay as provided in Paragraph 6(c)(iv) below, unless she is terminated for "cause", as defined in Paragraph 6(d)(ii) below. Employee's entitlement to any severance pay is dependent on her execution of a complete release of claims against Company and its affiliates.

(ii) For the purposes of this Employment Agreement, "change of control" is defined as the merger, acquisition or sale of Company or all or substantially all of its assets with, into, or to a previously unaffiliated third party entity, other than a merger in which the shareholders of Company prior to the merger, by reason of such shareholdings, own more than 50% of the outstanding shares of the company after the merger.

(iii) The parties agree that for the purposes of this Employment Agreement, an “involuntary termination” due to a “change of control” will be deemed to have occurred when Employee is no longer employed by the Company’s successor following a “change of control” because the Employee’s position is eliminated within nine (9) months of the “change of control” or when Employee’s job responsibilities are materially and negatively changed within nine (9) months of the “change of control”, and Employee elects to resign.

(iv) In the event that severance pay is due to Employee as a result of the “involuntary termination” of her employment without “cause” due to a “change of control”, Employee will be paid one (1) year’s “base salary” at the rate in effect immediately prior to the termination in twelve equal monthly installments (subject to all applicable taxes and other deductions), with the first such installment due 15 days after the date of such termination and with the following eleven installments due no later than monthly thereafter on Company’s then regular payroll dates. The Company will also pay the employer contribution and administrative cost of the health insurance premiums for the medical and dental insurance coverage previously maintained by the Company for Employee and her eligible dependents during this one year period or until Employee is provided or obtains medical and dental insurance coverage by another employer or entity, whichever first occurs.

(d) Termination “For Cause”; Voluntary Resignation.

(i) If Company or its successor terminates Employee for “cause” or if Employee’s employment terminates for any reason other than a termination by the Company “without cause” (as set forth in paragraph 6(b)) or due to a “change of control” (as set forth in Paragraph 6(c)), Employee will not be entitled to any severance pay and shall only receive pay and benefits which Employee earned as of the date of termination.

(ii) The parties agree that for the purposes of this Employment Agreement, a termination for “cause” will be deemed to have occurred when Company terminates Employee’s employment because of the occurrence of any of the following events:

(A) Employee shall refuse to accept a change or modification of his title, duties or responsibilities by senior management and/or the Board of Directors;

(B) Employee shall refuse to accept a reasonable transfer not arising from a change in control to a position with comparable responsibility and salary with any affiliated company that does not involve commuting more than fifty (50) miles each way from the Company headquarters in the Fort Collins, Colorado area;

(C) Employee shall die, be adjudicated to be mentally incompetent or become mentally or physically disabled to such an extent that Employee is unable to perform his duties under this Employment Agreement for a period of ninety (90) consecutive days;

(D) Employee shall commit any breach of his obligations under this Agreement;

(E) Employee shall commit any breach of any material fiduciary duty to Company;

(F) Employee shall be convicted of, or enter a plea of *nolo contendere* to, any crime involving moral turpitude or dishonesty, whether a felony or misdemeanor, or any crime which reflects so negatively on Company as to be detrimental to Company’s image or interests;

(G) Employee shall commit insubordination or refusal to comply with any request of his supervisor or the Board of Directors of Company relating to the scope or performance of Employee’s duties;

(H) Employee shall possess any illegal drug on Company premises or Employee shall be under the influence of illegal drugs or abusing prescription drugs or alcohol while on Company business or on Company premises; or

(I) Employee shall conduct herself in a manner that, in the good faith and reasonable determination of the Senior Management and/or the Board of Directors, demonstrates Employee’s unfitness to serve.

7. Proprietary Information. Employee agrees that, if she has not already done so, she will promptly execute Company’s standard employee proprietary information and assignment of inventions agreement.

8. Arbitration; Attorneys’ Fees. If any dispute arises under this Agreement or by reason of any asserted breach of it, or from the Parties’ employment relationship or any other relationship, the Company, at its sole discretion, may elect to have the dispute resolved through arbitration, so long as all of the arbitrator’s fees and expenses are borne exclusively by the Company. The arbitration shall be conducted pursuant to the rules of the American Arbitration association, with the arbitrator being selected by mutual agreement of the parties. Regardless of whether the dispute is resolved through arbitration or litigation, the prevailing party shall be entitled to recover all costs and expenses, including reasonable attorneys’ fees, incurred in enforcing or attempting to enforce any of the terms, covenants or conditions, including costs incurred prior to commencement of arbitration or legal action, and all costs and expenses, including reasonable attorneys’ fees, incurred in any appeal from an action brought to enforce any of the terms, covenants or conditions. For purposes of this section, “prevailing party” includes, without limitation, a party who agrees to dismiss a suit or proceeding upon the other’s payment or performance of substantially the relief sought.

9. Notices. Any notice to be given to Company under the terms of this Agreement shall be addressed to Company at the address of its principal place of business. Any notice to be given to Employee shall be addressed to her at her home address last shown on the records of Company, or to such other

address as Employee shall have given notice of hereunder.

10. Miscellaneous. This Agreement shall be governed by the laws of the State of Colorado as applied to contracts between residents of that state to be performed wholly within that state. This Agreement is the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior understandings and agreements. This Agreement may be modified only by a written document signed by both parties, except that the Company, in its discretion, may modify any policies, guidelines or other directives, none of which shall constitute a binding

agreement or impose any contractual obligations. This Agreement shall be binding upon and shall inure to the benefit of the successors and assigns of the parties.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year herein above written.

HESKA CORPORATION

By: /s/ ROBERT B. GRIEVE
Robert B. Grieve

Title: Chief Executive Officer

EMPLOYEE

Name: /s/ NANCY WISNEWSKI
Nancy Wisnewski

Exhibit 10.21

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is entered into by and between Heska Corporation, a Delaware corporation with its principal office at 3760 Rocky Mountain Avenue, Loveland, CO 80538 ("Company") and John R. Flanders ("Employee") effective as of December 11, 2006.

W I T N E S S E T H:

Whereas Company desires to employ Employee to act as its Vice President, General Counsel in an at-will capacity; and

Whereas Employee wishes to act as Company's Vice President, General Counsel as an employee in an at-will capacity;

NOW, THEREFORE, in consideration of the mutual covenants and warranties contained herein, the parties agree as follows:

1. Employment. Company hereby employs Employee as its Vice President, General Counsel and Employee hereby accepts such employment.

2. Duties and Responsibilities. Employee shall serve as Vice President, General Counsel and also serve as Corporate Secretary with such duties and responsibilities as may be assigned to him from time to time by his superior officer (the Chief Executive Officer) and/or the Board of Directors of Company, and with such on-going daily duties and responsibilities as are typically entailed in such position. The Chief Executive Officer and/or the Board of Directors shall be entitled to change such title, duties and responsibilities from time to time, in their discretion. Employee shall devote his full time and energies to such duties.

3. Compensation. Company shall pay Employee, as compensation for services rendered under this Agreement, a "base salary" per year, the amount of which shall initially be $200,000 which may be increased from time-to-time by the Company in its discretion. If for any reason during any given year, Employee does not work an entire year, other than normal vacations as provided hereunder, the compensation will be prorated to compensate only for the actual time worked.

4. Expenses. Company shall reimburse Employee for his reasonable out-of-pocket expenses incurred in connection with the business of Company, including travel away from the Company's facilities, upon presentation of appropriate written receipts and reports and subject to the customary practices and limitations of Company.

5. Employee Benefits. During the term of his employment hereunder, Employee shall be entitled to receive the same benefits that the Board of Directors establishes generally for the officers and other employees of Company. These may include, from time to time, medical insurance, life insurance, paid vacation time and medical disability insurance.

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6. Termination.

(a) At-Will. This is an at-will employment agreement and does not bind either of the parties to any specific term or duration.

(i) Employee is free to terminate employment with Company at any time, for any reason, or for no reason, for cause or without cause, and without any prior notice.

(ii) Company is free to terminate the employment of Employee at any time, for any reason or for no reason, for cause or without cause, and without any prior notice.

(b) Termination "Without Cause" — Separation Benefits.

(i) Upon "involuntary termination" of his employment with Heska Corporation, for other than a "change of control" as defined in Paragraph 6(c)(iii) below, Employee will be entitled to severance pay as provided in Paragraph 6(b)(ii) below, unless he is terminated for "cause" as defined in Paragraph 6(d)(ii) below. Employee's entitlement to any severance pay is dependent on his execution of a complete release of claims against Company and its affiliates.

(ii) In the event that severance pay is due to Employee as a result of the "involuntary termination" of his employment "without cause", Employee will be paid six months' "base salary" at the rate in effect immediately prior to the termination in six equal monthly installments (subject to all applicable taxes and other deductions), with the first such installment due 15 days after the date of such termination and with the following five installments due no later than monthly thereafter on Company's then regular payroll dates. The Company will also pay the employer contribution and administrative cost of the health insurance premiums for the medical and dental insurance coverage previously maintained by the Company for Employee and his eligible dependents during this six month period or until Employee is provided or obtains medical and dental insurance coverage by another employer or entity, whichever first occurs.

(c) Change of Control — Separation of Benefits.

(i) Upon "involuntary termination" of his employment due to a "change of control" of Heska Corporation, Employee will be entitled to severance pay as provided in Paragraph 6(c)(iv) below, unless he is terminated for "cause", as defined in Paragraph 6(d)(ii) below. Employee's entitlement to any severance pay is dependent on his execution of a complete release of claims against Company and its affiliates.

(ii) For the purposes of this Employment agreement, "change of control" is defined as the merger, acquisition or sale of Company or all or substantially all of its assets with, into, or to a previously unaffiliated third party entity, other than a merger in which the shareholders of Company prior to the merger, by reason of such shareholdings, own more than 50% of the outstanding shares of the company after the merger.

(iii) The parties agree that for the purposes of this Employment Agreement, an "involuntary termination" due to a "change of control" will be deemed to have occurred when Employee is no longer employed by the Company's successor following a "change of control" because the Employee's position is eliminated within nine (9) months of the "change of control" or when Employee 's job responsibilities are materially and negatively changed within nine (9) months of the "change of control", and Employee elects to resign.

(iv) In the event that severance pay is due to Employee as a result of the "involuntary termination" of his employment without "cause" due to a "change of control", Employee will be paid one (1) year's "base salary" at the rate in effect immediately prior to the termination in twelve equal monthly installments (subject to all applicable taxes and other deductions), with the first such installment due 15 days after the date of such termination and with the following eleven installments due no later than monthly thereafter on Company's then regular payroll dates. The Company will also pay the employer contribution and administrative cost of the health insurance premiums for the medical and dental insurance coverage previously maintained by the Company for Employee and his eligible dependents during this one year period or until Employee is provided or obtains medical and dental insurance coverage by another employer or entity, whichever first occurs.

(d) Termination "For Cause"; Voluntary Resignation

(i) If Company or its successor terminates Employee for "cause" or if Employee's employment terminates for any reason other than a termination by the Company "without cause" (as set forth in paragraph 6(b)) or due to a "change of control" (as set forth in Paragraph 6(c)), Employee will not be entitled to any severance pay and shall only receive pay and benefits which Employee earned as of the date of termination.

(ii) The parties agree that for the purposes of this Employment Agreement, a termination for "cause" will be deemed to have occurred when Company terminates Employee's employment because of the occurrence of any of the following events:

(A) Employee shall refuse to accept a change or modification of his title, duties or responsibilities by the Chief Executive Officer and/or the Board of Directors;

(B) Employee shall refuse to accept a reasonable transfer not arising from a change of control to a position with comparable responsibility and salary with any affiliated company that does not involve commuting more than fifty (50) miles each way from the Company headquarters in the Loveland, Colorado area;

(C) Employee shall die, be adjudicated to be mentally incompetent or become mentally or physically disabled to such an extent that Employee is unable to perform his duties under this Employment Agreement for a period of ninety (90) consecutive days;

(D) Employee shall commit any breach of his obligations under this Agreement;

(E) Employee shall commit any breach of any material fiduciary duty to Company;

(F) Employee shall be convicted of, or enter a plea of *nolo contendere* to, any crime involving moral turpitude or dishonesty, whether a felony or misdemeanor, or any crime which reflects so negatively on Company as to be detrimental to Company's image or interests;

(G) Employee shall commit insubordination or refusal to comply with any request of his supervisor or the Board of Directors of Company relating to the scope or performance of Employee's duties;

(H) Employee shall possess any illegal drug on Company premises or Employee shall be under the influence of illegal drugs or abusing prescription drugs or alcohol while on Company business or on Company premises; or

(I) Employee shall conduct himself in a manner that, in the good faith and reasonable determination of the Chief Executive Officer and/or the Board of Directors, demonstrates Employee's unfitness to serve.

7. Proprietary Information. Employee agrees that, if he has not already done so, he will promptly execute Company's standard Employee Confidential Information And Inventions Agreement.

8. Arbitration; Attorneys' Fees. If any dispute arises under this Agreement or by reason of any asserted breach of it, or from the Parties' employment relationship or any other relationship, the Company, at its sole discretion, may elect to have the dispute resolved through arbitration, so long as all of the arbitrator's fees and expenses are borne exclusively by the Company. The arbitration shall be conducted pursuant to the rules of the American Arbitration Association, with the arbitrator being selected by mutual agreement of the parties. Regardless of whether the dispute is resolved through arbitration or litigation, the prevailing party shall be entitled to recover all costs and expenses, including reasonable attorneys' fees, incurred in enforcing or attempting to enforce any of the terms, covenants or conditions, including costs incurred prior to commencement of arbitration or legal action, and all costs and expenses, including reasonable attorneys' fees, incurred in any appeal from an action brought to enforce any of the terms, covenants or conditions. For purposes of this section, "prevailing party" includes, without limitation, a party who agrees to dismiss a suit or proceeding upon the other's payment or performance of substantially the relief sought.

9. Notices. Any notice to be given to Company under the terms of this Agreement shall be addressed to Company at the address of its principal place of business. Any notice to be given to Employee shall be addressed to him at his home address last shown on the records of Company, or to such other

address as Employee shall have given notice of hereunder.

10. Miscellaneous. This Agreement shall be governed by the laws of the State of Colorado as applied to contracts between residents of that state to be performed wholly within that state. This Agreement is the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior understandings and agreements. This Agreement may be modified only by a written document signed by both parties, except that the Company, in its discretion, may modify any policies, guidelines or other directives, none of which shall constitute a binding agreement or impose any contractual obligations. This Agreement shall be binding upon and shall inure to the benefit of the successors and assigns of the parties.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year herein above written.

HESKA CORPORATION

By: /s/ Robert B. Grieve
Robert B. Grieve

Title: Chairman and Chief Executive Officer

EMPLOYEE

Name: /s/ John R. Flanders
John R. Flanders

SEPARATION AND RELEASE AGREEMENT

This Separation and Release Agreement (the “Agreement”) is made between Carol Talkington Verser, Ph.D (the “Employee”) and Heska Corporation (the “Company”) as of the 31st day of December 2006. The Employee and the Company are referred to collectively as the “Parties” and individually as a “Party.”

RECITALS

WHEREAS, on or about May 1, 2000, the Employee and the Company entered into an Employment Agreement (the “Employment Agreement”);

WHEREAS, the Employee now wishes to voluntarily terminate her employment with the Company effective as of December 31, 2006 (the “Termination Date”);

WHEREAS, the Employee and the Company wish to enter into a consulting agreement to be effective as of January 1, 2007 attached hereto as Exhibit A (the “Consulting Agreement”);

WHEREAS, the Employee and the Company entered into an Employee Confidential Information and Inventions Agreement dated November 4, 1996 (the “Confidentiality Agreement”);

WHEREAS, the Employee and the Company entered into several stock option agreements (the “Stock Option Agreements”), granting the Employee the option to purchase shares of the Company’s common stock (collectively, the “Options”) subject to the terms and conditions of the Company’s 1988 and 1997 Stock Plans and Stock Option Agreements. A schedule of the Employee’s Options is attached hereto as Exhibit B; and

WHEREAS, the Parties wish to enter into this Agreement to resolve fully and finally any potential disputes regarding the Employee’s employment with the Company.

TERMS

NOW THEREFORE, in consideration of the mutual promises and undertakings contained herein, the Parties to this Agreement agree as follows:

1. Termination Date. Employee’s last date of employment with the Company is on the Termination Date. This Agreement will be effective on the expiration of the revocation period set forth in Paragraph 7(e) below (the “Effective Date”).

2. Separation Terms.

a. Final Payments. Pursuant to the Employment Agreement, the Employee is not entitled to any severance pay and shall receive only the pay which the Employee earned as of the Termination Date. Upon the Termination Date, the Employee will be paid all accrued, unused vacation. The Employee acknowledges and agrees that, by this payment, she will have received from the Company the employment benefits, compensation, wages and vacation pay owing to her from the Company. It is understood and agreed that the Company will reimburse the Employee for any travel expenses incurred by the Employee through the Termination Date. The Employee acknowledges that all outstanding travel expenses will be submitted for payment within forty-five (45) days of the Termination Date. The Company and Employee acknowledge that the Employee remains eligible to participate in the 2006 Management Incentive Plan set forth in Paragraph 2(d) below.

b. No Benefits. Employee’s health insurance benefits will cease on the Termination Date, subject to the Employee’s right to continue her health insurance under COBRA. The Employee’s participation in all other benefits and incidents of employment will cease on the Termination Date. The Employee will cease accruing benefits, including but not limited to, vacation time and paid time off as of the Termination Date. The vesting of Options is described in Paragraph 2(c) below.

c. Vesting/Expiration of Stock Options/Restricted Stock. In consideration for the Employee signing and not revoking this Agreement and entering into the Consulting Agreement, the Company agrees that all Options issued to the Employee will continue to vest up to and through January 31, 2007 whereupon the Employee will have 575,000 vested Options. Notwithstanding the Stock Option Agreements, the Employee’s option to exercise such vested Options will be subject to the terms of the Consulting Agreement.

d. 2006 Management Incentive Plan. Employee shall remain eligible to participate in the 2006 Management Incentive Plan (the “2006 MIP”), to be paid in accordance with the terms and conditions of the 2006 MIP and subject to the Compensation Committee’s sole and absolute discretion.

3. Return of Company Property. Employee agrees to return all Company property to the Company no later than ten business days following the final day of the Term of the Consulting Agreement. This property includes, but is not limited to, Company documents, materials, laptops, computer disks and badges. Notwithstanding the above, Employee agrees to return Company keys and credit cards within thirty (30) days of Termination Date.

4. General Release.

a. Employee, for herself, and for her affiliates, successors, heirs, subrogees, assigns, principals, agents, partners, employees, associates, attorneys and representatives voluntarily, knowingly and intentionally releases and discharges the Company and its predecessors, successors, parents, subsidiaries, affiliates, and assigns and each of their respective officers, directors, principals, shareholders, agents, attorneys, board members, and employees from any and all claims, actions, liabilities, demands, rights, damages, costs, expenses, and attorneys’ fees (including, but not limited to, any claim of entitlement for attorneys' fees under any contract, statute, or rule of law allowing a prevailing party or plaintiff to recover attorneys' fees), of every kind and description from the beginning of time through the Termination Date (the "Released Claims").

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b. The Released Claims include but are not limited to those which arise out of, relate to, or are based upon: (i) the Employee's employment with the Company or the termination thereof; (ii) statements, acts or omissions by the Parties whether in their individual or representative capacities, (iii) express or implied agreements between the Parties, (except as provided herein); (iv) claims under any severance, stock, or stock option agreement or plan or relating to or arising from the Employee's right to purchase or actual purchase, including, without limitation, any claims for; fraud, misrepresentation, breach of fiduciary duty, breach of duty under applicable state corporate law, and securities fraud under any state or federal law (v) all federal, state, and municipal statutes, ordinances, and regulations, including, but not limited to, claims of discrimination based on race, age, sex, disability, whistleblower status, public policy, or any other characteristic of the Employee under the Age Discrimination in Employment Act, the Older Worker's Benefit Protection Act, the Americans with Disabilities Act, the Fair Labor Standards Act, the Equal Pay Act, Title VII of the Civil Rights Act of 1964 (as amended), the Employee Retirement Income Security Act of 1974, the Rehabilitation Act of 1973, the Worker Adjustment and Retraining Notification Act, or any other federal, state, or municipal law prohibiting discrimination or termination for any reason; (vi) state and federal common law; and (vii) any claim which was or could have been raised by the Employee. The Released Claims include, but are not limited to, claims related to the negotiation and execution of this Agreement, including but not limited to claims that this Agreement was fraudulently induced.

c. To be clear, the General Release does not apply to any ongoing commitments under this Agreement or under the Consulting Agreement.

5. Unknown Facts. This Agreement includes claims of every nature and kind, known or unknown, suspected or unsuspected as of the Termination Date. The Employee hereby acknowledges that she may hereafter discover facts different from, or in addition to, those which she now knows to be or believes to be true with respect to this Agreement, and she agrees that this Agreement and the releases contained herein shall be and remain effective in all respects, notwithstanding such different or additional facts or the discovery thereof.

6. No Admission of Liability. The Parties agree that nothing contained herein, and no action taken by any Party hereto with regard to this Agreement, shall be construed as an admission by any Party of liability or of any fact that might give rise to liability for any purpose whatsoever.

7. Representations and Warranties. Employee represents and warrants as follows:

a. she has read this Agreement and agrees to the conditions and obligations set forth in it;

b. she has been advised to consult with an attorney prior to executing the agreement and voluntarily executes this Agreement after having had full opportunity to consult with counsel and without being pressured or influenced by any statement or representation or omission of any person acting on behalf of the Company, including without limitation its attorneys, officers, shareholders, directors, employees and agents;

c. she has had at least twenty-one (21) days in which to consider the terms of this Agreement. In the event that the Employee executes this Agreement in less time, it is with

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the full understanding that she had the full twenty-one (21) days if she so desired and that she was not pressured by the Company or any of its representatives or agents to take less time to consider the Agreement. In such event, the Employee expressly intends such execution to be a waiver of any right she had to review the Agreement for a full twenty-one (21) days;

d. she has no knowledge of the existence of any lawsuit, charge, or proceeding against the Company or any of its officers, directors, board members, committee members, employees, successors, affiliates, or agents arising out of or otherwise connected with any of the matters herein released. In the event that any such lawsuit, charge, or proceeding has been filed, the Employee immediately will take all actions necessary to withdraw or terminate that lawsuit, charge, or proceeding;

e. she has been informed and understands that (i) to the extent that this Agreement waives or releases any claims she might have under the Age Discrimination in Employment Act, she may revoke her waiver and release within seven (7) calendar days of her execution of this Agreement, and (ii) any such revocation must be in writing and hand delivered to the Company, or, if sent by mail, postmarked within the seven-day period, sent by certified mail, return receipt requested and addressed as follows:

Heska Corporation
Attn: Mr. Mark Cicotello
Vice President, Human Resources
3760 Rocky Mountain Avenue
Loveland, CO 80538

f. she has full and complete legal capacity to enter into this Agreement.

8. Severability. If any provision of this Agreement is held illegal, invalid, or unenforceable, such holding shall not affect any other provisions hereof. In the event any provision is held illegal, invalid or unenforceable, such provision shall be limited so as to effect the intent of the Parties to the fullest extent permitted by applicable law. Any claim by the Employee against the Company shall not constitute a defense to enforcement by the Company of this Agreement.

9. Enforcement. The release contained herein does not release any claims for enforcement of the terms, conditions or warranties contained in this Agreement. The Parties shall be free to pursue any remedies available to them to enforce this Agreement subject to Paragraph 15 below.

10. Entire Agreement. With the exception only of the Employee's obligations under the Confidentiality Agreement, the Consulting Agreement following its execution and the Stock Option Agreements, this Agreement contains the entire agreement between the Parties. Other than the agreements set forth in the preceding sentence, this Agreement supersedes and modifies any and all agreements (except those described in the first sentence of this Paragraph), prior and contemporaneous negotiations, correspondence and understandings. This Agreement cannot be modified except in writing signed by all Parties.

11. Counterparts. This Agreement may be executed in counterparts.

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12. Assignment. The Company may assign its rights under this Agreement. No other assignment shall be permitted unless it is in writing and signed by the Parties.

13. Non-Disparagement. Employee agrees not to make to any person any statement that disparages the Company or reflects negatively on the Company, including, but not limited to, statements regarding the Company's financial condition, employment practices, or its officers, directors, board members, employees, successors, or affiliates.

14. Governing Law. This Agreement shall be governed by the laws of the State of Colorado. Each article shall be independent and separable from all other articles, and the invalidity of an article shall not affect the enforceability of any of the other articles.

[Signatures to follow]

IN WITNESS WHEREOF, the Parties have executed this Agreement on the dates written below.

EMPLOYEE	HESKA CORPORATION
/s/ C. T. Verser	/s/ Mark D. Cicotello
Carol Talkington Verser, Ph.D	Mark D. Cicotello Vice President, Human Resources
December 29, 2006	December 29, 2006
Date	Date

Exhibit A

Consulting Agreement

Exhibit A

HESKA CORPORATION

CONSULTANT SERVICES AND CONFIDENTIALITY AGREEMENT

This Agreement is made between the undersigned and Heska Corporation and its affiliates, as defined in this Agreement (the "Company"), effective as of January 1, 2007 (the "Agreement"). All references to "I", "me" or "Consultant" shall mean Carol Talkington Verser, Ph.D. In consideration of the mutual promises and undertakings set forth herein, the parties agree as follows:

1.0 Consulting. I agree to serve as a Consultant to the Company for the period commencing on the date of this Agreement and concluding on the date set forth in Exhibit A hereto, subject to the termination of this Agreement in accordance with Section 7. The period during which I serve as a Consultant to the Company is referred to as the "Consulting Period".

2.0 Duties. My consulting services will be in connection with the activities specified on Exhibit A, or as requested by an officer of the Company and mutually agreed upon. During the Consulting Period, I will perform all duties to the best of my ability. In the performance of such duties, I will consult with the Company in the manner set forth on Exhibit A, to take place at the Company's facilities or at another place reasonably requested by the Company at the Company's expense. I will be available for reasonable telephone consultation with the Company or the other parties with respect to whom my consulting services are being rendered.

3.0 Compensation. The parties agree that my sole compensation for services rendered pursuant to this Agreement shall be as set forth on Exhibit A.

4.0 Confidential Information.

4.1 Access to Confidential Information. I understand that, during the Consulting Period with the Company, I will be exposed, in the trust and confidence of the Company, to confidential information and data, including techniques, know-how, trade secrets, procedures, business matters or affairs, inventions, designs, methods, systems, improvements or other information designated as confidential (herein "Confidential Information") belonging to the Company or its subsidiaries or to its customers or others with whom the Company has a joint venture, research contract or other business relationship (all such subsidiaries, customers and other parties referred to herein as "affiliates") requiring the Company to maintain the confidentiality of such information.

4.2 Nondisclosure of Confidential Information. I agree that, during the Consulting Period and five (5) years thereafter, I will not, directly or indirectly, disclose any Confidential Information to any third party or use any Confidential Information for any purpose other than providing services to the Company without the prior written approval of the Company. For purposes of this Agreement, information shall be considered to be confidential

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if not known by the trade generally even though such information has been disclosed to one or more third parties pursuant to distribution agreements, joint research agreements or other agreements. Such information will not be considered to be confidential, however, to the extent that it is or becomes, through no fault of mine, publicly known or to the extent that I already knew such information at the time of its disclosure to me by the Company, as evidenced by written materials in my files.

4.3 Confidential Information Property of the Company. I understand that all data, including drawings, prints, specifications, designs, notes, notebooks, records, documents, reproductions or other papers or memoranda of every kind which come into my possession in the course of providing the consulting services are the sole property of the Company, and I will surrender all such property to the Company upon request and in any event upon termination of my services.

5.0 Assignment of Inventions.

5.1 Maintenance of Records. I agree to keep separate and segregated from my other personal property, including any work I am doing for any other party, all documents, records, notebooks and correspondence relating to my work for the Company, and to maintain notebooks and other records in such form as the Company reasonably requests.

5.2 Disclosure of Inventions. I will promptly disclose to the Company all Inventions, as defined below. The term "Inventions" includes, but is not limited to, concepts, ideas, processes, programs, algorithms, methods, formulae, compositions, techniques, articles, and machines, as well as improvements thereof or know-how related thereto and all original works of authorship (herein "Inventions"), whether or not patentable, copyrightable or protectable as trade secrets, which are conceived or made by me, alone or with others, (i) during the Term of this Agreement, if such Inventions relate to the actual business or research activities or anticipated business or research activities disclosed to me under this Agreement that are Confidential Information, including any business or research conducted by the Company for or jointly with any other party, or (ii) during the Term of this Agreement or thereafter, if such Inventions are developed using trade secret information of the Company or result from work performed by me for the Company under this Agreement.

5.3 Assignment of Inventions. I hereby assign to the Company my entire rights to each Invention described in Section 5.2 hereof. I will execute all papers and documents as requested by the Company to obtain and enforce any patent, copyright or other protection which the Company elects to obtain or enforce, in any country, in my name or the Company's name (or the name of an appropriate Company affiliate), as the case may be, at the Company's expense. My obligation to assist the Company in obtaining and enforcing patents, copyrights and other protections shall continue beyond the termination of my services, but the Company shall compensate me at a reasonable rate after the termination of my services for time actually spent at the Company's request providing such assistance. If the Company is unable, after reasonable effort, to secure my signature on any document needed to apply for, prosecute or enforce any patent, copyright or other protection relating to an Invention, whether because of my physical or mental incapacity or for any other reason whatsoever, I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents as my agent and

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attorney-in-fact, to act for and in my behalf and stead to execute and file any such document and to do all other lawfully permitted acts to further the prosecution and enforcement of patents, copyrights or similar protections with the same legal force and effect as if executed by me.

6.0 No Conflicting Obligations.

6.1 No Conflicting Agreements. The Company understands and agrees that during the Consulting Period I may be retained by other companies, corporations, and/or commercial enterprises to perform consulting services. I agree, however, that, during the Consulting Period, I will not, for my account or as an officer, member, employee, consultant, representative or advisor of another, engage in or contribute my knowledge to engineering, development, manufacturing, research, business analysis or sales relating to any product, equipment, process or material that relates in any way to the Confidential Information of the Company without the written permission of the Company. The foregoing provision, however, shall not prohibit me from engaging in any work at any time after the Consulting Period, provided that Confidential Information will not be involved in such work. The provisions of this Section 6.1 will not be construed as limiting to any extent my continuing obligations under any other section of this Agreement.

6.2 No Conflict With Prior Agreements. I represent and warrant to the Company and its affiliates that my retention by the Company and my performance of my obligations under this Agreement do not conflict with any prior obligations to third parties, including former employers. I represent and warrant that the Company has not asked me to reveal, nor will I do so, any trade secrets or other proprietary or confidential information that may have been gained by me during my previous employment which I am under obligation not to disclose.

7.0 Termination. The Consulting Period may be terminated by me for any reason upon 30 days' prior written notice. Either party may terminate this agreement immediately in the event the other party fails to perform. Should either party default in the performance of this Agreement or materially breach any of its obligations under this Agreement the non-breaching party may terminate this Agreement immediately if the breaching party fails to cure the breach within 5 business days after having received written notice by the non-breaching party of the breach or default. In the event of termination for any reason or for default the Consultant shall be paid for any portion of services rendered pursuant to Exhibit A that have been performed prior to the termination.

8.0 Legal Relationship. My relationship with the Company is that of an independent contractor and not as an employee, as such is defined in C.R.S. 8-40-202(2)(a), nor an agent of the Company. I will not be entitled to any benefits or compensation from the Company except as set forth in this Agreement. I agree that I am responsible for direct payment of any federal or state taxes on the compensation paid to me under this Agreement. I understand that I am not authorized to bind the Company or make any representations on its behalf in any matter.

9.0 Assignment; Binding Upon Estate. The services to be rendered under this Agreement are personal in nature, and my rights and obligations under this Agreement may

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not be assigned by me without the prior written consent of the Company. Subject to this restriction, this Agreement shall be binding upon me, my heirs, executors, administrators or legal representatives and shall inure to the benefit of the Company and its successors and assigns.

10.0 Governing Law. This Agreement shall be governed by the laws of the State of Colorado. Each article shall be independent and separable from all other articles, and the invalidity of an article shall not affect the enforceability of any of the other articles.

11.0 Remedies. I recognize that any violation of this Agreement by me would cause the Company irreparable damage for which other remedies would be inadequate, and I therefore agree that the Company shall have the right to obtain, in addition to all other remedies, such injunctive and other equitable relief from a court of competent jurisdiction as may be necessary or appropriate to prevent any violation of this Agreement.

12.0 Waiver. The Company's waiver or failure to enforce the terms of this Agreement or any similar agreement in one instance shall not constitute a waiver of its rights hereunder with respect to other violations of this or any other agreement.

13.0 Entire Agreement. This Agreement contains the entire agreement between the Company and myself relating to the subject matter hereof, and supersedes and modifies any and all prior and contemporaneous negotiations, correspondence, understandings and agreements between us relating to the subject matter hereof. This Agreement cannot be modified except in writing signed by all parties.

IN WITNESS WHEREOF, I have signed this Agreement as of the date on the first page hereof, to be effective from and after the first date of the Consulting Period, as set forth below.

ACCEPTED FOR CONSULTANT:

By: /s/ C. T. Verser

Name: Carol Talkington Verser, Ph.D.

ACCEPTED FOR HESKA CORPORATION:

By: /s/ Robert B. Grieve

Name: Robert B. Grieve

Title: Chairman of the Board and Chief Executive Officer

EXHIBIT A

1. Name of Consultant:
   Carol Talkington Verser

2. Term of Consulting Period:

   The term of this Agreement is from January 1, 2007 through December 31, 2007 and is renewable at the end of the initial one (1) year term for additional three month periods upon mutual written agreement (the "Term").

3. Duties of Consultant:

   During the Term of this Agreement, the Consultant shall consult with the Company on matters relating to the business of the Company, including business development and patents.

4. Consideration:

   For Consultant's services, commitments and covenants hereunder, the Consultant shall receive no compensation for the first twenty-two (22) hours per calendar month other than reimbursement of reasonable out of pocket expenses and continued service to the Company as outlined in various Stock Option Agreements between the Consultant and the Company and other 1997 Incentive Stock Plan-related documents (each an "Option Document"). Consultant and Company acknowledge that under all Option Documents outstanding, the Consultant's options will expire three (3) months following the final day of the Term of this Agreement. Consultant and Company acknowledge that this Agreement does not represent a modification to any Option Document and to the extent this Agreement shall conflict with any Option Document, including in any manner that could be deemed a modification, the Option Document shall rule.

For any hours worked in excess of twenty-two (22) hours and up to forty (40) hours per calendar month, the Consultant shall receive a fee of $140.00 per hour. For any hours worked in excess of forty (40) hours per calendar month, the Consultant shall receive a fee of $200.00 per hour. Starting in the calendar month of February 2007, the Consultant and John R. Flanders, Vice President, General Counsel, will mutually agree in advance for any hours to be worked within a given calendar month in excess of twenty-two (22) hours per calendar month.

The Company shall reimburse Consultant for all reasonable expenses incurred on behalf of the Company in connection with the performance of her services hereunder, upon the presentation of appropriate receipts, provided that Consultant shall be reimbursed only to the extent that such expenses have been approved in advance by John R. Flanders.

Consultant shall keep records of her time and, shall invoice the company monthly if necessary. Company shall pay the Consultant within forty-five (45) days of receipt of such invoice.

The Consultant further acknowledges that during the Term of this Agreement she will continue to be bound by the Company's Amended Statement on Policies on Trading in Securities by Officers and Directors and all applicable trading windows. Upon request by the Consultant, this clause will be reviewed for applicability after the first six (6) months of the Agreement.

SIGNED:

HESKA CORPORATION	**CONSULTANT**
By: /s/ Robert B. Grieve	By: /s/ C. T. Verser
Typed Name: Robert B. Grieve, Ph.D.	Typed Name: Carol Talkington Verser, Ph.D
Title: Chairman of the Board and Chief Executive Officer	
Date: December 30, 2006	Date: December 29, 2006

Exhibit B

Schedule of Employee's Stock Option

Exhibit B

Heska Corporation
Personnel Grant Status

Page 1
ID: 77-0192527
3760 Rocky Mountain Avenue
Loveland, CO 80538

File: Optstmt
Date: 10/11/2006
Time: 4:47:54PM

AS OF 10/11/2006

Carol Verser

A W A R D S

Number	Grant Date	Plan	Type	Granted	Price	Released	Vested	Cancelled	Unvested	Deferred	Next Deferral Release Date
00003161	10/1/2001	1997	RSA	10,000	$ 0.00000	10,000	10,000	0	0		
				10,000		10,000		0	0	0	

S T O C K O P T I O N S

Number	Grant Date	Plan	Type	Granted	Price	Exercised	Vested	Cancelled	Unvested	Outstanding	Exercisable
00000459	9/25/1995	1988	ISO	20,000	$ 0.35000	20,000	20,000	0	0	0	0
00000627	1/21/1997	1988	ISO	5,000	$ 1.20000	0	5,000	0	0	5,000	5,000
00000733	3/15/1997	1997	ISO	5,000	$ 3.00000	0	5,000	0	0	5,000	5,000
00001664	4/6/1999	1997	ISO	10,000	$ 3.06000	0	10,000	0	0	10,000	10,000
00002490	11/17/1999	1997	ISO	10,000	$ 2.00000	0	10,000	0	0	10,000	10,000
00002641	8/2/2000	1997	ISO	15,000	$ 2.00000	0	15,000	0	0	15,000	15,000
00002698	2/5/2001	1997	ISO	46,875	$ 1.25000	0	46,875	0	0	46,875	46,875
00003192	1/12/2002	1997	ISO	88,542	$ 1.21000	0	88,542	0	0	88,542	88,542
00003601	1/6/2003	1997	ISO	35,000	$ 0.34000	0	35,000	0	0	35,000	35,000
00003649	1/31/2003	1997	ISO	60,000	$ 0.70000	0	55,000	0	5,000	60,000	55,000
00004049	1/5/2004	1997	ISO	11,885	$ 2.30000	0	11,885	0	0	11,885	11,885
00004050	1/5/2004	1997	NQ	48,115	$ 2.30000	0	48,115	0	0	48,115	48,115

00004452	2/5/2001	1997	NQ	3,125	$ 1.25000	0	3,125	0	0	3,125	3,125
00004453	1/12/2002	1997	NQ	36,458	$ 1.21000	0	36,458	0	0	36,458	36,458
00004757	3/30/2005	1997	ISO	85,000	$ 0.88000	0	85,000	0	0	85,000	85,000
00004821	12/15/2005	1997	ISO	11,760	$ 1.25000	0	11,760	0	0	11,760	11,760
00004822	12/15/2005	1997	NQ	83,240	$ 1.25000	0	83,240	0	0	83,240	83,240
				575,000		20,000	570,000	0	5,000	555,000	550,000

Exhibit 10.23

[***] — Certain information in this exhibit have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

DISTRIBUTION AGREEMENT

THIS AGREEMENT made and entered into effective as of November 1, 2004 (the "Effective Date"), by and between ARKRAY Global Business, Inc., a Japanese corporation with its principal office at 57 Nishi Aketa-cho, Higashikujo, Minami-ku, Kyoto 601-8045, Japan (hereinafter referred to as "AGB") and HESKA Corporation, a Delaware corporation with its principal office at 1613 Prospect Parkway, Fort Collins, Colorado 80525, U.S.A. (hereinafter referred to as "HESKA"),

WITNESSETH

WHEREAS, HESKA and ARKRAY, Inc., a parent company of AGB, are the parties to the distribution agreement made and entered into effective as of February 16, 2001;

WHEREAS, effective November 1, 2001, ARKRAY, Inc. has assigned and transferred to AGB, and AGB has accepted from ARKRAY, Inc. all of ARKRAY, Inc.'s rights and obligations under the said distribution agreement with prior written consent of HESKA (the distribution agreement so assigned and transferred is hereinafter referred to as the "Current Agreement"); and

WHEREAS, in the absence of 180 day prior written notice not to renew the Current Agreement, (1) the Current Agreement has been automatically renewed for an additional period of one year from February 16, 2004, and (2) the Current Agreement so renewed is to be further renewed for an additional period of one year from February 16, 2005 but AGB and HESKA desire to terminate the Current Agreement on October 31, 2004 and enter into a new distribution agreement effective as of November 1, 2004.

NOW, THEREFORE, in consideration of the foregoing premises and of the mutual covenants herein contained, the parties hereby agree as follows:

ARTICLE I

AGB hereby appoints HESKA as its exclusive distributor to promote, market, service and sell the Products (hereinafter defined) in the Field of the Territory (hereinafter respectively defined) from the Effective Date of this Agreement, and HESKA accepts such appointment,

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subject to and in accordance with the following terms and conditions. AGB and HESKA acknowledge and agree that the Current Agreement shall terminate and cease to be valid any further upon this Agreement becoming effective.

1.1 Products

The Products means those products manufactured by or for the ARKRAY group of companies, and listed on Attachment 1 (hereinafter referred to as the "Products"), along with all related spare parts necessary to support those products. The Attachment 1 can be amended as needed in the future by mutual written agreement of both parties.

1.2 Branding

AGB and HESKA agree that the brand name of the Products and its logotype shall be a combination of "ARKRAY' and "HESKA" in a format to be mutually agreed upon by the parties hereto.

1.3 Distribution Right

HESKA shall have an exclusive right to promote, market, sell and distribute the Products, with the right to appoint sub-distributors, only in the veterinary market (hereinafter referred to as the "Field") of North America, i.e. USA and Canada (hereinafter referred to as the "Territory"). The exclusivity referred to in this Agreement applies between HESKA and AGB, AGB's affiliates and AGB-appointed distributors. Except as expressly provided in this Article 1, no right, title or interest is granted, whether express or implied, by AGB to HESKA, and nothing in this Agreement shall be deemed to grant to HESKA any right to any products other than the Products.

HESKA agrees that, during the term of this Agreement, (a) HESKA shall not make commercially available a product(s) with features identical to the Products, (b) HESKA shall not handle or otherwise provide any "off-brand" and/or "generic" form of consumables, test strips or reagents for use with any instrument Product, PROVIDED, HOWEVER, this paragraph shall not apply to common laboratory transfer pipettes, common QC serum materials and primary blood collection tubes that fit commercially available external centrifuges.

1.4 Sales Responsibility

HESKA assumes all sales responsibilities for the Products to be sold under this Agreement. "Sales Responsibilities" as used herein includes all sales force training, maintenance and support activities, warranty repair service as contemplated at Section 2.1 below as well as advertising, promotion, and demonstration. AGB will provide HESKA with all drawings,

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specifications, test procedures, manuals, information and demonstration materials, but only to the extent that they are reasonably necessary for HESKA to fulfill its Sales Responsibilities. AGB will also provide HESKA with test data and results, performance studies, and other materials as needed to obtain regulatory clearance to market all Products in the Field of the Territory.

1.5 Relationship of Parties

Each party shall be considered an independent contractor of the other party. Nothing in this Agreement shall be construed as establishing a joint venture or partnership or principal/agent or employer/employee relationship. No party is authorized to make any statement, claim, representation or warranty or to act on behalf of the other party with respect to any of the provisions of this Agreement, except as provided for herein or as specifically authorized in writing by the other party.

1.6 Term

Unless terminated earlier as set forth in Section 1.7, this Agreement shall continue to be in full force and effect for a period of three (3) years from the Effective Date first hereinabove written.

1.7 Termination

1.7.1 Either party may terminate this Agreement by a written notice to the other party at any time in the event that the other party shall have been in breach of any of the provisions of this Agreement and such breach shall have continued for sixty (60) days (ten (10) days in the case of breach of payment terms) after receipt of written notice of the breach from the non-breaching party.

1.7.2 Either party may terminate this Agreement without any notice to the other party if the other party (1) is declared insolvent or bankrupt, or proceedings for commencement of civil rehabilitation, company reorganization or other similar procedure are made against it in a court of competent jurisdiction or (2) enters into liquidation whether compulsorily or voluntarily; or compounds or makes any arrangements with its creditor or has a receiver, manager or administrator appointed in respect of all or any part of its assets.

1.7.3 Either party may terminate this Agreement by a written notice to the other party at any time in the event of any sale to a competitor of the other party's veterinary blood chemistry business pertaining to this Agreement occurs, whether by sale of assets or divisions, merger or otherwise.

1.8 Effect of Termination

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

1.8.1 Upon termination of this Agreement, the terminating party may (but has no obligation to) cancel any and all outstanding orders pending hereunder.

1.8.2 In the event of termination by HESKA, HESKA will have the right to return any instrument Products in-transit from AGB to HESKA as well as in its possession in unused or unpacked condition to AGB, at AGB's expense for return freight, for a full refund of the purchase price paid for such Products by HESKA to AGB.

1.8.3 In the event of termination by AGB, at the option of AGB, either AGB will have the right to repurchase any instrument Products in HESKA's possession in unused or unpacked condition, at HESKA's expense for return freight, for a full refund of the purchase price paid for such Products by HESKA to AGB or HESKA shall pay for any and all Products in process, in inventory, and/or in-transit to HESKA and, when applicable, the deficient number of the instrument Products provided for at Section 3.2 and shall take delivery of those Products as soon as demanded by AGB; provided, that HESKA is allowed to distribute such purchased Products in the Field in the Territory for six (6) month after such termination. Unless otherwise provided herein, each party waives any claims for compensation or damages in connection with such cancellation of outstanding orders from the other party.

ARTICLE II

2.1 Warranty and Quality

AGB warrants that the Products sold hereunder shall be free and clear of any and all liens, encumbrances or defects in title and shall be conveyed to HESKA with lawful and marketable title. AGB further warrants that the Products shall satisfy the performance specifications set forth in Attachments 1 and 2. AGB will not make any changes to the Products without first (i) notifying HESKA in writing at least ninety (90) days in advance of such changes, (ii) providing HESKA with satisfactory evidence that such changes do not alter the performance specifications of any Product or necessitate further regulatory filings for any Product, and (iii) obtaining HESKA'S consent in writing. AGB shall input normal reference ranges for animals supplied by HESKA in writing into the instrument Products without modification by AGB.

The instrument Products are warranted by AGB to be free from defects in materials and workmanship for a period of twelve (12) months from the date of shipment from AGB to HESKA, and the test strip Products are warranted for a period of their remaining shelf lives, provided, however, AGB shall not ship test strip Products whose remaining shelf lives are less [***] at the time of shipment. AGB will use good faith efforts to provide the longest possible shelf life in excess of the minimum requirement of [***]. During the warranty period, AGB will promptly provide HESKA with all necessary warranty repair parts to have the non-conforming Products repaired by HESKA, or replacement of the non-conforming Products at no cost. AGB's

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warranty obligation under this Section 2.1 is limited to the timely supply of free repair parts or free replacement of the non-conforming Products.

In the event that HESKA determines that any shipment of the Products fails to conform to their performance specifications set forth in Attachments 1 and 2, HESKA shall promptly notify AGB and reasonably specify the manner in which the Products fail to conform. AGB shall have the right to make its own inspection and evaluation of the allegedly non-conforming Products and shall notify HESKA, within twenty one (21) days after receipt of such information, including samples of the allegedly non-conforming Products from HESKA, whether it has confirmed and accepted HESKA'S claim that the Products are non-conforming.

If AGB determines and confirms that the Products are non-conforming, AGB shall replace, at no cost to HESKA, the non-conforming Products at the earliest date after confirmation of the Products non-conformance. AGB shall also bear the freight charges for return of all non-conforming Products to AGB from HESKA.

If, after evaluating the allegedly non-conforming Products, AGB believes that the Products in question are conforming, AGB shall supply HESKA with its written findings and request HESKA to submit additional samples of the Products to an independent third party, acceptable to both parties, for testing in accordance with and against the performance specifications set forth in Attachments 1 and 2. The decision of such third party shall be final with respect to the alleged non-conforming Products and binding on both parties to this Agreement.

If the decision of the third party is that the Products are non-conforming, AGB shall pay the return freight with respect to the Products shipped to HESKA as well as all costs and expenses relating to the testing of the Products by the independent third party. In addition, AGB shall supply HESKA with a Certificate of Destruction certifying that the non-conforming Products returned by HESKA have been destroyed in an environmentally safe manner.

If the decision of the third party is that the Products conform to the performance specifications set forth in Attachments 1 and 2, HESKA shall accept the Products and shall be responsible for the return freight and all costs and expenses relating to the testing of the Products by the independent third party.

AGB shall, at its cost, comply and provide HESKA with certifications that the Products are in compliance with any applicable government regulations relating to the sale of the Products in

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the Territory, and manufacture in Japan or in China, as the case may be, including compliance with ISO 9001 or ISO 13485 requirements. HESKA agrees to take responsibility for timely providing AGB with such regulations in writing. AGB and HESKA shall cooperate in meeting all regulations or requirements of, and the guidelines published by, the U.S. Food and Drug Administration and any other applicable U.S. governmental regulatory agencies. AGB and HESKA, in consultation, shall use their best efforts to answer specific questions relating to quality assurance as soon as possible upon receipt of such questions.

AGB warrants that shipping of Products is in compliance with all applicable laws and government regulations of Japan and/or China regarding exports.

2.2 Trademark

AGB grants HESKA a limited non-exclusive and non-transferable license to use ARKRAY, Inc.'s and/or AGB'S trademarks and brand names set forth in Attachment 3 for the specific purpose of performing its obligations hereunder. Except as specified in this Section 2.2 and Section 1.2, no party hereto will derive any legal rights to the other party's trademarks and brand names by use thereof. No party hereto shall adopt, use or register in any country, without the prior written consent of the other party, any trademarks and brand names which are likely to be confused with a trademark(s) and brand names of the other party.

2.3 Recall

If any governmental or regulatory authority having jurisdiction over the Products requires AGB or HESKA to recall any Products, such party shall immediately give a notice to the other party of such requirement and all particulars thereof and review with the other party the proposed manner in which the recall is to be carried out, it being the intention of the parties that the cost, expenses and liabilities associated with any such recall shall be borne by the party that caused the recall. The party responsible for carrying out the recall shall do so in as expeditious a manner as possible and in such a way as to cause the least disruption to the sale of the Products and to preserve the goodwill attached to the Products and each party.

2.4 Spare Parts, Consumables and Test Strips

Notwithstanding any provision of this Agreement to the contrary, AGB will continue to furnish for five (5) years after the termination or expiration of this Agreement the spare parts, consumables and test strip Products for exclusive use with the instrument Products at their prices as of the termination date; provided, that such prices can be adjusted once a year equal to the percentage increase in the U.S. Consumer Price Index. For purposes of this Agreement, U.S. Consumer Price Index means the U.S. Consumer Price Index, All Urban Consumers

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(CPI-U). U.S. City Average for all Items, 1982-84=100.

2.5 Patents

AGB warrants and represents to HESKA that to the best of its actual knowledge, and as of the Effective Date of this Agreement, neither the Products covered by this Agreement nor their manufacture, use, rental, importation or sale will infringe upon any issued patent or other proprietary rights held by a third party.

AGB shall, in consultation with HESKA, defend, indemnify and hold HESKA and its subsidiary or affiliated companies, and customers thereof, harmless from any costs, damages, loss, expense, claims, judgments or settlements including without limitation reasonable attorney's fees and investigation costs, with respect to any and all claims that the manufacture, use, rental, importation or sale of any Products covered by this Agreement infringes upon any patent or other proprietary rights of a third party.

ARTICLE III

3.1 Orders and Forecast

HESKA agrees and acknowledges that each order for the instrument Products shall be in multiples of five (5) units, and each order for the test strip Products shall be in multiples of one hundred (100) boxes. On or around the Effective Date of this Agreement, HESKA shall submit a firm purchase order for the Products covering its requirement for the first five (5) months. Thereafter, HESKA shall submit periodically purchase orders by the end of each calendar quarter as needed in the form agreed to by both parties, the terms and conditions of which shall be applicable hereto to the extent they are not inconsistent with the provisions of this Agreement. AGB will immediately confirm the receipt of each purchase order from HESKA so that HESKA has assurance that each purchase order is duly received by AGB. Such purchase orders shall not bind AGB unless or until accepted by AGB. AGB shall notify HESKA of its decision on acceptance within ten (10) days after receipt of a purchase order.

HESKA shall provide AGB, on a quarterly basis by the end of each calendar quarter, with a non-binding rolling one (1) year forecast of its anticipated purchases of the Products. AGB shall keep HESKA notified immediately of any events that may significantly impact AGB'S ability to deliver the Products, such as interruptions by suppliers, labor troubles, discovered defects, and the like.

3.2 Minimum Purchase Requirement for Instrument Product

During the effective term of this Agreement, HESKA guarantees to purchase from AGB and

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[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

to take delivery of the instrument Products in the following annual minimum purchase quantity:
(l) The 1st Contract Year: [***] units
(2) The annual minimum purchase quantity for the 2nd and 3rd Contract Year shall be [***] units each unless AGB and HESKA mutually agree to a different minimum purchase quantity at least ninety (90) days prior to the beginning of the 2nd and 3rd Contract Year. If, during any Contract Year, HESKA failed to purchase and to take delivery of the instrument Products in the annual minimum purchase quantity applicable to that Contract Year, it is the intent of the parties hereto that HESKA shall pay for and take delivery of the deficient number of the instrument Products upon demand from AGB.
For the purpose of this Section 3.2,
(a) "Contract Year" shall mean any one (1) year period commencing on the Effective Date or any anniversary thereof, and
(b) The instrument Product is considered purchased when the payment therefore has actually been received by AGB in full; and
(c) HESKA shall be deemed to have satisfied its obligation to purchase and take delivery of the annual minimum purchase quantity of the Products that are accepted by AGB and paid by HESKA during any applicable Contract Year for which AGB fails to make timely production or delivery.

3.3 Pricing

AGB will sell the Products to HESKA in accordance with the prices set forth on Attachment 1. The Product pricing is fixed until the first anniversary of the Effective Date of this Agreement. Thereafter, upon thirty (30) day's prior written notice from one party to the other, the parties agree to discuss in good faith any adjustment to the prices of the Products in an attempt to reach a mutually satisfactory agreement. If a mutually satisfactory agreement cannot be reached, the prices of the Products then in effect shall remain applicable.

3.4 Shipping of Products

AGB agrees to ship to HESKA the instrument Products and the test strip Products within ninety (90) days of its acceptance of HESKA'S purchase orders. In the event of its inability to make a complete shipment as accepted by AGB, AGB shall notify HESKA immediately of the possible shipping date. Both parties shall discuss and amicably agree to adjust the shipping date if AGB'S shipping date causes HESKA any inconvenience.

3.5 Payment Terms

HESKA shall pay for all the Products ordered with AGB by telegraphic transfer ("T/T") in

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advance of the contracted shipment date. Such T/T shall be made at least two (2) weeks before the contracted shipment date, PROVIDED, THAT, HESKA receives a timely firm shipment date in writing from AGB. AGB shall periodically review HESKA'S financial condition and consider in good faith whether any revision of payment terms is possible or not.

3.6 Labeling and Packaging

The test strip Products shall be labeled as illustrated on Attachment 4 attached hereto. The Products shall be packaged and shipped to HESKA in accordance with AGB'S quality standards. If changes need to be made to labels or packaging in order to comply with legal or regulatory requirements, HESKA shall cooperate fully with AGB to comply with those requirements as quickly as possible.

3.7 Freight/Insurance

AGB, at its option, will ship the Products ordered by HESKA under the terms of FCA Osaka, Kobe and/or Shanghai, China as defined in Incoterms 2000. HESKA shall be responsible for payment of all air and/or sea freight, insurance, duties and tariffs for shipments of the Products to HESKA.

ARTICLE IV

4.1 Report

HESKA shall make periodic reports on a quarterly basis to AGB on its inventory, sales activities and sales promotion plans for the Products, and the market conditions including information on the competitive products.

4.2 Approvals

HESKA and AGB shall exercise reasonable efforts to obtain all government licenses or approvals required for the marketing, sales or use of the Products in the Field of the Territory. All Products registrations, if required, are in the name of AGB unless otherwise agreed by both parties. If registrations in HESKA's name are required by law, all registrations are to be assigned or transferred to AGB, to the extent permitted by law, at AGB's expense, upon termination of this Agreement.

AGB will pay personnel, consulting, data collection costs and other expenses incurred in connection with the preparation and filing of all applications hereunder. AGB shall also have financial responsibility for government licenses and approvals, which shall apply to both the initial list of the Products on Attachment 1, as well as to any changes to such Products. Similarly, whenever because of changes in regulatory agencies or regulations or in the

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Products, any additional or different requirements are imposed regarding the marketing, sales or use of any Products, AGB and HESKA shall exercise their reasonable best efforts to comply, at AGB's expense, with all new requirements regarding the marketing, sales or use of Products.

4.3 Confidentiality

(a) "Confidential Information" means any technical, manufacturing, business and marketing information, including, without limitation, patent applications, patent disclosure, data, inventions, concepts, ideas, structures, formulas, techniques, processes, apparatus, know-how and customer information, disclosed after the Effective Date of this Agreement orally or in tangible form such as documents, memoranda, reports, correspondence, machine readable tapes or disks drawings, notes or other media.

(b) The party receiving information ("Receiving Party") agrees that the party disclosing ("Disclosing Party") is the owner of the Confidential Information and that the Receiving Party will not use any Confidential Information for any purpose except for the performance of this Agreement. Each Receiving Party agrees not to disclose any Confidential Information to any third party or to employees of the Receiving Party, except to those employees who are required to have the Confidential Information in order to be engaged in the execution of this Agreement. Receiving Party's obligations with regard to the confidentiality and nonuse of such Confidential Information shall not extend to any information that:

(1) was in the public domain at the time it was disclosed or becomes part of public domain after disclosure, including, without limitation, disclosure in a U.S. or foreign patent or disclosure in a printed publication which is generally available to the public, or through the sale of the Product embodying the same to the extent that such confidentiality is ascertainable from such Product; or

(2) was known to the Receiving Party at the time of its disclosure or becomes known to the party without breach of this Agreement, provided that the Receiving Party shall have the burden of proving such knowledge: or

(3) is independently developed by the persons of the Receiving Party without use of the Confidential Information; or

(4) is disclosed by a Disclosing Party to a third party without restrictions on such third party's rights to disclose or use the same; or

(5) is disclosed by the Disclosing Party pursuant to statute, regulation, judicial order, a requirement of an agency or by operation of law, provided that, in the case of a judicial order or the order of an agency, the Receiving Party shall (i) give the Disclosing party prompt notice of any such possible disclosure of Confidential Information and (ii) permit the Disclosing

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Party, at its expense, to take all reasonable measures to prevent or limit the scope of such disclosure and/or to obtain protective orders relating to the confidentiality of such Confidential Information; or

(6) is approved for release upon the Disclosing Party's prior written consent; or

(7) is disclosed by the Disclosing Party to the Receiving Party after written notification is given by the Receiving Party to the Disclosing Party that it will not accept any further Confidential Information.

(c) Each Receiving Party agrees that it shall take all reasonable measures to protect the secrecy and avoid unauthorized use of the Confidential Information and that any disclosure of the information within the Receiving Party will only be such as is reasonably necessary for the purposes contemplated by this Agreement. Each Receiving Party shall immediately notify the Disclosing Party in the event of any unauthorized use or disclosure of the Confidential Information.

(d) Any disclosures made after the Effective Date of this Agreement shall be governed exclusively by the provisions of this Section 4.3 and not by the parties' existing Confidential Disclosure Agreement—Bilateral signed by ARKRAY on November 17, 2000. This Section 4.3 shall survive for five (5) years following termination of this Agreement.

4.4 Product Liability Insurance

Each party shall maintain product liability insurance in the amount of One Million Dollars ($1,000,000). Each party agrees that it shall provide the other party with at least thirty (30) days' prior written notice of any cancellation or change of limits or terms of such policy and similarly the certificate and policy shall contain an endorsement that such insurance may not be cancelled or modified except upon thirty (30) days' prior written notice to the other party.

4.5 Product and General Liability Indemnification

Each party agrees that it will defend, indemnify and hold harmless the other party from and against all costs, damages, loss, expense (including reasonable attorney's fees and investigation costs), claims by or judgments or settlements in favor of third parties for bodily injury, property damage, or any other damage or injury caused or alleged to have been caused by defects of products it supplies. Furthermore, each party agrees that it shall defend, indemnify and hold the other party harmless from all costs, damages, loss, expense (including reasonable attorney's fees and investigation costs), or any other damage caused by, arising out of, or resulting from (i) such party's failure of performance of any of the terms of this Agreement; (ii) such party's failure to comply with any and all laws (statutory and common) and regulations applicable to such performance; or (iii) any governmental or regulatory investigation of it or its products.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Each party agrees to give the other party prompt notice in writing of the institution of any suit or investigation, or any claims made by a third party, including any claims asserted or made by any governmental authority having jurisdiction over the parties or any Product. AGB and HESKA agree to cooperate with each other in the defense of such suits or claims and to provide all necessary information to enable the defending party to carry on the defense of such suit or any appeal from a judgment or decree rendered therein.

4.6 Force Majeure

Except with respect to the indemnification obligations provided for in Section 4.5, no party shall be liable to the other party in any manner for failure or delay to fulfill all or part of this Agreement, directly or indirectly, owing to acts of God, governmental orders or restrictions, war, threat of war, warlike conditions, hostilities, sanctions, mobilization, blockade, embargo, detention, revolution, riot, looting, strike, lockout, shortage of power or raw material, other labor troubles, fire, typhoon, earthquake, or lightning, epidemic or accident of any other causes or circumstances beyond its control.

4.7 Notices

Any notice required or permitted to be given hereunder shall be given in writing and be properly given if served personally by the party giving notice or if sent by such party by prepaid registered or recorded delivery letter, by fax (simultaneously confirmed by prepaid registered or recorded delivery letter) to the address of the other party specified hereunder. Any notice personally delivered to the appropriate address shall be deemed to have been given on the date of its delivery and any notice sent by prepaid registered or recorded delivery post shall be deemed to have been given on the seventh day following the posting of the same and any notice given by fax shall be deemed to have been given on the day which it is transmitted.

If to AGB	If to HESKA:
57 Nishi Aketa-cho	1613 Prospect Parkway
Higashi-kujo, Minami-ku	Fort Collins, Colorado 80525
Kyoto 601-8045, Japan	USA
(Fax): [***]	(Fax): [***]
Attention: Shigeru Doi	Attention: Robert Grieve
President & CEO	Chief Executive Officer

4.8 Publicity

Neither party shall announce or disclose the existence of this Agreement or its terms and conditions, or advertise or release any publicity regarding this Agreement without the prior

written consent of the other party, except as required by law, rule, or regulation. AGB understands and agrees that HESKA may be required to disclose and file this Agreement with the U.S. Securities and Exchange Commission and that such filings are publicly available. HESKA will be obligated to disclose the information within the limits of the range required by law, rule or regulation.

4.9 Assignability

This Agreement and the rights and obligations hereunder shall not be assigned or transferred to any third party by either party except (i) with the prior written approval of the other party or (ii) subject to Section 1.7, in connection with a sale of its business pertaining to this Agreement, whether by sale of assets or divisions, merger or otherwise.

4.10 Waivers

No delay or omission in the exercise of any right or remedy of any party or any default by another shall impair any right or remedy otherwise available nor shall it be construed as a waiver of any right or remedy. Any waiver by any party of any default must be in writing and shall not be a waiver of any other default concerning the same or any other provision.

4.11 Entire Agreement

This Agreement contains the entire understanding of the parties with respect to the subject matter hereof. All express or implied agreements and understandings, either oral or written, heretofore made including the Current Agreement recited herein above are expressly superseded by this Agreement. This Agreement may be modified only by written agreement duly executed by the parties.

4.12 Law of Contract Jurisdiction

This Agreement shall be governed by and construed under the laws of Japan. AGB represents and warrants that the provisions of this Agreement are enforceable under such laws. The English language employed herein shall be controlling and this Agreement shall be deemed to have been executed at Osaka, Japan.

4.13 Arbitration

All disputes, controversies or differences which may arise between the parties, out of or in relation to or in connection with the present contract shall be finally settled by arbitration. The arbitration shall be held in Denver in English under the Rules of Arbitration of the

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

International Chamber of Commerce by one or more arbitrators appointed in accordance with the said Rules if initiated by AGB, and shall be held in Kyoto or Osaka in English in accordance with the Commercial Arbitration Rules of The Japan Commercial Arbitration Association by one or more arbitrators appointed in accordance with these rules if initiated by HESKA. The award rendered by the arbitrator(s) shall be final and binding upon the parties hereto.

4.14 Survival

The termination or expiration of this Agreement for any reason whatsoever shall not release either party from any liability, obligation or agreement which is provided to be performed after the termination or expiration of this Agreement, and the provisions of Sections 1.8, 2.1, 2.3, 2.4, 2.5, 4.3, 4.5, 4.7, 4.13 and 4.14 shall survive termination of this Agreement.

4.15 Effect of Headings

The headings in this Agreement are included for purposes of convenience only and shall not affect the construction or interpretation of its provisions.

4.16 Execution in Counterparts

This Agreement may be executed in two (2) counterparts, each of which shall be deemed an original but all of which together shall be deemed for all purposes one and the same instrument.

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

ARKRAY Global Business, Inc.	HESKA Corporation
By: [***] [***]	By: /s/ JASON NAPOLITANO Jason Napolitano
Title: Mgr., Int'l Communication	Title: Chief Financial Officer
Date: April 19, 2005	Date: May 5, 2005

Attachment 1

<u>Products &</u>
<u>Price List</u>

PL2004-11

ARKRAY (logo)

Date: November 01, 2004

Distributor:

Heska Corporation
1613 Prospect Parkway, Fort Collins, Colorado *80525* U.S.A.
Phone 970-493-7272

Territory:

North America
(i.e. United States of America and Canada)

Payment Terms:

100% advanced payment by telegraphic transfer (T/T)

Delivery Terms:

FCA Osaka/Kobe, Japan and/or Shanghai, China

Prices may be adjusted as stated in Section 3.3.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Code No. 18303 / 18361

SPOTCHEM EZ Model : "SP-4430"
(sometimes referred to as "the instrument Products")

Specification:

Sample	: Serum, Plasma, Whole Blood (only Hb)
Reagent	: SPOTCHEM II Reagent Strip
Measurement Items	: Glu, UA, T-Cho, TG, BUN, T-Bil, Ca, TP, Alb, GOT, GPT, LDH, CPK, Hb, Amy, GGT, ALP, Cre, HDL-C, FRA, IP, Mg, **Total Test Items = 22 **Max. 9 items can be measured simultaneously
Warm-Up	: 10 minutes
Display	: 20 digits x 2 lines LCD (Character)
Operation Panel	: Sheet Key
Calibration	: Calibration by Magnetic Card or by Calibration Kit
Data Storage	: 100 Measurements
Dimension & Weight	: 338 x 203 x 167 (WDH), Approx. 5.4 kg

Including:

Thermal Printer Paper (1), Power Cord (1), AC Adapter (1), Accessory case (1), Operating Manual (1), Warranty Card (1), Tip (10), Cleaning Wire (1), Cleaning Set (1), Nozzle Set (1), Wrench Set (1), Centrifuge Tube (10), Tip Waste Case (2) and Protective Cover (2)

JP¥[***]- / unit
(FCA Kobe/Osaka, Japan and/or Shanghai, China)

***minimum ordering unit : in multiples of five (5) units per order

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SPOTCHEM II Reagent Strips (Single Type):
(sometimes referred to as "the test strip Products")

CODE NO.	DESCRIPTION	@PRICE FCA Japan / China
77341	Glu	¥ [***]
77342	UA	¥ [***]
77343	T-Cho	¥ [***]
77344	TG	¥ [***]
77345	BUN	¥ [***]
77346	T-Bil	¥ [***]
77347	Ca	¥ [***]
77348	T-Pro	¥ [***]
77349	Alb	¥ [***]
77350	GOT	¥ [***]
77351	GPT	¥ [***]
77352	LDH	¥ [***]
77353	CPK	¥ [***]
77354	Hb	¥ [***]
77355	Amy	¥ [***]
77356	GGT	¥ [***]
77357	ALP	¥ [***]

77358	Cre	¥	[***]
77359	HDL-C Kit	¥	[***]
77360	FRA	¥	[***]
77361	IP	¥	[***]
77362	Mg	¥	[***]

*** 25 Strips / Box**

SPOTCHEM II Reagent Strips (Multi Type):
(sometimes referred to as "the test strip Products")

CODE NO.	DESCRIPTION	@PRICE FCA Japan / China	
77363	Panel-V	¥	[***]

*** 25 Strips / Box**

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Optional Consumable Accessories:

CODE NO.	DESCRIPTION	@PRICE FCA Japan / China	
10067	Thermal Printer Paper (For Built in Printer, 58 mm width)	¥	[***]
10204	Serum Sample Tube (100 pieces, blue cap)	¥	[***]
10191	Serum Sample Tube (500 pieces, blue cap)	¥	[***]
10202	Whole Blood Sample Tube (100 pieces, orange cap)	¥	[***]
10192	Whole Blood Sample Tube (500 pieces, orange cap)	¥	[***]
10200	Diluent for Hb measurement (20 mL, 50 pieces)	¥	[***]
10206	Pipette Tip for Hb Meas. (100L, 960 pieces)	¥	[***]
10207	Pipette Tip for Hb Meas. (1,000L, 960 pieces)	¥	[***]
77041	Calibrator Kit (Low and High, 2 vials each, 2 vials of dilution)	¥	[***]
77042	Calibrator Hb Kit (Calibrator and dilution for Hb meas)	¥	[***]
77043	Calibration Check (4 pieces of lyophilized serum 3 mL)	¥	[***]
10711	Tip Set (EZ) (100 pieces)	¥	[***]
10712	Centrifuge Cup (100 pieces)	¥	[***]
10743	Tip Set (EZ) (500 pieces)	¥	[***]
10692	AC Adaptor	¥	[***]
10698	Cleaning wire	¥	[***]
10208	Cleaner Set (Brush, 5 cotton swabs)	¥	[***]
10193	Pipette for Solution (For 3 mL)	¥	[***]
10194	Pipette for Hb Meas (For 40mL, 200L 1 each)	¥	[***]
10199	Sample Rack (For 30 sample tubes)	¥	[***]
10699	Nozzle Set (EZ) (Replacement Nozzle, 0-ring)	¥	[***]
10700	Tool Set for Nozzle Replacement	¥	[***]
10701	Waste Case (2 pieces)	¥	[***]
10702	Protective Cover (2 pieces)	¥	[***]
18204	Portable Centrifuge (CF-9520)	¥	[***]
10703	RS-232C, Connection Cable	¥	[***]
10704	Carrying Case	¥	[***]

Attachment 2

No. __________

FINAL INSPECTION CRITERIA

PRODUCT: SPOTCHEM II REAGENT STRIPS

Established Date	01 November, 2004
Applicable Date	01 March, 2005

Prepared by: /s/ [***]
[***]

Checked by: /s/ [***]
[***]

Approved by: /s/ [***]
[***]

ARKRAY Factory, Inc.
Reagent Quality Control Dept.

Revision Record

Code	Date	Item	Contents

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

FINAL INSPECTION CRITERIA

I. Purpose

This Final Inspection Criteria is intended to assure the product quality of SPOTCHEM II Reagent Strips manufactured by ARKRAY Factory, Inc. and supplied by ARKRAY, Inc.

II. Scope

This Final Inspection Criteria should be applied to the quality control of SPOTCHEM II Reagent Strips.

III. Types of Inspection

1. Performance test
   1) Sensitivity
   2) Accuracy
2. Visual Inspection
   1) Labeling
   2) Quantity

IV. Environmental Conditions

The inspections should be carried out under the following environmental conditions:

1)	Ambient temperature	:	[***]
2)	Relative Humidity	:	[***]
3)	Others	:	No fluctuation in power supply. No noise confounded with measurements.

V. Procedures

1. Performance test

1-1. Sensitivity

[Procedures]

1) Perform calibration by inserting Single (or Multi) Card provided in the reagent strip box to the SP-4430.
2) Measure the SPOTCHEM Calibrator Kit (Low and High).
3) Calculate an average of the following items.

Number of measurement :

Item	Low	High
Single	18	18
Multi	10	10

Note) CPK and ALP should be measured within two hours after dissolution of calibrators, while the other items should be within four hours after the dissolution.

[Standard]
The average should fall in the range indicated in Appendix.

1-2. Accuracy

[Procedures]
Calculate coefficient of variation (C.V.) using the observed values in the previous section (1-1. Sensitivity):

Standard deviation divided by average of x times 100.

An outlier should be treated in accordance with JIS Z 8402 (ISO 5725-2).

[Standard]
C.V. should fall in the range indicated in Appendix.

2. Visual Inspection

2-1. Labeling

[Procedures]
Confirm labels, package and aluminum pack in terms of position, contents and colors. [Standard]
No defect which should impair the product quality is found.

2-2. Quantity

[Procedures]
Confirm composition of each package.
[Standard]
A package should consist of the following items :

Reagent strips	: 5 strips / sheet x 5 sheets
Molecular sieve	: 1 tablet / strip
Single Card (or Multi Card)	: 1 card / package
Package insert	: 1 sheet / package

VI. Judgement

1. If a product fails to meet a standard, confirm the environmental conditions and the inspection methods, and perform inspection again.

2. When the results of the inspection meet the standards, the lot is considered to pass the inspection.

VII. Remarks

This Final Inspection Criteria shall become applicable to those shipments which are made on and after March 1, 2005. To those shipments which are made from November 1, 2004 till February 28, 2005, the former Final Inspection Criteria shall apply.

Appendix

[***]

Item	[***]		[***]	
	[***]	[***]	[***]	[***]
	[***]	[***]	[***]	[***]
Glu	[***]	[***]	[***]	[***]
UA	[***]	[***]	[***]	[***]
T-Cho	[***]	[***]	[***]	[***]
TG	[***]	[***]	[***]	[***]
BUN	[***]	[***]	[***]	[***]
T-Bil	[***]	[***]	[***]	[***]
Ca	[***]	[***]	[***]	[***]
T-Pro	[***]	[***]	[***]	[***]
Alb	[***]	[***]	[***]	[***]
GOT/AST	[***]	[***]	[***]	[***]
GPT/ALT	[***]	[***]	[***]	[***]
CPK	[***]	[***]	[***]	[***]
Amy	[***]	[***]	[***]	[***]
GGT	[***]	[***]	[***]	[***]
ALP	[***]	[***]	[***]	[***]
Cre	[***]	[***]	[***]	[***]
FRA	[***]	[***]	[***]	[***]
IP	[***]	[***]	[***]	[***]
Mg	[***]	[***]	[***]	[***]

[***]

[***]

Attachment 3

ARKRAY brand specifications 1

Prototype

/IRKRAY

ARKRAY brand consists of ARKRAY mark and logo.

Basically the prototype should be used.

Sub-design

/IRKRAY

If the prototype cannot be used due to the size of space, use the sub-design instead.

Isolation

· Prototype

(ARKRAY Logo measurements)

· Sub-design

(ARKRAY Logo measurements)

The Isolation is the minimum sized space surrounding the ARKRAY brand to set it apart from other factors in order to make the design prominent. Do NOT allow other factors to enter the space.

Color specifications

ARKRAY blue (DIC641)

If D1C641 is not available
- C100 + M60
- PANTONE293

ARKRAY mark is expressed in the two colors, ARKRAY blue and ARKRAY orange. ARKRAY blue is the corporate color, representing fair, good faith and “truthful” stated in our corporate philosophy.

ARKRAY orange (DIC205)

ARKRAY orange indicates vitality, meaning

If DIC205 is not available
- M50 + Y90
- PANTONE136

"active" in the corporate philosophy.
ARKRAY logo should be painted in black.
In case the number of color is limited, follow the coloring specifications below.

Coloring instruction

Color type

ARKRAY (logo — DIC205 and DIC641)

Prototype (basically used)

ARKRAY (DIC641) (logo — DIC205 and DIC641)

If the prototype cannot be used due to the limitation of the number of colors, use ARKRAY blue and ARKRAY orange as shown above.

Monochrome types

ARKRAY (logo)

Monochrome type 1

Use black and meshed black 40% as shown above. If the black is not available to use, use ARKRAY blue (or the most similar color) instead of black.

ARKRAY (logo)

Monochrome type 2

If the meshed black is not clearly shown in monochrome print, use black only.

Reversed color type

ARKRAY (logo)

If the ARKRAY colors don't look attractive due to the color of foundation the ARKRAY brand is on, use white only shown at the left.

Attachment 4

[GRAPHIC]

[GRAPHIC]

[***] — Certain information in this exhibit have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

SUPPLY AND DISTRIBUTION AGREEMENT

This Agreement entered into by and between Heska Corporation, a Delaware corporation, having a principal place of business at 1613 Prospect Parkway, Fort Collins, Colorado 80525 ("Heska,") and Boule Medical AB, a Swedish corporation, having a principal place of business at Vastberga Alle 32, P.O. Box 42056, SE-126 13 Stockholm, Sweden ("Boule").

In consideration of the covenants and obligations set forth in this Agreement, the Parties hereby agree as follows:

1. Definitions

1.1 "ABC System" shall mean the veterinary hematology analyzer supplied to Heska under an agreement with Scil GmbH (Formerly Praemix Wirkstoff GmbH) dated June 18, 1998.

1.2 "Analyzer" means the Ca 620-16 or Ca 530-16 Veterinary Hematology Analyzer manufactured by Boule. .

1.3 "Affiliate" means all entities at least fifty percent (50%) owned or controlled by a Party, an entity which directly or indirectly owns or . controls more than fifty percent (50%) of the voting stock of a Party, and any entity, the majority ownership of which is directly or indirectly common to the ownership of a Party.

1.4 "Calendar Year" shall mean, with respect to the first Calendar Year, the period commencing on the first date of purchase of Product by Heska for commercial sales and ending on December 31, 2004. The second year and all subsequent Calendar Years shall commence on January 1 and end on December 31 of each year thereafter. "Calendar Half Year" shall mean each six months period ending on the last day of June and December. "Calendar Quarter" shall mean each three month period ending on the last day of March, June, September and December.

1.5 "Effective Date" shall mean the date this Agreement is executed by the last to sign Party.

1.6 "Field" shall mean the veterinary market.

1.7 "Party or Parties" shall mean Heska, Boule or both as the context indicates.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

1.8 "Product" shall mean the Analyzer and associated spare parts, consumables and reagents listed in Appendix A, and ABC System reagents.

1.9 "Territory" shall mean North America.

2. Grant

2.1 Distribution Right. Boule hereby grants Heska the exclusive right to promote, market, sell and distribute Product in the Field and within the Territory.

2.2 Subdistributors. Heska shall have the right to appoint subdistributors to promote, market, sell and distribute Product in the Field and within the Territory.

2.3 Restrictions. Without the prior written consent of Boule, Heska undertakes not to manufacture or distribute within the Territory any products that are similar or identical to or otherwise competing with any of the Products, except Heska shall have the right, but not the obligation, to sell its inventory of reagents and instruments purchased from Scil, Inc. for a period of one year from the Effective Date of this Agreement.

Moreover, Heska will refrain without Boule's prior written consent, to the extent admissible under any mandatory law applicable to this Agreement, from selling, directly or indirectly, any Products to customers outside the Territory and/or the Field or, to the best of Heska's knowledge, Products otherwise intended for use outside the Territory and/or outside the Field.

2.4 Should Boule decide not to commercialize ABC System reagents in any country outside North America, Heska shall have the first right of refusal for distribution in territories available under Boule's agreement with [***]. Boule agrees not to commercialize the ABC System reagents before Heska starts selling the product.

2.5 New Product Development. Boule shall provide timelines acceptable to Heska for the development of [***]. Should Boule fail to [***], Heska shall have the right to sell similar systems without the loss of exclusive rights to distribute Boule products Heska is then currently distributing, including, without limitation, the exclusive rights to distribute Products or the ABC system reagents.

3. Supply of Product

3.1 Forecasts. At least ninety (90) days prior to each Calendar Quarter after the Product is available for purchase by Heska, Heska shall provide Boule a binding forecast of anticipated purchases of Product for such Calendar Quarter, and a non-binding rolling twelve (12) month forecast of anticipated purchases of Product. Product shall be available for purchase by Heska on or before October 1, 2003.

3.2 Purchase Orders. Written purchase orders shall be submitted by Heska to Boule at least ninety (90) days prior to the requested delivery date. No purchase orders for the Product shall be binding upon Boule until accepted in writing by Boule. Boule agrees to review promptly all purchase orders placed by Heska and to notify Heska of acceptance or rejection of such purchase orders without delay. Boule shall use its best efforts to deliver the Products on or before the date specified in the accepted purchase orders or as soon thereafter as is reasonably possible. Boule shall however not be liable to pay any damages due to its late delivery.

3.3 Purchase Minimums. The minimum purchase commitment for the first Calendar Year of commercial sale shall be two hundred (200) Analyzers. For each subsequent Calendar Year, the Parties will mutually agree upon annual minimums for the purchase of Analyzers by Heska at least three (3) months prior to the beginning of each subsequent Calendar Year. Should the Parties fail to reach such an agreement, the minimum commitment for the subsequent Calendar Year shall remain the same as the minimum purchase commitment for the immediately preceding Calendar Year. Should Boule fail to deliver Product that conforms to the Specifications set forth in Appendix B within 90 days of receiving a purchase order more than once per Calendar Year, Boule agrees to readjust the minimum purchasing commitment as mutually agreeable to the Parties.

3.4 Delivery and Acceptance. Product shall be delivered F.O.B. Stockholm, Sweden (INCOTERMS 2000), in accordance with Heska's instructions and to the location specified by Heska.

Each shipment of Product to Heska will be accompanied by a quality control certificate. The certificate shall be issued in compliance with the specification of Appendix B, which specification shall be used for acceptance or rejection of Product by Heska. Heska will promptly inspect each shipment and will inform Boule if a shipment is non-conforming to such specifications. Unless Heska advises Boule that a shipment is non-conforming within forty-five (45) days of its receipt, the shipment will be deemed accepted by Heska. The provisions set out in Section 6.1 (c) below shall apply in respect of any non-conforming Product. Boule shall pay a rejection rate of one percent (1%) of the purchase price for any such non-conforming Product.

3.5 Labels. Labels for Product, including storage and handling instructions, shall be mutually agreed upon by the Parties. Any additional labeling costs incurred as a result of such agreement shall be borne by Heska, unless required by Boule.

3.6 Consumables. Unless Boule terminates this contract pursuant to Section 8.2 below, Boule agrees that spare parts, consumables and reagents identified in Appendix A (collectively referred to as "Consumables") will continue to be supplied, on a non-exclusive basis, to Heska by Boule under the terms of this agreement for a period of five (5) years following the termination of this contract; provided, however that Boule shall provide Heska Consumables at terms at least as favorable as Boule offers to any other customer(s). Should Boule terminate this contract pursuant to Section 8.2 (a), (b), or (e), Boule agrees to supply Consumables to Heska and to allow Heska to be a supplier of Consumables to Heska's customers for a period of twelve (12) months from the termination. Thereafter, Boule agrees to supply Consumables to Heska's

customers in a country within the Territory during the time Boule sells Consumables in that country directly or through a distributor.

3.7 New Products. Boule shall offer Heska all new Boule products with potential veterinary application ("New Products"). Heska shall have a first right of refusal for period of sixty (60) days from receipt of a written offer by Boule to express an interest in any New Product. If Heska expresses an interest in a New Product, the Parties agree to engage in good faith negotiations to add the New Product to this Agreement upon mutually acceptable terms signed by the Parties.

4. Prices and Payment

4.1 Prices. The purchase price of Product to be paid by Heska to Boule shall be as set forth in Appendix A. All applicable sales taxes, shipping fees and insurance with respect to the transfer of Product from Boule's facility to Heska's designated location shall be paid by Heska. All prices and fees shall be defined in Euros.

Beginning September 30, 2004 and every September 30 as long as this agreement shall be in effect, Heska and Boule shall set the "Base Price" for both the CA 620-16 Vet, 110/60 and the CA-16 Vet with MPA, 110/60, which shall be subject to cumulative annual price adjustments as detailed later in this section, based on an "Exchange Rate", as defined later in this section, as follows:

	Base Price (EUR)
[***]	[***]
[***]	[***]
[***]	[***]

Where Exchange Rate is the average USD/EUR exchange rate for the period beginning on July 1 and ending on September 30 of the current year as reported by the Financial Times of London.

Boule may, after January 1, 2004, and subject to the restrictions set forth herein, adjust the Analyzer or Consumables purchase prices in Appendix A to pass through actual changes in the raw material and labor costs associated with the manufacture of the said Products, although the adjustment for labor costs shall by itself not cause price increases of more than 3% annually. There shall not be more than one (1) upward adjustment of each of the Product prices during any Calendar Year for any and all reasons. Boule shall provide Heska prior written notice by September 30 of any proposed increase in the purchase price for the next Calendar Year. Boule agrees to keep true and accurate books of accounts relating to the manufacture of the said Products and agrees further to make said books freely available to Heska during ordinary business hours to the extent necessary to verify any such price adjustments. If the proposed increase in the purchase price of Analyzer, Consumables or reagents is unacceptable to Heska, the Parties shall mutually agree upon a reduced minimum purchase commitment for the subsequent Calendar Year. If the Parties are unable to reach a mutually agreeable minimum

purchase commitment, either Party shall have the right to terminate the Agreement and Boule shall continue to supply Consumables as provided in Section 3.6.

4.2 Payment. For payment terms, see Appendix A.

4.3 Resale Product Prices. Heska shall have the unrestricted right to determine the prices at which it resells the Products purchased under this Agreement. Boule shall not have the authority to require or suggest that Heska charge a particular resale price for the Products purchased from Boule.

5. Marketing

5.1 Marketing Support. Notwithstanding Section 4.1, Boule agrees to provide fifteen (15) Analyzers at a discount of thirty percent (30%) for use as demonstration units for Heska's marketing and sales activities. This discount is not possible to combine with other discounts. Boule agrees to provide reasonable technical assistance and training, as requested by Heska, to: (a) enable Heska to market, sell and distribute Product; (b) enable Heska to install, operate and use the Product, and (c) educate Heska about improvements to Product. Such technical assistance shall be provided at Boule's expense to the extent not exceeding five working days for one person. Any additional technical assistance shall be subject to the payment of a mutually acceptable consulting rate. Boule will provide an electronic copy of the operator's manual and all updates to Heska.

5.2 Trademarks. Boule grants Heska a limited, non-exclusive license to use Boule trademarks and brand names as set forth in Appendix C for the purposes of marketing and selling Product. Except as specified in this Section, Heska shall not derive any legal rights to Boule's trademarks or brand names. Heska shall use Boule's trademark and brand names solely in accordance with such instructions as Boule may give from time to time.

5.3 Product Improvements. Boule shall notify Heska in writing of any improvements to Product developed by Boule useful for veterinary applications. Subject always to mutual agreement and available resources in each separate case, Boule further agrees to support on-going Product development activities with Heska.

5.4 Complaints/Recalls. Boule will use reasonable efforts to assist Heska in investigating and correcting any problems Heska or its customers may experience with the Product. Such efforts will include visiting the Territory by Boule's representatives only where deemed necessary by Boule. Heska will use reasonable efforts to implement any corrective action deemed necessary by Boule. Heska further agrees to reasonably cooperate with Boule in any mandatory or voluntary Product recall by assisting in the notification of all affected customers, using materials and documentation that are mutually acceptable to the Parties.

5.5 Marketing Efforts. Heska shall in performing this Agreement devote reasonable commercial efforts to market, distribute and sell the Product in the Territory and in the Field.

5.6 Reports. Heska shall within one month from the expiry of each Calendar Half Year submit to Boule a report on the sales of such Calendar Half Year together with such

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

general market information as may be deemed to be of interest and relevant to Boule or as Boule may from time to time request. The report shall also specify major sales and marketing activities.

5.7 Approvals, Etc. Heska shall at its own expense obtain all approvals and other authorisations and file all notices which are required to be obtained or filed for the sale and use of the Product in the Territory. Moreover, Heska shall keep Boule currently informed of all laws, rules and regulations applicable in the Territory directly affecting the sale and use of the Product. The Parties acknowledge the Products are currently not regulated by any government agency within the Territory. Should the Products become regulated during the term of this Agreement, the Parties shall negotiate in good faith terms and conditions for allocating the responsibility and costs for obtaining regulatory approval.

6. Warranty

6.1 Warranty. Boule warrants that:

(a) the Product shall be free and clear of any and all liens, encumbrances, or defects in title and shall be conveyed to Heska with lawful and marketable title (save as said in paragraph (b) below);

(b) to the best of its knowledge, neither the Products nor their manufacture, use, importation or sale infringe upon the proprietary rights held by a third party. In the event of an allegation of infringement of any third party intellectual property rights is made, or in Boule's and Heska's opinions is likely to be made, in respect of the Product Boule may at its own expense (i) obtain for Heska and its customers the right to continue to import, sell and use the Product, (ii) modify the Product so as to avoid infringement in a way reasonably acceptable to Heska or (iii) if conditions (i) and (ii) cannot be complied with on terms which in Boule's opinion are reasonable, terminate this Agreement without any liability towards Heska, unless such liability could be covered under the agreement between Boule and [***]. If the Agreement is terminated Boule undertakes during a period of twelve months following such termination before appointing any new distributor in the Territory to offer Heska the right of first refusal to such distribution rights; and

(c) the Product conforms to the specifications as set forth in Appendix B and are free from defects in material and workmanship during a fifteen(15) month warranty period under normal use from the date of delivery as per Section 3.4 ("Warranty Period") for the Analyzers and 12 month expiration dating for reagents. The warranty covers, at Boule's exclusive choice, its replacement or repair of the non-conforming or defective Product. If requested by Boule, Heska shall return to Boule at Heska's cost and expense the non-conforming or defective Product. In order to avail itself of its rights hereunder Heska shall have given Boule notice in writing of the non-conforming or defective Product within the Warranty Period.

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Save as stipulated in this paragraph (c) Boule shall not be liable in respect of any non-conforming or defective Product.

(d) Boule holds the exclusive rights to ABC System reagents in the Territory from [***] and that the marketing, sale and distribution of such reagents do not and will not infringe the intellectual property rights of a third party.

6.2 Repairs. During the Warranty Period, Heska shall at the request of Boule and may at Heska's choice elect to provide warranty service at Heska's designated facilities for the repair of defective Products. Boule agrees to provide, at Boule's sole expense, one (1) week of service training to Heska's personnel at Heska's facility. Boule further agrees to provide additional training, as requested by Heska, at a mutually acceptable consulting rate. Boule will provide an initial pool of five (5) Analyzers at no charge to Heska to serve as loaners to Heska's customers during warranty service repairs. The Parties agree that additional Analyzers may be added to the pool of loaner units depending on mean time between failure (MTBF) rates and service turn around times required to perform warranty service repairs.

6.3 Audits. Heska shall have the right to the extent necessary for the purpose of examining the Product quality standards maintained by Boule to audit Boule's original records and to inspect Boule's facilities upon reasonable written notice to Boule.

6.4 Product Changes. Boule will not make any changes to Product affecting its performance without providing at least forty-five (45) days prior written notice to Heska.

6.5 Indemnification. Boule will defend, indemnify, and hold Heska and its directors, officers, employees, agents and Affiliates, harmless from any and all claims, liabilities, direct damages and reasonable out-of-pocket expenses, including reasonable attorney's fees and costs, arising from or related to any and all claims arising as a result of the marketing, sale, or use of any defective Product by Heska or its customers or arising from any breach of warranty under Section 6.1 hereof, except to the extent that such losses, claims, liabilities, damages or expenses result from the negligence or wrongful acts of Heska or any of its customers or from a defect for which Boule is not responsible. Heska will defend, indemnify, and hold Boule and its directors, officers, employees, agents and Affiliates, harmless from any and all claims, liabilities, direct damages and reasonable out-of-pocket expenses, including reasonable attorney's fees and costs, arising from or related to any and all claims arising as a result of the marketing, sale, or use of any defective Product by Heska or its customers to the extent that such losses, claims, liabilities, damages or expenses result from the negligence or wrongful acts of Heska or any of its customers or from a defect for which Boule is not responsible. Both Parties shall maintain during the term of this Agreement and for a period of three years thereafter adequate product liability insurance.

6.6. Disclaimer. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN, BOULE DISCLAIMS ALL WARRANTIES, EXPRESS OR IMPLIED, INCLUDING WITHOUT LIMITATION WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

7. Confidential Information

7.1 Obligation to Protect. Each of the Parties shall take such steps as are reasonably required (including without limitation such steps as such Party takes to protect its own proprietary information) to protect confidential and/or proprietary information ("Confidential Information") supplied or revealed to it by the other Party pursuant to this Agreement, and shall not, directly or indirectly, disclose to any third party or use such information except pursuant to this Agreement. Any Confidential Information and/or proprietary information shall be in writing and clearly designated Confidential, or if initially disclosed orally, confirmed in writing within thirty (30) days of disclosure.

7.2 Scope of Obligation. Nothing in this Article 7 shall be construed to impose a confidentiality obligation on a Party in connection with any information to the extent such information (a) is at the time of disclosure already known to the receiving party (as clearly established by such Party's prior written records); (b) is at the time of disclosure or subsequently becomes part of the public domain through no fault, act, or omission of the receiving Party; (c) is subsequently disclosed to the receiving Party by a third party whose receipt and disclosure of such Confidential Information does not, according to the receiving Party's knowledge, constitute a violation of any confidentiality obligation; (d) is independently developed by the receiving Party by employees having no access to or knowledge of Confidential Information received; or (e) is required by a court or government agency; provided that the disclosing party shall use reasonable efforts to provide the other party notice in writing of any proposed disclosure under this subsection and an opportunity to object to the disclosure or seek confidential treatment thereof.

7.3 Return of Information. The receiving Party shall return all Confidential Information provided by the disclosing Party, and any documents or materials incorporating such Confidential Information, upon the expiration or termination of this Agreement; provided, however, one copy of all such Confidential Information may be retained in the legal files of the receiving Party to assure compliance with the confidentiality and non-use provisions of this Article 7.

8. Term and Termination

8.1 Term. Unless terminated earlier as provided herein, this Agreement shall be effective from the Effective Date and shall remain in effect until December 31, 2008. Thereafter, the term of this Agreement shall be automatically renewed for additional one (1) year terms; provided, however that either Party may provide written notification to the other Party of its intent not to renew at least 180 days prior to the next expiration date.

8.2 Termination. This Agreement may be terminated:

(a) at any time upon the mutual written consent of the Parties;

(b) by Boule if Heska fails to meet the minimum purchasing commitments under Section 3.3 for two (2) contractual years;

(c) for a material breach of this Agreement upon sixty (60) days prior written notice to the breaching party if during such sixty (60) day period, the default is not cured to the reasonable satisfaction of the non-defaulting Party;

(d) by giving the other Party sixty (60) days written notice if such other Party has entered into or committed any act of liquidation, bankruptcy, insolvency, receivorship, or assignment for the benefit of creditors, to the extent such act is permitted by law; or

(e) by Boule if Heska sells a competing product as defined in Section 2.3.

8.3 Effect of Termination; Repurchase of Products. Except as otherwise specified in this Agreement, upon termination of this Agreement Boule shall be entitled to repurchase from Heska Products that Heska may have in stock when this Agreement ceases to be in effect at a price equal to the price paid by Heska to Boule for such Products plus transportation costs, customs duties and other expenses incurred by Heska. Should Boule elect not to repurchase such Products, Heska shall have the right, but not the obligation, to sell Products in stock. Upon termination of this Agreement, Boule shall continue to supply Consumables to Heska as provided in Section 3.6.

8.4 Dispute Resolution. The Parties covenant and agree in good faith to attempt for a period of sixty (60) days to resolve any disputes which may arise in connection with this Agreement through negotiation and settlement prior to giving notice of termination or bringing any legal action against the other Party in connection with this Agreement. During such negotiations, the Parties shall also consider the possibility of using alternative dispute resolution methods, including arbitration and mediation, if the Parties are unable to resolve the dispute. The provisions of this section shall not apply if one Party refuses to negotiate the dispute in good faith or if more prompt legal action is required to avoid material loss or damage. Failure to resolve a dispute by negotiated settlement shall not prejudice any subsequent legal action with respect thereto.

9. Miscellaneous

9.1 Relationship of Parties. The relationship of Boule to Heska under this Agreement is intended to be that of independent contractor. Nothing contained in this Agreement is intended or is to be construed so as to constitute Boule and Heska as employer/employee or principal/agent, or the employees or the agents of any Party hereto as employees or agents of the other Party hereto. Neither Party hereto has any express or implied right or authority under this Agreement to assume or create any obligations on behalf of or in the name of the other Party or to bind the other Party to any contract, agreement, or undertaking with any third party, other than the successors and permitted assigns of the respective parties hereto.

9.2 Assignments. This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and assigns; provided, however, that neither Party shall have the right to transfer or assign its interest in this Agreement without the prior written consent of the other Party, except that either Party may make such transfer or assignment, to a partner, subsidiary or entity otherwise controlling, controlled by or under common control with such Party, or to an entity acquiring all or substantially all relevant assets of a Party to which this Agreement pertains. No transfer or assignment will relieve the transferor or assignor of any liability or obligations hereunder.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

9.3 Waiver of Performance. A failure of a Party hereto at any time to require performance by the other Party hereto of any provision hereto required to be performed by such other Party, will in no way affect the right of the first party to require such performance at any time thereafter. The waiver of any breach of any provision hereto will in no way be construed as a waiver of any succeeding breach of such provision or a waiver of the provision itself.

9.4 Severability. In the event any provision of this Agreement shall be invalid, void, illegal, or unenforceable, the remaining provisions hereof nevertheless will continue in full force and effect without being impaired or invalidated in any way.

9.5 Survival. The provisions of Section 5.4, Articles 6, 7 and 8, and Section 9.8 shall survive the termination of this Agreement.

9.6 Notices. All notices under this Agreement shall be in writing and shall be deemed given if sent by facsimile, (except for the legal process in each case), certified or registered mail or commercial courier (return receipt or confirmation of delivery requested), or by personal delivery to the party to receive such notices or other communications called for by this Agreement at the following addresses for a party as shall be specified by such party by like notice:

If to Boule:
Boule Medical AB
P.O. Box 42056
SE-126 13 Stockholm, Sweden
Facsimile [***]
Attention: President

If to Heska:
Heska Corporation
1613 Prospect Parkway
Fort Collins, CO 80525
Fax [***]
Attention: Chief Executive Officer
Copy to: Executive Vice President, Intellectual Property
and Business Development
Facsimile [***]

9.7 Force majeure. Either Party shall be excused from the performance of its obligations hereunder, or such performance may be delayed, by causes beyond its reasonable control, including without limitation, acts of God, war, riot, epidemic, fire, flood, insurrection, military authorities, labor disputes, delay or inability to obtain supplies, labor, raw materials, energy or failure of transportation or communication and any other similar contingency, provided that if such nonperformance continues for more than 90 days, the other party may terminate the Agreement upon written notice.

9.8 Governing Law. The Parties 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 under the laws of the district where the contracting party is a defendant who defends against the other Party, with regard to the construction or interpretation of the Agreement. The English language employed herein shall be controlling and this Agreement shall be deemed to have been executed at Fort Collins, Colorado, United States of America and Stockholm, Sweden. Any dispute, controversy or difference arising between the Parties, out of or in relation to or in connection with this Agreement, or the breach thereof, which cannot otherwise be settled between the Parties within a period of ninety (90) days shall be submitted to an arbitration before a competent arbitration tribunal in Colorado, United States of America in case Heska is a defendant, and Stockholm, Sweden, in case Boule is a defendant, for binding resolution in accordance with the rules selected by the arbitrator(s), provided the proceedings are conducted in the English language.

9.9 General Terms of Sale. Boule’s General Terms of Sale as amended from time to time shall apply in respect of all supplies hereunder save as varied by express provisions herein. The currently applicable General Terms of Sale have been attached hereto as Appendix A.

9.10 Entire Agreement. This Agreement and the Appendices hereto constitute the entire agreement and understanding of the Parties with regard to the subject matter hereof and supercede all prior agreements and understanding, written or oral, between the Parties. This Agreement may only be amended by a written agreement signed by the Parties.

The Parties have caused this Agreement to be signed by their duly authorized representatives.

BOULE MEDICAL AB		HESKA CORPORATION	
By:	/s/ Ernst Westman	By:	/s/ Jason Napolitano
Name:	ERNST WESTMAN	Name:	JASON NAPOLITANO
Title:	President	Title:	Chief Financial Officer
Date:	June 17, 2003	Date:	June 17, 2003

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Appendix A1

This Appendix forms an integrated part of the Distributorship Agreement between BOULE and HESKA.

Payment Terms

All prices are based on EX Works delivery terms, not insured, 50% in Euro and 50% in USD based on a fixed exchange rate of 1.18 USD/EUR. For example, if Heska buys two CA 620-16, 110-60, price Net Euro [***], Heska would pay EUR [***] and USD [***] for the two instruments. Heska agrees to make orders in units divisible by two.

Insurance could be organised according to a request from the receiver.

All additional costs are on the behalf of Heska, such as:
- L/C cost
- Legalisation costs
- Courier

Minimum order/invoicing amount: Euro 100

Payment terms

- Boule will invoice Heska twenty percent (20%) of the purchase price of instruments immediately upon acceptance of any purchase order. Heska shall wire the 20% payment fourteen (14) days prior to shipment. Boule will invoice the balance of the purchase price upon shipment of Product from Boule's facility and Heska shall pay such invoice within fifty-two (52) days from the date of invoice. This term shall be valid only as long as Heska complies with said payment term without delays, as judged by Boule. For payments received in advance Heska will be granted a 2% discount.
- Interest rate of 2% per month will be charged for all invoices past due date. Interest invoices will be made, at least, twice a year.
- Credit limit is set to Euro five hundred thousand (500.000)

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Appendix A2

This Appendix forms an integrated part of the Distributorship Agreement between BOULE and HESKA.

Price schedule

Description	Price Net Euro
INSTRUMENTS	
CA 620-16 Vet, 110/60	[***]
CA 620-16 Vet with MPA, 110/60	[***]
CA 620-20 Vet, 110/60	[***]
CA 620-20 Vet with MPA, 110/60	[***]
Micro Pipette Adapter MPA	[***]
Micro caps for MPA Pack size 10/1000	[***]
Medonic micro lancet	[***]
Printer DPU 414-2	[***]
Printer paper to DPU 414-2, 5 rolls	[***]
Barcode reader	[***]
REAGENTS	
Mediton vet, 10 Litre (for Medonic)	[***]
Medilyse vet, 5 Litre (for Medonic)	[***]
Reagent Pack AB-Vet (for ABX)	[***]
ProClean Plus	[***]
Hypochlorite	[***]
CONTROLS & CALIBRATORS	
Boule- 8 VET CON	
1x4, 5 ml normal	[***]
6x4, 5 ml normal	[***]
18x4, 5 ml normal	[***]
Boule- 8 VET CAL	
1x3, 0 ml	[***]

APPENDIX B

Product Specification

Product Specification CA 620 Vet

- Measuring principle RBC, WBC, PLT	Impedance
- Measuring principle HGB	Cyanide free method 540 nm
- Discriminator	Floating programmable
- Sampling system	Shear valve

- Parameters reported (16 par. model):	RBC, MCV, HCT, PLT,MPV HGB, MCH, MCHC WBC, RDW% LYMPH abs, MID abs, GRAN abs. LYMPH %, MID %, GRAN %
- Size distributions printed for	RBC, PLT and WBC diff.
- Aspirated blood volume (open tubes)	ca. 125 ul
- Blood volume using the Micro Pipette Adapter	20 ul
- Prediluted mode	1:200 to 1:250 using min. 20 ul blood e.g. 20 ul to 5 ml diluent 30 u1 to 6 m1 diluent 40 u1 to 8 ml diluent
- Screen	LCD
- Keyboard	Numerical
- Total cycle time	ca. 73 seconds
- Sample display and print after	ca. 53 seconds
- Printer	external, IBM, HP format or DPU414
- Memory	>350 samples
- QC capability	SD, CV, Xm
- HGB correction on high WBC counts	Yes
- Warning flags on parameter abnormalities	Yes
- Floating discriminator RBC/ PLT	Yes (position printed)
- Mathematical 3-part diff. WBC calc.	Yes
- Automatic HGB blank on each sample	Yes
- Carry Over	< 1%
- Bar-code scanner input	Yes
- Serial output	Yes

- Mains voltage	230 V or, 120 V
- Mains voltage tolerances	+15% /-20%
- Power consumption	max 250 VA
- Power consumption (standby)	max 50 VA
- Built-in test /adjustment programs	Yes
Dimensions (mm)	H=350 W=420 D=460
Weight	ca. 22 Kg

[***] — Certain information in this exhibit have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Boule Medical AB
P. O. Box 42056
SE-126 13 Stockholm, Sweden

Attention: Ernst Westman, President

Re: Supply and Distribution Agreement ("Distribution Agreement") by and between Heska Corporation ("Heska") and Boule Medical AB ("Boule") dated June 17, 2003

Dear Mr. Westman:

This letter confirms our agreement to interpret and supplement the Distribution Agreement as follows (capitalized terms not otherwise defined herein have the meanings ascribed to them in the Distribution Agreement):

1. Pricing and Payment. Appendix Al and Appendix A2 of the Distribution Agreement are hereby deleted in their entirety and replaced with Appendices AI, A2, A3, A4 and A5 attached hereto. The last sentence of the first paragraph of Section 4.1 of the Distribution Agreement is hereby amended to read as follows: "All prices and fees shall be defined in Euros and/or US Dollars, as provided in Appendices A2, A3, A4 and A5."

2. Appendix C. Appendix C to the Distribution Agreement is attached hereto.

3. Returns. Notwithstanding any provision of Section 6.1 (c) of the Distribution Agreement to the contrary, Boule shall reimburse Heska for the cost and expense of returning non-conforming or defective Product as contemplated therein.

4. Indemnification. Boule and Heska agree that the following phrase shall be deleted at the end of the second sentence of Section 6.5 of the Distribution Agreement and shall have no further force and effect: "or any of its customers or from a defect for which Boule is not responsible".

5. Consumable Sales after Termination. Unless Boule terminates the Distribution Agreement pursuant to Section 8 .2 thereof, Heska may purchase Consumables following termination of the Distribution Agreement as provided in Section 3.6 thereof, and for the avoidance of doubt, Heska's right to make such purchases shall not obligate Heska to comply

with the restrictions set forth in Section 2.3 thereof. However, if Heska sells non-Boule spare parts, consumables or reagents for the Analyzer following termination of the Distribution Agreement (other than due to Boule's failure to timely fill Heska's orders for Consumables), then Heska's right to purchase Consumables shall expire.

6. Sale of Refurbished ABC Systems and Scil Inventory. Notwithstanding any provision of the Distribution Agreement to the contrary, including but not limited to Section 2.3 thereof, Boule agrees that Heska shall have the right, but not the obligation, to obtain and refurbish used ABC instruments ("Refurbished ABC Systems") and to sell such Refurbished ABC Systems within the Territory at any time after the date of this Amendment. In addition, Heska shall have the right, but not the obligation, to sell its inventory of instruments and reagents purchased from Scil Animal Care Company, America, Inc., within the Territory, at any time after the effective date of this Amendment. Heska shall provide monthly reports of sales of both new ABC Systems and Refurbished ABC Systems to Boule.

This letter will constitute a written agreement amending the Distribution Agreement as contemplated by Section 9.10 thereof. If there is a conflict between the terms of this letter and the Distribution Agreement, this letter shall control.

Very truly yours,

HESKA CORPORATION

By: /s/ JASON NAPOLITANO
Jason Napolitano
Its: Chief Financial Officer

ACCEPTED AND AGREED:

BOULE MEDICAL AB

By: /s/ ERNST WESTMAN
Ernst Westman
Its: President

Appendix A1

This Appendix forms an integrated part of the Supply and Distribution Agreement between BOULE and HESKA.

Payment Terms

All prices are based on EX Works delivery terms, not insured.

Insurance could be organized according to a request from the receiver.

All additional costs are on the behalf of Heska, such as:

- L/C cost
- Legalization costs
- Courier

Minimum order/invoicing amount: Euro 100

Payment terms

- Boule will invoice Heska twenty percent (20%) of the purchase price of instruments immediately upon acceptance of any purchase order. Heska shall wire the 20% payment fourteen (14) days prior to shipment. Boule will invoice the balance of the purchase price upon shipment of Product from Boule's facility and Heska shall pay such invoice within fifty-two (52) days from the date of invoice. This term shall be valid only as long as Heska complies with said payment term without delays, as judged by Boule. For payments received in advance Heska will be granted a 2% discount.
- Interest rate of 2% per month will be charged for all invoices past due date. Interest invoices will be made, at least, twice a year.
- Credit limit is set to Euro five hundred thousand (500.000).

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Appendix A2

This Appendix forms an integrated part of the Supply and Distribution Agreement between BOULE and HESKA.

Heska agrees to make orders of the following Products in units divisible by two. Payment for fifty percent (50%) of the units in each shipment shall be made in Euros and fifty percent (50%) in U.S. dollars. The initial Euro prices are set forth below, subject to adjustment for actual changes in material and labor costs pursuant to the last paragraph of Section 4.1 of the Distribution Agreement. The dollar prices shall be an amount equal to the then-current Euro price, multiplied by 1.18.

Description	Price Net Euro
INSTRUMENTS	
CA 629-20 Vet, 110/60	[***]
CA 620-20 Vet with MPA, 110/60	[***]
Micro Pipette Adapter MPA	[***]
Micro Caps for MPA Pack size 10x1000	[***]
Medonic micro lancet	[***]
Printer DPU 414-2	[***]
Printer paper to DPU 414-2, 5 rolls	[***]
Barcode reader	[***]
REAGENTS	
Mediton vet, 10 Litre (for Medonic)	[***]
Medityse vet, 5 Litre (for Medonic)	[***]
ProClean Plus	[***]
Hypochlorite	[***]

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Appendix A3

Payment for one hundred percent (100%) of the units of the Products listed below shall be made in U.S. dollars. The initial U.S. dollar price for each of such Products shall be the price set forth below, subject to adjustment for actual changes in raw material and labor costs pursuant to the last paragraph of Section 4.1 of the Distribution Agreement.

Description	Price Net
REAGENTS	
Reagent Pack AB-Vet (for ABX)	[***]
CONTROLS & CALIBRATORS	
Boule — 8 VET CON	
1x4.5 ml normal	[***]
6x4.5 ml normal	[***]
18x4.5 ml normal	[***]
Boule — 8 VET CAL	
1x3.0 ml	[***]

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Appendix A4

Payment for one hundred percent (100%) of the units of the Products listed below shall be made in Euros. The initial Euro price for each unit of such Products shall be the price set forth below, subject to adjustment for actual changes in raw material and labor costs pursuant to the last paragraph of Section 4.1 of the Distribution Agreement.

Spare Parts Price List
Medonic CA 530/620

View	Pos	Art. No.	Description	Recommended for stock	Price Euro
530-04	5	5814064	Asp. pip. predil. blood/upps	Y	[***]
530-04	4	5306007	Asp. Pipette Whole blood	Y	[***]
530-02	92	9990389	Bearing		[***]
530-02	83	9990676	Bi pin lampa	Y	[***]
530-03	20	5308004	Cable assay blood detector		[***]
530-02	84	5308013	Cable assy Hgb lamp		[***]
530-02	70	5308008	Cable assy Hgb photocel		[***]
530-02	21	5308014	Cable assy opto-switch		[***]
530-02	43	5308011	Cable assy start/stop detector		[***]
530-02	67	5308010	Cable assy syringe motor		[***]
530-02	89	5308009	Cable assy transducer coax		[***]
530-02	73	5306002	Cap. Holder complete	Y	[***]
530-03	34	5814143	Casing complete	Y	[***]
530-05	37	9990959	Check valve 1300-201.1		[***]
530-04	17	5304022	Cleaning device		[***]
530-02	78	5306004	Counting cup WBC complete		[***]
530-02	71	5306003	Counting cup RBC complete		[***]
530-04	55	9990434	Coupling T 20-6	Y	[***]
530-04	37	9990435	Coupling DD-6	Y	[***]
530-04	39	9990955	Coupling T 220-210-6	Y	[***]
530-04	36	9990989	Coupling T220-6	Y	[***]
530-04	38	9990437	Coupling Y220-6	Y	[***]
530-03	16	5304097	Detector		[***]
530-05	8	9990910	Fan for F-120		[***]
530-02	75	9990598	Filter VG9 4mm Ø 8		[***]
530-02	59	5306006	Gearbox complete	Y	[***]
530-03	22	5306005	Gearbox complete	Y	[***]
530-02	103	5304077	Glass cylinder	Y	[***]
530-02	10	5304011	Guiding rod		[***]

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

530-02	25	5304015	Guiding wheel		[***]
		9990900	Hal switch TLE 4905L		[***]
530-2	105	5304075	Housing upper glass cylinder		[***]
		9990844	IC 82C55A	Y	[***]
		9990891	IC LM338K		[***]
		9990890	IC LT350AK		[***]
		9990847	IC PBL 3773	Y	[***]
		9990848	IC PBM 3960	Y	[***]
530-02	45	4804014	Ind. Lower	Y	[***]
530-04	23	5304002	Indicator housing		[***]
620-01	2	6203018	Keyboard folio		[***]
530-05	27	5306001	Level detector hemolyzer		[***]
530-05	26	5306000	Level detector isoton		[***]
530-04	9	9990395	Locking ring RS 4	Y	[***]
530-01	38	9990479	Magnet lock		[***]
530-02	7	9990402	Magnet valve one-way	Y	[***]
530-02	8	9990403	Magnet valve two-way	Y	[***]
530-05	42	9991128	Mains inlet		[***]
530-02	47	5304026	Metering unit	Y	[***]
		2606001	Micocaps for MPA 260 10x100	Y	[***]
530-04	20	5814036	Mixing cup/bl.bägare		[***]
530-04	21	5303010	Mixing cup lid	Y	[***]
530-05	11	9990405	Nipple		[***]
530-02	16	5304020	Optical detector		[***]
530-02	44	9990475	O-ring 5.30x 2.40 silikon	Y	[***]
530-02	49	9990475	O-ring 5.30x 2.40 silikon	Y	[***]
530-02	77	9990597	O-ring 7.10x 1.60	Y	[***]
530-02	79	9990597	O-ring 7.10x 1.60	Y	[***]
530-03	36	9991164	O-ring 22.00x 2.00 nitril	Y	[***]
530-03	32	9990453	O-ring 5.10x1.60 nitril	Y	[***]
530-02	104	9990468	O-ring 12.10x 1.60 epdm	Y	[***]
530-02	74	9991085	O-ring 13.10x 1.6 nitril	Y	[***]
530-02	69	9990382	O-ring 20.24x 2.62 viton	Y	[***]
530-04	28	9990392	O-ring 22.10x 1.60 viton	Y	[***]
530-04	13	9990887	O-ring 6.10x1.60 nitril		[***]
530-06	3	5309021	PCB ampl 530 mounted complete	Y	[***]
530-06	2	5309001	PCB CPU 530 mounted complete	Y	[***]
620-01	4	6209001	PCB display CA620	Y	[***]
530-06	8	5309011	PCB power mounted complete	Y	[***]
530-06	27	9991161	Plastic cover		[***]
530-05	7	9990422	Pump F120-28 24 AC	Y	[***]

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

530-05	39	9980001	Repair kit for pump 9990422	Y	[***]
530-03	9	5814120	Ring/främre styrh. v.		[***]
530-03	6	5814119	Ring/mothåll fj.		[***]
530-02	24	5814082	Ring/stoppring		[***]
530-02	55	5304008	Rolled thread ball screw Shbo 12*4		[***]
530-05	14	9990911	Rubber support, M4		[***]
530-03	5	9990689	Sealing BA 8 18 5	Y	[***]
530-02	124	5306009	Sealing piston complete	Y	[***]
503-02	123	5306008	Sealing rod complete	Y	[***]
530-01	62	5303042	Shield plate		[***]

530-04	42	9990957	Spring 0,60*6,0*15		[***]
530-03	7	9990439	Spring 1,00*12,0*20		[***]
530-02	30	9990952	Spring 1,50*7,0*10	Y	[***]
530-04	2	5304104	Start plate 1		[***]
530-04	3	5304105	Start plate 2		[***]
530-05	46	5304167	Tube ground con.		[***]
530-04	54	9970031	Tubing pvc Ø 3.0/5.0	Y	[***]
530-04	50	9970022	Tubing tef Ø 0.7/1.6	Y	[***]
530-04	51	9970023	Tubing tef Ø 1.2/2.0	Y	[***]
530-04	52	9970041	Tubing tyg Ø 0.8/2.4	Y	[***]
530-04	53	9970042	Tubing tyg Ø 1.6/3.2	Y	[***]
530-04	47	9970001	Tubing Ø sil 1,0/3,0	Y	[***]
530-04	48	9970002	Tubing Ø sil 1,5/3,0	Y	[***]
530-04	46	9970005	Tubing Ø sil 2,0/5,0	Y	[***]
530-04	49	9970024	Tubing Ø tef, 1,6/3,2	Y	[***]
530-03	35	5814142	Valve part f.		[***]
530-03	10	5304048	Valve rear part		[***]

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Appendix A5

Heska agrees to make orders of the following Products in units divisible by two. Payment for fifty percent (50%) of the units of such Products in each shipment shall be made in Euros and fifty percent (50%) in U.S. dollars. The Euro price shall initially be EUR [***] and shall be determined annually in accordance with the second paragraph of Section 4.1 of the Distribution Agreement, subject to adjustment for actual changes in raw material and labor costs pursuant to the last paragraph of Section 4.1 of the Distribution Agreement. The U.S. dollar price shall be fixed at USD [***], subject to adjustment for actual changes in raw material and labor costs pursuant to the last paragraph of Section 4.1 of the Distribution Agreement.

CA 620-16 Vet, 110/60
CA 620-16 Vet with MPA, 110/60

Appendix C

Boule's trademarks are:
Boule
Medonic
Swelab

December 31, 2004

Boule Medical AB
P. O. Box 42056
SE-126 13 Stockholm, Sweden

Attention: Ernst Westman, President

Re: Supply and Distribution Agreement ("Distribution Agreement") by and between Heska Corporation ("Heska") and Boule Medical AB ("Boule") dated June 17, 2003

Dear Mr. Westman:

This letter confirms our agreement to amend our letter dated June 1, 2004 (the "First Amendment") to further interpret and supplement the Distribution Agreement as follows (capitalized terms not otherwise defined herein have the meanings ascribed to them in the Distribution Agreement):

1. Pricing and Payment. Appendix A1 attached to the First Amendment is hereby deleted and replaced with Appendix A1 attached hereto.

This letter will constitute a written agreement amending the Distribution Agreement as contemplated by Section 9.10 thereof. If there is a conflict between the terms of this letter and the Distribution Agreement or the First Amendment, this letter shall control.

Very truly yours,

HESKA CORPORATION

By: /s/ Jason Napolitano
JASON NAPOLITANO
Its: Chief Financial Officer

ACCEPTED AND AGREED:

BOULE MEDICAL AB

By: /s/ Ernst Westman
ERNST WESTMAN
Its: President

Appendix A1

This Appendix forms an integrated part of the Supply and Distribution Agreement between BOULE and HESKA.

Payment terms

All prices are based on EX Works delivery terms, not insured.

Insurance could be organized according to a request from the receiver.

All additional costs are on the behalf of Heska, such as:

- L/C cost
- Legalization costs
- Courier

Minimum order/invoicing amount: Euro 100

Payment terms

- Boule will invoice the purchase price upon shipment of Product from Boule's facility and Heska shall pay such invoice within forty-two (42) days from the date of invoice. This term shall be valid only as long as Heska complies with said payment term without delays, as judged by Boule. For full payments received in advance of shipment Heska will be granted a 2% discount.
- Interest rate of 2% per month will be charged for all invoices past due date. Interest invoices will be made, at least, twice a year.
- Credit limit is set to Euro five hundred thousand (500.000).

Exhibit 10.25

[***] — Certain information in this exhibit have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

DISTRIBUTION AGREEMENT

THIS DISTRIBUTION AGREEMENT (this "Agreement") is made as of October 1, 2004 (the "Effective Date") by and between i-STAT Corporation, a Delaware corporation having its principal place of business at 104 Windsor Center Drive, East Windsor, New Jersey 08520 USA ("i-STAT") and an Affiliate of Abbott Laboratories, and Heska Corporation, a Delaware corporation, having its principal place of business at 1613 Prospect Parkway, Fort Collins, Colorado 80525, USA ("Heska").

W I T N E S S E T H:

WHEREAS, i-STAT is a manufacturer of diagnostic health care equipment and reagents and desires to obtain a distributor of Products (as hereinafter defined) in the animal health care market ("Field" as hereinafter defined) in the Territory (as hereinafter defined);

WHEREAS, Heska is a distributor of various products in the Field in the Territory;

WHEREAS, Heska and i-STAT previously executed a distribution agreement dated as of February 9, 1998, which was amended and restated as of February 24, 1999, under which Heska distributed products for i-STAT in the Field in the Territory (the "Prior Agreement"); and

WHEREAS, in accordance with the terms and conditions hereof, i-STAT is willing to appoint Heska as its exclusive distributor of Products in the Territory, and Heska is willing to accept such appointment.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and upon the terms and subject to the conditions set forth below, Heska and i-STAT hereby agree as follows:

ARTICLE 1 — DEFINITIONS

The following words and phrases, when used herein with initial capital letters, shall have the meanings set forth or referenced below:

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

1.1 "Affiliate" shall mean, with respect to each Party (as hereinafter defined), any legal entity that is, directly or indirectly, controlling, controlled by or under common control with such Party. For purposes of this definition, a Party shall be deemed to control another entity if it owns or controls, directly or indirectly, more than fifty percent (50%) of the voting equity of the other entity (or other comparable ownership interest for an entity other than a corporation).

1.2 "Analyte" shall mean an individual compound, protein or fragment thereof, or substance that is the target of quantitative or qualitative measurement.

1.3 "Analyzer" shall mean a device that processes Cartridges (as hereinafter defined) and is capable of detecting at least one (1) Analyte for use in the Field, and specifically excludes analyzers designed primarily for use in patient self-testing.

1.4 "Base Cartridge Target" shall mean, for each Contract Year (as hereinafter defined), the minimum unit number of Cartridge purchases required to be made by Heska and its Affiliates during such Contract Year as set forth in **Section 2.4** and **Section 2.5**.

1.5 "Business Day" shall mean any day other than a day which is a Saturday or Sunday or other day on which commercial banks in New York, New York are authorized or required to remain closed.

1.6 "Calendar Quarter" shall mean a period of three (3) consecutive calendar months commencing on January 1, April 1, July 1 or October 1 of any Contract Year.

1.7 "Cartridge" shall mean the disposable test component of a particular Product that contains one or more sensor chips and fluid handling channels and operates on an Analyzer.

1.8 [***}

1.9 "Cartridge Purchases" shall mean, pursuant to **Section 11.2**, for each Contract Year, the unit number of Cartridges purchased by Heska and its Affiliates from i-STAT. For the purposes of this definition, a Cartridge shall be considered purchased in the Contract Year in which it was delivered after having been duly ordered pursuant to **Section 3.3**.

1.10 "Cartridge Sales" means the number of units of Cartridges Sold in the Field in the Territory by Heska directly to: (a) Dealers (as hereinafter defined) for resale to End Users; or (b) End Users; net of returns and unpaid Cartridges.

1.11 "Change of Control" shall mean: (a) the consolidation or merger of Heska or any Affiliate of Heska with or into any Third Party wherein the shareholders of Heska immediately prior to such transaction shall cease to be the holders of at least fifty percent (50%) of the outstanding securities of the surviving corporation in such transaction; (b) the assignment, sale, transfer, lease or other disposition of all or substantially all of the assets of Heska; or (c) the acquisition by any Third Party or group of Third Parties acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission ("SEC") under the Securities and Exchange Act of 1934) of more than fifty percent (50%) of the outstanding shares of voting stock of Heska.

1.12 "Confidential Information" shall mean any and all technical data, information, materials and other know-how, including trade secrets, presently owned by or developed by, on behalf of, either Party and/or its Affiliates during the Term (as hereinafter defined) which relates to a Product, its development, manufacture, promotion, marketing, distribution, sale or use and any and all financial data and information relating to the business of either of the Parties and/or of their Affiliates, which a Party and/or its Affiliates discloses to the other Party and/or its Affiliates in writing and identifies as being confidential, or if disclosed orally, visually or through some other media, is identified as confidential at the time of disclosure and is summarized in writing within thirty (30) days of such disclosure and identified as confidential, except any portion thereof which:

(a) is known to the receiving Party and/or its Affiliates at the time of the disclosure, as evidenced by its written records;

(b) is disclosed to the receiving Party and/or its Affiliates by a Third Party having a right to make such disclosure;

(c) becomes patented, published or otherwise part of the public domain through no fault of the receiving Party and/or its Affiliates; or

(d) is independently developed by or for the receiving Party and/or its Affiliates without use of Confidential Information disclosed hereunder, as evidenced by its written records.

1.13 "Contract Year" shall mean each consecutive twelve (12) month period prior to the termination of this Agreement, beginning on January 1 and ending on December 31 of each such Contract Year.

1.14 "Counterfeit Products" shall have the meaning set forth in **Section 4.10**.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

1.15 "Dealer" shall mean a natural person, corporation, partnership, trust, joint venture, government authority or other legal entity or organization in the Territory, other than Heska or i-STAT and/or their respective Affiliates, which purchases Products from Heska for the purpose of resale to End Users for use in the Field.

1.16 [***]

1.17 "End User" shall mean a natural person, corporation, partnership, trust, joint venture, government authority or other legal entity or organization in the Field in the Territory, other than Heska or i-STAT and/or their respective Affiliates, that purchases Products under this Agreement for its own use or consumption in the Field, and excluding any Third Party use in the human healthcare market.

1.18 "Extended Warranty" shall have the meaning set forth in **Section 7.1**.

1.19 "Extension Term" shall mean each additional Contract Year, if any, following the Initial Term or another Extension Term, as set forth in **Section 10.1**.

1.20 "Field" shall mean the animal health care market specifically excluding the human health care market.

1.21 [***]

1.22 "Incremental Cartridge Purchases" shall have the meaning set forth in **Section 3.6.1**.

1.23 [***]

1.24 "Initial Term" shall mean the time beginning on the Effective Date and ending on December 31, 2009.

1.25 "Most Favored Price" shall have the meaning set forth in **Section 2.14**.

1.26 "Notice Date Time" shall mean the period of time beginning on January 1 and ending on May 15 immediately following any Contract Year in which Cartridge Purchases were less than the Base Cartridge Target.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

1.27 "Notice Period" shall mean a period of time, the length of which shall be set forth in **Section 2.13**, which shall begin upon the receipt by Heska of i-STAT's written notice of i-STAT's decision to exercise its termination rights as set forth in **Section 2.6** and during which time Heska shall maintain non-exclusive rights to Sell Products in accordance with this Agreement.

1.28 "Party" shall mean i-STAT or Heska and "Parties" shall mean i-STAT and Heska.

1.29 "Products" shall mean the products manufactured by or for i-STAT listed on **Exhibit 1.29**.

1.30 "Purchase Price" shall mean the price for Analyzers, Cartridges and other Products purchased by Heska and its Affiliates from i-STAT and its Affiliates hereunder, as set forth on **Exhibit 1.29** and more fully described in **Section 3.6.**

1.31 [***]

1.32 "Sale", "Sell" or "Sold" shall mean to sell, hire, let, rent, lease or otherwise dispose of Product to a Third Party or Affiliate, provided such Affiliate is an end user of Products for commercial purposes for monetary or other valuable consideration. "Sale", "Sell" or "Sold" shall not include a transaction where samples of Product are supplied without charge to a Third Party or Affiliate for marketing or demonstration purposes or in connection with clinical or other experimental trials.

1.33 "Technical Documentation" shall mean all documents prepared by i-STAT in the ordinary course of business that describe the Products in terms of their intended use and Product claims. Such documents may take the form of user instructions, system manuals, product updates or technical bulletins, but are not limited to such forms.

1.34 "Technical Support" shall have the meaning set forth in **Section 4.8**.

1.35 "Term" shall have the meaning set forth in **Section 10.1**.

1.36 "Territory" shall mean the entire world except Japan.

1.37 "Third Party" shall mean a natural person, corporation, partnership, trust, joint venture, governmental authority or other legal entity or organization other than the Parties and/or their Affiliates.

ARTICLE 2 — APPOINTMENT TO MARKET AND DISTRIBUTE

2.1 Exclusive Appointment in the Territory. As of the Effective Date and subject to **Section 2.4** and **Section 2.5** below, i-STAT hereby appoints Heska and its Affiliates for the Term as i-STAT's exclusive distributor of Products in the Field in the Territory, and Heska accepts such appointment. As exclusive distributor in the Field in the Territory, Heska shall have the sole and exclusive right to market, promote, Sell and distribute Products in the Territory for use in the Field, which right shall operate to exclude all others, including i-STAT, its Affiliates and all Third Parties; provided, however, that i-STAT may maintain certain consultative and technical staff, at i-STAT's expense, to assist Heska in connection with such marketing, promotion, sales and distribution efforts, in accordance with **Article 4**. In furtherance of this exclusive grant to Heska and its Affiliates, i-STAT hereby agrees to use its commercially reasonable efforts to ensure that any Products Sold outside the Field are not Sold directly or indirectly by i-STAT distributors to End Users. Nothing contained in this Agreement shall limit or be interpreted to limit i-STAT or i-STAT's Affiliates from directly selling products not listed on **Exhibit 1.29** in the Territory.

2.2 Non-exclusive Appointment in Japan. As of the Effective Date and subject to **Section 2.4** and **Section 2.5** below, i-STAT hereby appoints Heska and its Affiliates for the Term as i-STAT's non-exclusive distributor of Products in the Field in Japan, and Heska accepts such appointment. Heska shall have the non-exclusive right to market, promote, Sell and distribute Products in Japan for use in the Field.

2.3 Heska's Obligations. Heska shall purchase Products for distribution and Sale in the Field in the Territory exclusively from i-STAT. Heska shall maintain, at its own expense, a commercially reasonable inventory of Products for the Sale, promotion and delivery of the Products and for managing customer satisfaction with the Products. Heska shall not promote, market or Sell any Product for use outside the Field. Recognizing the end use of the Products in healthcare, Heska shall not solicit or Sell any Product to an End User or other Third Party (including a Dealer) that Heska has, or should have, reason to believe will redistribute Products or otherwise direct Products for use to customers outside the Field. Heska promptly shall take all reasonable actions to prevent Sales of Products to customers, including Sales by Dealers, known or identified by Heska to be outside the Field. Upon i-STAT's request, if and to the extent Heska or its Dealers Sells Products to customers outside the Field, Heska shall remit to i-STAT an amount equal to the difference between: (a) the amount of sales billed by Heska from Sales of such Products (net of duties, freight, replacements, returns, refunds and taxes); and (b) the Purchase Price paid to i-STAT. The Cartridge units Sold outside the Field shall not be included in Cartridge Purchases for the purpose of meeting the minimum purchase requirements of **Sections 2.4 and 2.5**.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

2.4 Minimum Purchase Requirements during the Initial Term. Subject to **Sections 2.6**, **2.7** and **2.9**, Cartridge Purchases shall be greater than or equal to the Base Cartridge Target for each Contract Year during the Initial Term, which, for purposes of this Agreement, shall be as set forth in the following **Table 2.4**; provided, that Cartridge Sales shall be at least ninety-five percent (95%) of Cartridge Purchases during such Contract Year.

Table 2.4

Contract Year	Base Cartridge Target
Balance of 2004	[***]
2005	[***]
2006	[***]
2007	[***]
2008	[***]
2009	[***]

For example, if Heska has 2007 Cartridge Purchases of [***] and 2007 Cartridge Sales of [***], Heska shall have fulfilled the requirements of this **Section 2.4** ([***] Cartridge Purchases and Cartridge Sales are 95.3% Cartridge Purchases). In a separate example, if Heska has 2007 Cartridge Purchases of [***] and 2007 Cartridge Sales of [***], Heska shall not have fulfilled the requirements of this **Section 2.4** (since Heska would have met the Cartridge Purchases requirement, but would have Cartridge Purchases of 94.9% of Cartridge Sales, less than the required 95%).

2.5 Minimum Purchase Requirements during any Extension Term. Subject to **Sections 2.6**, **2.7** and **2.9**, Cartridge Purchases shall be greater than or equal to the Base Cartridge Target for each Contract Year during any Extension Term, which for purposes of this Agreement, shall be calculated as set forth in the following **Table 2.5**; provided, that Cartridge Sales shall be at least ninety-five percent (95%) of Cartridge Purchases during such Contract Year.

Table 2.5

Contract Year	Base Cartridge Target
n	2009 Base Cartridge Target * [***]

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

For example, if the [***], then the 2010 Base Cartridge Target will be equal to [***], calculated as follows: [***]. In this example, the 2011 Base Cartridge Target will be equal to [***], calculated as follows: [***].

2.6 Implications of Failure to Meet Minimum Purchase Requirements. i-STAT's sole remedy for Heska's failure to meet the Base Cartridge Target in **Sections 2.4** or **2.5** in any Contract Year shall be to terminate this Agreement upon prior written notice to Heska as set forth in **Section 2.13**; provided, however, that i-STAT shall meet with Heska to discuss under what terms and conditions, if any, Heska may continue to distribute Products hereunder; and provided, further, that such failure to meet the Base Cartridge Target shall not be considered as a breach of this Agreement.

2.7 Failure to Supply Minimum Purchase Requirements. If during any Contract Year, i-STAT is unable to supply Cartridges properly forecasted and ordered hereunder pursuant to **Article 3**, the Base Cartridge Target for such Contract Year shall be reduced by the number of such Cartridges ordered by Heska pursuant to the terms of this Agreement and not supplied by i-STAT hereunder during such Contract Year. i-STAT, shall consider in good faith the impact of a material interruption in supply on Heska's ability to achieve future Base Cartridge Targets in subsequent Contract Years and shall consider in good faith reasonable adjustments to Base Cartridge Targets proposed by Heska for such subsequent Contract Years; provided, however, that any decision regarding any reduction to future Base Cartridge Targets shall be at i-STAT's sole discretion.

2.8 Right of First Offer. As long as Heska is i-STAT's exclusive distributor of Products in the Field in the Territory, i-STAT shall, prior to offering any other or new products to any Third Party for resale in the Field in the Territory, first offer in writing (which for the purposes of this Section 2.8 may be by e-mail) to Heska the opportunity to negotiate with i-STAT in good faith to include such products as a Product hereunder on such terms and conditions as are mutually acceptable to the Parties.

2.9 Discontinued Products. i-STAT shall have the right to discontinue the manufacture of any Product hereunder. If i-STAT, in its sole discretion, decides to discontinue the manufacture of any Product, i-STAT shall: (a) provide written notice to Heska as follows: (i) for Analyzers, upon twelve (12) months' prior written notice; and (ii) for all other Products, upon one hundred eighty (180) days' prior written notice; and (b) negotiate in good faith with Heska an adjustment to the Base Cartridge Targets set forth in **Sections 2.4** and **2.5**; provided, that no adjustment shall be made if a discontinued Product is replaced by an equivalent Product at an equivalent price. If the

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Parties are unable to agree on an adjustment, if any, to the Base Cartridge Targets as a result of good faith negotiations under clause (b) of the preceding sentence, they will follow the procedures set forth in **Section 11.9** to establish an adjustment, if any. i-STAT may materially alter the performance of any or all of the Products upon ninety (90) days' prior written notice to Heska. i-STAT shall use commercially reasonable efforts to provide to Heska reasonable quantities of repair and/or replacement parts, on an as needed basis, for Analyzers for at least three (3) years from the date of discontinuance of manufacture or sale of Analyzers or introduction of a materially altered Product for which parts are not interchangeable. i-STAT also shall use commercially reasonable efforts to consult with Heska prior to any discontinuance of the manufacture of any Product or material alteration of any Product where such alteration, in i-STAT's reasonable opinion, would impact applicable regulatory approvals of Heska and / or marketing of the Products by Heska.

2.10 Selling Price. Heska, in its sole discretion, shall determine the final sales price of Products Sold by Heska to Third Parties in the Field in the Territory, and no other term or provision in this Agreement shall be interpreted or deemed to provide i-STAT with any right to determine the final sales price of Products Sold by Heska hereunder. Heska or its appointed Dealers solely shall be responsible for seeking and obtaining all pricing approvals from all applicable authorities in those countries in the Territory where Heska is distributing Products in the Field.

2.11 Heska's Sales Efforts. Heska shall use commercially reasonable efforts to offer for Sale, Sell, have Sold, use, have used, market, have marketed, distribute, have distributed and import Products in the Field in the Territory, as more fully set forth in **Article 4**.

2.12 Appointment of Dealers. Heska shall have the right to appoint Dealers for the sale of the Products in the Field in the Territory. Heska agrees that, if it enters into an agreement or arrangement with any Dealer to allow such Dealer to offer for Sale, Sell, have Sold, use, have used, market, have marketed, distribute, have distributed, import and have imported Products in the Field in any country or region of the Territory, Heska shall restrict such Dealer's activities to sales of Products in the Field for use in the Field by affirmatively restricting the Dealer from reselling Products to Third Parties outside the Field. Heska shall name i-STAT as the "third party beneficiary" for the purposes of enforcing this provision in any agreement or arrangement with a Third Party for Sale of Products in the Field.

2.13 Termination Notice Provisions. In the event that i-STAT exercises its right to terminate this Agreement in any given Contract Year for failure to meet the Base Cartridge Target in such Contract Year pursuant to **Section 2.6**, such termination shall be effective upon expiration of the Notice Period, determined as follows:

(a) Six (6) months if [***];

(b) Twelve (12) months if [***];

(c) Eighteen (18) months if [***];

(d) Twenty-four (24) months if [***]; or

(e) Thirty-six (36) months if [***].

In order to terminate the Agreement pursuant to **Section 2.6**, i-STAT must give written notice during the Notice Date Time. Upon receipt of written notice, Heska's distributorship rights in the Field in the Territory shall become non-exclusive and remain non-exclusive throughout the Notice Period.

For example, Heska has [***], Heska receives written notice of termination from i-STAT on January 15, 2008 and the Parties meet to discuss this situation on February 1, 2008 but cannot agree on amended terms under which Heska would continue to distribute Products. Pursuant to **Sections 1.8** and **1.27**, [***], which under **Section 2.13**, results in a Notice Period of twenty-four (24) months. Thus, in this example, the Agreement would terminate on January 15, 2010.

2.14 Most Favored Pricing. If, during any time period in which Heska is a non-exclusive distributor hereunder (including any time period set forth in **Section 2.13**), i-STAT shall sell Products in the Field in the Territory to any other distributor, dealer or Third Party at a price lower than the Purchase Price then paid by Heska hereunder (the "Most Favored Price"), then i-STAT shall give Heska prior written notice of the Most Favored Price and the period it is to be in effect and Heska shall be entitled to such Most Favored Price for such Product for so long as such lower price is in effect for any other distributor, dealer or Third Party in the Field in the Territory.

2.15 Restoration of Exclusivity and Cancellation of Termination. If, following any Contract Year in which Cartridge Purchases were less than the Base Cartridge Target, Heska's Cartridge Purchases for the subsequent Contract Year are equal to or greater than Base Cartridge Target for the subsequent Contract Year, i-STAT shall consider in good faith restoring exclusivity to Heska as described in **Section 2.1** and canceling the notice of termination previously sent to Heska; provided, however, that such restoration of exclusivity shall be only to the extent i-STAT has not made alternative contractual

arrangements that would preclude restoring Heska's exclusivity in any part of the Territory.

2.16 Competitive Products. In furtherance of its duties and in recognition of the unique healthcare and related responsibilities in connection with the distribution of the Products, during the Term Heska shall not anywhere in the Territory promote, market, distribute or Sell any hand held device performing any tests performed by the Products, including new Products, if any, added to this Agreement pursuant to the terms and conditions set forth in this Agreement. Heska shall exclusively use the i-STAT control products set forth on **Exhibit 1.29** unless i-STAT gives prior written approval for substitution.

2.17 EU Commission Directive. In accordance with the EU Commission Directive on Vertical Agreements, the covenant not to sell competitive products set forth in **Section 2.16** for countries in the European Union ("EU") shall be for no longer than five (5) years after the Effective Date. Heska agrees that if Heska has maintained exclusivity as set forth in **Sections 2.4** and **2.5** during the Term, that Heska will meet with i-STAT to negotiate in good faith the terms, if any, under which the covenant not to sell competitive products in the EU may be extended (if any).

ARTICLE 3 — MANUFACTURE, SUPPLY AND DELIVERY OF PRODUCTS

3.1 Manufacture, Sale and Purchase of Products. During the Term, i-STAT shall use commercially reasonable efforts to manufacture or have manufactured, release, sell and deliver to Heska those units of Products as are consistent with the forecasting process, lead times and terms and conditions of this Agreement and as are ordered by Heska hereunder. i-STAT shall manufacture or have manufactured, release, sell and deliver each such Product in accordance with each Product's Specifications and all applicable rules and regulations applicable to the manufacture or sale of Products in the Territory in the Field, including as applicable, those rules and regulations of the FDA, including QSRs (including applicable cGMPs), and in accordance with all other applicable laws and regulations of countries in which Heska sells Products.

3.2 Rolling Forecasts. Thirty (30) days after the Effective Date, Heska shall provide i-STAT with a monthly forecast of its requirements of the Products for the first full Contract Year. On or before the fifth (5th) day prior to the beginning of each subsequent calendar month during the Term, Heska shall provide i-STAT with a rolling 12-month forecast, the first three (3) months of which will be firm purchase orders binding on Heska, the last nine (9) months of each shall consist of Heska's best estimate forecast of its requirements of Products.

3.3 Product Orders. Heska shall order Products on purchase orders consistent with the process set forth in **Section 3.2**. All purchase order forms shall specify the quantities of

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each Product ordered, requested delivery dates, the identity of Products ordered, Product price, and delivery and shipping instructions including carrier selected. All orders will be governed by the terms of this Agreement. To the extent that any purchase order, confirmation of acceptance or other document contains terms in conflict with, or in addition to, the terms of this Agreement, such conflicting or additional terms shall not be binding on the Parties unless agreed upon in advance by the Parties.

3.4 Acceptance of Purchase Orders. i-STAT shall within five (5) Business Days notify Heska of any purchase order (or partial purchase order) accepted, rejected, or delayed, and the reason for any such rejection or delay. No purchase order shall be binding upon i-STAT until accepted by i-STAT. Purchase orders not rejected within five (5) Business Days shall be deemed accepted. Heska may not modify any purchase order after its acceptance by i-STAT without i-STAT's prior consent. All purchase orders shall provide i-STAT with no less than ninety (90) days notice to the requested shipping date from i-STAT after receipt of the purchase order. Heska understands and agrees that optimum dating of Products shipped cannot be assured for Products shipped in connection with purchase orders placed less than ninety (90) days prior to the requested shipment date of Product from i-STAT.

3.5 Firm Order Changes. If, before submitting a purchase order form to i-STAT, Heska requests an increase to binding forecasts for the three (3) month firm forecast timeframe and such increase is no more than one hundred twenty percent (120%) of the amount of Products (on a Product-by-Product basis) originally reflected in forecasts, i-STAT shall use commercially reasonable efforts to accommodate such increases within reasonable manufacturing capabilities and efficiencies, taking into account other orders and forecasts. If such increases reflects an increase of more than one hundred twenty percent (120%) of the amount of Products (on a Product-by-Product basis) originally reflected in Heska's binding forecasts, i-STAT shall advise Heska of any additional costs associated with manufacturing such increased number of Products in such timeframe, and if Heska indicates to i-STAT that i-STAT should proceed to manufacture such increased amount of Products, i-STAT shall use reasonable commercial efforts to manufacture such increased number of Products, and Heska shall bear all costs reasonably associated with such manufacturing increases. Such payments shall be payable within thirty (30) days of receipt of i-STAT's invoice for such charges.

3.6 Purchase Prices. Purchase Prices for the Products are listed on **Exhibit 1.29**.

3.6.1 Rebates. [***]

3.6.2 Pricing Adjustments. At the end of the Initial Term and each Extension Term thereafter, Purchase Prices may be adjusted at i-STAT's sole discretion for inflationary increases in production costs. Such increase shall be at the rate of increase in the U.S. PPI (Producer Price Index) since the Effective Date of the Agreement for the Initial Term or since the last inflationary adjustment for each Extension Term.

3.6.3 Increased Manufacturing Costs. If i-STAT experiences an increase in Product manufacturing costs that exceed ten percent (10%) for any Product during any Contract Year, i-STAT and Heska shall meet and negotiate in good faith to determine whether an adjustment to the Purchase Price for that Product is appropriate in the circumstances.

3.6.4 Taxes. All Purchase Prices for Product are calculated for delivery as set forth in **Section 3.7**. The Purchase Prices do not include insurance, freight, customs, duties, taxes, any foreign, federal, state or local taxes that may be applicable to Products including, without limitation, sales, excise, value-added, withholding, and other taxes other than taxes based upon i-STAT's net income and other similar charges. Customs duties and charges, if any, shall be borne by Heska. Any and all export and import licenses or approvals shall be obtained by Heska at its expense. When i-STAT has the legal obligation to collect such taxes, the appropriate amount shall be added to Heska's invoice and paid by Heska unless Heska provides i-STAT with a valid tax exemption certificate authorized by the appropriate taxing authority.

3.7 Delivery of Product.

3.7.1 Delivery; Determination of Method of Transportation. Products shall be delivered FCA (Incoterms 2000) i-STAT's U.S. warehouse or other i-STAT warehouse. The method of transportation of the Products, shipping destination and the carrier selected shall be as specified by Heska in its purchase orders.

3.7.2 Risk of Loss. Risk of loss for Products shall pass to Heska, FCA (Incoterms 2000) i-STAT's warehouse site.

3.7.3 Title. Title shall pass to Heska when Products are transferred to Heska's designated courier at i-STAT's warehouse site.

3.8 Payments Due; Credit Limits. All payments due and payable hereunder shall be made by check or wire transfer within thirty (30) days from the date of the invoice. All payments shall be made without set-off or counterclaim and free and clear of and without deduction for any other charges of any kind. The invoiced amount shall be paid by Heska to i-STAT by: (a) wire transfer to the bank listed on **Exhibit 3.8** or otherwise

specified by i-STAT, or (b) certified bankers check. i-STAT reserves the right to change the payment or credit terms at any time upon ninety (90) days' prior notice to Heska. Any invoiced amount not received within thirty (30) days of the date the payment was due shall be subject to a service charge of the lesser of one and one-half percent (1.5%) per month or the maximum rate permitted by law. All exchange, interest, banking collection and other charges shall be at Heska's expense. Decreases in Heska's credit limit will be based on i-STAT's evaluation of Heska's financial performance over the previous six (6) months and/or Heska's payment history with i-STAT over the past immediate twelve (12) months. If Heska disagrees with any notice of a change in payment terms or decrease in credit limit, Heska may dispute the decision with the President of Abbott's Point of Care business and discuss options for resolution. The resolution to the disputed decrease in credit limit shall be at the sole discretion of the President of Abbott Point of Care division. If Heska believes the resolution reached by the President of Abbott Point of Care is inequitable, Heska may enter into alternative dispute resolution with i-STAT. Notwithstanding anything in this Agreement or any exhibit attached hereto to the contrary: (y) all costs for Heska and i-STAT associated with such alternative dispute resolution shall be borne solely by Heska, regardless of the decision by the neutral in the alternative dispute resolution process; and (z) such alternative dispute resolution, if requested by Heska for this issue, shall be only for this specific issue, and no other issue shall be added to the process.

3.9 Currency Basis. All prices including Product Prices for Products and payments therefor shall be in U.S. dollars.

3.10 Acceptance of Product. Heska shall not be obligated to accept any Product that does not meet the applicable i-STAT specifications as set forth in the Analyzer's operators' manuals, or the Cartridges' product inserts, if any, as registered in the Territory. i-STAT shall provide Heska with thirty (30) days' advance notice of a change or issuance of new Analyzer operator manuals or Cartridge product inserts. Heska shall inspect all Products upon delivery in a commercially reasonable manner. Failure by Heska to give notice of defective or damaged Product within the time periods specified in **Section 3.11** shall be deemed a waiver of i-STAT's obligations as stated herein, with respect to such defect or damage only.

3.11 Defective and Improper Delivery; Product Returns. If Heska or a Dealer or End User claims that: (a) any Product shipped directly by i-STAT hereunder was damaged in transit to the End User; (b) incorrect Product was shipped; or (c) that there was a shortage in the shipment, and notice in writing of such damage, incorrect shipment or shortage is provided to i-STAT within thirty (30) days of receipt of the shipment by the End User then, upon receipt of such notice, i-STAT's sole obligation shall be to either replace any damaged or incorrectly shipped Product, make up any shortfall or refund any Purchase Price paid by Heska, at i-STAT's option. If any Product is claimed by Heska, a Dealer or End User to be defective and i-STAT is notified in writing of such

defect within thirty (30) days of receipt of the Product by the End User or, in the case of a latent defect, i-STAT is notified in writing within fifteen (15) days of discovery of such latent defect within the warranty period stated in **Section 7.2**, then i-STAT's sole obligation shall be to either repair of replace any Product found by i-STAT to be defective. If Heska claims a credit pursuant to this **Section 3.11**, such claim shall be accompanied by the original invoice issued by Heska to the End User or Dealer returning the Product. Upon request by i-STAT, Heska shall deliver to i-STAT, at Heska's cost, any returned Product with regard to which the credit is claimed. i-STAT solely shall determine in good faith the amount of any credit due Heska, if any, and to the extent any returned Product is defective, reimburse Heska for reasonable freight expenses directly related to delivering said Product to i-STAT. In the event that i-STAT issues a Product recall and requests that Heska return Products to i-STAT as a result of such recall, i-STAT shall reimburse Heska for reasonable freight expenses directly related to such recall. There will be no Product returns accepted except as set forth in this **Section 3.11**.

ARTICLE 4. MARKETING OF PRODUCTS

4.1 Marketing. Heska shall, at its own expense, use commercially reasonable efforts to market and promote the Products in the Territory. Heska's promotional activities shall include, but shall not be not limited to: (a) including the Products in its appropriate catalogs, promotional mailings and like publications, (b) developing, preparing and placing advertising concerning the Products in appropriate media or through appropriate direct mail; (c) exhibiting the Products at appropriate trade shows and exhibitions, (d) conducting appropriate market research as it deems necessary or desirable; and (e) rendering other services customarily rendered by a distributor of veterinary medical products; provided, that by October 31 of each Contract Year, Heska shall provide i-STAT with a list of all proposed trade shows and exhibitions that it plans to attend in the next Contract Year. Heska may develop printed sales and promotional materials relating to the Products in the local language at its own expense. Heska shall provide such materials, if any, which have not been previously approved to i-STAT for i-STAT's review and approval, which approval shall not be unreasonably delayed or withheld. i-STAT shall review such materials within fifteen (15) Business Days, and i-STAT's failure to object to any materials within such fifteen (15) Business Days of sending shall be deemed approval. If i-STAT objects to the material, Heska shall modify such materials accordingly.

4.2 Catalogs, Bulletins. At Heska's written request, i-STAT shall provide Heska with reasonable quantities of brochures, instructional material, advertising literature and other relevant Technical Documentation regarding the Products, at no charge to Heska. Such documents shall be in the English language, and may be in other languages to the extent already available. Heska, at its own cost, may provide a translation of the

documents into the local language. Such translations shall be made available to i-STAT for review and comment before dissemination.

4.3 Follow-up Training. At Heska's reasonable written request, i-STAT shall provide follow-up training, as mutually agreed by the Parties, at Heska's facility. i-STAT 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 this **Section 4.3**, the Parties shall discuss how to equitably share the travel and related expenses.

4.4 Strategy Meetings. Periodically during the Term (but not less than once per Contract Year) while Heska is the exclusive distributor of Products in the Field in the Territory, Heska and i-STAT shall review topics which may include Heska's marketing and selling strategy, training of End Users, inventory, and other practices with a view toward maximizing End Users' use of and satisfaction with Products.

4.5 Quality Assurance Audit. Heska agrees that upon a minimum fifteen (15) days notice from i-STAT, representatives of i-STAT, during normal business hours, shall be permitted to visit all locations where Heska maintains inventory of Products to conduct a quality assurance audit of such facilities and/or an on-site surveillance of the inventory storage tracking. i-STAT shall have the right during reasonable business hours, to inspect the books and records of Heska relating to Product complaint documentation. In the event that an audit reveals items that i-STAT determines should be corrected by Heska, i-STAT shall provide, in writing, within thirty (30) days of such audit, a list of such items and any proposed corrective action to be taken by Heska. Heska shall respond within fifteen (15) days of receiving i-STAT's notification of the corrective action to be taken and an estimated completion date. If the parties disagree as to whether corrective action is necessary, the matter shall be resolved in accordance with the alternative dispute resolution procedures set forth in **Section 11.9**.

4.6 Sales Personnel. Heska, at its sole cost and expense, shall engage, compensate, supervise, train and maintain such competent, qualified personnel as may be reasonably required to, deliver, promote, market, sell, distribute, provide technical service and support for the Products, and End User complaint handling in the Territory.

4.7 Training For Heska and End Users. i-STAT shall provide Heska personnel such training, at i-STAT's expense, as Heska may request in writing and that i-STAT, at its sole discretion, deems reasonable. Notwithstanding the above, all expenses incurred by Heska's personnel in connection with such training, including without limitation, travel and other per diem expenses shall be borne by Heska. Heska, at its own cost, shall provide adequate Product training for its End User's on the use and storage of the Products. Heska, prior to shipment of Products to an End User, shall provide to each such End User Product storage and use instructions, and shall provide its End Users

with commercially reasonable training and support within two (2) months after delivery of the first shipment of Products to an End User. Heska shall use commercially reasonable efforts to ensure that all introductory training is made available to End Users within the first week after receipt of Analyzers and Cartridges. Heska shall, in its discretion, make appropriate use of training materials and Technical Documentation supplied by i-STAT.

4.8 Technical Support. Heska agrees to be responsible as the first point of contact for technical support with the End User. Heska will further provide technical support on the usage of Products by the End Users based upon information supplied by i-STAT, at no cost to i-STAT. The term "Technical Support" shall mean, without limitation, problem resolution, explanation of functionality and collection of incident reports. i-STAT will provide technical service support to Heska as i-STAT deems reasonably necessary, but not to any Dealers appointed by Heska.

4.9 Modified and New Products. Heska agrees to provide timely comprehensive information to its Dealers or End Users, as appropriate, 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). Heska agrees to use commercially reasonable efforts, which shall depend on the circumstance involved and whether the End User is utilizing Products, to ensure that each End User in the Territory makes any such performance specification changes and software upgrades in a timely manner.

4.10 Counterfeit Products. If Heska is offered the opportunity to purchase or otherwise becomes aware of any counterfeit products similar in look and/or function to Analyzer or Cartridge Products (as listed on **Exhibit 1.29**) manufactured by an entity other than i-STAT ("Counterfeit Products"), Heska shall promptly notify i-STAT thereof. Heska covenants and agrees not to purchase any Counterfeit Products, and the failure of Heska to comply with the foregoing covenant and agreement shall constitute grounds for immediate termination of this Agreement by written notice to such effect sent by i-STAT. Such termination of this Agreement shall be effective as of the date of receipt of any such notice by Heska. In addition, Heska acknowledges that its purchase of Counterfeit Products will cause i-STAT irreparable harm and that i-STAT shall have the right to equitable and injunctive relief, in addition to money damages, in the case of such action by Heska. i-STAT acknowledges and agrees that Counterfeit Products do not include, and Heska shall be permitted to sell and/or license in the Field, any products that Heska offers to Heska's End Users that would allow Heska's End Users to print test results from an Analyzer on standard sized paper and combine such results with test results from other diagnostic products Heska sells in the Field.

4.11 Inventory Levels. Heska shall maintain a commercially reasonable supply of Product to meet the demands of End Users, taking into account the order and shipping lead times set forth in this Agreement.

4.12 Warranty Services. Heska shall provide a technical liaison and assistance to End Users for warranty service of the Products, at no cost to i-STAT or the End Users. In addition, at the written request of i-STAT, Heska shall perform certain warranty repairs during the term of the warranty, which shall be billed to and paid by i-STAT at mutually agreed upon labor rates.

4.13 Books and Records. Heska shall maintain books and records in keeping with standard industry practice regarding the performance of its obligations hereunder including monthly Cartridge unit Sales to Dealers and End Users that Heska Sells to directly, aggregated monthly in each country or region, and shall retain such records during the Term and for three (3) years thereafter. Heska shall provide to i-STAT annually within thirty (30) days following the end of each Contract Year, a report that provides Cartridge unit Sales to Dealers and End Users that Heska Sells to directly, aggregated monthly in each country or region, and the calculation of the percentage of Cartridges Sold to customers by country or region, beginning with the first report of Contract Year 2005. Such books and records shall be in accordance with generally accepted accounting principles reflecting each Product's unit Sales and per country or region in the Territory. Upon thirty (30) days' prior written notice to Heska (but not more frequently than once in any Contract Year, unless there is a dispute, then as frequently as is necessary), Heska's books and records relating to the matters described herein shall be open for inspection. To conduct such inspection, i-STAT shall retain, at its own expense, an independent certified public accountant reasonably acceptable to Heska. Such examination shall occur at Heska's principal place of business during normal business hours for the sole purpose of verifying the accuracy of such calculations. Such independent accountant shall be required to execute a mutually acceptable confidentiality agreement and shall report to i-STAT only the amount of any discrepancy, if any, in the calculations. Such examination rights may be exercised by the Parties only with respect to records for the then-current Contract Year and the immediately prior Contract Year. i-STAT shall bear the cost of such audit, unless the audit reveals an underreporting of unit Sales of greater than one percent (1%) or a value of Ten Thousand US Dollars (US $10,000) (whichever is the greater), in which case Heska shall reimburse i-STAT for its reasonable expenses incurred in connection with such audit.

4.14 Corrupt Practices. Heska shall not use any compensation hereunder as payment to any government official or employee of any country in the Territory for the purpose of influencing such person's decisions or actions regarding the Products.

ARTICLE 5. INTELLECTUAL PROPERTY RIGHTS

5.1 i-STAT Markings. Heska shall not omit or alter patent numbers, trade names or trademarks, numbers or series or any other i-STAT markings affixed on the Products obtained from i-STAT or alter Product labeling. Heska shall, however, be entitled to mark the Products with its trademark or trade name in prominent place, subject to i-STAT's prior written consent, not to be unreasonably withheld. Heska is not authorized to use the trademark and trade name "i-STAT" or any other trademark or trade name of i-STAT in any manner except to indicate that i-STAT is the manufacturer of the Products and, consistent with the provisions of **Section 5.2** and during the Term of this Agreement and only in the Field in the Territory, that Heska is an independent distributor for i-STAT and is selling i-STAT's Products. Heska shall acquire no rights in the i-STAT trademark and trade name, or any other trademark owned by i-STAT.

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

5.3 License to Use Computer Software. All software, on whatever media and in whatever form, i-STAT shall deliver to Heska hereunder (the "Software") is and shall remain the property of i-STAT and its suppliers and licensors thereof and shall only be used in accordance with the terms of this Agreement and any End User License Agreements (each, a "EULA") distributed therewith. Software contains copyrighted and proprietary trade secrets of i-STAT (and its suppliers and licensors), and Heska shall keep the Software in confidence. Heska shall not copy, use or disassemble the Software unless agreed by i-STAT. Heska shall have the right to reproduce Software only for: (a) one backup/archival copy; and (b) installation on and use with equipment designated by i-STAT as suitable therefor and for use solely with the Products distributed by Heska.

Heska shall reproduce the copyright and other proprietary notices of i-STAT and Third Parties present in the Software delivered to Heska. Heska's license to use and distribute the Software shall terminate on the earlier of: (w) termination of this Agreement; (x) discontinuance of use of the designated equipment for the Software; (y) discontinuance of payment of periodic license and maintenance fees, if any; or (z) breach by Heska of any of the above given terms; provided, that End Users' license rights shall continue in accordance with each EULA. All copies of Software with respect to which the license hereunder is terminated shall be returned to i-STAT within thirty (30) days after such termination. Heska shall deliver to each End User a copy of i-STAT's EULA, which shall inform them that such Software is and shall remain the property of i-STAT and its suppliers and licensors. Copies of the translated materials shall be provided by Heska to i-STAT for inclusion in the technical file before any CE marked Product is distributed in Heska's territory in the Field.

ARTICLE 6. REGULATORY MATTERS

6.1 Regulatory Compliance. Heska shall advise i-STAT promptly of all government regulations outside of 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, Heska shall obtain from competent governmental authorities outside the United States 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 outside the United States specifically relating to Products shall be sought, where applicable and where possible, in the name of and shall, at the end of the Term, be the exclusive property of i-STAT. Heska shall not take any action which would, or fail to take any action where such failure would, directly or indirectly result in or constitute a violation by Heska of any applicable law, treaty, ruling or regulation in the Territory relating to the Products, including, without limitation, laws and regulations relating to the export, resale and distribution of the Products and laws and regulations requiring the reporting of adverse medical events to government authorities in the Territory. When needed for sales or regulatory compliance purposes, Heska shall provide at Heska's expense any additional translations of labels, labeling, and instructions consistent with the regulatory requirements of the competent authority in each country of the Territory and shall ensure that all users are provided with such translated materials.

6.2 Compliance with U.S. Regulations. Heska understands and acknowledges that i-STAT is subject to regulation by agencies of the U.S. Government, including but not limited to, the U.S. Department of Treasury which prohibit the sale, export or diversion of products and technology to certain countries ("Prohibited Countries"), which countries, as of the Effective Date, are Iran, Sudan and Cuba. Heska hereby warrants that it shall not Sell,

directly or indirectly, any Products to Dealers or End Users which it knows or reasonably should know will resell or export the Product to Third Parties in Prohibited Countries. Furthermore, any and all obligations of i-STAT to provide the Products, as well as any other technical information and assistance, is subject to United States laws and regulations which govern the license and delivery of technology and products abroad by persons subject to the jurisdiction of the United States, including without limitation the Export Administration Act of 1979, as amended, any successor legislation, and the Export Administration Regulations issued by the Department of Commerce, Bureau of Industry and Security. Heska agrees to cooperate with i-STAT in order to maintain compliance with the applicable export regulations.

6.3 Notice of Certain Events; Adverse Event Reporting. Each Party shall promptly notify the other after it becomes aware of any of the following events: alleged infringement of the Trademarks or patents applicable to a Product by any third party; alleged infringement of the trademark, patent or proprietary rights of others in connection with actions taken hereunder; liability claims relating to a Product and any other event that may reasonably be expected to have a material adverse effect upon the sale or distribution of a Product in the Territory.

6.4 Product Changes; Labeling. Heska may affix its label on catalogs and Products being distributed by Heska in the Field in the Territory during the Term; provided, i-STAT shall have been provided with a catalog and a photograph of each Product with Heska's label affixed in the same manner in which the Products will be distributed and shall have approved such label, such approval not to be unreasonably withheld and such approval not required for Products being sold with the Heska label affixed as of the Effective Date. If i-STAT shall reasonably object to the manner in which such label is affixed, Heska shall promptly cease any such use and change its use to comply with the i-STAT's requirements. Heska shall bear the cost of packaging and labeling changes requested by Heska and approved by i-STAT.

6.5 Traceability. i-STAT and Heska shall each maintain such traceability records with respect to the Product as shall be necessary to comply with applicable laws and local "Good Manufacturing Practices" regulations**.**

6.6 Reliability Reporting. Each Party shall promptly report in writing to the other any substantial failure of the Product, material change in the statistically demonstrated reliability of the Product or other material information relevant to the reliability of a Product of which such Party becomes aware.

6.7 Recall or Advisory Actions. If either Party proposes to recall a Product or issue an advisory letter regarding reliability of or defects in a Product, then such Party shall first notify the other in writing or by telecommunication in a timely manner prior to making such recall or issuing such advisory letter. Each Party shall endeavor to reach an

Agreement with the other regarding the manner, text and timing of any publicity to be given such matters in time to comply with any applicable regulatory requirements, but such Agreement shall not be a precondition to any action that a Party deems necessary to protect users of a Product or to comply with any applicable governmental orders. In the event i-STAT should request Heska to recall a Product, Heska shall take all appropriate actions to recall such Product. i-STAT shall bear the expenses of any recall requested by it or resulting from defective manufacture, or packaging by i-STAT. Heska shall bear the expenses of any recall resulting from improper storage, handling or delivery by Heska. In cases where the recall is unrelated to any fault of either Party, the expense of the recall shall be borne by the Parties equally. For the purposes of this Agreement, expenses of recall include, without limitation, the expense of notification and destruction or return of the recalled Product, but not the expense or service fees associated with salesmen's time which shall be borne by Heska.

6.8 Translation of Technical Documents. Consistent with **Section 4.2**, as required by local regulatory laws or regulations, Heska shall translate Technical Documents into the local language(s) of End Users and shall revise such translation in accordance with the changes to the Technical Documents that may be made from time to time by i-STAT. Such translation shall at a minimum meet all regulatory requirements of the Territory and be of a standard deemed appropriate for veterinary products and comparable with that provided for other products sold into the animal health care market in the Territory. Heska will provide any documents translated into the local language to i-STAT for review and shall revise such translation according to i-STAT's comments.

ARTICLE 7. REPRESENTATIONS AND WARRANTIES

7.1 Product Warranty to End Users. Heska shall pass through to End Users i-STAT's standard written limited warranty for all Products. Heska shall not alter or expand such warranty; provided, however, that nothing in this Agreement limits Heska's ability to provide its own warranty on any of the Products to its End Users (an "Extended Warranty") so long as Heska is responsible for satisfying any obligations under such Extended Warranty.

7.2 Warranty. i-STAT shall extend to Heska and to Heska's Dealers or End Users standard product warranties, as modified from time to time upon thirty (30) days prior written notice to Heska, the current version of which is attached as **Exhibit 7.2**; provided, however**,** that any modification to any such product warranties shall apply only to Products the Sales of which are made after the effective date of such product warranties.

7.3 Heska's Warranty. Heska represents and warrants that it has obtained or will obtain all required approvals of local governments in connection with this Agreement.

7.4 Disclaimer of Warranties. EXCEPT FOR THE LIMITED WARRANTIES PROVIDED IN **SECTIONS 7.1** AND **7.2**, i-STAT MAKES NO OTHER REPRESENTATIONS OR WARRANTIES OF ANY KIND, AND THE WARRANTIES OF i-STAT 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 **SECTIONS 7.1** AND **7.2**, i-STAT MAKES NO WARRANTY OF ANY KIND TO END USERS OF HESKA HEREUNDER.

ARTICLE 8. INDEMNIFICATION

8.1 Indemnification by Each Party. During the Term and for two (2) years thereafter, i-STAT and Heska 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 ("Claims"), to the extent that such arise out of or are in connection with a breach of any covenant, agreement, warranty or representation made by it herein; provided, however, that i-STAT shall not hold Heska and its respective Affiliates, stockholders, directors, officers, employees and agents harmless to the extent that such Claims arise out of or are in connection with a breach of any covenant, agreement, warranty or representation made by Heska regarding the Products (including but not limited to any Extended Warranty). In the event of any Third Party action, the indemnified Party shall have the right to participate in the defense, at its own expense, with counsel of its own choosing.

8.2 Indemnification by Heska. Heska shall indemnify i-STAT against all claims, losses, damages, liabilities and expenses, including reasonable attorneys' fees and disbursements, incurred by i-STAT arising with respect to the sale, distribution or use of a Product to the extent caused by any action or omission of Heska or its stockholders, directors, officers, employees or agents. Heska shall indemnify, defend and hold i-STAT harmless against all claims, liabilities, costs and expenses (including the reasonable fees of attorneys and other professionals) incurred by, or threatened against, i-STAT in connection with any representation or warranty by Heska (including any Extended Warranty of the Products provided by Heska) or Heska's personnel inconsistent with: (a) the foregoing limited warranty and disclaimer of i-STAT; or (b) publications of i-STAT concerning the Products.

8.3 Infringement Indemnification by i-STAT. i-STAT shall indemnify Heska against all claims, losses, damages, liabilities and expenses, including reasonable attorneys' fees and disbursements, incurred by Heska arising with respect to, out of or in connection with any claim that the Products or the Software infringe any copyright, patent, trade

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secret, trademark, or other proprietary right of any third party; provided that i-STAT is notified promptly in writing of the claim and Heska provides reasonable assistance in the settlement or defense of such claim; provided, that Product or Software are not altered by Heska except as specifically directed by i-STAT. If a Product or Software is held to constitute an infringement and its use as contemplated by this Agreement is enjoined or threatened to be enjoined, i-STAT shall at its option and expense: (a) procure for Heska the right to continue to Sell and distribute the Products or the Software; (b) replace or modify the Products or the Software with a version that is non-infringing; or (c) discontinue manufacture and/or sales of the Product in affected countries. In the event that i-STAT discontinues the manufacture and/or sale of a Product pursuant to this **Section 8.3** in any affected country, such discontinuance shall not be considered a breach of this Agreement, and the Parties shall negotiate in good faith an adjustment, if any, to the Base Cartridge Targets set forth in **Sections 2.4** and **2.5**. If the Parties are unable to agree on an adjustment, if any, to the Base Cartridge Targets as a result of good faith negotiations under the preceding sentence, they will follow the procedures set forth in **Section 11.9** to establish an adjustment, if any.

8.4 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.

ARTICLE 9. CONFIDENTIALITY

9.1 Confidentiality. Neither Party shall use for any purpose, other than as contemplated by this Agreement, or divulge to any Third Party, any Confidential Information provided to such Party by the other Party, except as may be required by law or judicial order.

9.2 Public Announcements. Neither Party shall make any public announcement concerning this Agreement, nor make any public statement which includes the name of the other Party or any of its Affiliates, or otherwise use the name of the other Party or any of its Affiliates in any public statement or document, except as may be required by law, including the requirements of the SEC, or judicial order, without the written consent of the other Party, which written consent shall not be withheld unreasonably.

ARTICLE 10. TERM AND TERMINATION

10.1 Effective Date and Term. The initial term of this Agreement shall commence as of the Effective Date and expire as of December 31, 2009 (the "Initial Term"), unless sooner terminated as expressly provided in this **Article 10** or **Section 2.6**. THIS AGREEMENT WILL RENEW AUTOMATICALLY FOR ADDITIONAL ONE (1) YEAR TERMS (EACH, AN "EXTENSION TERM"), UNLESS SOONER TERMINATED AS EXPRESSLY PROVIDED IN THIS **ARTICLE 10** OR **SECTION 2.6**. The Initial Term and all Extension Terms are sometimes referred to herein as the "Term."

10.2 Termination For Cause By Either Party. In addition to the rights of the Parties to terminate this Agreement as provided hereinabove, either Party may terminate this Agreement for cause upon written notice to the other Party in the event the other Party: (a) appoints a receiver, executes an assignment for the benefit of creditors or files or otherwise becomes subject to bankruptcy or insolvency proceedings; or (b) materially breaches this Agreement and fails to cure such breach within sixty (60) days after receipt of written notice of breach from the non-breaching Party, as such cure period may be extended for such additional period as the non-breaching Party reasonably determines that the breaching Party is diligently pursuing a cure of such breach.

10.3 By i-STAT for a Change of Control under Certain Circumstances. If Heska undergoes a Change of Control, Heska or the controlling entity following the Change of Control shall notify i-STAT within thirty (30) days of such Change of Control. Such notice shall inform i-STAT of the identify of the entity involved in the Change of Control with Heska, and of the parent corporation, if any, of the entity involved in the Change of Control with Heska. i-STAT shall have the right to terminate this Agreement within six (6) months of such notice if Heska has a Change of Control to an entity that, in i-STAT's sole opinion, competes with i-STAT or its Affiliates or, in i-STAT's reasonable business judgment, would harm i-STAT's position in, the human blood and/or veterinary diagnostics market; provided, that if Heska believes that i-STAT's determination is unreasonable, the Parties shall follow the procedure set forth in Section 11.9 to make the determination.

10.4 Effect of Termination. Upon the termination of this Agreement:

(a) The Parties shall immediately cease the use of any Confidential Information of the other Party and, in the case of Heska, of the Marks, except as permitted in this **Section 10.4**.

(b) Unless this Agreement is terminated by i-STAT for Heska's breach or bankruptcy, and subject to i-STAT's rights as provided in this **Section 10.4**, (i) i-STAT shall honor all accepted purchase orders providing for delivery of Product within thirty (30) days of the date of termination and for which Heska pays in full prior to shipment, and (ii) Heska may Sell Products 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 ninety (90) days following the date of termination.

(c) i-STAT shall have the right (but not the obligation), upon prior written notice to Heska given within ten (10) days after termination to purchase from Heska all or any portion of the Products 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 Heska for such Product shall be equal to the Purchase Price of the Product, less any discounts or credits previously received.

(d) Heska shall return to i-STAT all promotional and sales training materials provided to Heska by i-STAT under this Agreement.

(e) To the extent permitted by law, Heska shall assign to i-STAT and deliver to i-STAT any import permits, health resignations, licenses, exemptions from customs duties and governmental consents of any nature specifically relating to i-STAT Products, which Heska 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.

(f) Heska shall not, in the final six months of any notification of termination (or such actual time after notice and before actual termination, if shorter), undertake any actions intended or designed to cause End Users or Dealers to purchase higher than normal levels of inventory of Products.

10.5 Continuing Obligations. Upon any termination of this Agreement (except termination for cause by Heska due to i-STAT's breach), at i-STAT's election and in accordance with i-STAT's instructions, Heska shall: (a) cooperate in referring End Users to i-STAT or to such other persons as i-STAT may direct for continuing purchase of Products and related services; (b) transfer to i-STAT or its nominees all outstanding maintenance contracts for the Products; and (c) provide i-STAT with a list of each End User who purchased Product through Heska, including records of all Software updates performed.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Following termination of this Agreement for any reason, Heska shall have no further obligations to End Users with respect to Software updates and maintenance or technical support. Nothing in this Agreement shall be construed as preventing Heska from soliciting End Users for other products following the termination of this Agreement.

10.6 Survival. The following Articles and Sections shall survive termination of the Agreement: **Articles 1, 7, 8, 9, 10** and **11** and **Sections 3.6, 3.8, 3.9, 3.11**, **4.12** and **4.13**. In addition, all provisions that survive termination, that are irrevocable or that arise due to termination shall survive in accordance with their terms. Any other provisions of this Agreement contemplated by their terms to pertain to a period of time following termination of this Agreement shall survive for the specified period of time only.

ARTICLE 11. MISCELLANEOUS

11.1 Notices. All written notices and other communications between the Parties shall be in the English language and shall be deemed effective on the date 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 i-STAT:

i-STAT Corporation
104 Windsor Center Drive
East Windsor, New Jersey 08520
Attn: Vice-President, Sales and Marketing
Telephone Number: (609) 443-9300
Facsimile Number: [***]

With copy to: Divisional Vice President, Medical Products Group
Domestic Legal Operations
D-322, Building AP6D
100 Abbott Park Road
Abbott Park, Illinois 60064-6049
Facsimile Number: [***]

If to Heska:

Heska Corporation
1613 Prospect Parkway
Fort Collins, Colorado 80525
Attn: Chief Financial Officer

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions

Telephone Number: (970) 493-7272
Facsimile Number: [***]

With copy to:

Osborn Maledon, P.A.
Attn: William M. Hardin, Esq.
2929 North Central Ave.
Suite 2100
Phoenix, AZ 85012
Telephone Number: 602-640-9322
Facsimile Number: [***]

11.2 Annual Cartridge Purchases Calculation. Following each Contract Year, the number of Cartridge Purchases for such Contract Year shall be determined as set forth in **Subsections 11.2.1** and **11.2.2** and the Parties shall execute and attach to this Agreement the "Annual Cartridge Purchase Calculation" form set forth on Exhibit 11.2 completed for such Contract Year.

11.2.1 i-STAT Provides i-STAT Calculation. Within forty (40) days after the end of each Contract Year, i-STAT shall provide Heska in writing with i-STAT's calculation of Heska's Cartridge Purchases in such Contract Year (the "i-STAT Calculation"). If Heska disagrees with the i-STAT Calculation, Heska shall have thirty (30) days after receipt of the i-STAT Calculation to respond in writing, with (a) Heska's estimate; (b) the difference between Heska's estimate and the i-STAT Calculation; and (c) purchase order level detail so that i-STAT may verify the i-STAT Calculation. If i-STAT disagrees with Heska's calculation and Heska requests, in writing, purchase order level detail for the i-STAT Calculation, i-STAT shall provide such information. If the exchange of such information does not resolve the dispute, the Parties shall negotiate in good faith to determine the actual Cartridge Purchases in such Contract Year and, if such dispute is not resolved within thirty (30) days, the dispute shall be resolved pursuant to **Section 11.9**.

11.2.2 i-STAT Does Not Provide i-STAT Calculation. If i-STAT fails to provide Heska with the i-STAT Calculation within forty (40) days after the end of a given Contract Year, Heska shall provide i-STAT, in writing, with Heska's calculation of Heska's Cartridge Purchases in such Contract Year (the "Heska Calculation") within seventy (70) days after the end of such Contract Year. If i-STAT disagrees with the Heska Calculation, i-STAT shall have thirty (30) days after receipt of the Heska Calculation to respond, in writing, with (i) i-STAT's estimate, (ii) the

difference between i-STAT's estimate and the Heska Calculation, and (iii) purchase order level detail so that Heska may verify the Heska Calculation. If Heska disagrees with i-STAT's calculation and i-STAT requests, in writing, purchase order level detail for the Heska Calculation, Heska shall provide such information. If the exchange of such information does not resolve the dispute, the Parties shall negotiate in good faith to determine the actual Cartridge Purchases in such Contract Year and, if such dispute is not resolved within thirty (30) days, the dispute shall be resolved pursuant to **Section 11.9**.

11.3 [***].

11.3.1 [***].

11.3.2 [***].

11.4 Binding Effect/Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their successors and assigns. Neither Party shall have the right to assign any of its rights or obligations under this Agreement without the prior written consent of the other Party; provided, however, that without such written consent, i-STAT shall have the right to assign its rights hereunder to an Affiliate of i-STAT and Heska shall have the right to assign this Agreement to any corporation controlled by Heska which has, as one of its principal lines of business, the sale of diagnostic equipment for the veterinary market. In the event that a Change of Control of Heska does not involve a competitor of i-STAT (pursuant to **Section 10.3** of this Agreement) Heska shall have the right to assign this Agreement without i-STAT's consent in connection with a Change of Control; provided, that i-STAT has not terminated this Agreement in the time frame provided in, and pursuant to the terms and conditions set forth in, **Section 10.3**.

11.5 Waivers. Any waiver by either of the Parties hereto of any rights arising from a breach of any covenants or conditions of this Agreement shall not be construed as a continuing waiver of other breaches of the same nature or other covenants or conditions of this Agreement. Any 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.

11.6 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 Heska and i-STAT shall be that of buyer and seller. 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.

11.7 Force Majeure. Neither Party shall be liable to the other Party or in default hereunder by reason of any delay or omission caused by fire, flood, strike, lockout, civil or military authority, insurrection, war, embargo, container or transportation shortage or delay of suppliers due to such causes, and delivery dates shall be extended to the extent of any delays resulting from the foregoing or similar causes. In the event of a Product shortage, i-STAT shall have the right to allocate its available Product among Heska and all other customers of i-STAT in such a manner as i-STAT, in its sole discretion, considers equitable, and the Parties shall negotiate in good faith an adjustment to the Base Cartridge Targets set forth in **Section 2.7**.

11.8 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. The United Nations Convention on Contracts for the International Sale of Goods (1980), as amended, is specifically excluded from application to this Agreement.

11.9 Alternative Dispute Resolution. Any and all disputes, controversies or claims arising out of or relating to this Agreement, or the breach, termination, or invalidity thereof, including but not limited to the resolution of potential issues described in various provisions of this Agreement that expressly refer to this **Section 11.9** (including but not limited to **Sections 2.9, 4.5, 8.3 and 10.3**) shall be finally settled pursuant to the dispute resolution procedures set forth on Exhibit 11.9.

11.10 Severability. If any provision of this Agreement for any reason shall be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other term or provision hereof, and this Agreement shall be interpreted and construed as if such term or provision, to the extent the same shall have been held to be invalid, illegal or unenforceable, had never been contained herein.

11.11 Entire Agreement. This Agreement, including the exhibits, constitutes the entire understanding of the Parties with respect to the subject matter hereof, and supersedes all prior or contemporaneous writings or discussions, including but not limited to the Prior Agreement. Except as otherwise expressly provided, no agreement varying or extending the terms of this Agreement shall be binding on either Party unless in a writing signed by an authorized representative of each Party.

11.12 Headings. The headings of the paragraphs and subparagraphs of this Agreement have been added for the convenience of the parties and shall not be deemed a part hereof.

11.13 Counterparts. This Agreement may be executed in any number of counterparts, all of which together shall constitute a single Agreement. In proving this Agreement, it shall be necessary to produce or account for more than one counterpart signed by the Party with respect to whom proof is sought.

(Remainder of page intentionally left blank)

IN WITNESS WHEREOF, each Party has caused this Distribution Agreement to be executed on its behalf by its duly authorized officer as of the Effective Date.

i-STAT Corporation		Heska Corporation	
By:	/s/ John Mooradian JOHN MOORADIAN	By:	/s/ Jason Napolitano JASON NAPOLITANO
Its:	President	Its:	Chief Financial Officer
Date:	October 29, 2004	Date:	October 28, 2004

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

LIST OF EXHIBITS

Exhibit Number	Exhibit Name
1.16	[***]
1.29	Products and Purchase Prices
3.8	Bank Wire Transfer Information

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

EXHIBIT 1.16

[***]

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Exhibit 1.29

PRODUCTS AND PURCHASE PRICES

Analyzer and Associated Parts Price List

Analyzer Product No.	**Description**	**Price**
—	—	
210002	Series 200 analyzer	[***]
111700	HP Portable Printer	[***]
111501	Portable printer Paper	[***]
111502	HP Portable Printer AC Adapter	[***]
112102	Printer Cradle w/o IR Link	[***]
111003	9 Volt lithium batteries (6/box)	[***]
131000	Aqueous Controls Level 1	[***]
131500	Aqueous Controls Level 2	[***]
132000	Aqueous Controls Level 3	[***]
135681	Calibration Verification Set	[***]
136400	Level 1 ACT Control (Kit)	[***]
136500	Level 2 ACT Control (Kit)	[***]
111400	Capillary tubes 65 µL	[***]
112202	IR Link with cradle	[***]
112212	Analyzer programming kit	[***]
011996-01	i-STAT Binders	[***]
620001	i-STAT System Manual - UK English	[***]
620002	i-STAT System Manual - German	[***]
620003	i-STAT System Manual - French	[***]
620004	i-STAT System Manual - Spanish	[***]
620005	i-STAT System Manual - Italian	[***]
620006	i-STAT System Manual -Dutch	[***]
620007	i-STAT System Manual - Swedish	[***]
NOT Available	i-STAT System Manual - Portuguese	[***]
130100	Electronic Simulator	[***]
SRP200	Analyzer repair cost-non warranty	[***]
SRP230	Portable printer repair cost	[***]

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Exhibit 1.29

PRODUCTS AND PURCHASE PRICES

Cartridge Price List

Cartridge Product No.	**Description**	**Qty/Box**	**United States Price/Test**	**United States Price/Box**	**Rest of World Price/Test**	**Rest of World Price/Box**
220300	EG7+	25	[***]	[***]	[***]	[***]
220200	EG6+	25	[***]	[***]	[***]	[***]
220100	G3+	25	[***]	[***]	[***]	[***]
125000-02	EC8+	25	[***]	[***]	[***]	[***]
121000-02	6+	25	[***]	[***]	[***]	[***]
123000-02	EC6+	25	[***]	[***]	[***]	[***]
121500-02	EC4+	25	[***]	[***]	[***]	[***]
120100-02	G	25	[***]	[***]	[***]	[***]
320100	creatinine	25	[***]	[***]	[***]	[***]
220400	CG8+	25	[***]	[***]	[***]	[***]
420300	ACT	25	[***]	[***]	[***]	[***]
220550	CG4+	25	[***]	[***]	[***]	[***]
120500-02	E3+	25	[***]	[***]	[***]	[***]

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Exhibit 1.29

PRODUCTS AND PURCHASE PRICES

Service Repair Parts

i-STAT Part Number	**Description**	**Price**
010762-01	10 pin connector Digital Bd	[***]
010559-01	20 pin Connector - Nyebar	[***]
011882-01	200 Cover Screw	[***]
012378-01	200 Display (Double)	[***]
011678-01 02	200 Display (Single)	[***]
011832-01	200 External Back Housing	[***]
012086-01	200 Housing Feet	[***]
012203-01 01	200 Hybrid Flex Cable	[***]
010534-01	200 Thermal Probe	[***]
012156-01	5 Minute Epoxy	[***]
010760-01	9 pin connector Digital Bd.	[***]
010941-02 01	Abbott Boxes	[***]
012369-01	Assy, Battery Cable	[***]
012369-01 01	Battery Flex Assembly	[***]
010501-01 01	Bowed Clip	[***]
010941-01	Boxes (i-STAT)	[***]
010087-02	BT101- Lithium Battery (Double)	[***]
012333-01 01	BT1-Lithium Battery (Single)	[***]
012328-01 01	C119 / C124	[***]
010032-05	Capcitor-C186	[***]
012217-01 01	Cartridge Door	[***]
015506-01	Clip Retainer	[***]
012055-01	Cover, Battery compartment	[***]
011856-02	Damper (Double Length)	[***]
011856-05	Damper (Double Width)	[***]
011856-04	Damper (Quad Length)	[***]

011856-03	Damper (Triple Length)	[***]
012378-01	Display- (Double bd.)	[***]
011678-02	Display- (Single bd.)	[***]
012605-01 01	Display block, Hantronix	[***]
010091-01	Display Window	[***]
010618-01	FLASH U56(U109)	[***]
010500-01 01	Flat Clip	[***]
015384-01 02	Follower Arm Assembly	[***]
015473-01 03	Fork	[***]
012341-01 02	Front Housing (AID Keypad)	[***]
010491-01 02	Guide Pin	[***]
012368-01	Harness flex cable (200 single board)	[***]
010731-01	Hybrid	[***]
012203-01	Hybrid Flex cable	[***]

i-STAT Part Number	Description	Price
012023-01	Keypad PCB Rivet	[***]
012278-01	Keypad PCB Screw	[***]
012340-01 05	Keypad PCB-Double bd.	[***]
012891-01 01	Latch	[***]
012373-01 01	Latch Retainer	[***]
010087-02	Lithium battery-200 analyzer	[***]
010493-01	Pivot Pin	[***]
010627-01	R120	[***]
010070-26	Ram U57 (U106)	[***]
010070-27	RTC (DP8570A)	[***]
010572-01 03	Spiral, Spring Latch	[***]
010763-01	Start Cycle Switch double board	[***]
010764-01	Start Cycle Switch single board	[***]
010534-01	Thermal probes	[***]
010311-01	Threadlocker 222	[***]
010070-05	U105 / U112	[***]
010070-27	U107 - RTC (DP8570A)	[***]
012324-11 01	U53 - RTC	[***]
012324-01 01	U89 - FPGA	[***]

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

EXHIBIT 3.8

Bank Wire Transfer Information

<u>Domestic wires:</u>

Wachovia Bank
Charlotte, NC

ABA# 053000219

Account Name: Abbott - i-STAT USD
Account Number: [***]
Reference: Your Company Name & Invoice #

-

<u>International wires:</u>

Wachovia Bank
Charlotte, NC

SWIFT: PNBPUS33

Account Name: Abbott - i-STAT USD
Account Number: [***]
Reference: Your Company Name & Invoice #

EXHIBIT 7.1

CUSTOMER WARRANTIES

Warranty

i-STAT warrants this medical product (excluding disposable or consumable supplies) against defects in materials and workmanship for one year from the date of shipment. If i-STAT receives notice of such defects during the warranty period, i-STAT shall, at its option, either repair or replace products which prove to be defective. With respect to software or firmware, if i-STAT receives notice of defects in these products during the warranty period, i-STAT shall repair or replace software media and firmware which does not execute their programming instructions due to such defects. i-STAT does not warrant that the operating of the software, firmware or hardware shall be uninterrupted or error free. If i-STAT is unable, within a reasonable time, to repair or replace any product to a condition as warranted, Buyer shall be entitled to a refund of the purchase price upon return of the product to i-STAT.

Note: Warranty rights may vary from state to state, province to province and country to country.

Limitations of Warranty

The foregoing warranty shall not apply to defects resulting from:

1. Improper or inadequate maintenance by Buyer or an unauthorized person,
2. Using accessories and/or consumables that are not approved by i-STAT,
3. Buyer-supplied software or interfacing,
4. Unauthorized repairs, modifications, misuse, or damage caused by disposable batteries, or rechargeable batteries not supplied by Abbott.
5. Operating outside of the environmental specifications of the product, or
6. Improper site preparation or maintenance.

THE WARRANTY SET FORTH ABOVE IS EXCLUSIVE AND NO OTHER WARRANTY, WHETHER WRITTEN OR ORAL, IS EXPRESSED OR IMPLIED. ABBOTT SPECIFICALLY DISCLAIMS THE IMPLIED WARRANTIES OR MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

EXHIBIT 11.2

ANNUAL CARTRIDGE PURCHASE CALCULATION

Contract Year:	______________		
i-STAT Calculation:	______________	date provided to Heska:	______________
Approved by Heska:	Yes / No*	date approved/rejected by Heska:	______________
*if No: Heska Estimate:	______________	date provided to i-STAT:	______________
Approved by i-STAT:	Yes / No**	date approved/rejected by i-STAT:	______________
**if No: Agreed Calculation:	______________	date agreed:	______________

Official Determination of Cartridge Purchases

for Contract Year _____________ is: ________________.

i-STAT Corporation Heska Corporation

By:	______________________	By:	______________________
Its:	______________________	Its:	______________________
Date:	______________________	Date:	______________________

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EXHIBIT 11.3A

[***]

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EXHIBIT 11.3B

[***]

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EXHIBIT 11.3C

[***]

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

EXHIBIT 11.3D

[***]

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EXHIBIT 11.3E

[***]

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EXHIBIT 11.3F

[***]

EXHIBIT 11.9

ALTERNATIVE DISPUTE RESOLUTION

The parties recognize that from time to time a dispute may arise relating to either party's rights or obligations under this Agreement. The parties agree that any such dispute shall be resolved by the Alternative Dispute Resolution ("ADR") provisions set forth in this Exhibit, the result of which shall be binding upon the parties.

To begin the ADR process, a party first must send written notice to the other party in accordance with the terms of the Agreement describing the dispute and requesting attempted resolution by good faith negotiations between their respective president or principal executive officer(s) (or their designees) of the affected subsidiaries, divisions, or business units within twenty-eight (28) days after such notice is received (all references to "days" in this ADR provision are to calendar days). If the matter has not been resolved within twenty-eight (28) days of the notice of dispute, or if the parties fail to meet within such twenty-eight (28) days, either party may initiate an ADR proceeding as provided herein. The parties shall have the right to be represented by counsel in such a proceeding.

1. To begin an ADR proceeding, a party shall provide written notice to the other party in accordance with the terms of the Agreement of the issues to be resolved by ADR. Within fourteen (14) days after its receipt of such notice, the other party may, by written notice to the party initiating the ADR, add additional issues to be resolved within the same ADR.

2. Within twenty-one (21) days following receipt of the original ADR notice, the parties shall select a mutually acceptable neutral to preside in the resolution of any disputes in this ADR proceeding. If the parties are unable to agree on a mutually acceptable neutral within such period, either party may request the President of the CPR Institute for Dispute Resolution ("CPR"), 366 Madison Avenue, 14th Floor, New York, New York 10017, to select a neutral pursuant to the following procedures:

(a) The CPR shall submit to the parties a list of not less than five (5) candidates within fourteen (14) days after receipt of the request, along with a *Curriculum Vitae* for each candidate. No candidate shall be an employee, director, shareholder or Affiliate of either party or any of their subsidiaries or affiliates.

(b) Such list shall include a statement of disclosure by each candidate of any circumstances likely to affect his or her impartiality.

(c) Each party shall number the candidates in order of preference (with the number one (1) signifying the greatest preference) and shall deliver the list to the CPR within seven (7) days following receipt of the list of candidates. If a party believes a conflict of interest exists regarding any of the candidates, that party shall provide a written explanation of the conflict to the CPR along with its list showing its order of preference for the candidates. Any party failing to return a list of preferences on time shall be deemed to have no order of preference.

(d) If the parties collectively have identified fewer than three (3) candidates deemed to have conflicts, the CPR immediately shall designate as the neutral the candidate for whom the parties collectively have indicated the greatest preference. If a tie should result between two candidates, the CPR may designate either candidate. If the parties collectively have identified three (3) or more candidates deemed to have conflicts, the CPR shall review the explanations regarding conflicts and, in its sole discretion, may either (i) immediately designate as the neutral the candidate for whom the parties collectively have indicated the greatest preference, or (ii) issue a new list of not less than five (5) candidates, in which case the procedures set forth in subparagraphs 2(a) - 2(d) shall be repeated.

3. No earlier than twenty-eight (28) days or later than fifty-six (56) days after selection, the neutral shall hold a hearing to resolve each of the issues identified by the parties. The ADR proceeding shall take place at a location agreed upon by the parties. If the parties cannot agree, the neutral shall designate a location other than the principal place of business of either party or any of their subsidiaries or Affiliates.

4. At least seven (7) days prior to the hearing, each party shall submit the following to the other party and the neutral:

(a) a copy of all exhibits on which such party intends to rely in any oral or written presentation to the neutral;

(b) a list of any witnesses such party intends to call at the hearing, and a short summary of the anticipated testimony of each witness;

(c) a proposed ruling on each issue to be resolved, together with a request for a specific damage award or other remedy for each issue. The proposed rulings and remedies shall not contain any recitation of the facts or any legal arguments and shall not exceed one (1) page per issue. The parties agree that neither side shall seek as part of its remedy any punitive damages.

(d) a brief in support of such party's proposed rulings and remedies, provided that the brief shall not exceed twenty (20) pages. This page limitation shall apply regardless of the number of issues raised in the ADR proceeding.

Except as expressly set forth in subparagraphs 4(a) - 4(d), no discovery shall be required or permitted by any means, including depositions, interrogatories, requests for admissions, or production of documents.

5. The hearing shall be conducted on two (2) consecutive days and shall be governed by the following rules:

(a) Each party shall be entitled to five (5) hours of hearing time to present its case. The neutral shall determine whether each party has had the five (5) hours to which it is entitled.

(b) Each party shall be entitled, but not required, to make an opening statement, to present regular and rebuttal testimony, documents or other evidence, to cross-examine witnesses, and to make a closing argument. Cross-examination of witnesses shall occur immediately after their direct testimony, and cross-examination time shall be charged against the party conducting the cross-examination.

(c) The party initiating the ADR shall begin the hearing and, if it chooses to make an opening statement, shall address not only issues it raised but also any issues raised by the responding party. The responding party, if it chooses to make an opening statement, also shall address all issues raised in the ADR. Thereafter, the presentation of regular and rebuttal testimony and documents, other evidence, and closing arguments shall proceed in the same sequence.

(d) Except when testifying, witnesses shall be excluded from the hearing until closing arguments.

(e) Settlement negotiations, including any statements made therein, shall not be admissible under any circumstances. Affidavits prepared for purposes of the ADR hearing also shall not be admissible. As to all other matters, the neutral shall have sole discretion regarding the admissibility of any evidence.

6. Within seven (7) days following completion of the hearing, each party may submit to the other party and the neutral a post-hearing brief in support of its proposed rulings and remedies, provided that such brief shall not contain or discuss any new evidence and shall not exceed ten (10) pages. This page limitation shall apply regardless of the number of issues raised in the ADR proceeding.

7. The neutral shall rule on each disputed issue within fourteen (14) days following completion of the hearing. Such ruling shall adopt in its entirety the proposed ruling and remedy of one of the parties on each disputed issue but may adopt one party's proposed rulings and remedies on some issues and the other party's proposed rulings and remedies on other issues. The neutral shall not issue any written opinion or otherwise explain the basis of the ruling.

8. The neutral shall be paid a reasonable fee plus expenses. These fees and expenses, along with the reasonable legal fees and expenses of the prevailing party (including all expert witness fees and expenses), the fees and expenses of a court reporter, and any expenses for a hearing room, shall be paid as follows:

(a) If the neutral rules in favor of one party on all disputed issues in the ADR, the losing party shall pay 100% of such fees and expenses.

(b) If the neutral rules in favor of one party on some issues and the other party on other issues, the neutral shall issue with the rulings a written determination as to how such fees and expenses shall be allocated between the parties. The neutral shall allocate fees and expenses in a way that bears a reasonable relationship to the outcome of the ADR, with the party prevailing on more issues, or on issues of greater value or gravity, recovering a relatively larger share of its legal fees and expenses.

9. The rulings of the neutral and the allocation of fees and expenses shall be binding, non-reviewable, and non-appealable, and may be entered as a final judgment in any court having jurisdiction.

10. Except as provided in paragraph 9 or as required by law, the existence of the dispute, any settlement negotiations, the ADR hearing, any submissions (including exhibits, testimony, proposed rulings, and briefs), and the rulings shall be deemed Confidential Information. The neutral shall have the authority to impose sanctions for unauthorized disclosure of Confidential Information.

11. All ADR hearings shall be conducted in the English language.

Exhibit 10.26

[***] — Certain information in this exhibit have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

SECOND AMENDMENT
TO
AMENDED AND RESTATED
BOVINE VACCINE DISTRIBUTION AGREEMENT

This Second Amendment ("Second Amendment") is entered into as of the 10th day of December, 2004 ("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 LABORATORIES, LTD.**, a Delaware corporation, with offices at 20927 State Route K, St. Joseph, Missouri 64505 ("Distributor") as an amendment to that certain Amended and Restated Bovine Vaccine Distribution Agreement dated as of September 30, 2002 between Diamond and Distributor (the "Original Agreement"), as amended by that certain First Amendment dated as of September 20, 2004 (the "First Amendment") (together, the "Agreement").

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

WHEREAS, Distributor made the 2004 Prepayment of [***] pursuant to Section 3.04(ii) of the Agreement in April 2004 and subsequently, pursuant to the First Amendment, Distributor made an additional [***] prepayment to Diamond toward the purchase of Products and/or Initial Products for Contract Year 2005 (collectively, the "[***] Prepayment"); and

WHEREAS, Distributor and Diamond are parties to a Research, Development and License Agreement dated as of September 20, 2004 (the "[***] R & D Agreement"), providing for the development [***] (the "[***] Products"); and

WHEREAS, Distributor and Diamond are parties to a Research, Development and License Agreement dated as of the date hereof (the "[***] R&D Agreement"), providing for the development [***] (the "[***] Product"); and

WHEREAS, Distributor and Diamond desire to amend the Agreement on the terms and conditions of this Second Amendment.

NOW, THEREFORE, the parties agree as follows:

1. Definitions. Capitalized terms used herein shall have the meanings ascribed to them in the Agreement, unless otherwise defined herein.

2. Amendment Fee.

(i) The [***] Prepayment shall be retained by Diamond as a non-refundable fee paid by Distributor to Diamond for this Second Amendment (the "Amendment Fee"). No portion of the [***] Prepayment shall be credited toward Distributor's obligations to purchase

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and pay for Products. Each of (i) the last two (2) sentences of Section 3.04(ii) of the Original Agreement and (ii) Section 2 of the First Amendment is hereby deleted in its entirety and shall have no further force or effect.

(ii) If at any time prior to the end of Contract Year 2009, Diamond's manufacturing facility is shut down and Diamond is unable to supply Products to Distributor as a result of a regulatory order or force majeure event (as defined in Section 8 of the Agreement) (a "Shut Down Event"), for a period of greater than four (4) consecutive calendar months (the last day of such four (4) month period, the "Trigger Date"), Diamond shall reimburse to Distributor a portion of the Amendment Fee as follows: [***] for every month prior to January 2010 in which a Shut Down Event continues, including [***] for each of the four (4) months beginning on the commencement of the Shut Down Event and ending upon the Trigger Date (the "Shut Down Payment"). Any such Shut Down Payment shall be made in monthly installments of [***], beginning on the Trigger Date, and continuing on the first day of each calendar month thereafter until the Shut Down Payment is paid in full.

3. Amendment of Loan. Pursuant to Section 3.06 of the Agreement, Diamond delivered to Distributor the New Note to evidence the Loan. Upon execution and delivery of this Second Amendment, the parties shall cancel the New Note and execute and deliver a substitute Note in the form attached hereto as Exhibit A.

4. Exclusivity.

(i) The first sentence of Section 1.02 of the Agreement is hereby deleted in its entirety and replaced with the following sentences:

> Distributor's distribution rights under the Agreement shall be exclusive worldwide for all products identified on Exhibit A attached to the Agreement and Additional Products added pursuant to Section 2 through Contract Year 2009, except as set forth in this paragraph, and unless earlier terminated in accordance with the provisions of the Agreement. Distributor's distribution rights under the Agreement shall be nonexclusive during the remaining term of the Agreement following Contract Year 2009, unless Distributor is granted additional exclusivity rights in accordance with Section 11 of the Second Amendment.

Except for the first sentence of Section 1.02 of the Agreement, the remaining provisions of Section 1.02 of the Agreement shall remain in full force and effect.

(ii) Section 3 of the First Amendment is hereby deleted in its entirety and shall have no further force or effect.

5. Territory. Section 1.03 of the Agreement is hereby deleted in its entirety and replaced with the following paragraph:

Subject to the terms and conditions of this Agreement, Distributor is authorized to sell, have sold and otherwise distribute Products and Additional Products

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added pursuant to Section 2 (hereafter collectively referred to as ("All Products") in the following territories: (i) worldwide through June 30, 2005, limited only as provided in Section 1.02, and (ii) only in the United States, Africa, China, Mexico and Taiwan through December 15, 2009, limited only as provided in Section 1.02; provided, that notwithstanding any provision of this Agreement to the contrary, Distributor shall have no distribution rights in Canada after December 15, 2009.

6. Minimums.

(i) The table set forth in Section 1.04(ii)(A)(1) of the Agreement is hereby deleted in its entirety and replaced with the following table:

Contract Year Ending December 15,	Minimum Qualified Revenue
2004	[***]
2005	[***]
2006	[***]
2007	[***]
2008	[***]

(ii) The table set forth in Section 1.04(ii)(A)(2) of the Agreement is hereby deleted in its entirety and replaced with the table set forth in Section 6(i) of this Second Amendment.

(iii) The table set forth in Section 1.04(ii)(B) of the Agreement is hereby deleted in its entirety and replaced with the following table:

Contract Year Ending December 15,	Minimum Initial Product Revenue
2004	[***]
2005	[***]
2006	[***]
2007	[***]
2008	[***]

(iv) In Contract Year 2006 and subsequent Contract Years, if a License has not issued for [***] Products on or before June 30 in any such Contract Year, the Minimum Qualified Revenue and Minimum Initial Product Revenue set forth in each table in paragraphs (i) through (iii) above shall be reduced by [***] for such Contract Year, in addition to any adjustment required under Section 6(v) below.

(v) In Contract Year 2006 and subsequent Contract Years, if a License has been issued for [***] Product on or before June 30 in any such Contract Year, the Minimum Qualified Revenue and Minimum Initial Product Revenue set forth in each table in paragraphs (i)

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through (iii) above shall be increased by [***] for such Contract Year, in addition to any adjustment required under Section 6(iv) above.

(vi) Distributor shall use its best efforts to maximize sales of Products during the term of the Agreement, in excess of the Minimum Qualified Revenue.

7. Additional Prepayments; Take-or-Pay Obligations. The Agreement is hereby amended to add the following new Section 3.04(iii):

3.04(iii) (A) For purposes of the Agreement, "Contract Quarter" shall mean the quarterly periods during each Contract Year beginning on December 16, March 16, June 16, and September 16. For purposes of this Agreement, Qualified Revenue for any Contract Year or Contract Quarter includes the Purchase Price of Products ordered by Distributor for delivery in such Contract Year or Contract Quarter, even if Diamond is unable to make timely delivery in such Contract Year or Contract Quarter.

(B) On or before the first day of each Contract Quarter in Contracts Years 2005 through 2009, inclusive, Distributor shall pay to Diamond an amount equal to [***], which amount shall be credited, effective upon issuance of Diamond invoices, against the invoice prices for Products to be shipped in such Contract Year (each, a "Minimum Prepayment"). Distributor shall not be required to make a Minimum Prepayment during a Shut Down Event.

(C) If Qualified Revenues are less than [***] in Contract Year 2005, then Distributor shall pay an amount equal to such shortfall to Diamond; provided, that Distributor shall not be obligated to make such payment if a Shut Down Event occurs during Contract Year 2005.

(D) If Qualified Revenues are less than [***] in any Contract Quarter during Contract Years 2006 through 2009, inclusive, then Distributor shall pay to Diamond an amount equal to such shortfall; provided, that Distributor shall not be obligated to make such payment for any Contract Quarter in which a Shut Down Event occurs or continues.

(E) Diamond shall be entitled to retain any portion of the Minimum Prepayments not credited to actual purchases of Products to satisfy Distributor's take-or-pay obligations in the preceding paragraphs (C) and (D). Distributor's obligation to make the take-or-pay payments pursuant to paragraphs (C) and (D) above shall be absolute, regardless of whether or not Distributor elects to make an Additional Payment or Additional Initial Product Payment to maintain its exclusivity under the Agreement and regardless of whether Distributor's exclusivity under the Agreement shall have terminated for any other reason.

8. Price Adjustment [***]. Notwithstanding any provision of the Agreement (and its Exhibits) to the contrary, the price for [***] shall be increased as set forth on

Exhibit B attached hereto, effective upon execution and delivery of this Second Amendment; provided, that the effective date of such price increase for [***] to be distributed in Africa shall be September 1, 2005.

9. Returns. Section 5.05 of the Agreement is hereby deleted in its entirety and shall be of no further force and effect, effective as of December 16, 2004; provided, that Distributor may return Products shipped during Contract Year 2004 in accordance with such Section 5.05 on or before December 15, 2004.

10. Special Termination Right. Section 6.04 of the Agreement is hereby redesignated as Section 6.05 and the following new Section 6.04 is hereby added to the Agreement:

6.04 Special Termination Right. Diamond shall have the right, but not the obligation, to terminate this Agreement, effective as of December 15, 2010, upon at least 270 days prior written notice to Distributor; provided, that all of the following conditions have been met:

(i) a License has issued prior to the beginning of Contract Year 2008 with respect to monovalent and combination [***] Products;

(ii) a License has issued prior to the beginning of Contract Year 2008 with respect to a [***] Product;

(iii) a License has issued prior to the beginning of Contract Year 2008 with respect to [***];

(iv) Distributor has maintained its exclusive distribution rights in accordance with the terms of the Agreement for both Contract Years 2008 and 2009; and

(v) Distributor's aggregate, cumulative Qualified Revenue for Contract Years 2004 through 2009, inclusive, is less than [***].

11. The Agreement is hereby amended to add the following new Section 3.07 (see *Examples 1 and 2* of Exhibit C):

3.07 [***] Compensation. If a License is not issued for [***] on or before January 31, 2006, Diamond shall elect (the "[***] Election") to take one of the following actions for the benefit of Distributor, such election to be made at Diamond's sole discretion: (i) pay to Distributor monthly installments of [***] for each full or partial month after January 2006 in which a License has not issued, not to exceed 30 months ("[***] Installments"), or alternatively, (ii) grant to Distributor one additional month of exclusive distribution rights under this Agreement for each month after January 2006 in which a License has not issued, not to exceed 30 months ("[***] Extension"). Diamond

shall make the [***] Election, if required, on or before the later of (x) 90 days after such License has issued or (y) July 31, 2007; provided, that if such License is not issued on or before July 31, 2007, the [***] Election shall be made on July 31, 2007. If Diamond elects to make the [***] Installments, the first such [***] installment shall be made on the first day of the month after Diamond makes the [***] Election and shall continue on the first day of each succeeding month until the number of installments payable under (i) above has been made. If Diamond elects to grant the [***] Extension, such additional months of exclusive rights shall begin on December 16, 2009 or, such earlier date, if any, on which Distributor's exclusivity rights would otherwise terminate under the terms and conditions of this Agreement. No Minimum Qualified Revenue requirement shall apply during the period of any [***] Extension.

12. Reimbursement under [***] R&D Agreement. For the purposes of Section 12(a) and (b), "[***] Spending" shall mean, as of a particular date, the lesser of (i) the [***] Expenditures (as defined in the [***] R&D Agreement) incurred as of such date, times [***] or (ii) [***].

(a) If a License has not issued for one or more of the [***] Products on or before June 15, 2008, Diamond shall pay to Distributor, in eighteen (18) equal and consecutive monthly installments beginning July 15, 2008 and ending December 15, 2009, an amount equal to one-half (1/2) of the [***] Spending as of June 15, 2008 (the "Interim Reimbursement").

(b) If a License has not issued for one or more of the [***] Products on or before December 15, 2009, Diamond shall pay to Distributor no later than January 1, 2010, an amount equal to one-half (1/2) of the [***] Spending as of December 15, 2009 less the Interim Reimbursement (the "Final Payment") (see *Example 3* of Exhibit C).

13. Confidentiality of Agreement. Notwithstanding any provision of the Agreement to the contrary, this Second Amendment shall be publicly available information for SEC filing, press release and other discussion purposes; provided, that the highlighted items set forth in Exhibit D attached hereto shall be redacted from any initial SEC filings and shall be deemed Confidential Information under Section 13.05 of the Agreement. The parties also agree to a press release to announce this Second Amendment, attached hereto as Exhibit E.

14. Effect of Amendment. This Second Amendment is hereby incorporated by reference into the Agreement as if fully set forth therein, the Agreement as amended by this Second Amendment shall continue in full force and effect following execution and delivery hereof, and references to the term "Agreement" shall include this Second Amendment. In the event of any conflict between the terms and conditions of the Original Agreement or First Amendment and this Second Amendment, the terms and conditions of this Second Amendment shall control.

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

DIAMOND ANIMAL HEALTH, INC.

By: /s/ Jason Napolitano
JASON NAPOLITANO
Its: Chief Financial Officer

AGRI LABORATORIES, LTD.

By: /s/ Steve Schram
STEVE SCHRAM
Its: President/CEO

EXHIBIT A

AMENDED AND RESTATED
PROMISSORY NOTE

$500,000.00

as of April 15, 2002
Des Moines, Iowa

FOR VALUE RECEIVED, the undersigned DIAMOND ANIMAL HEALTH, INC., an Iowa corporation ("**Maker**"), promises to pay to AGRI LABORATORIES, LTD., a Delaware corporation ("**Holder**"), or order, at such place as the Holder of this Note shall designate in writing, the sum of Five Hundred Thousand Dollars ($500,000.00) in lawful money of the United States of America. Beginning from the date hereof interest shall accrue until the effective date of that certain Second Amendment to the Distribution Agreement (defined below) on the outstanding principal balance at the "prime rate" plus one-quarter percent (1/4%) per annum and thereafter, at the "prime rate" plus one percent (1%) per annum. Accrued interest shall be paid quarterly on each quarterly anniversary of the date of this Note, and shall accrue based upon a thirty-day month and a 360-day year. Principal under this Note shall be paid in one annual installment on May 31, 2006.

All principal and any accrued but unpaid interest shall be due and payable on the maturity date of this Note.

Notwithstanding any provision of this Note to the contrary, all principal and unpaid accrued interest shall be due and payable on the ninetieth (90^{th}) day following the date that either (i) Holder's exclusivity rights under that certain Amended and Restated Bovine Vaccine Distribution Agreement dated as of September 30, 2002, as amended (the "**Distribution Agreement**") are terminated due to Distributor's nonpayment of any Additional Payment under the Distribution Agreement or (ii) in the event of a merger, sale or fifty percent (50%) change in ownership of Maker.

The "prime rate" shall be the annual rate of interest announced from time to time by Wells Fargo Business Credit, Inc. ("**Wells Fargo**") as its prime rate. The interest accruing on the principal balance of this Note shall fluctuate from time to time concurrently with changes in the prime rate, effective as of the date any change in the prime rate is publicly announced. If Wells Fargo ceases to announce the prime rate, the prime rate as published in the Wall Street Journal in its "Money Rates" section or a similar financial publication shall be used, as reasonably determined by Maker.

Maker shall have the right at any time or from time to time to prepay all or a portion of the principal or interest without premium or penalty, and such prepayments shall be applied first to accrued interest and then to principal.

If default be made in the payment of any of the installments of principal, interest, or other amounts when due under this Note, the entire principal sum and accrued interest and all other amounts due hereunder shall become due at the option of Holder if not paid within ten (10) days of written notice to Maker.

In the event garnishment, attachment, levy or execution is issued against any substantial or material portion of the property or assets of Maker, or any of them if more than one, or upon the happening of any event which constitutes a default pursuant to the terms of any agreement or other instrument entered into or given in connection herewith, or upon the adjudication of Maker, or any of them if more than one, a bankrupt, such event shall be deemed a default hereunder and Holder may declare this Note immediately due and payable without notice to Maker or exercise any of its remedies hereunder or at law or equity. Should suit be brought to recover on this Note, or should the same be placed in the hands of an attorney for collection, Maker promises to pay all reasonable attorneys' fees and

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costs incurred in connection therewith.

Failure of Holder to exercise any option hereunder shall not constitute a waiver of the right to exercise the same in the event of any subsequent default, or in the event of continuance of any existing default.

Maker waives demand, diligence, presentment for payment, protest and notice of demand, protest, nonpayment and exercise of any option hereunder. Maker agrees that the granting without notice of any extension or extensions of time for payment of any sum or sums due hereunder, or for the performance of any covenant, condition or agreement hereof shall in no way release or discharge the liability of Maker hereof.

This Note shall be governed by the laws of the State of Iowa.

Time is of the essence of this Note and each and every term and provision hereof.

This Note is secured by that certain Security Agreement, dated as of even date herewith, by and between Maker and Holder. Debtor and its affiliates are parties to that certain Second Amended and Restated Credit and Security Agreement by and between Debtor and Wells Fargo Business Credit, Inc., fka Norwest Business Credit, Inc., a Minnesota corporation ("**Wells Fargo**"), originally dated June 4, 2000, as amended, that certain Loan Agreement dated as of April 4, 1994 and related Promissory Note between the City of Des Moines, Iowa and Debtor, as amended, and that certain CEBA Loan Agreement dated January 20, 1994 and related Promissory Notes between Iowa Department of Economic Development and Debtor, as amended (collectively, the "**Senior Loan Agreements**" and the lender parties thereto collectively, the "**Senior Lenders**"). This Note and Maker's obligations hereunder shall be junior and subordinated to all any and all indebtedness and obligations for borrowed money (including, without limitation, principal, premium (if any), interest, fees, charges, expenses, costs, professional fees and expenses, and reimbursement obligations) ("**Indebtedness**") at any time owing by Debtor to the Senior Lenders, their successors and assigns under the Senior Loan Agreements or otherwise, and the extension, renewal or refinancing (including without limitation any additional advances made in connection therewith) of all or any portion of such Indebtedness by any of the Senior Lenders or any successor lender and any and all security interests securing any portion of such Indebtedness and additional advances from time to time (such Indebtedness, additional advances and security interests, the "**Senior Indebtedness**"). Holder hereby agrees to take such actions, and to execute and deliver such documents and instruments, as shall be requested from time to time by any holder of Senior Indebtedness to confirm and further implement such subordination. In addition, this Note is subject to the terms and conditions of that certain Subordination Agreement dated as of even date herewith by and among Maker, Holder and Wells Fargo.

This Note replaces that certain Amended and Restated Promissory Note dated as of April 15, 2004 given by Maker to Holder.

THE PARTIES WAIVE ANY RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED ON OR PERTAINING TO THIS NOTE.

DIAMOND ANIMAL HEALTH, INC., an Iowa corporation, Maker

By /s/ JASON NAPOLITANO
JASON NAPOLITANO
Its: Chief Financial Officer

THIS INSTRUMENT IS SUBJECT TO THE TERMS OF A SUBORDINATION AGREEMENT BY AGRI LABORATORIES, LTD. IN FAVOR OF WELLS FARGO BUSINESS CREDIT, INC. DATED AS OF APRIL 15, 2002.

<u>EXHIBIT B</u>

Pricing for Products

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

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

<u>EXHIBIT C</u>

Calculation Examples

Example 1 - Assume (i) a License for [***] Products is never obtained, (ii) Diamond elects, on July 31, 2007, to extend Distributor's exclusivity rights and (iii) Distributor's exclusivity rights are set to expire after December 15, 2009. In this example, Distributor would maintain an additional 30 months of exclusivity, or until June 15, 2011. Alternatively, if Diamond elects, on July 31, 2007, to make cash payments to Distributor, Diamond would make 30 consecutive monthly payments of [***] beginning on August 1, 2007 which would total [***].

Example 2 - Assume (i) a License for [***] Products is obtained on June 15, 2007, (ii) Diamond elects, on September 13, 2007, to extend Distributor's exclusivity rights and (iii) Distributor's exclusivity rights are set to expire after December 15, 2009. In this example, Distributor would maintain an additional 17 months of exclusivity, or until May 15, 2011. Alternatively, if Diamond elects, on September 13, 2007, to make cash payments to Distributor, Diamond would make 17 consecutive monthly payments of [***] beginning on October 1, 2007 which would total [***].

Example 3 - At June 15, 2008, [***] Spending is [***], and at December 15, 2009, [***] Spending is [***]. A License for the [***] Product has not been obtained by December 15, 2009. This is covered under Section 12(a) and (b). As a License for the [***] Product has not been obtained as of June 15, 2008, Diamond would begin to make Interim Reimbursement payments equal to [***] per month beginning on July 15, 2008 and ending on December 15, 2009 for a total of [***], such monthly payments calculated as one half of [***] Interim [***] Spending divided by 18. On January 1, 2010, Diamond would make the Final Payment to Distributor of [***], calculated as one half of [***] less the total amount of the Interim Reimbursement ([***]). In this example, Distributor collects [***] ([***] + [***]) or half of its original investment in the failed research project.

EXHIBIT D

Redacted Form of Second Amendment

EXHIBIT E

Press Release Logo of Heska Corporation

FOR IMMEDIATE RELEASE

At Heska Corporation:
Jason Napolitano, Executive Vice President & CFO
(970) 493-7272, Ext. 4105

Heska Corporation Announces Amended Agreement with AgriLabs

FORT COLLINS, CO, December 13, 2004— Heska Corporation (NASDAQ:HSKA) today announced that an amendment to the current distribution agreement with Agri Laboratories, Ltd., or AgriLabs, has been signed. Under the amendment, currently outstanding prepayments from AgriLabs will be considered an upfront fee and the pricing on certain products has been increased. AgriLabs' minimums to maintain exclusivity on certain bovine vaccines have been significantly reduced and no longer increase annually, although the minimums are subject to adjustment in certain circumstances.

Under the amendment, AgriLabs will continue to enjoy access to these bovine vaccines in the United States, Africa, China, Mexico and Taiwan to December 2013. Subject to minimum purchase requirements, AgriLabs' rights in these regions will be exclusive at least to December 2009 and could remain exclusive up to December 2013 based on other contractual arrangements. Heska will be free to sell these bovine vaccines to any party of its choosing in other regions of the world. AgriLabs will also maintain non-exclusive rights to these bovine vaccines in Canada to December 2009.

In addition, two separate research and development agreements have been signed with AgriLabs. These agreements specified risk sharing provisions where AgriLabs has agreed to fund the initial research and development expenditures, but will be entitled to certain additional product rights and/or reimbursement of expenditures under certain circumstances. The research and development programs are intended to enhance the quality of the current line of bovine vaccines.

"We are pleased we have found a mutually agreeable solution to this matter," said Robert Grieve, Heska's Chairman and CEO. "AgriLabs has been an excellent customer of ours in the past and we are happy we will continue to benefit from their livestock market expertise in the future."

"We have long been impressed with these vaccines, which we sell under our label and tradenames Titanium® and MasterGuard®", said Steve Schram, AgriLabs' President and CEO. "We are hopeful that the research and development agreements we have signed will allow us to maintain the leadership position we have established in the marketplace with these vaccines."

<u>About Heska</u>

Heska Corporation (NASDAQ: HSKA) sells advanced veterinary diagnostic and other specialty veterinary products. Heska's state-of-the-art offerings to its customers include diagnostic and monitoring instruments and supplies as well as single use, point-of-care tests, vaccines and pharmaceuticals. The company's core focus is on the canine and feline markets where it strives to develop high value products for unmet needs in veterinary medicine. For further information on Heska and its products, visit the company's website at www.heska.com.

<u>About AgriLabs</u>

AgriLabs, Ltd. is the largest private label marketer of veterinary vaccines and pharmaceuticals in the United States. AgriLabs is proficient in sales, marketing and technology transfer of current and future compounds or antigens for both food and companion animal markets. The AgriLabs distribution network of distributor owners is the largest in the United States and has the ability to efficiently reach the livestock and consumer marketplace through various veterinary, direct and retail channels. For additional information on AgriLabs and its products or distributors, visit the company website at www.agrilabs.com.

Forward-Looking Statements

This announcement contains express or implied forward-looking information about Heska's products, business relationships and research and development activities. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause Heska's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Heska's achievement of these results may be affected by many factors, including among others, the following: uncertainties relating to reliance on the sales and marketing efforts of a third party, over which Heska has no direct control; competition; uncertainties regarding the outcome of research and development projects currently contemplated; delays in or failure to achieve market acceptance of any products resulting from such research and development activities; the failure of third party distribution network members who have purchased large quantities of Heska's products in the past to continue to do so in the future; uncertainties related to Heska's ability to obtain and maintain costly regulatory approvals for its products; uncertainties related to Heska's ability to successfully market and sell its current and any future products, including in nations where such products are not currently sold; reliance on key personnel; and the risks set forth in Heska's filings and future filings with the Securities and Exchange Commission, including those set forth in Heska's Annual Report on Form 10-K for the year ended December 31, 2003 and Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.

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[***] — Certain information in this exhibit have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

THIRD AMENDED AND RESTATED
CREDIT AND SECURITY AGREEMENT

BY AND BETWEEN

HESKA CORPORATION,
DIAMOND ANIMAL HEALTH, INC.,

AND

WELLS FARGO BANK, NATIONAL ASSOCIATION
as successor in interest to Wells Fargo Business Credit, Inc.
Dated as of December 30, 2005

THIRD AMENDED AND RESTATED
CREDIT AND SECURITY AGREEMENT
Dated as of December 30, 2005

HESKA CORPORATION, a Delaware corporation ("Heska") and DIAMOND ANIMAL HEALTH, INC., an Iowa corporation ("Diamond") (each of Heska and Diamond may be referred to herein individually as a "Borrower" and collectively as the "Borrowers") and WELLS FARGO BANK, NATIONAL ASSOCIATION, acting through its Wells Fargo Business Credit operating division (the "Lender"), as successor in interest to Wells Fargo Business Credit, Inc., hereby agree as follows:

RECITALS

The Borrowers and Center Laboratories, Inc., a Delaware corporation ("Center"), and the Lender entered into a Second Amended and Restated Credit and Security Agreement dated as of June 14, 2000 (the "Former Credit Agreement").

Shortly after the Former Credit Agreement was executed, Center was sold to an unrelated entity and is no longer a Borrower under the Former Credit Agreement or under this Agreement.

The Borrowers have requested that the Former Credit Agreement be amended and restated in its entirety as set forth herein.

NOW THEREFORE, in consideration of the premises and the mutual promises herein contained, the parties hereto agree that the Former Credit Agreement be amended and restated to read in its entirety as follows:

ARTICLE I

Definitions

Section 1.1 Definitions. For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

(a) the terms defined in this Article have the meanings assigned to them in this Article, and include the plural as well as the singular; and

(b) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with GAAP.

"Accounts" means all of the Borrowers' accounts, as such term is defined in the UCC, including each and every right of the Borrowers to the payment of money, whether such right to payment now exists or hereafter arises, whether such right to payment arises

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out of a sale, lease or other disposition of goods or other property, out of a rendering of services, out of a loan, out of the overpayment of taxes or other liabilities, or otherwise arises under any contract or agreement, whether such right to payment is created, generated or earned by the Borrowers or by some other person who subsequently transfers such person's interest to the Borrowers, whether such right to payment is or is not already earned by performance, and howsoever such right to payment may be evidenced, together with all other rights and interests (including all Liens) which the Borrowers may at any time have by law or agreement against any account debtor or other obligor obligated to make any such payment or against any property of such account debtor or other obligor; all including but not limited to all present and future accounts, contract rights, loans and obligations receivable, chattel papers, bonds, notes and other debt instruments, tax refunds and rights to payment in the nature of general intangibles.

"Additional Capital" means any of the following received by a Borrower on or after June 30, 2005: (a) net cash proceeds from issuance of Heska common stock, including common stock issued under an employee stock purchase plan or as a result of the exercise of options or warrants, (b) net cash proceeds from issuance of Heska preferred stock, (c) net cash proceeds from a Borrower's issuance of debt instruments subject to a subordination agreement acceptable to Wells Fargo in its sole discretion, and (d) net cash proceeds from the licensing or sale of Non-Core IP.

"Advance" means a Revolving Advance, an Equipment Advance, or a Term Loan B Advance.

"Affiliate" or "Affiliates", for any Borrower, means any Person controlled by, controlling or under common control with such Borrower, including (without limitation) any Subsidiary of such Borrower. For purposes of this definition, "control," when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

"Aggregate Borrowing Base" means at any time the lesser of (a) the Maximum Line or (b) the sum of each Borrower's Borrowing Base.

"Aggregate L/C Amount" means at any time the sum of each Borrower's L/C Amount.

"Agreement" means this Third Amended and Restated Credit and Security Agreement, as amended, supplemented or restated from time to time.

"Availability" for a Borrower means the difference of (i) such Borrower's Borrowing Base and (ii) the sum of (A) the outstanding principal balance of such Borrower's Revolving Note and (B) such Borrower's L/C Amount.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

"Banking Day" means a day other than a Saturday, Sunday or other day on which banks are generally not open for business in Denver, Colorado and Minneapolis, Minnesota.

"Book Net Worth" of a Borrower means the aggregate of the common and preferred stockholders' equity in such Borrower, determined in accordance with GAAP, but excluding (a) the non-cash impact of expensing options, restricted stock or other stock-based compensation under APB 25, SFAS 123, SFAS 123R and/or SFAS 148, and (b) the non-cash impact of income or expense relating to deferred tax assets and liabilities caused by the use of net loss carry-forwards, in each case after December 31, 2004.

"Borrower" means Heska or Diamond, and "Borrowers" means Heska and Diamond.

"Borrowing Base" for a Borrower means, at any time the lesser of:

(a) the Maximum Line; or

(b) subject to change from time to time in the Lender's sole discretion:

(i) 85% of Eligible Accounts of such Borrower, plus

(ii) During the Foreign Accounts Eligibility Period, the lesser of (A) 85% of Eligible Foreign Accounts or (B) the FREP Sublimit, plus

(iii) the lesser of (A) the sum of (1) Eligible Inventory of such Borrower consisting of raw materials multiplied by the Raw Materials Advance Rate plus (2) 55% of Eligible Inventory of such Borrower consisting of finished goods, or (B) the difference of (1) $4,500,000 less (2) the aggregate amount of Advances made to all Borrowers other than such Borrower in reliance on Eligible Inventory.

"Capital" of a Borrower means the sum of Book Net Worth plus Subordinated Debt of such Borrower plus the lesser of (a) the amount of Debt that was formerly Subordinated Debt payable to Agri-Laboratories, Ltd. but that has been forgiven and is booked as a long-term liability, such as deferred revenue, or (b) $500,000.

"Capital Expenditures" for any Borrower for a period means the sum of (a) any expenditure of money for the purchase or construction of assets, or for improvements or additions thereto during such period, which are capitalized on such Borrower's balance sheet, whether financed or unfinanced, but excluding expenditures to purchase Rental Inventory, plus (b) all expenditures of money to purchase [***] in excess of $1,500,000 during the fiscal year in which such period occurs.

"Cash" means instantly available cash and cash equivalents (including, without limitation, investments permitted by Section 7.4(a)(i) and the investments identified at item (i) on Schedule 7.4).

"Collateral" means all of the Borrowers' Accounts, chattel paper, deposit accounts, documents, Equipment, General Intangibles, goods, instruments, Inventory, Investment Property, letter-of-credit rights, letter of credit, all sums on deposit in any Collateral Account, and any items in any Lockbox; together with (i) all substitutions and replacements for and products of any of the foregoing; (ii) in the case of all goods, all accessions; (iii) all accessories, attachments, parts equipment and repairs now or hereafter attached or affixed to or used in connection with any goods; (iv) all warehouse receipts, bills of lading and other documents of title now or hereafter covering such goods; (v) all collateral subject to the Lien of any Security Document; (vi) any money, or other assets of any Borrower that now or hereafter come into the possession, custody, or control of the Lender; (vii) all sums on deposit in the Special Account; and (viii) proceeds of any and all of the foregoing.

"Collateral Account" for Diamond means (a) the Collateral Account, as defined in the Collateral Account Agreement and (b) the Deposit Account listed on Exhibit A of Diamond's Deposit Account Control Agreement, and for Heska means (a) the "Lender Account" as defined in the Heska's Lockbox Agreement and (b) the Deposit Account listed on Exhibit A of Heska's Deposit Account Control Agreement.

"Collateral Account Agreement" means the Collateral Account Agreement dated as of October 16, 1997, by and among Diamond, the Lender, as successor in interest to Norwest Bank Iowa, NA, and the Lender.

"Commitment" means the Lender's commitment to make Advances to or for the Borrowers' account pursuant to Article II.

"Credit Facility" means the credit facility being made available to the Borrowers by the Lender pursuant to Article II.

"Debt" of any Person means all items of indebtedness or liability which in accordance with GAAP would be included in determining total liabilities as shown on the liabilities side of a balance sheet of that Person as at the date as of which Debt is to be determined. For purposes of determining a Person's aggregate Debt at any time, "Debt" shall also include the aggregate payments required to be made by such Person at any time under any lease that is considered a capitalized lease under GAAP.

"Default" means an event that, with giving of notice or passage of time or both, would constitute an Event of Default.

"Default Period" means any period of time beginning on the day on which a Default or Event of Default has occurred and ending on the date the Lender notifies the Borrowers in writing that such Default or Event of Default has been cured or waived.

"Default Rate" means, (i) with respect to the Revolving Advances, an annual rate equal to three percent (3.0%) over the Revolving Floating Rate, which rate shall change when and as the Revolving Floating Rate changes, and (ii) with respect to the Term Advances, an annual rate equal to three percent (3.0%) over the Term Floating Rate, which rate shall change when and as the Term Floating Rate changes.

"Deposit Account Control Agreement" for a Borrower means the Deposit Account Control Agreement dated as of February 21, 2005, by and among such Borrower, the Lender, as successor in interest to Wells Fargo Business Credit, Inc., and the Lender.

"Diamond Equipment Note" means the Equipment Note (Diamond) dated as of July 26, 2005, payable to the order of the Lender in the original principal amount of $2,000,000, and any note or notes issued in substitution therefor, as the same may hereafter be amended, supplemented or restated from time to time.

"Diamond Revolving Note" means the Second Amended and Restated Revolving Note (Diamond Animal Health) dated as of March 26, 2004, payable to the order of the Lender in the original principal amount of $12,000,000, as the same may hereafter be amended, supplemented or restated from time to time.

"Director" means, with respect to any Borrower, a director if such Borrower is a corporation, a governor, manager, or managing member if such Borrower is a limited liability company, or a partner if such Borrower is a partnership.

"Discretionary Reduction" means any of the following that is unilaterally adopted by the Lender through the exercise of its sole discretion: (a) a reduction (in accordance with subsection (b) of the definition of Borrowing Base) in any advance rate under any Borrower's Borrowing Base; (b) disqualification (in accordance with subsection (xiv) of the definition of Eligible Accounts) of any Account that would otherwise have been an Eligible Account; or (c) disqualification (in accordance with subsection (x) of the definition of Eligible Inventory) of any Inventory that would otherwise have been Eligible Inventory.

"Discretionary Reduction Date" means any date on which the Aggregate Borrowing Base is at least $3,000,000 less than it would have been had no Discretionary Reductions been adopted.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Eligible Accounts" for a Borrower means all unpaid Accounts of such Borrower, net of any credits, except the following shall not in any event be deemed Eligible Accounts:

(i) That portion of Accounts with terms of 60 days or less that are over 60 days past due, and all other Accounts over 90 days past the invoice date; provided, however, that certain Accounts which are billed pursuant to dated term invoices with payment terms of not greater than 180 days from the invoice date ("Dated Term Accounts") which (A) do not remain unpaid more than 180 days from such Dated Term Account's invoice date, (B) are not more than 30 days past due, and (C) are approved by the Lender in its sole discretion, shall, despite the terms of this subsection (i), be deemed Eligible Accounts;

(ii) That portion of Accounts that is disputed or subject to a claim of offset or a contra account (up to the amount of such dispute), including that portion of Accounts due from customers who have made prepayments, up to the amount of the prepayment;

(iii) That portion of Accounts not yet earned by the final delivery of goods or rendition of services, as applicable, by such Borrower to the customer;

(iv) Accounts owed by any unit of government, whether foreign or domestic (provided, however, that there shall be included in Eligible Accounts that portion of Accounts owed by such units of government for which such Borrower has provided evidence satisfactory to the Lender that (A) the Lender has a first priority perfected security interest and (B) such Accounts may be enforced by the Lender directly against such unit of government under all applicable laws);

(v) Accounts owed by an account debtor located outside the United States and Canada which are not (A) backed by a bank letter of credit naming the Lender as beneficiary or assigned to the Lender, in the Lender's possession or control, and with respect to which a control agreement concerning the letter-of-credit rights is in effect, and acceptable to the Lender in all respects, in its sole discretion, or (B) covered by a foreign receivables insurance policy acceptable to the Lender in its sole discretion;

(vi) Accounts owed by an account debtor that such Borrower has learned or has determined to be insolvent, is the subject of bankruptcy proceedings or has gone out of business;

(vii) Accounts owed by an Owner, Subsidiary, Affiliate, officer or employee of any Borrower;

(viii) Accounts not subject to a duly perfected security interest in the Lender's favor or which are subject to any lien, security interest or claim in favor of any Person, other than Permitted Liens;

(ix) That portion of Accounts that has been restructured, extended, amended or modified;

(x) That portion of Accounts that constitutes advertising, finance charges, service charges or sales or excise taxes;

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

(xi) Accounts owed by an account debtor, regardless of whether otherwise eligible, if 10% or more of the total amount due under Accounts from such debtor is ineligible under clauses (i), (ii) or (ix) above;

(xii) That portion of the aggregate Accounts of a single customer owed to all Borrowers in the aggregate that exceeds 15% of all Accounts of all Borrowers in the aggregate; provided, however, that for the customers listed below, such limit shall instead be the greater of the foregoing or the amount set forth opposite such customer in the following table:

Customer	Concentration Limit
[***]	25%
[***]	20%

(xiii) That portion of Accounts that arises from research contracts;

(xiv) Accounts, or portions thereof, otherwise deemed ineligible by the Lender in its sole discretion.

"Eligible Equipment" of a Borrower means Equipment owned by such Borrower and designated by the Lender as eligible from time to time in its sole discretion but excluding any Equipment having any of the following characteristics:

(i) Equipment that is subject to any Lien other than in favor of the Lender;

(ii) Equipment that has not been delivered to the Premises;

(iii) Equipment in which the Lender does not hold a first priority security interest;

(iv) Equipment that is obsolete or not currently saleable;

(v) Equipment that is not covered by standard "all risk" insurance for an amount equal to its forced liquidation value;

(vi) Equipment that requires proprietary software in order to operate in the manner in which it is intended when such software is not freely assignable to the Lender or any potential purchaser of such Equipment;

(vii) Equipment consisting of computer hardware, software, tooling, or molds;

(viii) Equipment consisting of Rental Inventory; and

(ix) Equipment otherwise deemed unacceptable to Lender in its sole discretion.

"Eligible Foreign Accounts" for a Borrower means all Accounts due and owing by an account debtor located outside the United States to such Borrower; but excluding any Accounts having any of the following characteristics:

(i) That portion of Accounts (other than dated Accounts) unpaid 120 days or more after the invoice date, (B) that portion of dated Accounts unpaid more than 90 days after the stated due date, and (C) that portion of Accounts that do not provide for payment in full within 120 days after the shipment date;

(ii) That portion of Accounts related to goods or services with respect to which such Borrower has received notice of a claim or dispute, which are subject to a claim of offset or a contra account, or which reflect a reasonable reserve for warranty claims or returns;

(iii) That portion of Accounts not yet earned by the final delivery of goods or rendition of services, as applicable, by such Borrowers to the customer;

(iv) That portion of Accounts for which an invoice has not been sent to the applicable account debtor;

(v) Accounts owed by any unit of government;

(vi) Accounts owed by an account debtor that is insolvent, the subject of bankruptcy proceedings or has gone out of business;

(vii) Accounts owed by an Owner, Subsidiary, Affiliate, Officer or employee of any Borrower;

(viii) Accounts not subject to a duly perfected security interest in the Lender's favor or which are subject to any Lien in favor of any Person other than the Lender, other than Permitted Liens;

(ix) That portion of Accounts that has been restructured, extended, amended or modified;

(x) That portion of Accounts that constitutes advertising, finance charges, service charges or sales or excise taxes;

(xi) That portion of Accounts owed by any one account debtor that would permit Revolving Advances supported by such account debtor's Accounts to exceed $300,000 at any one time;

(xii) Accounts denominated in any currency other than United States dollars, Canadian dollars, Swiss francs, Japanese yen, United Kingdom pounds sterling or European Union euros;

(xiii) Accounts with respect to which the Borrower has not instructed the Account debtor to pay the Account to the Collateral Account;

(xiv) Accounts owed by debtors located in countries not acceptable to the Lender in its sole discretion;

(xv) Accounts owed by an account debtor, regardless of whether otherwise eligible, if 10% or more of the total amount due under Accounts from such debtor is ineligible under clauses (i), (ii) or (ix) above;

(xvi) Accounts otherwise deemed unacceptable to the Lender in its sole discretion.

"Eligible Inventory" for a Borrower means all Inventory of such Borrower, at the lower of cost or market value as determined in accordance with GAAP; provided, however, that the following shall not in any event be deemed Eligible Inventory:

(i) Inventory that is: in-transit; located at any warehouse, job site or other premises not approved by the Lender in writing; located outside of the states, or localities, as applicable, in which the Lender has filed financing statements to perfect a first priority security interest in such Inventory; covered by any negotiable or non-negotiable warehouse receipt, bill of lading or other document of title; on consignment from or to any Person or subject to any bailment unless such consignee or bailee has executed an agreement with the Lender;

(ii) Supplies, packaging or parts Inventory;

(iii) Work-in-process Inventory;

(iv) Inventory that is damaged, obsolete, or not currently saleable in the normal course of such Borrower's operations;

(v) Inventory that such Borrower has returned, has attempted to return, is in the process of returning or intends to return to the vendor thereof;

(vi) Inventory that is perishable or live; provided, however, that Inventory with an expiration date shall be deemed Eligible Inventory, up to 90 days before the expiration date of such Inventory;

(vii) Inventory that is subject to a security interest in favor of any Person other than the Lender, except for Permitted Liens;

(vii) Inventory manufactured by any Borrower pursuant to a license that (A) prohibits the Lender from exercising its rights against such Inventory or (B) restricts such Borrower's ability to grant the Lender the right to sell such Inventory, in either case unless the applicable licensor has agreed in writing to permit the Lender to exercise its rights and remedies against such Inventory;

(viii) Sample Inventory;

(ix) all Rental Inventory that has been delivered to, or is in transit to, a customer, and all Rental Inventory that is not substantially the same in functionality and quality as other Inventory carried for sale by such Borrower; and

(x) Inventory otherwise deemed ineligible by the Lender in its sole discretion.

"Environmental Laws" has the meaning specified in Section 5.12.

"Equipment" of a Borrower means all of such Borrower's equipment, as such term is defined in the UCC, whether now owned or hereafter acquired, including but not limited to all present and future machinery, vehicles, furniture, fixtures, manufacturing equipment, shop equipment, office and recordkeeping equipment, parts, tools, supplies, and including specifically (without limitation) the goods described in any equipment schedule or list herewith or hereafter furnished to the Lender by any Borrower.

"Equipment Advance" has the meaning given in Section 2.3.

"Equipment Note" means the Heska Equipment Note or the Diamond Equipment Note.

"Event of Default" has the meaning specified in Section 8.1.

"Existing Revolving Advances" has the meaning specified in Section 2.1.

"Excess Collateral Base" for a Borrower means the difference of (i) such Borrower's Borrowing Base calculated without taking into account the limitation imposed by the Maximum Line, and (ii) the sum of (A) the outstanding principal balance of such Borrower's Revolving Note and (B) such Borrower's L/C Amount.

"Factory Mortgage" means the Combination Mortgage, Assignment of Rents and Fixture Financing Statement, executed by Diamond for the benefit of the Lender, dated as of September 8, 1998, concerning the Factory Mortgaged Property, as amended.

"Factory Mortgaged Property" means Mortgaged Property as defined in the Factory Mortgage.

"Farm Mortgage" means the Combination Mortgage, Assignment of Rents and Fixture Financing Statement, executed by Diamond for the benefit of the Lender, dated as of September 8, 1998, concerning the Farm Mortgaged Property, as amended.

"Farm Mortgaged Property" means Mortgaged Property as defined in the Farm Mortgage.

"Foreign Accounts Eligibility Period" means the period beginning on the first day of any month in which a Borrower requests in writing that Eligible Foreign Accounts be included in the Borrowing Base and ending on the last day of any month in which a Borrower requests in writing that Eligible Foreign Accounts no longer be included in the Borrowing Base; provided, however, that the Foreign Accounts Eligibility Period shall automatically terminate on the earlier of the Termination Date or on the first date on which (i) the Borrowers have failed to make any payment of the fee provided for in Section 2.9(e), or (ii) the foreign receivables eligibility program in which the Lender participates becomes unavailable to the Lender, or (iii) any Borrower's foreign Accounts cease for any reason to be eligible for coverage under such foreign receivables eligibility program.

"Former Credit Agreement" has the meaning given in the Recitals.

"FREP Sublimit" means an amount from zero to $500,000, as adjusted from time to time in increments of $100,000 in the Borrowers' discretion.

"GAAP" means generally accepted accounting principles, applied on a basis consistent with the accounting practices applied in the financial statements described in Section 5.5.

"General Intangibles" of a Borrower means all of such Borrower's general intangibles, as such term is defined in the UCC, whether now owned or hereafter acquired, including (without limitation) all present and future patents, patent applications, copyrights, trademarks, trade names, trade secrets, customer or supplier lists and contracts, manuals, operating instructions, permits, franchises, the right to use the Borrower's name, and the goodwill of the Borrower's business.

"Guarantors" shall mean Diamond and any other Person who executes a guaranty of all or any part of the Obligations for the benefit of the Lender.

"Hazardous Substance" has the meaning given in Section 5.12.

"Heska Equipment Note" means the Equipment Note (Heska) dated as of July 26, 2005, payable to the order of the Lender in the original principal amount of $500,000, as the same may hereafter be amended, supplemented or restated from time to time.

"Heska Revolving Note" means the Second Amended and Restated Revolving Note (Heska) dated as of March 26, 2004, payable to the order of the Lender in the original principal amount of $12,000,000, as the same may hereafter be amended, supplemented or restated from time to time.

"Intellectual Property License" means a license owned by any Borrower, which license allows such Borrower the use of any patent, trademark, trade name, or copyrighted material owned by a Person that is not a Borrower.

"Inventory" of a Borrower means all of such Borrower's inventory, as such term is defined in the UCC, whether now owned or hereafter acquired, whether consisting of whole goods, spare parts or components, supplies or materials, whether acquired, held or furnished for sale, for lease or under service contracts or for manufacture or processing, and wherever located, and including, without limitation, all Rental Inventory.

"Investment Property" of a Borrower means all of such Borrower's investment property, as such term is defined in the UCC, whether now owned or hereafter acquired, including but not limited to all securities, security entitlements, securities accounts, commodity contracts, commodity accounts, stocks, bonds, mutual fund shares, money market shares and U.S. Government securities.

"L/C Amount" for a Borrower means the sum of (i) the Aggregate Face Amount of any issued and outstanding Letters of Credit for which such Borrower is the account party and (ii) the unpaid amount of the Obligation of Reimbursement with respect to such Letters of Credit.

"L/C Application" means an application and agreement for Letters of Credit in a form acceptable to the Lender.

"Letter of Credit" has the meaning given it in Section 2.18.

"Lien" means any security interest, mortgage, deed of trust, pledge, lien, charge, encumbrance, title retention agreement or analogous instrument or device, including the interest of each lessor under any capitalized lease and the interest of any bondsman under any payment or performance bond, in, of or on any assets or properties of a Person, whether now owned or hereafter acquired and whether arising by agreement or operation of law.

"Liquidity" means the sum of Cash (excluding Cash located in accounts outside the United States or owned by an entity not incorporated in the United States) plus Excess Collateral Base less Past Due Payables.

"Loan Documents" means this Agreement, the Notes and the Security Documents.

"Lockbox" for any Borrower has the meaning given in such Borrower's Lockbox Agreement.

"Lockbox Agreement" for Diamond means the Agreement as to Lockbox Service by and among Diamond, the Lender, as successor in interest to Norwest Bank Iowa, NA, and the Lender, as successor in interest to Wells Fargo Business Credit, Inc., dated as of October 16, 1997, and for Heska means the Lockbox and Collection Account Agreement among Heska, Regulus West LLC ("Regulus"), the Lender, as successor in interest to Wells Fargo Business Credit, Inc., and the Lender, dated as of June 14, 2000.

"Maturity Date" means June 30, 2009.

"Maximum Line" means $12,000,000, unless said amount is reduced pursuant to Section 2.12, in which event it means the amount to which said amount is reduced.

"Minimum Interest Charge" has the meaning given in Section 2.8(d).

"Net Income" for a Borrower means, for any period, after-tax net income from continuing operations (that is, not including extraordinary items, or gains or losses from unusual items or discontinued operations), in each case for such Borrower for such period, as determined in accordance with GAAP, but excluding (a) the non-cash impact of expensing options, restricted stock or other stock-based compensation under APB 25, SFAS 123, SFAS 123R and/or SFAS 148, and (b) the non-cash impact of income or expense relating to deferred tax assets and liabilities caused by the use of net loss carry-forwards.

"Non-Core IP" means intellectual property (including, without limitation, any patent, trademark, trade name, or copyrighted material) of any Borrower that is unrelated to the Borrowers' veterinary product sales and the sale of which would not have a material adverse effect on any Borrower.

"Note" means a Revolving Note, an Equipment Note, or the Term Loan B Note, and "Notes" means the Revolving Notes, the Equipment Notes, and the Term Loan B Note.

"Obligation of Reimbursement" has the meaning given in Section 2.19.

"Obligations" means each and every debt, liability and obligation of every type and description which any Borrower may now or at any time hereafter owe to the Lender, related to the indebtedness arising under this Agreement, the Notes or any other agreement between any such

Borrower and the Lender, entered into in connection with the Credit Facility, including without limitation the Obligation of Reimbursement.

"Owner" means with respect to a Borrower, each Person having legal or beneficial title to an ownership interest in such Borrower or a right to acquire such an interest.

"Past Due Payables" means accounts payable (other than accounts payable to Affiliates) that are 60 days or more past due.

"Permitted Lien" has the meaning given in Section 7.1.

"Person" means any individual, corporation, partnership, joint venture, limited liability company, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Plan" means an employee benefit plan or other plan maintained for any Borrower's employees and covered by Title IV of ERISA.

"Premises" means all premises where any Borrower conducts its business and has any rights of possession, including (without limitation) the premises legally described in Exhibit A attached hereto.

"Prepayment Factor" means three percent (3%) at all times unless one of the following conditions applies: (a) if Heska achieves, on a consolidated basis, Net Income greater than $0 for its fiscal year ending December 31, 2006, "Prepayment Factor" shall mean two percent (2%) from July 1, 2006 through and including June 30, 2007; and (b) if Heska achieves, on a consolidated basis, Net Income greater than $0 for its fiscal year ending December 31, 2007, "Prepayment Factor" shall mean two percent (2%) from July 1, 2007 through and including June 30, 2008; and (c) if Heska achieves, on a consolidated basis, Net Income greater than $0 for its fiscal year ending December 31, 2008, "Prepayment Factor" shall mean one percent (1%) from July 1, 2008 through and including June 30, 2009.

"Prime Rate" means the rate publicly announced from time to time by Wells Fargo Bank, N.A. as its "prime rate" or, if such bank ceases to announce a rate so designated, any similar successor rate designated by the Lender.

"Raw Materials Advance Rate" means 35%.

"Receivables" of a Borrower means each and every right of such Borrower to the payment of money, whether such right to payment now exists or hereafter arises, whether such right to payment arises out of a sale, lease or other disposition of goods or other property, out of a rendering of services, out of a loan, out of the overpayment of taxes or other liabilities, or otherwise arises under any contract or agreement, whether such right to payment is created, generated or earned by such Borrower or by some other person who subsequently transfers such person's interest to such Borrower, whether such right to payment is or is not already earned by performance, and howsoever such right to payment may be evidenced, together with all other rights and interests (including all liens and security interests) which such Borrower may at any time have by law or agreement against any account debtor or other obligor obligated to make any such payment or against any property of such account debtor or other obligor; all including but not limited

to all present and future accounts, contract rights, loans and obligations receivable, chattel papers, bonds, notes and other debt instruments, tax refunds and rights to payment in the nature of general intangibles.

"Rental Inventory" of a Borrower means diagnostic and monitoring instruments purchased by such Borrower for the purpose of demonstrating, loaning, leasing or renting to customers, whether accounted for as equipment or as inventory.

"Reportable Event" shall have the meaning assigned to that term in Title IV of ERISA.

"Revolving Advance" has the meaning given in Section 2.2.

"Revolving Floating Rate" means an annual rate equal to the sum of the Prime Rate plus the Spread, which annual rate shall change when and as the Prime Rate changes.

"Revolving Note" means the Heska Revolving Note or the Diamond Revolving Note.

"Security Documents" means this Agreement, each Collateral Account Agreement, each Lockbox Agreement, each Deposit Account Control Agreement, the Factory Mortgage, the Farm Mortgage, and any other document delivered to the Lender from time to time to secure the Obligations, as the same may hereafter be amended, supplemented or restated from time to time.

"Security Interest" has the meaning given in Section 3.1.

"Special Account" means a specified cash collateral account maintained by a financial institution acceptable to the Lender in connection with Letters of Credit, as contemplated by Sections 2.20 and 3.8.

"Spread" has the meaning given in Section 2.7.

"Subordinated Debt" of a Borrower means all Debt of such Borrower that is subject to a Subordination Agreement.

"Subordination Agreement" means any subordination agreement accepted by the Lender from time to time.

"Subsidiary" means any Person of which more than 50% of the outstanding ownership interests having general voting power under ordinary circumstances to elect a majority of the directors or the equivalent of such Person, regardless of whether or not at the time ownership interests of any other class or classes shall have or might have voting power by reason of the happening of any contingency, is at the time directly or indirectly owned by a Borrower, by a Borrower and one or more other Subsidiaries, or by one or more other Subsidiaries.

"Tangible Net Worth" of a Borrower means the difference between (i) the tangible assets of such Borrower, which, in accordance with GAAP are tangible assets, after deducting adequate reserves in each case where, in accordance with GAAP, a reserve is proper and (ii) all Debt of such Borrower; provided, however, that notwithstanding the foregoing in no event shall there be included as such tangible assets patents, trademarks, trade names, copyrights, licenses, goodwill, receivables from Affiliates, directors, officers or employees, prepaid expenses, deposits, deferred charges or treasury stock or any securities or Debt of such Borrower or any other securities unless the same are readily marketable in the United States of America or entitled to be used as a credit against federal income tax liabilities, and any other assets designated from time to time by the Lender, in its reasonable discretion.

"Tax Expense" for a Borrower as of any date means state and federal income taxes recorded by such Borrower for the year-to-date period ending on such date.

"Term Advances" means the Equipment Advance and the Term Loan B Advances.

"Term Floating Rate" means an annual rate equal to the sum of the Prime Rate plus the Spread, which annual rate shall change when and as the Prime Rate changes.

"Term Loan B Advance" has the meaning specified in Section 2.5.

"Term Loan B Note" means the Term Loan B Note of the Borrowers, dated as of June 14, 2000 and payable to the order of the Lender in the original principal amount of $2,062,500, and any note or notes issued in substitution therefor, as the same may hereafter be amended, supplemented or restated from time to time.

"Termination Date" means the earliest of (i) the Maturity Date, (ii) the date the Borrowers terminate the Credit Facility, or (iii) the date the Lender demands payment of the Obligations after an Event of Default pursuant to Section 8.2

"UCC" means the Uniform Commercial Code as in effect from time to time in the state designated in Section 9.15 as the state whose laws shall govern this Agreement, or in any other state whose laws are held to govern this Agreement or any portion hereof.

"Wells Fargo Bank" means Wells Fargo Bank West, National Association.

Section 1.2 Other Definitional Terms; Rules of Interpretation. The words 'hereof', 'herein' and 'hereunder' and words of similar import when used in the Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with GAAP. All terms defined in the UCC and not otherwise defined herein have the meanings assigned to them in the UCC. References to Articles, Sections, subsections, Exhibits, Schedules and the like, are to Articles, Sections and subsections of, or Exhibits or Schedules attached to, this Agreement unless otherwise expressly provided. The words 'include', 'includes' and 'including' shall be deemed to be followed by the phrase 'without limitation'. Unless the context in which used herein otherwise clearly requires, 'or' has the inclusive meaning represented by the

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phrase 'and/or'. Defined terms include in the singular number the plural and in the plural number the singular. Reference to any agreement (including the Loan Documents), document or instrument means such agreement, document or instrument as amended or modified and in effect from time to time in accordance with the terms thereof (and, if applicable, in otherwise explicitly provided, and reference to any promissory note includes any promissory note which is an extension or renewal thereof or a substitute or replacement therefore. Reference to any law, rule, regulation, order, decree, requirement, policy, guideline, directive or interpretation means as amended, modified, codified, replaced or reenacted, in whole or in part, and in effect on the determination date, including rules and regulations promulgated thereunder.

ARTICLE II

Amount and Terms of the Credit Facility

Section 2.1 Existing Revolving Advances. The Lender has made various revolving advances to the Borrowers (the "Existing Revolving Advances") in accordance with the Former Credit Agreement. As of December 28, 2005, the outstanding principal balance of the Existing Revolving Advances to Heska was $8,545,126.50 and the outstanding principal balance of the Existing Revolving Advances to Diamond was $541,186.19. Upon execution and delivery of this Agreement, the Existing Revolving Advances shall be deemed to be Revolving Advances pursuant to Section 2.2.

Section 2.2 Revolving Advances. The Lender agrees, on the terms and subject to the conditions herein set forth, to make advances (the "Revolving Advances") to any Borrower from time to time until the Termination Date, on the terms and subject to the conditions herein set forth. The Lender shall have no obligation to make a Revolving Advance to a Borrower if, after giving effect to such requested Revolving Advance, (a) the sum of the outstanding and unpaid Revolving Advances to such Borrower exceed such Borrower's Borrowing Base, or (b) the sum of the outstanding and unpaid

Revolving Advances would exceed the Aggregate Borrowing Base. Each Borrower's obligation to pay the Revolving Advances shall be evidenced by such Borrower's Revolving Note and shall be secured by the Collateral as provided in Article III and the Mortgaged Property as defined in each of the Factory Mortgage and the Farm Mortgage. Within the limits set forth in this Section 2.2, each Borrower may borrow, prepay pursuant to Section 2.12 and reborrow. Each Borrower agrees to comply with the following procedures in requesting Revolving Advances under this Section 2.2:

(a) Such Borrower shall make each request for a Revolving Advance to the Lender before 11:00 a.m. (Denver time) of the day of the requested Revolving Advance. Requests may be made in writing or by telephone, specifying the date of the requested Revolving Advance and the amount thereof. Each request shall be by (i) any officer of such Borrower; or (ii) any person designated as such Borrower's agent by any officer of such Borrower in a writing delivered to the Lender; or (iii) any person whom the Lender reasonably believes to be an officer of such Borrower or such a designated agent.

(b) Upon fulfillment of the applicable conditions set forth in Article IV, the Lender shall disburse the proceeds of the requested Revolving Advance by crediting the same to such Borrower's demand deposit account maintained with Wells Fargo Bank

unless the Lender and such Borrower shall agree in writing to another manner of disbursement. Upon the Lender's request, such Borrower shall promptly confirm each telephonic request for an Advance by executing and delivering an appropriate confirmation certificate to the Lender. Each Borrower shall repay all such Advances even if the Lender does not receive such confirmation and even if the person requesting such Advance was not in fact authorized to do so. Any request for an Advance by a Borrower, whether written or telephonic, shall be deemed to be a representation by such Borrower that the conditions set forth in Section 4.2 have been satisfied as of the time of the request.

Section 2.3 Equipment Advances. On July 28, 2005, the Lender made an Equipment Advance to Heska in the amount of $500,000 and an Equipment Advance to Diamond in the amount of $2,000,000, each in accordance with the Former Credit Agreement. As of December 28, 2005, the outstanding principal balance of the Equipment Advance to Heska was $500,000, and the outstanding principal balance of the Equipment Advance to Diamond was $2,000,000. Each Borrower's obligation to pay the Equipment Advances shall be evidenced by such Borrower's Equipment Note and shall be secured by the Collateral as provided in Article III and the Mortgaged Property as defined in each of the Factory Mortgage and the Farm Mortgage.

Section 2.4 Payment of Equipment Note. The outstanding principal balance of each Equipment Note shall be due and payable as follows:

(a) On February 1, 2006, and the first day of each month thereafter, Diamond shall pay monthly installments of $37,037.04

(b) On February 1, 2006, and the first day of each month thereafter, Heska shall pay monthly installments of $9,259.26; and

(c) On the Maturity Date, the entire unpaid principal balance of each Equipment Note, and all unpaid interest accrued thereon, shall in any event be due and payable.

Section 2.5 Term Loan B Advances. The Lender has previously made advances to Diamond in the amount of $2,250,000 (the "Term Loan B Advances"). As of December 28, 2005, the outstanding principal balance of the Term Loan B Advances was $904,738.00. The Borrowers' obligation to pay the Term Loan B Advances shall be evidenced by the Term Loan B Note and shall be secured by the Collateral as provided in Article III and the Mortgaged Property as defined in each of the Factory Mortgage and the Farm Mortgage.

Section 2.6 Payment of Term Loan B Note. The outstanding principal balance of the Term Loan B Note shall be due and payable as follows:

(a) On June 1, 2000 and the first day of each month thereafter, in monthly installments of $17,658; and

(b) On the Maturity Date, the entire unpaid principal balance of the Term Loan B Note, and all unpaid interest accrued thereon, shall in any event be due and payable.

Section 2.7 Spread. The spread (the "Spread") means the percentage set forth in the table below opposite the applicable prior-fiscal-year Net Income of the Borrowers, which percentage shall change annually effective as of the first day of the month following the month in which the Borrowers delivers to the Lender their audited financial statements for the prior fiscal year; provided, however, that so long as no Default Period then exists, if Heska raises Additional Capital of not less than $1,500,000 the "Spread" shall be decreased by 0.75% below the otherwise-applicable rate, effective as of the first day of the month following the month in which such Additional Capital is raised; and provided further that if Heska does not raise at least $1,500,000 of Additional Capital on or before January 1, 2006, the "Spread" shall be increased by 0.25% above the otherwise-applicable rate, effective as of January 1, 2006; and provided further that if Heska does not raise at least $1,500,000 of Additional Capital on or before July 1, 2006, the "Spread" shall be increased by 0.75% (including, and not in addition to, the 0.25% increase described in the proviso above) above the otherwise-applicable rate, effective as of July 1, 2006; and provided further that in no case shall any decrease in the Spread occur during the Default Period:

Prior Fiscal Year Net Income	Spread
Less than $0	2.75%
Greater than or equal to $0	
but less than $2,500,000	1.75%

Greater than or equal to $2,500,000	0.75%

Section 2.8 Interest; Minimum Interest Charge; Default Interest; Participations; Usury. Interest accruing on the Notes shall be due and payable in arrears on the first day of each month.

(a) ***Revolving Note.*** Except as set forth in Sections 2.8(e), 2.8(f) and 2.8(g), the outstanding principal balance of the Revolving Note shall bear interest at the Revolving Floating Rate.

(b) ***Equipment Note.*** Except as set forth in Sections 2.8(e), 2.8(f) and 2.8(g), the outstanding principal balance of the Equipment Note shall bear interest at the Term Floating Rate.

(c) ***Term Loan B Note.*** Except as set forth in Sections 2.8(e), 2.8(f) and 2.8(g), the outstanding principal balance of the Term Loan B Note shall bear interest at the Term Floating Rate.

(d) ***Minimum Interest Charge***. Notwithstanding Sections 2.8(a), 2.8(b), 2.8(c) and 2.8(e), the Borrowers shall pay to the Lender interest of not less than $100,000 per calendar year (the "Minimum Interest Charge") during the term of this Agreement, and the Borrowers shall pay any deficiency between the Minimum Interest Charge and

the amount of interest otherwise calculated under Sections 2.8(a), 2.8(b), or 2.8(c) on the date and in the manner provided in Section 2.10; provided, however, that if the period for which the Minimum Interest Charge is being calculated is shorter than one year, such amount shall be prorated on a per diem basis for such shorter period.

(e) ***Default Interest Rate***. At any time during any Default Period, in the Lender's sole discretion and without waiving any of its other rights and remedies, the principal of the Advances outstanding from time to time shall bear interest at the Default Rate, effective for any periods designated by the Lender from time to time during that Default Period.

(f) ***Participations***. If any Person shall acquire a participation in the Advances under this Agreement, the Borrowers shall be obligated to the Lender to pay the full amount of all interest calculated under this Section 2.8, along with all other fees, charges and other amounts due under this Agreement, regardless if such Person elects to accept interest with respect to its participation at a lower rate than the Revolving Floating Rate or the Term Floating Rate, or otherwise elects to accept less than its prorata share of such fees, charges and other amounts due under this Agreement.

(g) ***Usury***. In any event no rate change shall be put into effect which would result in a rate greater than the highest rate permitted by law.

Section 2.9 Fees.

(a) ***Unused Line Fee***. For the purposes of this Section 2.9(a), "Unused Amount" means the Maximum Line reduced by (i) outstanding Revolving Advances and (ii) the L/C Amount. The Borrowers agree to pay to the Lender an unused line fee at the rate of one-quarter of one percent (0.25%) per annum on the average daily Unused Amount from the date of this Agreement to and including the Termination Date, due and payable monthly in arrears on the first day of the month and on the Termination Date.

(b) ***Audit Fees***. The Borrowers hereby agree to pay the Lender, on demand, audit fees in connection with any audits or inspections conducted by the Lender of any Collateral or any Borrower's operations or business at the rates established from time to time by the Lender as its audit fees (which fees are currently $100 per hour per auditor), together with all actual out-of-pocket costs and expenses incurred in conducting any such audit or inspection, such audits shall be conducted, at the least, on a quarterly basis.

(c) ***Letter of Credit Fees.*** Each Borrower agrees to pay the Lender a fee with respect to each Letter of Credit issued for such Borrower's account, if any, accruing on a daily basis and computed at the annual rate of two and one-half percent (2.5%) of the aggregate amount that may then be drawn on all outstanding Letters of Credit issued for such Borrower's account, assuming compliance with all conditions for drawing thereunder (the "Aggregate Face Amount"), from and including the date of issuance of such Letter of Credit until such date as such Letter of Credit shall terminate by its terms or be returned to the Lender, due and payable monthly in arrears on the first day of each month and on the Termination Date; provided, however that during Default Periods, in

the Lender's sole discretion and without waiving any of its other rights and remedies, such fee shall increase to five and one-half percent (5.5%) of the Aggregate Face Amount. The foregoing fee shall be in addition to any and all fees, commissions and charges imposed by Lender with respect to or in connection with such Letter of Credit.

(d) ***Letter of Credit Administrative Fees.*** Each Borrower shall pay all administrative fees charged by the Lender in connection with the honoring of drafts under any Letter of Credit issued for such Borrower's account, amendments thereto, transfers thereof and all other activity with respect to the Letters of Credit at the then-current rates published by the Lender for such services rendered on behalf of customers of the Lender generally.

(e) ***Foreign Receivables Eligibility Program Fee***. The Borrowers agree to pay to the Lender during the Foreign Accounts Eligibility Period, a monthly fee in an amount equal to one-twelfth of two-and-one-half percent (2.50%) of the FREP Sublimit, due and payable monthly in advance on the first day of the month.

(f) ***Amendment Fee.*** The Borrowers shall pay the Lender as of the date hereof a fully earned, non-refundable fee in the amount of $10,000 in consideration of the Lender's execution and delivery of this Agreement.

Section 2.10 Computation of Interest and Fees; When Interest Due and Payable. Interest accruing on the outstanding principal balance of the Advances and fees hereunder outstanding from time to time shall be computed on the basis of actual number of days elapsed in a year of 360 days. Interest shall be payable in arrears on the first day of each month and on the Termination Date.

Section 2.11 Capital Adequacy. If any Related Lender determines at any time that its Return has been reduced as a result of any Rule Change, such Related Lender may require any Borrower to pay it the amount necessary to restore its Return to what it would have been had there been no Rule Change. For purposes of this Section 2.11:

(a) "Capital Adequacy Rule" means any law, rule, regulation, guideline, directive, requirement or request regarding capital adequacy, or the interpretation or administration thereof by any governmental or regulatory authority, central bank or comparable agency, whether or not having the force of law, that applies to any Related Lender. Such rules include rules requiring financial institutions to maintain total capital in amounts based upon percentages of outstanding loans, binding loan commitments and letters of credit.

(b) "L/C Rule" means any law, rule, regulation, guideline, directive, requirement or request regarding letters of credit, or the interpretation or administration thereof by any governmental or regulatory authority, central bank or comparable agency, whether or not having the force of law, that applies to any Related Lender. Such rules include rules imposing taxes, duties or other similar charges, or mandating reserves, special deposits or similar requirements against assets of, deposits with or for the account of, or credit extended by any Related Lender, on letters of credit.

(c) "Related Lender" includes (but is not limited to) the Lender, any parent corporation of the Lender and any assignee of any interest of the Lender hereunder and any participant in the loans made hereunder.

(d) "Return" for any period, means the return as determined by a Related Lender on the Advances and Letters of Credit based upon its total capital requirements and a reasonable attribution formula that takes account of the Capital Adequacy Rules and the L/C Rules then in effect, costs of issuing or maintaining any Letter of Credit and amounts received or receivable under this Agreement or the Notes with respect to any Advance or Letter of Credit. Return may be calculated for each calendar quarter and for the shorter period between the end of a calendar quarter and the date of termination of whole of this Agreement.

(e) "Rule Change" means any change in any Capital Adequacy Rule or L/C Rule occurring after the date of this Agreement, but the term does not include any changes in applicable requirements that at the Closing Date are scheduled to take place under the existing capital Adequacy Rules or L/C Rules or any increases in the capital that any Related Lender is required to maintain to the extent that the increases are required due to a regulatory authority's assessment of the financial condition of such Related Lender.

The Lender will promptly notify the Borrowers of any event of which it has knowledge, occurring after the date hereof, which will entitle the Lender to compensation pursuant to this Section 2.11. Certificates of any Related Lender sent to any Borrower from time to time claiming compensation under this Section 2.11, stating the reason therefor and setting forth in reasonable detail the calculation of the additional amount or amounts to be paid to the Related Lender hereunder to restore its Return shall be conclusive absent manifest error. In determining such amounts, the Related Lender may use any reasonable averaging and attribution methods.

Section 2.12 Voluntary Prepayment; Reduction of the Maximum Line; Termination of the Credit Facility by the Borrowers. Except as otherwise provided herein, each Borrower may prepay the Revolving Advances made to it in whole at any time or from time to time in part. Diamond may prepay the Equipment Advances (other than in accordance with Section 2.4) or prepay the Term Loan B Advances (other than in accordance with Section 2.6), or the Borrowers may terminate the Credit Facility or reduce the Maximum Line at any time if it (i) gives the Lender at least 30 days' prior written notice and (ii) pays the Lender the prepayment, termination or line reduction fees in accordance with Section 2.13. Any prepayment of the Equipment Advances (other than in accordance with Section 2.4), any prepayment of the Term Loan B Advances (other than in accordance with Section 2.6), or reduction in the Maximum Line must be in an amount not less than $250,000 or an integral multiple thereof. If the Borrowers reduce the Maximum Line to zero, all Obligations shall be immediately due and payable. Any partial prepayments of the Equipment Note (other than in accordance with Section 2.4), and any partial prepayments of the Term Loan B Note (other than in accordance with Section 2.6), shall be applied to principal payments due and owing in inverse order of their maturities. Upon termination of the Credit Facility and payment and performance of all Obligations, the Lender shall release or terminate the Security Interest and the Security Documents to which the Borrowers are entitled by law.

Section 2.13 Termination, Line Reduction and Prepayment Fees; Waiver of Termination, Prepayment and Line Reduction Fees.

(a) ***Termination and Line Reduction Fees.*** If the Credit Facility is terminated for any reason as of a date other than the Maturity Date, or the Borrowers reduce the Maximum Line, the Borrowers shall pay the Lender a fee in an amount equal to the Prepayment Factor multiplied by the Maximum Line (or the reduction, as the case may be).

(b) ***Prepayment Fees.*** If the Equipment Note is prepaid for any reason except in accordance with Section 2.4, the Borrowers shall pay to the Lender a fee in an amount equal to the Prepayment Factor multiplied by the amount prepaid. If the Term Loan B Note is prepaid for any reason except in accordance with Section 2.6, the Borrowers shall pay to the Lender a fee in an amount equal to one percent (1%) of the amount prepaid.

(c) ***Waiver of Termination and Line Reduction Fees***. The Borrowers will not be required to pay the termination or line reduction fees otherwise due under this Section 2.13 if such termination or line reduction is made (i) because of refinancing of the Borrowers by another division of the Lender, (ii) within 60 days after any demand for payment upon any Borrower in accordance with Section 2.11, or (iii) within 60 days after any Discretionary Reduction Date.

Section 2.14 Mandatory Prepayment. Without notice or demand, if the outstanding principal balance of the Revolving Advances made to a Borrower shall at any time exceed such Borrower's Borrowing Base, such Borrower shall immediately (or, to the extent such condition is a result of a Discretionary Reduction, within 5 Business Days) prepay the Revolving Advances to the extent necessary to eliminate such excess. Any payment received by the Lender under Section 2.12 may be applied to the Obligations, in such order and in such amounts as the Lender, in its discretion, may from time to time determine; provided that any prepayment under Section 2.12 which a Borrower designates as a payment of the Revolving Advances, shall be applied to such Borrower's Revolving Advances; provided, further, that any prepayment under Section 2.12 which a Borrower designates as a partial prepayment of the Equipment Note or the Term Loan B Note, shall be applied to principal installments of the Equipment Note or the Term Loan B Note respectively, in inverse order of maturity.

Section 2.15 Payment. All payments to the Lender shall be made in immediately available funds and shall be applied to the Obligations upon receipt by the Lender. The Lender may hold all payments not constituting immediately available funds for three (3) days before applying them to the Obligations. Notwithstanding anything in Section 2.2, each Borrower hereby authorizes the Lender, in its discretion at any time or from time to time without such Borrower's request and even if the conditions set forth in Section 4.2 would not be satisfied, to make a Revolving Advance in an amount equal to the portion of the Obligations from time to time due and payable.

Section 2.16 Payment on Non-Banking Days. Whenever any payment to be made hereunder shall be stated to be due on a day which is not a Banking Day, such payment may be made on the next succeeding Banking Day, and such extension of time shall in such case be

included in the computation of interest on the Advances or the fees hereunder, as the case may be.

Section 2.17 Liability Records. The Lender may maintain from time to time, at its discretion, liability records as to the Obligations. All entries made on any such record shall be presumed correct until a Borrower establishes the contrary. Upon the Lender's demand, each Borrower will admit and certify in writing the exact principal balance of the Obligations that such Borrower then asserts to be outstanding. Any billing statement or accounting rendered by the Lender shall be conclusive and fully binding on the Borrowers unless the Borrowers give the Lender specific written notice of exception within 30 days after receipt.

Section 2.18 Issuance of Letters of Credit.

(a) Upon any Borrower's Request the Lender shall issue, from time to time until the Termination Date, one or more documentary or standby letters of credit (each, a "Letter of Credit") for such Borrower's account, provided that:

(i) The Lender shall have no obligation to issue any Letter of Credit for the benefit of a Borrower if (A) a Default Period exists, or (B) the face amount of the Letter of Credit to be issued would exceed the lesser of:

(1) $1,000,000 less the Aggregate L/C Amount, or

(2) such Borrower's Availability.

Each Letter of Credit, if any, shall be issued pursuant to a separate L/C Application entered by the applicable Borrower and the Lender, completed in a manner satisfactory to the Lender. The terms and conditions set forth in each such L/C Application shall supplement the terms and conditions hereof, but if the terms of any such L/C Application and the terms of this Agreement are inconsistent, the terms hereof shall control.

(b) No Letter of Credit shall be issued with an expiry date later than the Maturity Date.

(c) Any request for the issuance of a Letter of Credit under this Section 2.18 shall be deemed to be a representation by the requesting Borrower that the statements set forth in Section 4.2 hereof are correct as of the time of the request.

Section 2.19 Payment of Amounts Drawn Under Letters of Credit. Each Borrower agrees to pay to the Lender any and all amounts required to be paid under the applicable L/C Application, when and as required to be paid thereby, and the amounts designated below, when and as designated:

(a) Each Borrower hereby agrees to pay the Lender on the day a draft is honored under any Letter of Credit a sum equal to all amounts drawn under such Letter of Credit plus any and all reasonable charges and expenses that the Lender may pay or incur relative to such draw, plus interest on all such amounts, charges and expenses as set forth below (all such amounts are hereinafter referred to as the “Obligation of Reimbursement”).

(b) Each Borrower hereby agrees to pay the Lender on demand interest on all amounts, charges and expenses payable by such Borrower to the Lender under this Section 2.19, accrued from the date any such draft, charge or expense is paid by the Lender until payment in full by such Borrower at the Revolving Floating Rate.

If a Borrower fails to pay to the Lender promptly the amount of its Obligation of Reimbursement in accordance with the terms hereof and the L/C Application pursuant to which such Letter of Credit was issued, the Lender is hereby irrevocably authorized and directed, in its sole discretion, to make a Revolving Advance in an amount sufficient to discharge the Obligation of Reimbursement, including all interest accrued thereon but unpaid at the time of such Revolving Advance, and such Revolving Advance shall be evidenced by the Revolving Note and shall bear interest as provided in Section 2.8 hereof.

Section 2.20 Special Account. If this Credit Facility is terminated for any reason whatsoever, while any Letter of Credit is outstanding for any Borrower’s account, such Borrower shall thereupon pay the Lender in immediately available funds for deposit in the Special Account an amount equal to the maximum aggregate amount available to be drawn under all Letters of Credit then outstanding for such Borrower’s account, assuming compliance with all conditions for drawing thereunder. The Special Account shall be maintained for the Lender by any financial institution acceptable to the Lender. Any interest earned on amounts deposited in the Special Account shall be credited to the Special Account. Amounts on deposit in the Special Account may be applied by the Lender at any time or from time to time to such Borrower’s Obligation of Reimbursement or any other Obligations, in the Lender’s sole discretion, and shall not be subject to withdrawal by any Borrower so long as the Lender maintains a security interest therein. The Lender agrees to transfer any balance in the Special Account to such Borrower at such time as the Lender is required to release its security interest in the Special Account under applicable law.

Section 2.21 Obligations Absolute. The obligations of each Borrower arising under Section 2.18 shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including (without limitation) the following circumstances:

(a) any lack of validity or enforceability of any Letter of Credit or any other agreement or instrument relating to any Letter of Credit (collectively the “Related Documents”);

(b) any amendment or waiver of or any consent to departure from all or any of the Related Documents;

(c) the existence of any claim, setoff, defense or other right which any Borrower may have at any time, against any beneficiary or any transferee of any Letter of Credit (or any persons or entities for whom any such beneficiary or any such transferee

may be acting), or other person or entity, whether in connection with this Agreement, the transactions contemplated herein or in the Related Documents or any unrelated transactions;

(d) any statement or any other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(e) payment by or on behalf of the Lender under any Letter of Credit against presentation of a draft or certificate which does not strictly comply with the terms of such Letter of Credit; or

(f) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

ARTICLE III

Security Interest; Occupancy; Setoff

Section 3.1 Grant of Security Interest. Each Borrower hereby pledges, assigns and grants to the Lender a security interest (collectively referred to as the “Security Interest”) in the Collateral, as security for the payment and performance of the Obligations. Upon request by the Lender, each Borrower will grant the Lender a security interest in all commercial tort claims it may have against any Person.

Section 3.2 Notification of Account Debtors and Other Obligors. The Lender may during any Default Period notify any account debtor or other person obligated to pay the amount due that such right to payment has been assigned or transferred to the Lender for security and shall be paid directly to the Lender. Each Borrower will join in giving such notice if the Lender so requests. At any time after any Borrower or the Lender gives such notice to an account debtor or other obligor, the Lender may, but need not, in the Lender’s name or in any Borrower’s name, (a) demand, sue for, collect or receive any money or property at any time payable or receivable on account of, or securing, any such right to payment, or grant any extension to, make any compromise or settlement with or otherwise agree to waive, modify, amend or change the obligations (including collateral obligations) of any such account debtor or other obligor; and (b) as each Borrower’s agent and attorney-in-fact, notify the United States Postal Service to change the address for delivery of such Borrower’s mail to any address designated by the Lender, otherwise intercept such Borrower’s mail, and receive, open and dispose of such Borrower’s mail, applying all Collateral as permitted under this Agreement and holding all other mail for such Borrower’s account or forwarding such mail to such Borrower’s last known address.

Section 3.3 Assignment of Insurance. As additional security for the payment and performance of the Obligations, each Borrower hereby assigns to the Lender any and all monies (including, without limitation, proceeds of insurance and refunds of unearned premiums) due or to become due under, and all other rights of such Borrower with respect to, any and all policies of insurance now or at any time hereafter covering the Collateral, to the extent such rights may be assigned in accordance with such policies, or any evidence thereof or any business records or valuable papers pertaining thereto, and such Borrower hereby directs the issuer of any such policy to pay all such monies directly to the Lender. At any time, after and during the continuance of an Event of Default, the Lender may (but need not), in the Lender's name or in any Borrower's name, execute and deliver proof of claim, receive all such monies, endorse checks and other instruments representing payment of such monies, and adjust, litigate, compromise or release any claim against the issuer of any such policy.

Section 3.4 Occupancy

(a) Each Borrower hereby irrevocably grants to the Lender the right to take exclusive possession of the Premises at any time during a Default Period.

(b) The Lender may use the Premises only to hold, process, manufacture, sell, use, store, liquidate, realize upon or otherwise dispose of goods that are Collateral and for other purposes that the Lender may in good faith deem to be related or incidental purposes.

(c) The Lender's right to hold the Premises shall cease and terminate upon the earlier of (i) payment in full and discharge of all Obligations and termination of the Commitment, and (ii) final sale or disposition of all goods constituting Collateral and delivery of all such goods to purchasers.

(d) The Lender shall not be obligated to pay or account for any rent or other compensation for the possession, occupancy or use of any of the Premises; provided, however, that if the Lender does pay or account for any rent or other compensation for the possession, occupancy or use of any of the Premises, the Borrowers shall reimburse the Lender promptly for the full amount thereof. In addition, the Borrowers will pay, or reimburse the Lender for, all taxes, fees, duties, imposts, charges and expenses at any time incurred by or imposed upon the Lender by reason of the execution, delivery, existence, recordation, performance or enforcement of this Agreement or the provisions of this Section 3.4.

Section 3.5 License. Each Borrower hereby grants to the Lender a non-exclusive, worldwide and royalty-free license to use or otherwise exploit all trademarks, franchises, trade names, copyrights and patents of such Borrower for the purpose of selling, leasing or otherwise disposing of any or all Collateral during any Default Period. Notwithstanding the foregoing, such grant shall not constitute an assignment of any Intellectual Property License to the extent granting such a license is prohibited by or would constitute a default under any such Intellectual Property License (but only to the extent such prohibition is enforceable under applicable law).

Section 3.6 Financing Statement. The Borrowers authorize the Lender to file from time to time where permitted by law, such financing statements against collateral described as 'all personal property' or describing specific items of collateral including commercial tort claims as the Lender deems necessary or useful to perfect the Security Interest. A carbon, photographic or other reproduction of this Agreement or of any financing statements signed by the Borrower is sufficient as a financing statement and may be filed as a financing statement in any state to

perfect the security interests granted hereby. For this purpose, the following information is set forth:

Name and address of Debtors:

Heska Corporation
3760 Rocky Mountain Avenue
Loveland, Colorado 80538
Organizational Identification No. 2733906

Diamond Animal Health, Inc.
2538 43rd Street SE
Des Moines, Iowa 50317
Organizational Identification No. 170088

Name and address of Secured Party:

Wells Fargo Bank, National Association
MAC C7300-210
1740 Broadway
Denver, Colorado 80274

Section 3.7 Setoff. Each Borrower agrees that the Lender may at any time or from time to time during any Default Period, at its sole discretion and without demand and without notice to anyone, setoff any liability owed to such Borrower by the Lender, whether or not due, against any Obligation, whether or not due. In addition, whether or not a Default Period exists, each other Person holding a participating interest in any Obligations shall have the right to appropriate or setoff any deposit or other liability then owed by such Person to such Borrower, whether or not due, and apply the same to the payment of said participating interest, as fully as if such Person had lent directly to such Borrower the amount of such participating interest.

Section 3.8 Security Interest in Special Account. Each Borrower hereby pledges, and grants to the Lender a security interest in, all funds held in the Special Account from time to time and all proceeds thereof, as security for the payment of all Obligations.

ARTICLE IV

Conditions of Lending

Section 4.1 Conditions Precedent to Effectiveness. This Agreement shall be effective upon the Lender's receipt of all of the following, each properly executed by the appropriate party and in form and substance satisfactory to the Lender:

(a) This Agreement.

(b) A certificate of each Borrower's Chief Financial Officer certifying that no action of any Borrower's directors is necessary to authorize execution of this Agreement.

(c) Such other documents as the Lender in its sole discretion may require.

Section 4.2 Conditions Precedent to All Advances and Letters of Credit. The Lender's obligation to make each Advance or to issue each Letter of Credit shall be subject to the further conditions precedent that:

(a) the representations and warranties contained in Article V hereof are correct on and as of such date of such Advance as though made on and as of such date, except to the extent that such representations and warranties relate solely to an earlier date; and

(b) no event has occurred and is continuing, or would result from such Advance or the issuance of such Letter of Credit, as the case may be, which constitutes a Default or an Event of Default.

ARTICLE V

Representations and Warranties

Each Borrower represents and warrants to the Lender as follows:

Section 5.1 Corporate Existence and Power; Name; Chief Executive Office; Inventory and Equipment Locations; Tax Identification Number. Diamond is a corporation, duly organized, validly existing and in good standing under the laws of the State of Iowa, Heska is a corporation, duly organized, validly existing and in good standing under the laws of the State of Delaware. Each Borrower is duly licensed or qualified to transact business in all jurisdictions where the character of the property owned or leased or the nature of the business transacted by it makes such licensing or qualification necessary. No dissolution or termination of any Borrower has occurred, and no notice of dissolution or articles of termination have been filed with respect to any Borrower. Each Borrower has all requisite corporate power and authority, to conduct its business, to own its properties and to execute and deliver, and to perform all of its obligations under the Loan Documents. Since 1994, each Borrower has done business solely under the names set forth in Schedule 5.1 hereto. Each Borrower's chief executive office and principal place of business is located at the address set forth under the name of such Borrower in Schedule 5.1 hereto, and all of such Borrower's records relating to its business or the Collateral are kept at that location. All Inventory and Equipment is located at that location or at one of the other locations set forth in Schedule 5.1 hereto. Each Borrower's tax identification number is correctly set forth in Section 3.6 hereto.

Section 5.2 Authorization of Borrowing; No Conflict as to Law or Agreements. The execution, delivery and performance by each Borrower of the Loan Documents and the borrowings from time to time hereunder have been duly authorized by all necessary corporate action and do not and will not (i) require any consent or approval of such Borrower's Owners; (ii) require any authorization, consent or approval by, or registration, declaration or filing with, or notice to, any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, or any third party, except such authorization, consent, approval, registration, declaration, filing or notice as has been obtained, accomplished or given

prior to the date hereof; (iii) violate any provision of any law, rule or regulation (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System) or of any order, writ, injunction or decree presently in effect having applicability to such Borrower or of such Borrower's articles of incorporation and bylaws; (iv) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other material agreement, lease or instrument to which such Borrower is a party or by which it or its properties may be bound or affected; or (v) result in, or require, the creation or imposition of any mortgage, deed of trust, pledge, lien, security interest or other charge or encumbrance of any nature (other than the Security Interest) upon or with respect to any of the properties now owned or hereafter acquired by such Borrower.

Section 5.3 Legal Agreements.

(a) Immediately prior to execution of this Agreement, the Former Credit Agreement constituted the legal, valid and binding obligations of each Borrower, enforceable against each Borrower in accordance with its terms, subject to general principles of equity and the effects of bankruptcy and insolvency laws applicable to creditors generally. No Borrower has any claim, defense or offset to enforcement of the Former Credit Agreement.

(b) This Agreement constitutes and, upon due execution by each Borrower, the other Loan Documents will constitute the legal, valid and binding obligations of each Borrower, enforceable against such Borrower in accordance with their respective terms, subject to general principles of equity and the effects of bankruptcy and insolvency laws applicable to creditors generally.

Section 5.4 Subsidiaries. No Borrower has any Subsidiaries except as set forth in Schedule 5.4.

Section 5.5 Financial Condition; No Adverse Change. Heska has heretofore furnished to the Lender its consolidated and consolidating financial statements and those statements fairly present the Borrowers' financial condition on the dates thereof and the results of its operations and cash flows for the periods then ended and were prepared in accordance with generally accepted accounting principles (except for the absence of footnotes and subject to normal year-end adjustments with respect to unaudited financial statements). Since the date of the most recent financial statements, to the date hereof, there has been no material adverse change in any Borrower's business, properties or condition (financial or otherwise).

Section 5.6 Litigation. Except as set forth in Schedule 5.6 hereto, there are no actions, suits or proceedings pending or, to any Borrower's knowledge, threatened against or affecting any Borrower or the properties of any Borrower before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which, if determined adversely to such Borrower, would have a material adverse effect on the financial condition, properties or operations of such Borrower.

Section 5.7 Regulation U. No Borrower is engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U of

the Board of Governors of the Federal Reserve System), and no part of the proceeds of any Advance will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock.

Section 5.8 Taxes. Each Borrower and its Affiliates have paid or caused to be paid to the proper authorities when due all federal, state and local taxes required to be withheld by each of them (other than (a) any such tax whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which proper reserves have been made, or (b) any such taxes in an aggregate amount among all Borrowers less than $25,000 at any given time). Each Borrower and its Affiliates have filed all federal, state and local tax returns which to the knowledge of the officers of such Borrower or any Affiliate, as the case may be, are required to be filed, and each Borrower and its Affiliates have paid or caused to be paid to the respective taxing authorities all taxes as shown on said returns or on any assessment received by any of them to the extent such taxes have become due (other than (a) any such tax whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which proper reserves have been made, or (b) any such taxes in an aggregate amount among all Borrowers less than $25,000 at any given time).

Section 5.9 Titles and Liens. Each Borrower has good and absolute title to all Collateral described in the collateral reports provided to the Lender and all other Collateral, properties and assets (other than assets identified as being subject to capital leases) reflected in the latest financial statements referred to in Section 5.5 and all proceeds thereof, free and clear of all mortgages, security interests, liens, adverse claims and encumbrances, except for Permitted Liens. No financing statement naming any Borrower as debtor is on file in any office except to perfect only Permitted Liens.

Section 5.10 Plans. Except as disclosed to the Lender in writing prior to the date hereof, no Borrower nor any Affiliates of any Borrower maintains or has maintained any Plan. To the best of its knowledge, no Borrower nor any Affiliate of any Borrower has received any notice or has any knowledge to the effect that it is not in full compliance with any of the requirements of ERISA, except as set forth on Schedule 5.10. No Reportable Event or other fact or circumstance which may have an adverse effect on the Plan's tax qualified status exists in connection with any Plan. No Borrower nor any Affiliate of any Borrower has:

(a) Any accumulated funding deficiency within the meaning of ERISA; or

(b) Any liability or knows of any fact or circumstances which could result in any liability to the Pension Benefit Guaranty Corporation, the Internal Revenue Service, the Department of Labor or any participant in connection with any Plan (other than accrued benefits which or which may become payable to participants or beneficiaries of any such Plan).

Section 5.11 Default. Each Borrower is in compliance with all provisions of all agreements, instruments, decrees and orders to which it is a party or by which it or its property is bound or affected, the breach or default of which could have a material adverse effect on any Borrower's financial condition, properties or operations.

Section 5.12 Environmental Matters.

(a) Definitions. As used in this Agreement, the following terms shall have the following meanings:

(i) "Environmental Law" means any federal, state, local or other governmental statute, regulation, law or ordinance dealing with the protection of human health and the environment.

(ii) "Hazardous Substances" means pollutants, contaminants, hazardous substances, hazardous wastes, petroleum and fractions thereof, and all other chemicals, wastes, substances and materials listed in, regulated by or identified in any Environmental Law.

(b) To each Borrower's best knowledge, except as previously disclosed to Lender, there are not present in, on or under the Premises any Hazardous Substances in such form or quantity as to create any liability or obligation for any Borrower or for the Lender under common law of any jurisdiction or under any Environmental Law, and no Hazardous Substances have ever been stored, buried, spilled, leaked, discharged, emitted or released in, on or under the Premises in such a way as to create any such liability.

(c) Except as set forth in Schedule 5.12, to each Borrower's best knowledge, no Borrower has disposed of Hazardous Substances in such a manner as to create any liability under any Environmental Law.

(d) Except as previously disclosed to Lender, there are not and there never have been any requests, claims, notices, investigations, demands, administrative proceedings, hearings or litigation, relating in any way to the Premises or any Borrower, alleging liability under, violation of, or noncompliance with any Environmental Law or any license, permit or other authorization issued pursuant thereto, which could create liability to any Borrower in excess of $25,000. To each Borrower's best knowledge, no such matter is threatened or impending.

(e) To each Borrower's best knowledge, except as previously disclosed to Lender, each Borrower's businesses are and have in the past always been conducted in accordance with all Environmental Laws and all licenses, permits and other authorizations required pursuant to any Environmental Law and necessary for the lawful and efficient operation of such businesses are in the Borrowers' possession and are in full force and effect. Except as set forth in Schedule 5.12, to each Borrower's best knowledge, there is no threat that any permit required under any Environmental Law will be withdrawn, terminated, limited or materially changed.

(f) To each Borrower's best knowledge, except as previously disclosed to Lender, the Premises are not and never have been listed on the National Priorities List, the Comprehensive Environmental Response, Compensation and Liability Information System or any similar federal, state or local list, schedule, log, inventory or database.

(g) Except as set forth in Schedule 5.12, each Borrower has delivered to Lender all environmental assessments, audits, reports, permits, licenses and other documents describing or relating in any way to the Premises or such Borrower's businesses to the extent in such Borrower's possession or control.

Section 5.13 Submissions to Lender. All financial and other information provided to the Lender by or on behalf of each Borrower in connection with such Borrower's request for the credit facilities contemplated hereby were true and correct in all material respects as of the date given and, as to projections, valuations or proforma financial statements, presented, at the time given, a good faith opinion as to such projections, valuations and proforma condition and results. It is recognized by the Lender that projections and forecasts provided by or on behalf of the Borrowers, although reflecting the Borrowers' good faith projections or forecasts based on methods and data which the Borrowers believe to be reasonable and accurate, are not to be viewed as facts and that actual results during the periods covered by any such projections and forecasts may (and are likely to) differ from the projected or forecasted results. Notwithstanding the foregoing, it is recognized by the Borrowers that the Lender will rely on, among other things, the Borrowers' projections in setting financial covenants set forth in Articles VI and VII hereof, and nothing in this Section 5.13 shall be construed as a waiver of the Lender's right to rely on such covenants or to exercise its remedies in case of a breach of such covenants.

Section 5.14 Financing Statements. Each Borrower has provided to the Lender signed financing statements sufficient when filed to perfect the Security Interest and the other security interests created by the Security Documents. When such financing statements are filed in the offices noted therein, the Lender will have a valid and perfected security interest in all Collateral and all other collateral described in the Security Documents which is capable of being perfected by filing financing statements. None of the Collateral or other collateral covered by the Security Documents is or will become a fixture on real estate, unless a sufficient fixture filing is in effect with respect thereto.

Section 5.15 Rights to Payment. To the best of each Borrower's knowledge, except as disclosed to Lender, each right to payment and each instrument, document, chattel paper and other agreement constituting or evidencing Collateral or other collateral covered by the Security Documents is (or, in the case of all future Collateral or such other collateral, will be when arising or issued) the valid, genuine and legally enforceable obligation, subject to no defense, setoff or counterclaim, of the account debtor or other obligor named therein or in such Borrower's records pertaining thereto as being obligated to pay such obligation.

Section 5.16 Financial Solvency. Both before and after giving effect to all of the transactions contemplated in the Loan Documents, no Borrower, and no Affiliate of any Borrower:

(a) was or will be insolvent, as that term is used and defined in Section 101(32) of the United States Bankruptcy Code and Section 2 of the Uniform Fraudulent Transfer Act;

(b) has unreasonably small capital or is engaged or about to engage in a business or a transaction for which any remaining assets of such Borrower or such Affiliate are unreasonably small;

(c) by executing, delivering or performing its obligations under the Loan Documents or other documents to which it is a party or by taking any action with respect thereto, intends to, nor believes that it will, incur debts beyond its ability to pay them as they mature;

(d) by executing, delivering or performing its obligations under the Loan Documents or other documents to which it is a party or by taking any action with respect thereto, intends to hinder, delay or defraud either its present or future creditors; and

(e) at this time contemplates filing a petition in bankruptcy or for an arrangement or reorganization or similar proceeding under any law of any jurisdiction, or, to the best knowledge of any Borrower, is the subject of any actual, pending or threatened bankruptcy, insolvency or similar proceedings under any law of any jurisdiction.

ARTICLE VI

Borrower's Affirmative Covenants

So long as the Obligations shall remain unpaid, or the Credit Facility shall remain outstanding, each Borrower will comply with the following requirements, unless the Lender shall otherwise consent in writing:

Section 6.1 Reporting Requirements. Heska will deliver, or cause to be delivered, to the Lender each of the following, which shall be in form and detail acceptable to the Lender:

(a) as soon as available, and in any event within 90 days after the end of each fiscal year of Heska, Heska's audited financial statements with the unqualified opinion of independent certified public accountants selected by Heska and acceptable to the Lender, which annual financial statements shall include Heska's balance sheet as at the end of such fiscal year and the related statements of Heska's income, retained earnings and cash flows for the fiscal year then ended, prepared on a consolidating and consolidated basis to include any Affiliates, all in reasonable detail and prepared in accordance with GAAP, together with (i) copies of all management letters prepared by such accountants and (ii) a certificate of Heska's chief financial officer stating that to the best of his knowledge such financial statements have been prepared in accordance with GAAP and whether or not such officer has knowledge of the occurrence of any Default or Event of Default hereunder and, if so, stating in reasonable detail the facts with respect thereto;

(b) within 5 business days of filing with the United States Securities and Exchange Commission, a copy of each of Heska's annual or quarterly reports on forms 10K or 10Q;

(c) as soon as available and in any event within 20 days after the end of each month (or, in the case of months that coincide with the end of the Borrowers' fiscal

quarter, within 30 days after the end of such month), an unaudited/internal balance sheet and statement of income and retained earnings of Heska as at the end of and for such month and for the year to date period then ended, prepared on a consolidated and consolidating basis in accordance with GAAP, subject to year-end audit adjustments; and accompanied by a certificate of Heska's chief financial officer or principal accounting officer, substantially in the form of Exhibit B hereto, stating (i) that to the best of his knowledge such financial statements have been prepared in accordance with GAAP and fairly represent each Borrower's financial condition and the results of its operations, subject to year-end audit adjustments, (ii) whether or not such officer has knowledge of the occurrence of any Default or Event of Default hereunder not theretofore reported and remedied and, if so, stating in reasonable detail the facts with respect thereto, and (iii) all relevant facts in reasonable detail to evidence, and the computations as to, whether or not each Borrower is in compliance with the requirements set forth in Sections 6.12, 6.13, 6.14, 6.15, and 7.10;

(d) weekly, or more frequently if the Lender so requires, sales journals, collection reports, and credit memos of each Borrower;

(e) Monthly within 20 days after the end of each month, agings of each Borrower's accounts receivable and its accounts payable, an inventory certification report, and a calculation of each Borrower's Accounts, Eligible Accounts, Inventory and Eligible Inventory as at the end of such month or shorter time period;

(f) at least 30 days before the beginning of each fiscal year of Heska, the projected balance sheets and income statements for each month of such year, each in reasonable detail, representing each Borrower's good faith projections and certified by such Borrower's chief financial officer as being the most accurate projections available and identical to the projections used by such Borrower for internal planning purposes, together with such supporting schedules and information as the Lender may in its discretion require;

(g) immediately after the commencement thereof, notice in writing of all litigation and of all proceedings before any governmental or regulatory agency affecting any Borrower of the type described in Section 5.12 or which seek a monetary recovery against any Borrower in excess of $50,000;

(h) as promptly as practicable (but in any event not later than five business days) after an officer of any Borrower obtains knowledge of the occurrence of any breach, default or event of default under any Security Document or any event which constitutes a Default or Event of Default hereunder, notice of such occurrence, together with a detailed statement by a responsible officer of such Borrower of the steps being taken by such Borrower to cure the effect of such breach, default or event;

(i) as soon as possible and in any event within 30 days after any Borrower knows or has reason to know that any Reportable Event with respect to any Plan has occurred, the statement of such Borrower's chief financial officer setting forth details as to such Reportable Event and the action which such Borrower proposes to take with

respect thereto, together with a copy of the notice of such Reportable Event to the Pension Benefit Guaranty Corporation;

(j) as soon as possible, and in any event within 10 days after any Borrower fails to make any quarterly contribution required with respect to any Plan under Section 412(m) of the Internal Revenue Code of 1986, as amended, the statement of such Borrower's chief financial officer setting forth details as to such failure and the action which such Borrower proposes to take with respect thereto, together with a copy of any notice of such failure required to be provided to the Pension Benefit Guaranty Corporation;

(k) promptly upon knowledge thereof, notice of any loss of or material damage to any Collateral or other collateral covered by the Security Documents or of any substantial adverse change in the Collateral or such other collateral or the prospect of payment thereof, in each case involving a loss, damage or change of $50,000 of more;

(l) promptly upon their distribution, copies of all financial statements, reports and proxy statements which any Borrower shall have sent to its stockholders;

(m) promptly after the sending or filing thereof, copies of all regular and periodic reports which any Borrower shall file with the Securities and Exchange Commission or any national securities exchange;

(n) promptly upon filing, copies of the state and federal tax returns and all schedules thereto of each Borrower;

(o) promptly upon knowledge thereof, notice of any Borrower's violation of any law, rule or regulation, the non-compliance with which could materially and adversely affect any Borrower's business or its financial condition; and

(p) from time to time, with reasonable promptness, any and all receivables schedules, collection reports, deposit records, equipment schedules, copies of invoices to account debtors, shipment documents and delivery receipts for goods sold, and such other material, reports, records or information as the Lender may request.

(q) Promptly upon knowledge thereof, each Borrower will deliver to the Lender notice of any commercial tort claims it may bring against any person, including the name and address of each defendant, a summary of the facts, an estimate of such Borrower's damages, copies of any complaint or demand letter submitted by such Borrower, and such other information as the Lender may request.

Section 6.2 Books and Records; Inspection and Examination. Each Borrower will keep accurate books of record and account for itself pertaining to the Collateral and pertaining to such Borrower's business and financial condition and such other matters as the Lender may from time to time request in which true and complete entries will be made in accordance with GAAP and, upon the Lender's request, will permit any officer, employee, attorney or accountant for the Lender to audit, review, make extracts from or copy any and all corporate and financial books and records of such Borrower at all times during ordinary business hours, to send and discuss

with account debtors and other obligors requests for verification of amounts owed to such Borrower, and to discuss such Borrower's affairs with any of its Directors, officers, employees or agents. Each Borrower will permit the Lender, or its employees, accountants, attorneys or agents, to examine and inspect any Collateral, other collateral covered by the Security Documents or any other property of such Borrower at any time during ordinary business hours. The Borrowers hereby irrevocably authorize all accountants and third parties to disclose and deliver to the Lender, at the Borrowers' expense, all financial information, books and records, work papers, management reports and other information in their possession regarding the Borrowers.

Section 6.3 Account Verification. The Lender may at any time and from time to time send or require any Borrower to send requests for verification of accounts or notices of assignment to account debtors and other obligors. The Lender may also at any time and from time to time telephone account debtors and other obligors to verify accounts.

Section 6.4 Compliance with Laws.

(a) Each Borrower will (i) comply with the requirements of applicable laws and regulations, the non-compliance with which would materially and adversely affect its business or its financial condition and (ii) use and keep the Collateral, and require that others use and keep the Collateral, only for lawful purposes, without violation of any federal, state or local law, statute or ordinance.

(b) Without limiting the foregoing undertakings, each Borrower specifically agrees that it will comply in all material respects with all applicable Environmental Laws and obtain and comply with all permits, licenses and similar approvals required by any Environmental Laws, and will not generate, use, transport, treat, store or dispose of any Hazardous Substances in such a manner as to create any material liability or obligation under the common law of any jurisdiction or any Environmental Law.

Section 6.5 Payment of Taxes and Other Claims; Payment of Past-Due Accounts. Each Borrower will pay or discharge, when due, (a) all taxes, assessments and governmental charges levied or imposed upon it or upon its income or profits, upon any properties belonging to it (including, without limitation, the Collateral) or upon or against the creation, perfection or continuance of the Security Interest, prior to the date on which penalties attach thereto, (b) all federal, state and local taxes required to be withheld by it, and (c) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien or charge upon any properties of such Borrower; provided, that no Borrower shall be required to pay any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which proper reserves have been made. No Borrower shall have any Past Due Payables.

Section 6.6 Maintenance of Properties.

(a) Each Borrower will keep and maintain the Collateral, the other collateral covered by the Security Documents and all of its other properties necessary or useful in its business in good condition, repair and working order (normal wear and tear excepted) and will from time to time replace or repair any worn, defective or broken parts;

provided, however, that nothing in this Section 6.6 shall prevent any Borrower from discontinuing the operation and maintenance of any of its properties if such discontinuance is, in such Borrower's judgment, desirable in the conduct of such Borrower's business and not disadvantageous in any material respect to the Lender.

(b) Each Borrower will defend the Collateral against all claims or demands of all persons (other than the Lender) claiming the Collateral or any interest therein.

(c) Each Borrower will keep all Collateral and other collateral covered by the Security Documents free and clear of all security interests, liens and encumbrances except Permitted Liens.

Section 6.7 Insurance. Each Borrower will obtain and at all times maintain insurance with insurers believed by such Borrower to be responsible and reputable, in such amounts and against such risks as may from time to time be reasonably required by the Lender, but in all events in such amounts and against such risks as is usually carried by companies engaged in similar business and owning similar properties in the same general areas in which such Borrower operates. Without limiting the generality of the foregoing, each Borrower will at all times keep all tangible Collateral insured against risks of fire (including so-called extended coverage), theft, collision (for Collateral consisting of motor vehicles) and such other risks and in such amounts as the Lender may reasonably request, with any loss payable to the Lender to the extent of its interest, and all policies of such insurance shall contain a lender's loss payable endorsement for the Lender's benefit acceptable to the Lender. All policies of liability insurance required hereunder shall name the Lender as an additional insured.

Section 6.8 Preservation of Existence. Each Borrower will preserve and maintain its existence and all of its rights, privileges and franchises necessary or desirable in the normal conduct of its business and shall conduct its business in an orderly, efficient and regular manner.

Section 6.9 Delivery of Instruments, etc. Upon request by the Lender, each Borrower will promptly deliver to the Lender in pledge all instruments, documents and chattel papers constituting Collateral, duly endorsed or assigned by such Borrower.

Section 6.10 Collateral Accounts.

(a) If, notwithstanding the instructions to debtors to make payments to the Lockbox, any Borrower receives any payments on Receivables, such Borrower shall deposit such payments into such Borrower's Collateral Account. Until so deposited, such Borrower shall hold all such payments in trust for and as the property of the Lender and shall not commingle such payments with any of its other funds or property; provided, however, that the foregoing shall not be construed to allow the Lender to withhold any such payments after full payment and discharge of all Obligations.

(b) Amounts deposited in any Collateral Account shall not bear interest and shall not be subject to withdrawal by any Borrower, except after full payment and discharge of all Obligations; provided, however, that if the Borrowers' only outstanding Obligations are principal owing under the Equipment Note and the Term Loan B Note,

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and if no such principal amount is due, the Lender agrees to remit such amounts to such Borrower's demand deposit account maintained with Wells Fargo Bank.

(c) All deposits in any Collateral Account shall constitute proceeds of Collateral and shall not constitute payment of the Obligations. The Lender shall from time to time within one Banking Day, apply deposited funds in each Collateral Account to the payment of the Obligations, in any order or manner of application satisfactory to the Lender, by transferring such funds to the Lender's general account.

(d) All items deposited in any Collateral Account shall be subject to final payment. If any such item is returned uncollected, the applicable Borrower will immediately pay the Lender, or, for items deposited in a Collateral Account, the bank maintaining such account, the amount of that item, or such bank at its discretion may charge any uncollected item to any commercial account or other account belonging to the Borrower to whom the item was payable.

Section 6.11 Performance by the Lender. If any Borrower at any time fails to perform or observe any of the foregoing covenants contained in this Article VI or elsewhere herein, and if such failure shall continue for a period of ten calendar days after the Lender gives such Borrower written notice thereof (or in the case of the agreements contained in Sections 6.5, 6.7 and 6.10, immediately upon the occurrence of such failure, without notice or lapse of time), the Lender may, but need not, perform or observe such covenant on behalf and in the name, place and stead of such Borrower (or, at the Lender's option, in the Lender's name) and may, but need not, take any and all other actions which the Lender may reasonably deem necessary to cure or correct such failure (including, without limitation, the payment of taxes, the satisfaction of security interests, liens or encumbrances, the performance of obligations owed to account debtors or other obligors, the procurement and maintenance of insurance, the execution of assignments, security agreements and financing statements, and the endorsement of instruments); and such Borrower shall thereupon pay to the Lender on demand the amount of all monies expended and all costs and expenses (including reasonable attorneys' fees and legal expenses) incurred by the Lender in connection with or as a result of the performance or observance of such agreements or the taking of such action by the Lender, together with interest thereon from the date expended or incurred at the Revolving Floating Rate. To facilitate the Lender's performance or observance of such covenants of the Borrowers, each Borrower hereby irrevocably appoints the Lender, or the Lender's delegate, acting alone, as such Borrower's attorney in fact (which appointment is coupled with an interest) with the right (but not the duty) from time to time to create, prepare, complete, execute, deliver, endorse or file in the name and on behalf of such Borrower any and all instruments, documents, assignments, security agreements, financing statements, applications for insurance and other agreements and writings required to be obtained, executed, delivered or endorsed by such Borrower under this Section 6.11.

Section 6.12 Minimum Capital. Heska will maintain, on a consolidated basis, as of each date listed below, its Capital at an amount not less than the amount set forth opposite such date (amounts in parentheses denote negative numbers):

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Date	Minimum Capital
November 30, 2005	$ (150,000)
December 31, 2005	$ 800,000
January 1, 2006	$ 1,835,000
February 28, 2006	$ 1,275,000
March 31, 2006	$ 1,385,000

April 30, 2006	$	1,010,000
May 31, 2006	$	350,000
June 30, 2006	$	725,000
July 31, 2006	$	475,000
August 31, 2006	$	50,000
September 30, 2006	$	1,200,000
October 31, 2006	$	1,300,000
November 30, 2006	$	1,150,000
December 31, 2006	$	1,950,000
January 31, 2007 and the last day of each month thereafter	$	1,350,000

Amounts corresponding to dates after December 31, 2005 shall be adjusted upward or downward, respectively, on a dollar-for-dollar basis, by the amount the Borrowers' aggregate actual Capital on December 31, 2005 per the Borrowers' audited financial statements exceeds or falls short of $3,243,000.

In addition to the foregoing, if Heska makes [***] during the fiscal year ending December 31, 2006, as contemplated by Section 7.4(a)(ix), to the extent [***] is expensed in accordance with GAAP, the Minimum Capital amounts listed above occurring [***] shall be adjusted downward on a dollar-for-dollar basis by the amount of such expense, not to exceed $1,000,000.

Section 6.13 Minimum Net Income. Heska will achieve, on a consolidated basis, during each period described below, Net Income in an amount not less than the amount set forth opposite such period (amounts in parentheses denote negative numbers):

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Period	**Minimum Net Income**	
Twelve months ending December 31, 2005	$	(2,600,000)
Three months ending March 31, 2006	$	(1,850,000)
Six months ending June 30, 2006	$	(2,000,000)
Nine months ending September 30, 2006	$	(1,500,000)
Twelve months ending December 31, 2006	$	(750,000)

In addition to the foregoing, if Heska makes [***] during the fiscal year ending December 31, 2006, as contemplated by Section 7.4(a)(ix), to the extent [***] is expensed in accordance with GAAP, the Minimum Capital amounts listed above occurring [***] shall be adjusted downward on a dollar-for-dollar basis by the amount of such expense, not to exceed $1,000,000.

Section 6.14 Minimum Liquidity. Heska will maintain, on a consolidated basis, as of the last day of each month, its Liquidity at an amount not less than $1,500,000.

Section 6.15 Minimum Individual Book Net Worth. Each Borrower shall at all times maintain its Book Net Worth, calculated without regard to any Subsidiary or other Affiliate, as shown on the "Total stockholders' equity" line for each Borrower in Exhibit C, at an amount greater than zero.

Section 6.16 New Covenants. On or before November 30, 2006, the Borrowers and the Lender shall agree on new covenant levels for Sections 6.12, 6.13, 6.14, 7.4(a)(v) and 7.10 for periods after such date. The new covenant levels will be based on (i) the Borrowers' projections for such periods and (ii) the year to date financial results of Heska, on a consolidated basis, and such new covenant levels shall be no less stringent than the present levels. An Event of Default shall occur if the new covenants are not agreed to by the above date.

ARTICLE VII

Negative Covenants

So long as the Obligations shall remain unpaid, or the Credit Facility shall remain outstanding, each Borrower agrees that, without the Lender's prior written consent:

Section 7.1 Liens. Such Borrower will not create, incur or suffer to exist any mortgage, deed of trust, pledge, lien, security interest, adverse claim, assignment or transfer (collectively, "Liens") upon or of any of its assets, now owned or hereafter acquired, to secure any indebtedness; excluding, however, from the operation of the foregoing, the following (collectively, "Permitted Liens"):

(a) in the case of any of such Borrower's property which is not Collateral or other collateral described in the Security Documents, mortgages, deeds of trust, covenants, restrictions, rights, easements and minor irregularities in title which do not materially interfere with such Borrower's business or operations as presently conducted;

(b) Liens in existence on the date hereof and listed in Schedule 7.1 hereto;

(c) the Security Interest and Liens and security interests created by the Security Documents;

(d) purchase money Liens given, simultaneously with or within one hundred twenty (120) days after the acquisition or construction of real property or tangible personal property (including vendor's rights under purchase contracts under an agreement whereby title is retained for the purpose of securing the purchase price thereof and lessors' liens under capitalized lease obligations) or any Lien given to a financial institution financing the acquisition or construction of the real property or tangible personal property, on real property or tangible personal property hereafter acquired or constructed and not heretofore owned by any Borrower; provided, however, that in each such case such Lien (i) does not exceed the amount paid for such acquisition or construction, and (ii) is limited to such acquired or constructed real or tangible personal property;

(e) carriers', mechanics', materialmen's, suppliers', and other like Liens and charges arising in the ordinary course of business securing obligations that are not incurred in connection with the obtaining of any advance or credit and which are not overdue, or are being contested in good faith by appropriate proceedings;

(f) Liens arising in connection with worker's compensation, unemployment insurance and progress payments under government contracts and liens securing the performance of bids, tenders, leases, contracts (other than for the repayment of borrowed money), statutory obligations, surety customs and appeal bonds and other obligations of like nature, incurred, in each case, in the ordinary course of business;

(g) judgment liens in existence in an amount not more than $100,000;

(h) zoning restrictions, easements, licenses, encumbrances, reservations, provisions, covenants, conditions, waivers, restrictions on the use of property or minor irregularities of title (and with respect to leasehold interests, mortgages, obligations, liens and other encumbrances incurred, created, assumed or permitted to exist and arising by, through or under a landlord or owner of the leased property, with or without consent of the lessee) as normally exist with respect to similar properties which do not in the aggregate materially impair the use thereof in the operation of any Borrower's business;

(i) any preexisting Lien (whether or not assumed) on any real property or tangible personal property hereafter acquired by any Borrower; provided, however, that in each such case such Lien is limited to such acquired real or tangible personal property; provided, further, that proceeds from a Term Advance are not used to acquire such real property or tangible personal property;

(j) extensions, renewals and replacements of the Liens referred to in clause (b), (d) or (i) above; provided, any such extension, renewal or replacement liens shall be limited to the property or assets covered by the Lien extended, renewed or replaced;

(k) leases, subleases, licenses and sublicenses to third parties of patents, patent applications, trademarks and copyrights, in each case in the ordinary course of its business as currently conducted;

(l) Liens of brokers under brokerage agreements entered into in the ordinary course of business as presently conducted;

(m) Diamond's grant of a security interest in the Farm Mortgaged Property to secure existing indebtedness payable to Agri Laboratories, Ltd. or to secure new indebtedness for borrowed money described in Section 7.2(g), in each case on terms acceptable to the Lender in its reasonable discretion; and

(n) Diamond's grant of a security interest in the Factory Mortgaged Property to secure new indebtedness for borrowed money described in Section 7.2(h).

Section 7.2 Indebtedness. Such Borrower will not incur, create, assume or permit to exist any indebtedness or liability on account of deposits or advances or any indebtedness for borrowed money or letters of credit issued on such Borrower's behalf, or any other indebtedness or liability evidenced by notes, bonds, debentures or similar obligations, except:

(a) indebtedness arising hereunder;

(b) indebtedness of such Borrower in existence on the date hereof and listed in Schedule 7.2 hereto;

(c) indebtedness of such Borrower (i) relating to liens of such Borrower permitted in accordance with Section 7.1, (ii) arising out of guaranties of such Borrower permitted under Section 7.3, (iii) arising for such Borrower as a result of an investment in or loan to such Borrower by another Borrower in accordance with Section 7.4, or (iv) in the case of Heska, at all times on or before January 31, 2006, indebtedness to Heska Holding AG in an amount not to exceed $1,500,000, and thereafter, zero.

(d) unsecured trade debt incurred, and cash advances received from customers, in each case in the ordinary course of business;

(e) indebtedness of any Person existing at the time such Person is merged with or into such Borrower, to the extent the Lender consents to such merger in accordance with Section 7.7, and provided that such Debt is not incurred in connection with or in contemplation of such merger;

(f) extensions, renewals and replacements of the debt referred to in clause (b) or (c) above; provided that any such extension, renewal or replacement shall be in an

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amount not greater than, and on terms no less favorable to such Borrower (other than interest rate increases) than, the amount extended, renewed or replaced;

(g) Diamond's incurrence of indebtedness of not less than [***] nor more than [***] secured by the Farm Mortgaged Property, in each case on terms acceptable to the Lender in its reasonable discretion, but in no event on terms less favorable to the Borrowers than the terms of the Term Loan B Note; and upon receipt of proceeds of such indebtedness, the Lender will release its security interest in the Farm Mortgaged Property;

(h) Diamond's incurrence of indebtedness not less than [***] nor more than [***] secured by the Factory Mortgaged Property in connection with a refinancing of the Term Loan B Note, provided that (a) the proceeds of such indebtedness are sufficient to repay, and in fact are used to repay, the Term Loan B Note in its entirety, with the balance of such proceeds (if any) being deposited in Diamond's Collateral Account for repayment of Revolving Advances, and (b) the terms of such indebtedness are acceptable to the Lender in its reasonable discretion, but in no event on terms less favorable to the Borrowers than the terms of the Term Loan B Note. In the case of such a refinancing, the Lender agrees that it will release its security interest in the Factory Mortgaged Property upon receipt of the proceeds of such permitted refinancing;

(i) other Debt in an amount not to exceed $100,000; and

(j) capital leases to the extent the entry into such leases does not cause a Default or Event of Default hereunder.

Section 7.3 Guaranties. Such Borrower will not assume, guarantee, endorse or otherwise become directly or contingently liable in connection with any obligations of any other Person, except:

(a) the endorsement of negotiable instruments by such Borrower for deposit or collection or similar transactions in the ordinary course of business;

(b) guaranties, endorsements and other direct or contingent liabilities in connection with the obligations of other Persons, in existence on the date hereof and listed in Schedule 7.2 hereto; and

(c) guaranties of the obligations of one Borrower given by another Borrower.

Section 7.4 Investments and Subsidiaries.

(a) Such Borrower will not purchase or hold beneficially any stock or other securities or evidences of indebtedness of, make or permit to exist any loans or advances

to, or make any investment or acquire any interest whatsoever in, any other Person, including specifically but without limitation any partnership or joint venture, except:

(i) investments in direct obligations of the United States of America or any agency or instrumentality thereof whose obligations constitute full faith and credit obligations of the United States of America having a maturity of one year or less, commercial paper issued by U.S. corporations rated "A-1" or "A-2" by Standard & Poors Corporation or "P-1" or "P-2" by Moody's Investors Service or certificates of deposit or bankers' acceptances having a maturity of one year or less issued by members of the Federal Reserve System having deposits in excess of $100,000,000 (which certificates of deposit or bankers' acceptances are fully insured by the Federal Deposit Insurance Corporation);

(ii) advances or loans to such Borrower's officers and employees not exceeding at any one time an aggregate of $200,000;

(iii) advances in the form of progress payments, prepaid rent not exceeding two months or security deposits;

(iv) unless a Default Period exists or would exist immediately after or as a result of any such loan, advance or capital contribution, loans, advances or capital contributions by Heska to any Subsidiary that is also a Borrower;

(v) unless a Default Period exists or would exist immediately after or as a result of any such advance or contribution, advances or contributions during the fiscal year ending December 31, 2006, by Heska to any Subsidiary that is not a Borrower; provided, however, that (A) both before and after such advance or contribution Heska's Tangible Net Worth must equal or exceed $100,000 and (B) all contributions and advances made in reliance on this subsection (v) shall not exceed $700,000 in the aggregate during the fiscal year ending December 31, 2006;

(vi) investments, including investments in Subsidiaries, existing on the date hereof and listed in Schedule 7.4;

(vii) investments in the following items arising in the ordinary course of business: (A) prepaid expenses and negotiable instruments held for collection; (B) Accounts (and Investments obtained in exchange or settlement of Accounts for which such Borrower has determined that collection is not likely); and (C) lease, utility and worker's compensation, performance and other similar deposits;

(viii) unless a Default Period exists or would exist immediately after or as a result of any such loan or advance, loans or advances by any Subsidiary that is also a Borrower to Heska; provided, however, that both before and after such loan or advance both Heska's Tangible Net Worth and such Subsidiary's Tangible Net Worth must equal or exceed $100,000; and

(ix) unless (A) a Default Period exists or would exist immediately after or as a result of any such purchase or investment, or (B) Heska, on a consolidated basis, achieves Net Income of less than ($500,000) during the fiscal year ending December 31, 2005, a purchase of intellectual property rights concerning immunodiagnostic technology or an investment in an equity position in a company in the immunodiagnostic industry, not to exceed $1,000,000, which purchase or investment shall occur during the fiscal year ending December 31, 2006.

(b) Such Borrower will not create or permit to exist any Subsidiary; provided, however, that so long as no Default Period exists, upon written request by such Borrower, the Lender shall not withhold its consent to the creation of (i) any domestic subsidiary provided such Borrower causes such subsidiary to deliver to the Lender a guaranty, a security agreement, and UCC financing statements and other documents requested by the Lender to create a first priority security interest on behalf of the Lender, or to perfect such security interest, in all assets of such subsidiary, or (ii) any foreign subsidiary.

Section 7.5 Dividends. Such Borrower will not declare or pay any dividends (other than dividends payable solely in stock of such Borrower) on any class of its stock or make any payment on account of the purchase, redemption or other retirement of any shares of such stock or make any distribution in respect thereof, either directly or indirectly; provided, however, that so long as no Default Period then exists or would occur immediately following or as a result of such action, (A) any Borrower that is a Subsidiary of Heska may pay dividends to Heska so long as such Subsidiary's Tangible Net Worth both before and after such dividend equals or exceeds $100,000; and (B) Heska may repurchase capital stock of Heska held by any employee provided Heska is required to do so pursuant to any employee equity subscription agreement, stock ownership plan or stock option agreement in effect from time to time; and provided further that the aggregate price paid for all such repurchased, redeemed, acquired or retired capital shall not exceed $100,000 during any fiscal year. Notwithstanding the foregoing, the exercise of stock options for the purchase of Heska's capital stock shall not, by means of any deemed repurchase of shares as a result of a cashless exercise or otherwise, cause a breach of this Section 7.5.

Section 7.6 Sale or Transfer of Assets; Suspension of Business Operations. Such Borrower will not sell, lease, assign, transfer or otherwise dispose of (i) the stock of any Subsidiary, (ii) all or a substantial part of its assets, or (iii) any Collateral or any interest therein (whether in one transaction or in a series of transactions) to any other Person other than (A) sale of Inventory in the ordinary course of business; (B) licenses and sublicenses to third parties of patents, patent applications, trademarks and copyrights, in each case in the ordinary course of its business as currently conducted; (C) the sale of used equipment, provided that the aggregate amount of any such sales of equipment shall not exceed $100,000 during any year, unless the proceeds of such sales are delivered to the Lender for application against the Obligations; (D) sales or other dispositions of Investments permitted by Section 7.4; (E) sales of defaulted receivables to a collection agency in the ordinary course of business; and (F) other sales of assets with book value of not more than $100,000 during any fiscal year, for fair and reasonable consideration, to the extent such sale could not reasonably be expected to have a material adverse effect. Such Borrower will not in any manner transfer any property without prior or present receipt of full and adequate consideration.

Section 7.7 Consolidation and Merger; Asset Acquisitions. Such Borrower will not consolidate with or merge into any Person, or permit any other Person to merge into it, or acquire (in a transaction analogous in purpose or effect to a consolidation or merger) all or substantially all the assets of any other Person; provided, however, that the Lender will not unreasonably withhold its consent to any merger or acquisition.

Section 7.8 Restrictions on Nature of Business. Such Borrower will not engage in any line of business materially different from that presently engaged in by such Borrower and/or lines of business reasonably related or supplementing thereto and will not purchase, lease or otherwise acquire assets not related to its business.

Section 7.9 Accounting. Such Borrower will not adopt any material change in accounting principles other than as required by GAAP, the SEC, or NASDAQ. Such Borrower will not adopt, permit or consent to any change in its fiscal year.

Section 7.10 Capital Expenditures. The Borrowers, together with any Affiliates, will not incur or contract to incur, in the aggregate, Capital Expenditures in the aggregate during the fiscal year-to-date period ending on any date described below in excess of the amount set forth opposite such period:

Date	Maximum Capital Expenditures
November 30, 2005	$ 1,250,000
December 31, 2005	$ 1,250,000
January 1, 2006	$ 500,000
February 28, 2006	$ 500,000
March 31, 2006	$ 500,000
April 30, 2006	$ 750,000
May 31, 2006	$ 750,000
June 30, 2006	$ 750,000
July 31, 2006	$ 1,000,000
August 31, 2006	$ 1,000,000
September 30, 2006	$ 1,200,000
October 31, 2006	$ 1,200,000
November 30, 2006	$ 1,200,000
December 31, 2006	$ 1,200,000

Section 7.11 Discounts, etc. Such Borrower will not, following and during the continuance of an Event of Default, if requested by the Lender, grant any discount, credit or allowance to any customer of such Borrower or accept any return of goods sold, or modify, amend, subordinate, cancel or terminate the obligation of any account debtor or other obligor of such Borrower.

Section 7.12 Defined Benefit Pension Plans. Such Borrower will not adopt, create, assume or become a party to any defined benefit pension plan, unless disclosed to the Lender pursuant to Section 5.10.

Section 7.13 Other Defaults. Such Borrower will not permit any breach, default or event of default to occur under any note, loan agreement, indenture, lease, mortgage, contract for deed, security agreement or other contractual obligation binding upon such Borrower if the effect of such breach, default or event of default is to permit the lender thereof to accelerate the payment of $100,000 or more; provided, however, that such Borrower shall not be in breach hereunder so long as such breach, default or event of default is being contested in good faith by appropriate proceedings, for which proper reserves have been made, and the Lender has been given written notice of such content.

Section 7.14 Place of Business; Name. Such Borrower will not transfer its chief executive office or principal place of business, or move, relocate, close or sell any business location. Such Borrower will not permit any tangible Collateral or any records pertaining to the Collateral to be located in any state or area in which, in the event of such location, a financing statement covering such Collateral would be required to be, but has not in fact been, filed in order to perfect the Security Interest. Such Borrower will not change its name. Upon written request by any Borrower, after delivery by such Borrower of (a) financing statements, financing statement amendments, and other documents requested by the Lender for the purpose of perfecting or maintaining priority or perfection of the Security Interest and the other security interests evidenced by the Security Documents, and (b) searches and other proof requested by the Lender to evidence such priority and perfection, the Lender shall grant its consent to (x) a relocation of business locations or Collateral within the United States or (y) a change of any Borrower's name.

Section 7.15 Organizational Documents. Such Borrower will not become an S Corporation within the meaning of the Internal Revenue Code of 1986, as amended.

Section 7.16 Financing Statements. No Borrower will amend any financing statements showing the Lender as Secured Party or Assignee, or any other financing statements that are filed in favor of the Lender, except as permitted by law. Any authorization by the Lender to any Person to amend any such financing statements shall be in writing.

ARTICLE VIII

Events of Default, Rights and Remedies

Section 8.1 Events of Default. "Event of Default", wherever used herein, means any one of the following events:

(a) default in the payment of the Obligations (other than the Obligations specified in Section 8.1(b)) when they become due and payable;

(b) default in the payment of any fees, commissions, costs or expenses required to be paid by any Borrower under this Agreement or any other Loan Document within 5 Business Days of the date they become due and payable;

(c) default in the performance, or breach, of the covenants contained in Section 6.4(a) or Section 6.6(a) of this Agreement if such default remains unremedied 15 Business Days after its occurrence; or default in the performance, or breach, of any other covenant or agreement of any Borrower contained in this Agreement or any other Loan Document;

(d) Any Borrower or any Guarantor shall be or become insolvent, or admit in writing its or his inability to pay its or his debts as they mature, or make an assignment for the benefit of creditors; or any Borrower or any Guarantor shall apply for or consent to the appointment of any receiver, trustee, or similar officer for it or him or for all or any substantial part of its or his property; or such receiver, trustee or similar officer shall be appointed without the application or consent of such Borrower or such Guarantor, as the case may be; or any Borrower or any Guarantor shall institute (by petition, application, answer, consent or otherwise) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, dissolution, liquidation or similar proceeding relating to it or him under the laws of any jurisdiction; or any such proceeding shall be instituted (by petition, application or otherwise) against any Borrower or any such Guarantor; or any judgment, writ, warrant of attachment or execution or similar process shall be issued or levied against a substantial part of the property of any Borrower or any Guarantor;

(e) A petition shall be filed by or against any Borrower or any Guarantor under the United States Bankruptcy Code naming such Borrower or such Guarantor as debtor;

(f) Any representation or warranty made by any Borrower in this Agreement, by any Guarantor in any guaranty delivered to the Lender, or by any Borrower (or any of its officers) or any Guarantor in any agreement, certificate, instrument or financial statement or other statement contemplated by or made or delivered pursuant to or in connection with this Agreement or any such guaranty shall prove to have been incorrect in any material respect when deemed to be effective;

(g) The rendering against any Borrower of a final judgment, decree or order for the payment of money in excess of $100,000 and the continuance of such judgment, decree or order unsatisfied and in effect for any period of 30 consecutive days without a stay of execution;

(h) A default under any bond, debenture, note or other evidence of indebtedness of any Borrower owed to any Person other than the Lender, or under any indenture or other instrument under which any such evidence of indebtedness has been issued or by which it is governed, or under any lease of any of the Premises, and the expiration of the applicable period of grace, if any, specified in such evidence of indebtedness, indenture, other instrument or lease, if the effect of such default is to permit the lender thereof to accelerate the payment of indebtedness $100,000 or more;

(i) Any Reportable Event, which the Lender determines in good faith might constitute grounds for the termination of any Plan or for the appointment by the appropriate United States District Court of a trustee to administer any Plan, shall have occurred and be continuing 30 days after written notice to such effect shall have been given to such Borrower by the Lender; or a trustee shall have been appointed by an appropriate United States District Court to administer any Plan; or the Pension Benefit Guaranty Corporation shall have instituted proceedings to terminate any Plan or to appoint a trustee to administer any Plan; or any Borrower shall have filed for a distress termination of any Plan under Title IV of ERISA; or any Borrower shall have failed to make any quarterly contribution required with respect to any Plan under Section 412(m) of the Internal Revenue Code of 1986, as amended, which the Lender determines in good faith may by itself, or in combination with any such failures that the Lender may determine are likely to occur in the future, result in the imposition of a lien on such Borrower's assets in favor of the Plan;

(j) An event of default shall occur under any Security Document or under any other security agreement, mortgage, deed of trust, assignment or other instrument or agreement securing any obligations of any Borrower hereunder or under any note;

(k) Except as permitted by Section 7.6 of this Agreement, any Borrower shall liquidate, dissolve, terminate or suspend its business operations or otherwise fail to operate its business in the ordinary course, or sell all or substantially all of its assets, without the Lender's prior written consent;

(l) Any Borrower shall fail to pay, withhold, collect or remit any tax or tax deficiency when assessed or due (other than any tax deficiency which is being contested in good faith and by proper proceedings and for which it shall have set aside on its books adequate reserves therefor) or notice of any state or federal tax liens shall be filed or issued (unless such lien is being contested in good faith and by proper proceedings and for which it shall have set aside on its books adequate reserves therefor);

(m) Default in the payment of any amount owed by any Borrower to the Lender, other than any indebtedness arising hereunder;

(n) Any Guarantor shall repudiate, purport to revoke or fail to perform any such Guarantor's obligations under such Guarantor's guaranty in favor of the Lender, or any Guarantor shall cease to exist;

(o) Any event or circumstance with respect to any Borrower shall occur such that the Lender shall believe in good faith that the prospect of payment of all or any part of the Obligations or the performance by any Borrower under the Loan Documents is impaired or any material adverse change in the business or financial condition of any Borrower shall occur; or

(p) Any Borrower shall take or participate in any action which would be prohibited under the provisions of any Subordination Agreement or make any payment on Subordinated Indebtedness (as defined in any Subordination Agreement) that any Person was not entitled to receive under the provisions of such Subordination Agreement.

Section 8.2 Rights and Remedies. During any Default Period, the Lender may exercise any or all of the following rights and remedies:

(a) the Lender may, by notice to the Borrowers, declare the Commitment to be terminated, whereupon the same shall forthwith terminate;

(b) the Lender may, by notice to the Borrowers, declare the Obligations to be forthwith due and payable, whereupon all Obligations shall become and be forthwith due and payable, without presentment, notice of dishonor, protest or further notice of any kind, all of which each Borrower hereby expressly waives;

(c) the Lender may refuse to fund any requested Advance made by any Borrower;

(d) the Lender may, without notice to any Borrower and without further action, apply any and all money owing by the Lender to any Borrower to the payment of the Obligations;

(e) the Lender may exercise and enforce any and all rights and remedies available upon default to a secured party under the UCC, including, without limitation, the right to take possession of Collateral, or any evidence thereof, proceeding without judicial process or by judicial process (without a prior hearing or notice thereof, which each Borrower hereby expressly waives) and the right to sell, lease or otherwise dispose of any or all of the Collateral, and, in connection therewith, each Borrower will on demand assemble the Collateral and make it available to the Lender at a place to be designated by the Lender which is reasonably convenient to both parties;

(f) the Lender may exercise and enforce its rights and remedies under the Loan Documents; and

(g) the Lender may exercise any other rights and remedies available to it by law or agreement.

Notwithstanding the foregoing, upon the occurrence of an Event of Default described in subsections (d) or (e) of Section 8.1, the Obligations shall be immediately due and payable automatically without presentment, demand, protest or notice of any kind.

Section 8.3 Certain Notices. If notice to any Borrower of any intended disposition of Collateral or any other intended action is required by law in a particular instance, such notice shall be deemed commercially reasonable if given (in the manner specified in Section 9.5) at least ten calendar days before the date of intended disposition or other action.

ARTICLE IX

Miscellaneous

Section 9.1 Restatement of Former Credit Agreement. This Agreement is executed for the purpose of amending and restating the Former Credit Agreement.

Section 9.2 Release. Each Borrower hereby absolutely and unconditionally releases and forever discharges the Lender, the Participants and any and all parent corporations,

subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents and employees of any of the foregoing, from any and all claims, demands or causes of action of any kind, nature or description relating to the transactions contemplated by this Agreement, whether arising in law or equity or upon contract or tort or under any state or federal law or otherwise, which such Borrower has had or has made claim to have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time to and including the date of this Agreement, whether such claims, demands and causes of action are matured or unmatured or known or unknown. For greater certainty, nothing herein shall constitute a release by any Borrower of any Person for any such claim, demand or cause of action arising after the date of this Agreement.

Section 9.3 No Waiver; Cumulative Remedies. No failure or delay by the Lender in exercising any right, power or remedy under the Loan Documents shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy under the Loan Documents. The remedies provided in the Loan Documents are cumulative and not exclusive of any remedies provided by law.

Section 9.4 Amendments, Etc. No amendment, modification, termination or waiver of any provision of any Loan Document or consent to any departure by any Borrower therefrom or any release of a Security Interest shall be effective unless the same shall be in writing and signed by the Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No notice to or demand on any Borrower in any case shall entitle such Borrower to any other or further notice or demand in similar or other circumstances.

Section 9.5 Addresses for Notices, Etc. Except as otherwise expressly provided herein, all notices, requests, demands and other communications provided for under the Loan Documents shall be in writing and shall be (a) personally delivered, (b) sent by first class United States mail, (c) sent by overnight courier of national reputation, or (d) transmitted by telecopy, in each case addressed or telecopied to the party to whom notice is being given at its address or telecopier number as set forth below:

If to the Borrowers:

Heska Corporation
3760 Rocky Mountain Avenue
Loveland, Colorado 80538
Telecopier: 970-619-6003
Attention: Chief Financial Officer

Diamond Animal Health, Inc.
c/o Heska Corporation
3760 Rocky Mountain Avenue
Loveland, Colorado 80538
Telecopier: 970-619-6003
Attention: Chief Financial Officer

If to the Lender:

Wells Fargo Bank, National Association
MAC C7300-210
1740 Broadway
Denver, Colorado 80274
Telecopier: 303-863-4904
Attention: Tim Ulrich

or, as to each party, at such other address or telecopier number as may hereafter be designated by such party in a written notice to the other party complying as to delivery with the terms of this Section. All such notices, requests, demands and other communications shall be deemed to have been given on (a) the date received if personally delivered, (b) when deposited in the mail if delivered by mail, (c) the date sent if sent by overnight courier, or (d) the date of transmission if delivered by telecopy, except that notices or requests to the Lender pursuant to any of the provisions of Article II shall not be effective until received by the Lender.

Section 9.6 Further Documents. Each Borrower will from time to time execute and deliver or endorse any and all instruments, documents, conveyances, assignments, security agreements, financing statements and other agreements and writings that the Lender may reasonably request in order to secure, protect, perfect or enforce the Security Interest or the Lender's rights under the Loan Documents (but any failure to request or assure that any Borrower executes, delivers or endorses any such item shall not affect or impair the validity, sufficiency or enforceability of the Loan Documents and the

Security Interest, regardless of whether any such item was or was not executed, delivered or endorsed in a similar context or on a prior occasion). All requests under Section 9-210 of the UCC (i) shall be made in a writing signed by a person authorized under Section 2.2, (ii) shall be personally delivered, sent by registered or certified mail, return receipt requested, or by overnight courier of national reputation (iii) shall be deemed to be sent when received by the Lender and (iv) shall otherwise comply with the requirements of Section 9-210. The Borrowers request that the Lender respond to all such requests which on their face appear to come from an authorized individual and releases the Lender from any liability for so responding. The Borrowers shall pay Lender the maximum amount allowed by law for responding to such requests.

Section 9.7 Collateral. This Agreement does not contemplate a sale of accounts, contract rights or chattel paper, and, as provided by law, each Borrower is entitled to any surplus and shall remain liable for any deficiency. The Lender's duty of care with respect to Collateral in its possession (as imposed by law) shall be deemed fulfilled if it exercises reasonable care in physically keeping such Collateral, or in the case of Collateral in the custody or possession of a bailee or other third person, exercises reasonable care in the selection of the bailee or other third

person, and the Lender need not otherwise preserve, protect, insure or care for any Collateral. The Lender shall not be obligated to preserve any rights any Borrower may have against prior parties, to realize on the Collateral at all or in any particular manner or order or to apply any cash proceeds of the Collateral in any particular order of application.

Section 9.8 Costs and Expenses. Each Borrower, jointly and severally, agrees to pay on demand all costs and expenses, including (without limitation) reasonable attorneys' fees, incurred by the Lender in connection with the Obligations, this Agreement, the Loan Documents, and any other document or agreement related hereto or thereto, and the transactions contemplated hereby, including without limitation all such costs, expenses and fees incurred in connection with the negotiation, preparation, execution, amendment, administration, performance, collection and enforcement of the Obligations and all such documents and agreements and the creation, perfection, protection, satisfaction, foreclosure or enforcement of the Security Interest.

Section 9.9 Indemnity. In addition to the payment of expenses pursuant to Section 9.8, each Borrower, jointly and severally, agrees to indemnify, defend and hold harmless the Lender, and any of its participants, parent corporations, subsidiary corporations, affiliated corporations, successor corporations, and all present and future officers, directors, employees, attorneys and agents of the foregoing (the "Indemnitees") from and against any of the following (collectively, "Indemnified Liabilities"):

(i) any and all transfer taxes, documentary taxes, assessments or charges made by any governmental authority by reason of the execution and delivery of the Loan Documents or the making of the Advances;

(ii) any claims, loss or damage to which any Indemnitee may be subjected if any representation or warranty contained in Section 5.12 proves to be incorrect in any respect or as a result of any violation of the covenant contained in Section 6.4(b); and

(iii) any and all other liabilities, losses, damages, penalties, judgments, suits, claims, costs and expenses of any kind or nature whatsoever (including, without limitation, the reasonable fees and disbursements of counsel) in connection with the foregoing and any other investigative, administrative or judicial proceedings, whether or not such Indemnitee shall be designated a party thereto, which may be imposed on, incurred by or asserted against any such Indemnitee, in any manner related to or arising out of or in connection with the making of the Advances and the Loan Documents or the use or intended use of the proceeds of the Advances;

provided that no Borrower shall have any such obligation for any Indemnified Liabilities arising from any act or omission by an Indemnitee which constitutes gross negligence or willful misconduct. If any investigative, judicial or administrative proceeding arising from any of the foregoing is brought against any Indemnitee, upon such Indemnitee's request, each Borrower, or counsel designated by any such Borrower and satisfactory to the Indemnitee, will resist and defend such action, suit or proceeding to the extent and in the manner directed by the

Indemnitee, at such Borrower's sole costs and expense. Each Indemnitee will use its best efforts to cooperate in the defense of any such action, suit or proceeding. If the foregoing undertaking to indemnify, defend and hold harmless may be held to be unenforceable because it violates any law or public policy, each Borrower shall nevertheless make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities which is permissible under applicable law. Each Borrower's obligation under this Section 9.9 shall survive the termination of this Agreement and the discharge of such Borrower's other obligations hereunder.

Section 9.10 Participants. The Lender and its participants, if any, are not partners or joint venturers, and the Lender shall not have any liability or responsibility for any obligation, act or omission of any of its participants. All rights and powers specifically conferred upon the Lender may be transferred or delegated to any of the Lender's participants, successors or assigns.

Section 9.11 Execution in Counterparts. This Agreement and other Loan Documents may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same instrument.

Section 9.12 Binding Effect; Assignment; Complete Agreement; Exchanging Information. The Loan Documents shall be binding upon and inure to the benefit of the Borrowers and the Lender and their respective successors and assigns, except that no Borrower shall have the right to assign its rights thereunder or any interest therein without the Lender's prior written consent. This Agreement, together with the Loan Documents, comprises the complete and integrated agreement of the parties on the subject matter hereof and supersedes all prior agreements, written or oral, on the subject matter hereof. Without limiting the Lender's right to share information regarding any Borrower and its Affiliates with the Lender's participants (except that the Lender shall not share any information with a participant that is a competitor, or an affiliate of a competitor, of any such Borrower, in the area of researching, developing and manufacturing animal health products), accountants, lawyers and other advisors, the Lender, WFC Holdings Corporation, and all direct and indirect subsidiaries of WFC Holdings Corporation, may exchange any and all information they may have in their possession regarding any Borrower and its Affiliates, and each Borrower waives any right of confidentiality it may have with respect to such exchange of such information. To the extent permitted by law, each Borrower waives and will not assert against any assignee any claims, defenses or set-offs which such Borrower could assert against the Lender.

Section 9.13 Severability of Provisions. Any provision of this Agreement which is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof.

Section 9.14 Headings. Article and Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

Section 9.15 Governing Law; Jurisdiction, Venue; Waiver of Jury Trial. The Loan Documents shall be governed by and construed in accordance with the substantive laws (other than conflict laws) of the State of Colorado. The parties hereto hereby (i) consent to the personal

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jurisdiction of the state and federal courts located in the State of Colorado in connection with any controversy related to this Agreement; (ii) waive any argument that venue in any such forum is not convenient, (iii) agree that any litigation initiated by the Lender or any Borrower in connection with this Agreement or the other Loan Documents shall be venued in either the District Court for the City and County of Denver, Colorado, or the United States District Court, District of Colorado; and (iv) agree that a final judgment in any such suit, action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. **THE PARTIES WAIVE ANY RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED ON OR PERTAINING TO THIS AGREEMENT.**

Section 9.16 Retention of Borrowers' Records. The Lender shall have no obligation to maintain any electronic records or any documents, schedules, invoices, agings, or other papers delivered to the Lender by the Borrowers or in connection with the Loan Documents for more than four months after receipt by the Lender.

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

WELLS FARGO BANK, NATIONAL ASSOCIATION

By ______________________________
Tim Ulrich, Vice President

HESKA CORPORATION

By ______________________________
Jason Napolitano, Chief Financial Officer

DIAMOND ANIMAL HEALTH, INC.

By ______________________________
Jason Napolitano, Chief Financial Officer

Table of Exhibits and Schedules

Schedule 7.2	Permitted Indebtedness and Guaranties
Schedule 7.4	Investments

Exhibit A to Third Amended and Restated
Credit and Security Agreement

Premises

The Premises referred to in the Amended and Restated Credit and Security Agreement are described as follows:

Heska Corporation
3760 Rocky Mountain Avenue
Loveland, Colorado 80538

Diamond Animal Health, Inc.
2538 43rd Street SE
Des Moines, Iowa 50317

440 170th Avenue
Carlisle, Iowa

[***] — Certain information in this exhibit have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Exhibit B to Third Amended and Restated
Credit and Security Agreement

Compliance Certificate

To: ______________________________
Wells Fargo Business Credit

Date: _____________, 200___

Subject: Heska Corporation
Financial Statements

In accordance with our Third Amended and Restated Credit and Security Agreement dated as of December 30, 2005 (the "Credit Agreement"), attached are the financial statements of Heska Corporation ("Heska") as of and for ____________, 20__ (the "Reporting Date") and the year-to-date period then ended (the "Current Financials"). All terms used in this certificate have the meanings given in the Credit Agreement.

I certify that, to the best of my knowledge, the Current Financials have been prepared in accordance with GAAP, subject to year-end audit adjustments, and fairly present the Borrowers' financial condition and the results of its operations as of the date thereof.

Events of Default. (Check one):

o The undersigned does not have knowledge of the occurrence of a Default or Event of Default under the Credit Agreement.

o The undersigned has knowledge of the occurrence of a Default or Event of Default under the Credit Agreement and attached hereto is a statement of the facts with respect to thereto.

I hereby certify to the Lender as follows:

o The Reporting Date does not mark the end of one of the Borrowers' fiscal quarters, hence I am completing all paragraphs below except paragraph 4.

o The Reporting Date marks the end of one of the Borrowers' fiscal quarters, hence I am completing all paragraphs below .

Financial Covenants. I further hereby certify as follows:

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1. Accounts Payable. Pursuant to Section 6.5 of the Credit Agreement, as of the Reporting Date, Past Due Payables on a consolidated basis was $____________, which o satisfies o does not satisfy the requirement that the Borrowers have no Past Due Payables.

2. Spread. Pursuant to Section 2.7 of the Credit Agreement, as of the Reporting Date, Heska's prior-fiscal-year Net Income was, on a consolidated basis, $_______________, which determines a base Spread of _____% pursuant to the table below. Heska o has o has not raised at least $1,500,000 in Additional Capital as of the Reporting Date, leading to an o increase o decrease from the base Spread of _____%, so that the applicable Spread is equal to _____%.

Prior Fiscal Year Net Income	Spread
Less than $0	2.75%
Greater than or equal to $0 but less than $2,500,000	1.75%
Greater than or equal to $2,500,000	0.75%

3. Minimum Capital. Pursuant to Section 6.12 of the Credit Agreement, as of the Reporting Date, Heska's Capital was, on a consolidated basis, $_______________, which o satisfies o does not satisfy the requirement that such amount be not less than $_________ on the Reporting Date, as set forth in the table below and adjusted, if applicable, in accordance with Section 6.12:

Date		Minimum Capital
November 30, 2005	$	(150,000)
December 31, 2005	$	800,000
January 1, 2006	$	1,835,000
February 28, 2006	$	1,275,000
March 31, 2006	$	1,385,000
April 30, 2006	$	1,010,000
May 31, 2006	$	350,000
June 30, 2006	$	725,000
July 31, 2006	$	475,000
August 31, 2006	$	50,000
September 30, 2006	$	1,200,000
October 31, 2006	$	1,300,000
November 30, 2006	$	1,150,000
December 31, 2006	$	1,950,000
January 31, 2007 and the last day of each month thereafter	$	1,350,000

4. Minimum Net Income. Pursuant to Section 6.13 of the Credit Agreement, as of the Reporting Date, Heska's Net Income was, on a consolidated basis, $_______________, which o satisfies o does not satisfy the requirement that such amount be no less than $__________ on the Reporting Date, as set forth in the table below and adjusted, if applicable, in accordance with Section 6.13:

Period		Minimum Net Income
Twelve months ending December 31, 2005	$	(2,600,000)
Three months ending March 31, 2006	$	(1,850,000)
Six months ending June 30, 2006	$	(2,000,000)
Nine months ending September 30, 2006	$	(1,500,000)
Twelve months ending December 31, 2006	$	(750,000)

5. Minimum Liquidity. Pursuant to Section 6.14 of the Credit Agreement, as of the Reporting Date, Heska's Liquidity was, on a consolidated basis,

$_______________, which o satisfies o does not satisfy the requirement that such amount be no less than $1,500,000 on the Reporting Date.

6. Minimum Individual Book Net Worth. Pursuant to Section 6.15 of the Credit Agreement, as of the Reporting Date, Heska's Book Net Worth was $_______________ and Diamond's Book Net Worth was $_______________, which o satisfies o does not satisfy the requirement that such amounts be no less than zero on the Reporting Date.

7. Maximum Contributions. Pursuant to Section 7.4(a)(v) of the Credit Agreement, as of the Reporting Date, Heska's fiscal year-to-date aggregate contributions to non-Borrower Subsidiaries was $_______________, which o satisfies o does not satisfy the requirement that such amounts be no more than $700,000 during any fiscal year.

8. Capital Expenditures. Pursuant to Section 7.10 of the Credit Agreement, for the fiscal year-to-date period ending on the Reporting Date, Heska's Capital Expenditures were, in the aggregate and on a consolidated basis, $_______________ which o satisfies o does not

satisfy the requirement that such amount be not more than $______________ during the period ending on the Reporting Date, as set forth in the table below:

Date	Maximum Capital Expenditures
November 30, 2005	$ 1,250,000
December 31, 2005	$ 1,250,000
January 1, 2006	$ 500,000
February 28, 2006	$ 500,000
March 31, 2006	$ 500,000
April 30, 2006	$ 750,000
May 31, 2006	$ 750,000
June 30, 2006	$ 750,000
July 31, 2006	$ 1,000,000
August 31, 2006	$ 1,000,000
September 30, 2006	$ 1,200,000
October 31, 2006	$ 1,200,000
November 30, 2006	$ 1,200,000
December 31, 2006	$ 1,200,000

Attached hereto are all relevant facts in reasonable detail to evidence, and the computations of the financial covenants referred to above. These computations were made in accordance with GAAP.

HESKA CORPORATION

By ______________________________

Its ______________________________

Exhibit C to Third Amended and Restated
Credit and Security Agreement

Consolidating Balance Sheets

Schedule 5.1 to Third Amended and
Restated Credit and Security Agreement

Trade Names, Chief Executive Office, Principal Place of Business,
and Locations of Collateral

Trade Names

Diamond Animal Health, Inc.
Diamond
Diamond Animal Health
Diamond Scientific, Inc.
Heska
Heska Corp.
Heska Des Moines

Chief Executive Office/Principal Place of Business

Heska Corporation
3760 Rocky Mountain Avenue
Loveland, Colorado 80538

Diamond Animal Health, Inc.
2538 43rd Street SE

Des Moines, Iowa 50317

Other Inventory and Equipment Locations

440 170th Avenue
Carlisle, Iowa

Schedule 5.4 to Third Amended and
Restated Credit and Security Agreement

Subsidiaries

Heska Corporation Subsidiaries:
Diamond Animal Health, Inc. (Iowa)
Heska Holding AG (Switzerland)
Sensor Devices, Inc. (Wisconsin—inactive)

Diamond Animal Health, Inc. Subsidiaries:
None

Heska Holding AG Subsidiaries:
Heska AG (Switzerland)

Schedule 5.6 to Third Amended and
Restated Credit and Security Agreement

Litigation Matters

On September 9, 2005, United Vaccines, Inc. ("United"), a customer of Diamond, filed a lawsuit in Wisconsin against Diamond and Heska alleging various claims, including breach of contract and breach of warranty, and demanding compensatory and punitive damages. On October 20, 2005, Diamond and Heska filed a motion to dismiss certain claims against Diamond and all claims against Heska, as well as an answer to United's claims, affirmative defenses and counterclaims on behalf of Diamond. While Diamond and Heska intend to pursue the matter vigorously and believe they are entitled to damages from United and that United is not entitled to damages from Heska or Diamond, there can be no assurance the ultimate resolution of this case will reflect Heska's and Diamond's current beliefs.

Schedule 5.10 to Third Amended and
Restated Credit and Security Agreement

Plans

Borrower now maintains or has maintained the following employee pension benefit plans as defined in ERISA, 3(2), 29 U.S.C. 1002(2):

1. The Diamond Animal Health, Inc. Pension Plan for Collective Bargaining Unit Employees.

This Defined Benefit Pension Plan is currently frozen. No new participants may enter the plan nor are any contribution liabilities accruing. The plan has a funding liability of $235,974 for *Termination* purposes, calculated as of May 1, 1998; this liability is a result of the difference between the GATT rates used to calculate contributions and the PBGC rates required to be used by a terminating plan. Upon termination, participants must receive the larger of the accrued benefit calculated using GATT rates and using PBGC rates. Since the PBGC rates have been consistently lower than the GATT rates, the Pension Plan has a funding liability on termination. The Plan can remain frozen until such time as the PBGC rates match the GATT rates or Diamond chooses to contribute funds to make up the termination funding liability. The termination funding liability varies from year to year based upon fluctuations in interest and mortality rates.

The Plan does not have a funding liability under the provisions of Internal Revenue Code 412, and there are no reportable events.

2. The Diamond Animal Health, Inc. Saving Plan (the "Savings Plan").

The Savings Plan is a profit sharing/401(k) plan. It was merged into the Heska Corporation 401(k) Plan (the "Heska Plan") effective January 1, 1998. Diamond Animal Health, Inc. is the wholly owned subsidiary of its parent, Heska Corporation. Diamond Animal Health, Inc. was acquired by Heska Corporation in April, 1996. At the time of the acquisition, both Heska and Diamond sponsored 401(k) plans. In accordance with the provisions of Treas. Reg. 1.401(k)-1(d)(3), Heska Corporation determined that it would be in the best interests of both Heska and Diamond to merge the Savings Plan into the Heska Plan. Both plans have been submitted to the Internal Revenue Service for a Determination that:

(1) the Savings Plan was a tax-qualified plan as of the effective date of the merger; and

(2) the Heska Plan remains a tax-qualified plan on and after the merger date.

3. The Heska Corporation 401(k) Plan (the "Heska Plan")

The Heska Plan is a defined contribution plan that was established under the provisions of Section 401(a) of the Internal Revenue Code ("IRC"), which includes a qualified deferred arrangement as defined in Section 401(k) of the IRC, for the benefit of eligible employees of

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Heska Corporation. The Heska Plan is subject to the provisions of ERISA. Benefits under the plan are not guaranteed by the Pension Benefit Guaranty Corporation. On July 1, 2003, the Heska Plan changed custodians and record keepers from Principal Life Insurance Company to Putnam Fiduciary Trust Company.

Schedule 5.12 to Third Amended and
Restated Credit and Security Agreement

Environmental Matters

Settlement Agreement between Williams Pipe Line Company and Bayer Corporation

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Schedule 7.1 to Third Amended and
Restated Credit and Security Agreement

Permitted Liens

Creditor	Collateral	Jurisdiction	Filing Date	Filing No.

None

[***] — Certain information in this exhibit have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Schedule 7.2 to Third Amended and
Restated Credit and Security Agreement

Permitted Indebtedness and Guaranties

Indebtedness

Diamond Animal Health, Inc.

Lender	Final Pmt Due	Type	Amt Due	Assets Secured
Bankers Leasing	11/2008	Cap Lease	$ 9,615	Copier
Bankers Leasing	4/2009	Cap Lease	$ 17,914	Copier
City of Des Moines	6/2006	LTD	$ 40,310	Subordinated
[***]	5/2006	LTD	$ 500,000	Subordinated

Guaranties

Primary Obligor	Amount and Description of Obligation Guaranteed	Beneficiary of Guaranty

NONE.

Schedule 7.4 to Third Amended and
Restated Credit and Security Agreement

Investments

Diamond Animal Health, Inc.

Stancorp Financial Group Inc. (shares received in demutualization)(SFG)	1,008 shares

Investments in Subsidiaries

As of November 30, 2005 Heska Corporation had the following investments in subsidiaries:

Diamond Animal Health, Inc.	$ 297,350
European Subsidiaries	$ 6,805,913

Exhibit 10.28

[***] — Certain information in this exhibit have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

FIRST AMENDMENT TO THIRD AMENDED AND RESTATED CREDIT AND SECURITY AGREEMENT

This Amendment, dated as of December 5, 2006, is made by and between Heska Corporation, a Delaware corporation ("Heska"), Diamond Animal Health, Inc., an Iowa corporation ("Diamond") (each of Heska and Diamond may be referred to herein individually as a "Borrower" and collectively as the "Borrowers"), and Wells Fargo Bank, National Association, operating through its Wells Fargo Business Credit operating division (the "Lender").

Recitals

The Borrowers and the Lender are parties to a Third Amended and Restated Credit and Security Agreement dated as of December 30, 2005 (as the same may be hereafter amended from time to time, the "Credit Agreement"). Capitalized terms used in these recitals have the meanings given to them in the Credit Agreement unless otherwise specified.

The Borrowers have requested that certain amendments be made to the Credit Agreement, which the Lender is willing to make pursuant to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, it is agreed as follows:

1. Defined Terms. Capitalized terms used in this Amendment which are defined in the Credit Agreement shall have the same meanings as defined therein, unless otherwise defined herein. In addition, Section 1.1 of the Credit Agreement is amended by adding or amending, as the case may be, the following definitions:

"Additional Capital Increase" shall have the meaning set forth in Section 2.22.

"Available Additional Capital" means [***] of the amount, if any, by which Additional Capital exceeds [***].

"Capital Expenditures" for any Borrower for a period means the sum of (a) any expenditure of money for the purchase or construction of assets, or for improvements or additions thereto during such period, which are capitalized on such Borrower's balance sheet, whether financed or unfinanced, but excluding expenditures to purchase Rental Inventory, plus (b) all expenditures of money to purchase Rental Inventory in excess of the Rental Inventory Cap during the fiscal year in which such period occurs.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

"Investment Cap" means [***], unless said amount is increased pursuant to Section 2.22, in which event it means the amount to which said amount is increased.

"Rental Inventory Cap" means $1,500,000, unless said amount is increased pursuant to Section 2.22, in which event it means the amount to which said amount is increased.

2. Inventory Cap. The figure "$4,500,000" in clause (iii) of the definition of "Borrowing Base" is replaced by the figure "$4,750,000."

3. Use of Available Additional Capital. Article 2 of the Credit Agreement is hereby amended by inserting therein a new Section 2.22 to read in its entirety as follows:

"Section 2.22 Use of Available Additional Capital. Pursuant to the procedure set forth in this Section 2.22 and so long as no Default Period then exists, the Borrowers from time to time may increase one or more of the Investment Cap, the Rental Inventory Cap and the Capital Expenditures amounts set forth in Section 7.10 in an aggregate amount equal to Available Additional Capital (the "Additional Capital Increase"). Before making an Additional Capital Increase:

(a) the Borrowers shall send to the Lender a written request containing a statement by a responsible officer of the Borrowers setting forth in sufficient detail the amount of Additional Capital raised as of that time and the amounts of Available Additional Capital which the Borrowers requests approval for to allocate to each of the Investment Cap, the Rental Inventory Cap and the Capital Expenditures amounts set forth in Section 7.10; and

(b) the Lender shall send a written acknowledgement to the Borrowers agreeing to the amount of Available Additional Capital."

4. Projections. Sub-section (f) of Section 6.1 of the Credit Agreement is hereby amended to read in its entirety as follows:

"(f) on or before April 30 of each year, the projected balance sheets and income statements for each of the subsequent twelve months, each in reasonable detail, representing each Borrower's good faith projections and certified by such Borrower's chief financial officer as being the most accurate projections available and identical to the projections used by such Borrower for internal planning purposes, together with such supporting schedules and information as the Lender may in its discretion require;"

5. Financial Covenants. Sections 6.12, 6.13 and 6.16 of the Credit Agreement are hereby amended to read in their entireties as follows:

"Section 6.12 Minimum Capital. Heska will maintain, on a consolidated basis, as of each date listed below, its Capital at an amount not less than the amount set forth opposite such date (amounts in parentheses denote negative numbers):

Date	Minimum Capital
November 30, 2006	[***]
December 31, 2006	[***]
January 31, 2007	[***]
February 28, 2007	[***]
March 31, 2007	[***]
April 30, 2007	[***]
May 31, 2007	[***]
June 30, 2007	[***]
July 31, 2007 and the last day of each month thereafter	[***]

In addition to the foregoing, if Heska makes a purchase of intellectual property rights by June 30, 2007, as contemplated by Section 7.4(a)(ix), to the extent the purchase is expensed in accordance with GAAP, the Minimum Capital amounts listed above occurring after the date of such purchase shall be adjusted downward on a dollar-for-dollar basis by the amount of such expense, not to exceed the Investment Cap."

"Section 6.13 Minimum Net Income. Heska will achieve, on a consolidated basis, during each period described below, Net Income in an amount not less than the amount set forth opposite such period (amounts in parentheses denote negative numbers):

Period	Minimum Net Income
Twelve months ending December 31, 2006	[***]
Three months ending March 31, 2007	[***]
Six months ending June 30, 2007	[***]

In addition to the foregoing, if Heska makes a purchase of intellectual property rights by June 30, 2007, as contemplated by Section 7.4(a)(ix), to the extent the purchase is expensed in accordance with GAAP, the Minimum Net Income amounts listed above occurring after the date of such purchase shall be adjusted downward on a dollar-for-dollar basis by the amount of such expense, not to exceed the Investment Cap."

"Section 6.16 New Covenants. Annually, on or before May 31, the Borrowers and the Lender shall agree on new covenant levels for Sections 6.12, 6.13, 6.14, 7.4(a)(v) and 7.10 for periods after such date. The new covenant levels

will be based on (i) the Borrowers' projections for such periods and (ii) the year to date financial results of Heska, on a consolidated basis, and such new covenant levels shall be no less stringent than the present levels. An Event of Default shall occur if the new covenants are not agreed to by the above date."

6. Investments. Clause (ix) of Section 7.4(a) of the Credit Agreement is hereby amended to read in its entirety as follows:

"(ix) unless a Default Period exists or would exist immediately after or as a result of any such purchase or investment, a purchase of intellectual property rights concerning immunodiagnostic technology or an investment in an equity position in a company in the immunodiagnostic industry, not to exceed the Investment Cap, which purchase or investment shall occur on or before June 30, 2007."

7. Capital Expenditures. Section 7.10 of the Credit Agreement is hereby amended to read in its entirety as follows:

"Section 7.10 Capital Expenditures. The Borrowers, together with any Affiliates, will not incur or contract to incur, in the aggregate, Capital Expenditures in the aggregate during the fiscal year-to-date period ending on any date described below in excess of the amount set forth opposite such period:

Period	Maximum Capital Expenditures
November 30, 2006	[***]
December 31, 2006	[***]
January 31, 2007	[***]
February 28, 2007	[***]
March 31, 2007	[***]
April 30, 2007	[***]
May 31, 2007	[***]

In addition to the foregoing, the amounts set forth above shall be adjusted upward on a dollar-for-dollar basis by the amount allocated for such purpose in accordance with Section 2.22."

8. Compliance Certificate. Exhibit B to the Credit Agreement is replaced in its entirety by Exhibit A to this Amendment.

9. No Other Changes. Except as explicitly amended by this Amendment, all of the terms and conditions of the Credit Agreement shall remain in full force and effect and shall apply to any advance or letter of credit thereunder.

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10. Consent to Merger. The Lender hereby consents to the merger of Heska Holdings AG into Heska AG.

11. Conditions Precedent. This Amendment, including the consent set forth in paragraph 10, shall be effective when the Lender shall have received an executed original hereof, together with the following, each in form and substance acceptable to the Lender in its sole discretion:

(a) A Certificate of Authority of the Borrowers certifying as to the resolutions of the boards of directors of the Borrowers approving the execution and delivery of this Amendment.

(b) Such other matters as the Lender may require.

12. Representations and Warranties. The Borrowers hereby represent and warrant to the Lender as follows:

(a) The Borrowers have all requisite power and authority to execute this Amendment and to perform all of its obligations hereunder, and this Amendment has been duly executed and delivered by the Borrowers and constitute the legal, valid and binding obligation of the Borrowers, enforceable in accordance with their terms.

(b) The execution, delivery and performance by the Borrowers of this Amendment have been duly authorized by all necessary corporate action and do not (i) require any authorization, consent or approval by any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) violate any provision of any law, rule or regulation or of any order, writ, injunction or decree presently in effect, having applicability to the Borrowers, or the articles of incorporation or by-laws of the Borrowers, or (iii) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease or instrument to which any Borrower is a party or by which it or its properties may be bound or affected.

(c) All of the representations and warranties contained in Article V of the Credit Agreement are correct on and as of the date hereof as though made on and as of such date, except to the extent that such representations and warranties relate solely to an earlier date.

13. No Waiver. The execution of this Amendment and acceptance of any documents related hereto shall not be deemed to be a waiver of any Default or Event of Default under the Credit Agreement or breach, default or event of default under any Security Document or other document held by the Lender, whether or not known to the Lender and whether or not existing on the date of this Amendment.

14. Release. The Borrowers hereby absolutely and unconditionally release and forever discharge the Lender, and any and all participants, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents and employees of any of the foregoing, from any and all claims, demands or causes of action of any kind, nature or description, whether arising in law or equity or upon contract or tort or under any state or federal

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law or otherwise, which any Borrower has had, now has or has made claim to have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time to and including the date of this Amendment, whether such claims, demands and causes of action are matured or unmatured or known or unknown.

15. Costs and Expenses. The Borrowers hereby reaffirm their agreement under the Credit Agreement to pay or reimburse the Lender on demand for all costs and expenses incurred by the Lender in connection with the Loan Documents, including without limitation all reasonable fees and disbursements of legal counsel. Without limiting the generality of the foregoing, the Borrowers specifically agree to pay all fees and disbursements of counsel to the Lender for the services performed by such counsel in connection with the preparation of this Amendment and the documents and instruments incidental hereto. The Borrowers hereby agree that the Lender may, at any time or from time to time in its sole discretion and without further authorization by the Borrowers, make a loan to the Borrowers under the Credit Agreement, or apply the proceeds of any loan, for the purpose of paying any such fees, disbursements, costs and expenses.

16. Miscellaneous. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original and all of which counterparts, taken together, shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first written above.

HESKA CORPORATION DIAMOND ANIMAL HEALTH, INC

By /s/ Jason Napolitano Its Chief Financial Officer	By /s/ Jason Napolitano Its Chief Financial Officer

WELLS FARGO BANK, NATIONAL ASSOCIATION

By /s/ Tim Ulrich
Tim Ulrich, Vice President

Exhibit A to First Amendment

Compliance Certificate

To: ______________________________
Wells Fargo Business Credit

Date: ___________________, 200___

Subject: Heska Corporation
Financial Statements

In accordance with our Third Amended and Restated Credit and Security Agreement dated as of December 30, 2005 (the "Credit Agreement"), attached are the financial statements of Heska Corporation ("Heska") as of and for _________________, 20___ (the "Reporting Date") and the year-to-date period then ended (the "Current Financials"). All terms used in this certificate have the meanings given in the Credit Agreement.

I certify that, to the best of my knowledge, the Current Financials have been prepared in accordance with GAAP, subject to year-end audit adjustments, and fairly present the Borrowers' financial condition and the results of its operations as of the date thereof.

Events of Default. (Check one):

o The undersigned does not have knowledge of the occurrence of a Default or Event of Default under the Credit Agreement.

o The undersigned has knowledge of the occurrence of a Default or Event of Default under the Credit Agreement and attached hereto is a statement of the facts with respect to thereto.

I hereby certify to the Lender as follows:

o The Reporting Date does not mark the end of one of the Borrowers' fiscal quarters, hence I am completing all paragraphs below except paragraph 4.

o The Reporting Date marks the end of one of the Borrowers' fiscal quarters, hence I am completing all paragraphs below .

Financial Covenants. I further hereby certify as follows:

1. Accounts Payable. Pursuant to Section 6.5 of the Credit Agreement, as of the Reporting Date, Past Due Payables on a consolidated basis was $__________________, which o satisfies o does not satisfy the requirement that the Borrowers have no Past Due Payables.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

2. Spread. Pursuant to Section 2.7 of the Credit Agreement, as of the Reporting Date, Heska's prior-fiscal-year Net Income was, on a consolidated basis, $__________________, which determines a base Spread of ______% pursuant to the table below. Heska o has o has not raised at least [***] in Additional Capital as of the Reporting Date, leading to an o increase o decrease from the base Spread of ______%, so that the applicable Spread is equal to ______%.

Prior Fiscal Year Net Income	Spread
Less than $0	2.75%
Greater than or equal to $0 but less than $2,500,000	1.75%
Greater than or equal to $2,500,000	0.75%

3. Minimum Capital. Pursuant to Section 6.12 of the Credit Agreement, as of the Reporting Date, Heska's Capital was, on a consolidated basis, $_________________, which o satisfies o does not satisfy the requirement that such amount be not less than $_____________ on the Reporting Date, as set forth in the table below and adjusted, if applicable, in accordance with Section 6.12:

Date	Minimum Capital
November 30, 2006	[***]
December 31, 2006	[***]
January 1, 2007	[***]
February 28, 2007	[***]
March 31, 2007	[***]
April 30, 2007	[***]
May 31, 2007	[***]
June 30, 2007	[***]
July 31, 2007 and the last day of each month thereafter	[***]

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

4. Minimum Net Income. Pursuant to Section 6.13 of the Credit Agreement, as of the Reporting Date, Heska's Net Income was, on a consolidated basis, $_________________, which o satisfies o does not satisfy the requirement that such amount be no less than $______________ on the Reporting Date, as set forth in the table below and adjusted, if applicable, in accordance with Section 6.13:

Period	Minimum Net Income
Twelve months ending December 31, 2006	[***]
Three months ending March 31, 2007	[***]
Six months ending June 30, 2007	[***]

5. Minimum Liquidity. Pursuant to Section 6.14 of the Credit Agreement, as of the Reporting Date, Heska's Liquidity was, on a consolidated basis, $_________________, which o satisfies o does not satisfy the requirement that such amount be no less than $1,500,000 on the Reporting Date.

6. Minimum Individual Book Net Worth. Pursuant to Section 6.15 of the Credit Agreement, as of the Reporting Date, Heska's Book Net Worth was $_________________ and Diamond's Book Net Worth was $_________________, which o satisfies o does not satisfy the requirement that such amounts be no less than zero on the Reporting Date.

7. Maximum Contributions. Pursuant to Section 7.4(a)(v) of the Credit Agreement, as of the Reporting Date, Heska's fiscal year-to-date aggregate contributions to non-Borrower Subsidiaries was $_________________, which o satisfies o does not satisfy the requirement that such amounts be no more than $700,000 during any fiscal year.

8. Capital Expenditures. Pursuant to Section 7.10 of the Credit Agreement, for the fiscal year-to-date period ending on the Reporting Date, Heska's Capital Expenditures were, in the aggregate and on a consolidated basis, $_______________ which o satisfies o does not satisfy the requirement that such amount be not more than $_______________ during the period ending on the Reporting Date, as set forth in the table below and adjusted, if applicable, in accordance with Section 7.10:

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Date	Maximum Capital Expenditures
November 30, 2006	[***]
December 31, 2006	[***]
January 1, 2007	[***]
February 28, 2007	[***]
March 31, 2007	[***]
April 30, 2007	[***]
May 31, 2007	[***]
June 30, 2007	[***]

Attached hereto are all relevant facts in reasonable detail to evidence the computations of the financial covenants referred to above. These computations were made in accordance with GAAP.

HESKA CORPORATION

By ____

Its

Exhibit 10.29

[***] — Certain information in this exhibit have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

SUPPLY AND LICENSE AGREEMENT

This Agreement is entered into on 1 August 2003 ("Effective Date"), by and between Heska Corporation, a Delaware corporation, having a principal place of business at 1613 Prospect Parkway, Fort Collins, Colorado 80525 ("Heska") and Schering-Plough Animal Health Corporation, a Delaware corporation, having a place of business at 1095 Morris Avenue, Union, New Jersey 07083-1982 ("Schering").

WHEREAS, Heska is engaged in the development, manufacture, marketing and sale of products for use in animal health and has the capability of manufacturing such products for third parties;

WHEREAS, Schering is engaged in the business of developing, manufacturing, marketing and sale of certain veterinary products;

WHEREAS, Schering desires Heska to supply the Product (as defined below) for the exclusive marketing and sales by Schering in the veterinary channel; and

WHEREAS, the Parties (as defined below) anticipate the commercial launch of the Product in September or October, 2003.

NOW, THEREFORE, in consideration of the mutual covenants set forth in this Agreement, the Parties hereby agree as follows:

1. **Definitions**

1.1 "Adverse Event" shall mean: (a) any unexpected or expected side effect, injury, toxicity or sensitivity reaction associated with the clinical use, studies, investigations or tests of the Product, whether or not attributable to the Product; (b) any unexpected side effects, injury, toxicity, sensitivity reaction or any unexpected incidence or severity thereof occurring in humans from exposure during the manufacture, testing, or handling of any Product; or (c) any failure of the Product to exhibit its expected pharmacological activities.

1.2 "Affiliate" shall mean: (a) a business entity that owns, directly or indirectly, a controlling interest in a Party to this Agreement, by stock ownership or otherwise; or (b) a business entity that is majority owned by a Party to this Agreement, either directly or indirectly, by stock ownership or otherwise; or (c) a business entity, the majority ownership of which is directly or indirectly common to the majority ownership of a Party to this Agreement. The term "control" as used herein shall mean the direct or beneficial ownership of greater than fifty percent (50%) of the voting share capital of such corporation or business entity.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

1.3 "Calendar Year" shall mean, with respect to the first Calendar Year, the period commencing on the Effective Date and ending on December 31 of the same year. The second and all subsequent Calendar Years shall commence on January 1 and end on December 31 of each year thereafter. "Calendar Quarter" shall mean each three (3) month period ending on the last day of March, June, September and December.

1.4 "Effective Date" shall mean the date first noted above.

1.5 "FDA" shall mean the United States Department of Food and Drug Administration.

1.6 "Heska" shall mean Heska Corporation and its Affiliates.

1.7 [***]

1.8 "Party or Parties" shall mean Heska and/or Schering as the context indicates.

1.9 [***] set forth in Appendix D.

1.10 [***]

1.11 "Product" shall mean the chewable tablets for dogs (ivermectin and pyrantel in proprietary, highly palatable tablet-based formulation) under ANADA No. 200-338.

1.12 "Product Quality Complaint" shall mean: (a) information that causes the Product or its labeling to be mistaken for, or applied to, another article; (b) information concerning any bacteriological contamination, or any significant chemical, physical, or other change or deterioration in the Product, or any failure of one of more distributed batches of the Product to meet the specifications set forth in Appendix B; or (c) any other product quality complaint that is related to the Product's identity, strength, quality, or purity or that alleges a product defect.

1.13 "Responsible Person" shall mean the individual designated by Schering or Heska from time to time, who has responsibility for ensuring compliance with (a) the Adverse Event and Product Quality Complaint requirements, (b) requirements of 21 CFR § 510.300 and 21 CFR § 514.80, and (c) quality assurance requirements on behalf of Schering and Heska for the Product.

1.14 "Schering" shall mean Schering-Plough Animal Health Corporation and its Affiliates, if any.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

1.15 "Territory" shall mean the United States, its territories, commonwealths and possessions.

1.16 "Veterinarians" shall mean veterinarians, veterinary clinics and veterinary hospitals that will provide the Product only to their patients in a situation in which there is a doctor-patient relationship between a veterinarian and the patient with respect to the Product. Veterinarians also shall include veterinary distributors and e-commerce outlets that sell the Product under a prescription to veterinarians, veterinary clinics and veterinary hospitals.

2. **Supply of Product**

2.1 Supply.

(a) During the term of this Agreement, Heska shall be the exclusive supplier of the Product to Schering solely for the exclusive distribution and sale of the Product by Schering to Veterinarians in the Territory. Schering shall have the right to [***] with its sale of the Product in the Territory.

(b) [***]

(c) [***]

2.2 Forecasts. At least thirty (30) days prior to each Calendar Quarter, Schering shall provide Heska with a rolling forecast of the quantity of the Product that will be needed by Schering for each of the next twelve (12) months. Each forecast shall specify the estimated requirements for the Product by month, with anticipated shipment dates specified for the first four (4) months of each forecast. The balance of the forecast shall represent reasonable estimates for planning purposes and shall not obligate Schering to purchase or Heska to supply the specified quantities.

2.3 Purchase Orders. Schering shall submit to Heska a firm written purchase order specifying the types, quantities and shipment date of the Product that it desires to purchase at least one hundred and twenty (120) days prior to the requested shipment date. Heska will review each written purchase order within ten (10) business days of receipt and issue either a written confirmation of acceptance or its proposed modification in writing, including, without limitation, a modified shipment date to accommodate Heska's scheduling requirements. Should the modification be unacceptable, Schering shall notify Heska in writing of its intent to cancel the purchase order within ten (10) business days from the receipt of Heska's proposed modification. If Schering does not provide Heska with a written notice (including, without limitation, electronic mail) of its intent to cancel within the specified time period, the modification shall be deemed accepted by Schering. Schering may not cancel purchase orders for the Product that have been formally

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accepted by Heska. Notwithstanding the foregoing, Heska hereby represents that it shall, at all times, use commercially reasonable efforts to diligently complete and ship (or cause to be diligently completed and shipped) any such purchase orders of Schering. In the event that Heska allows an extended backorder of the Product for a period of more than sixty (60) days, except in the case of a force majeure event as defined in Section 9.8 hereof, Heska shall provide Schering with a discount of ten percent (10%) for such purchase order. Should the backorder extend to more than ninety (90) days, Heska shall provide Schering with a discount of twenty percent (20%) for such purchase order. Notwithstanding the foregoing, Product shipment dates for purchase orders with a 2003 shipment date shall not be subject to the discounts set forth herein, although Heska shall use commercially reasonable efforts to ship such Product under a schedule mutually agreed to by the Parties.

2.4 Shipment and Delivery. The Product shall be shipped in accordance with Schering's written instructions provided in each purchase order accepted by Heska and to the location designated by Schering. With respect to all purchase orders, title to the Product and the risk of loss, theft, destruction or damage to the Product shall pass from Heska to Schering upon delivery of the Product to the common carrier designated for shipment.

2.5 Acceptance and Rejections.

(a) Each shipment of the Product to Schering shall be accompanied by a certificate of analysis. The certificate shall be issued in compliance with the specifications set forth in Appendix B, a copy of which is attached hereto and made a part hereof, which specifications shall be used for the acceptance or rejection of the Product by Schering.

(b) Schering shall inform Heska in writing of its rejection of any Product for visible defects within five (5) business days after receipt of the Product and shall specify the basis for the rejection. If the basis for the rejection is mutually agreed to by the Parties, Schering may return the Product at Heska's expense for refund or credit, such choice of refund or credit to be at the choice of Heska. Failure by Schering to reject a shipment of the Product in accordance with this Section 2.5(b) shall be deemed to be an acceptance of the Product.

2.6 Minimum Purchase Sizes. The minimum purchase size per purchase order shall be as specified in Appendix A, a copy of which is attached hereto and made a part hereof.

2.7 [***]

2.8 Recalls. In the event: (i) any government authority issues a request, directive or order that the Product be recalled, or (ii) a court of competent jurisdiction

orders such a recall, or (iii) Heska or Schering reasonably determines that the Product should be recalled because such Product does not conform to the specifications identified in Appendix B hereof, the Parties shall take all appropriate corrective action reasonably requested by the other Party, by any government agency or by any court order, as the case may be. In the event such recall results from the fault of a Party, such Party shall pay all costs associated with the recall. For purposes of this Agreement, the expenses of a recall shall mean all reasonable expenses of notification and destruction, all reasonable processing and transportation costs of both Parties in the return of the recalled Product, and the cost of the replacement Product if and when available.

2.9 Maintenance of Regulatory Approval. Heska shall be solely responsible for all costs, filings, studies or other actions required to obtain and maintain regulatory approval allowing for the sale and distribution of the Product in the Territory during the period of time that Heska is the exclusive supplier of Schering's requirements for the Product. Schering shall provide reasonable, non-financial assistance as requested by Heska for such purpose.

2.10 Labels. Heska shall pay the cost of obtaining approved labels for the Product and shall provide such labels with the Product for sale and distribution by Schering. The Parties hereby agree that any modification which reflects (a) a change of the company name or logo from Heska to Schering, and/or (b) an addition of the company name or logo of Schering, on or to the packaging or labeling of the Product shall be made at no cost to Schering as long as Schering shall provide Heska with the artwork for any such change or addition. Should Schering wish to make any other substantive changes to the labels provided by Heska, Schering shall pay for all costs associated with obtaining regulatory approval of and producing such modified labels.

2.11 No Modification or Analysis of Product. Unless otherwise agreed by Heska in writing, Schering shall not: (a) sell the Product other than in its original, unmodified, and unused condition, (b) remove, obscure or modify any label supplied by Heska, (c) add any label or mark to any Product without the prior written consent of Heska, nor (d) promote any Product under any name or mark other than the names and trademarks provided by Heska without the prior written consent of Heska. Schering acknowledges that the Product formulation is a trade secret and agrees not to analyze the Product, nor have the Product analyzed, for purposes of identifying the Product formulation. Notwithstanding the foregoing, Schering shall have the right to have the Product analyzed by an independent third party for purposes of complying with applicable laws, if and whenever necessary, with the prior written consent of Heska, which consent shall not be unreasonably withheld, provided that the independent third party only discloses whether the Product complies with applicable laws and will not disclose any confidential information pertaining to the identification of the Product formulation.

2.12 Resale. Nothing in this Agreement shall restrict Schering's right to determine the resale price of the Product to Veterinarians in the Territory.

2.13 Sales Efforts. Schering shall use commercially reasonable efforts to develop and promote the sale and distribution of the Product to Veterinarians in the Territory. Such activities shall include incorporating the Product into Schering's promotional literature, provided that Schering shall furnish Heska with copies of all such promotional materials. Schering represents and warrants it shall not intentionally advertise or promote any false or misleading information about the Product.

2.14 Customer Support. Schering shall maintain throughout the Territory customer service phone support to explain the labeled uses of the Product.

2.15 Document and Reserve Sample Retention.

(a) All documents, records and reports associated with the manufacture, holding, storage, packaging or testing of the Product at Heska's facility or on behalf of Heska shall be retained by or on behalf of Heska for not less than five (5) years from the date of manufacture, or as otherwise directed by Schering if less than five (5) years. All such documents, records and reports must be prepared and retained by Heska in accordance with 21 C.F.R. § 211.180 and in such a manner that they are (i) readily retrievable and (ii) stored in an environment suitable to prevent damage or loss. Heska shall provide copies of all such documents and reports to Schering as reasonably requested and as set forth in Section 5.3 hereof.

(b) Heska shall retain in accordance with 21 C.F.R. § 211.170 reserve samples of the Product that are representative of each lot in each shipment of the Product.

2.16 Packaging Requirements. Unless otherwise specified by Schering, Heska shall package and pack the contents of each purchase order in a manner that is: (a) in accordance with good commercial practice, (b) acceptable to common carriers for shipment, and (c) adequate to insure safe arrival of the goods at the named destination. Heska shall mark all containers and packaging with the necessary lifting, handling and shipping information. Each shipment shall be accompanied by a packing slip, which shall include the applicable purchase order number.

2.17 Adverse Events and Product Quality Complaints.

A. Adverse Event.

(a) Heska and Schering shall notify the other Party in writing (including, without limitation, electronic mail) of any Adverse Event that either Party becomes aware of from any source and in any form relating to the Product within three (3) business days of receiving that information by transmitting it to the Responsible Person at Schering or Heska, as appropriate. All such information shall be transmitted in English to the Responsible Person of each Party in accordance with such instructions as the Responsible Person of each Party shall provide to the other Party from time to time. Such notice shall include the name, address, and

telephone number of the initial reporter making the complaint or report of an Adverse Event, the Product involved, the nature of the Adverse Event, and such other information as Schering and Heska may reasonably require.

(b) Heska and Schering shall provide all reasonable and necessary information and assistance to Schering in connection with the investigation of any Adverse Event, including, without limitation, (i) completion by Heska or Schering, as appropriate, of Schering's form entitled "Product Experience Form"; (ii) Schering's requests to Heska for additional information relating to an Adverse Event; (iii) if applicable, Heska's requests to Schering to contact the initial reporter of an Adverse Event; and (iv) requests to employ one or more health care professionals to contact the initial reporter of an Adverse Event. Schering shall provide Heska with the results of, and description of any action taken with respect to, Schering's investigation including all information required for completion of FDA Form ED-1932 within ten (10) business days of the first notice of the Adverse Event.

(c) Heska and Schering shall forward to each other all information, including, but not limited to, initial and follow-up reports, that becomes known to either Party from any source and in any form relating to any Adverse Event on a monthly basis by transmitting such information to the Responsible Person of the other Party. All such information shall be transmitted in English to such Responsible Person in accordance with such instructions as such Responsible Person shall provide to Heska and Schering from time to time.

(d) The requirements of Sections 2.17A(a)-(c) hereof shall apply whether or not such information (i) would be reportable by Schering or Heska to a governmental entity under the applicable legal and regulatory requirements relating to Adverse Events and (ii) relates to any Adverse Event that has already been reported to one or more governmental entities.

(e) Heska shall notify Schering of any communication provided to or received from any governmental entity relating to any Adverse Event or other safety issue for any Product, within three (3) business day(s) of receiving such communication, by transmitting any written communication documentation, and a written synopsis of any oral communication to the Responsible Person at Schering as provided in Section 2.17A(a) hereof.

(f) Heska shall promptly transmit to the Responsible Person at Schering, upon such Responsible Party's request, any summary safety documents prepared regarding the Product, including, but not limited to, periodic reports required by 21 CFR § 510.300 and 21 CFR § 514.80 within three (3) business days of their completion.

(g) Disclosure by Heska or Schering of records and information concerning any Adverse Event to the other Party under Section 2.17 hereof shall continue as long as Schering continues to market the Product.

(h) Schering and Heska shall meet, in a timely fashion and from time to time as may be reasonably required, to implement the Adverse Event reporting and consultation procedures prescribed in this Section 2.17.

(i) The Parties acknowledge the regulated nature of Heska's and Schering's businesses and operations, and, therefore, covenant to negotiate in good faith to make changes to this Section 2.17 as may be necessary or appropriate to comply with changes in applicable law or regulations relating to Adverse Event reporting, and to amend their policies and procedures to enable each Party to comply with applicable laws and regulations and its reporting of Adverse Event information.

(j) The holder of the registration for the Products shall have the sole right to make or file any report, or otherwise make any disclosure, with respect to any Adverse Event.

B. <u>Product Quality Complaint</u>.

(a) Schering shall immediately upon receipt, transmit to the Responsible Person at Heska, to the extent known by Schering: (i) information that causes the Product or its labeling to be mistaken for, or applied to, another article; (ii) information concerning any bacteriological contamination, or any significant chemical, physical, or other change or deterioration in the Product, or any failure of one or more distributed batches of the Product to meet its specifications; or (iii) any other product quality complaint that is related to the Products' identity, strength, quality or purity or alleges a product defect.

(b) Heska shall submit immediately to the FDA and also transmit to the Responsible Person at Schering within three (3) business days any reports of Product Quality Complaints as required under 21 CFR 510.300 and 21 CFR § 514.80.

(c) Heska and Schering shall, within ten (10) calendar days of receipt, transmit to the Responsible Person of the other Party any Product Quality Complaint not encompassed in Section 2.17B(a)-(b) hereof.

(d) Schering reserves the right to handle, process, and respond to all customer technical and Product Quality Complaints related to the Product, including complaints related to the ingredients or components of the Product. Heska agrees to cooperate with Schering, at Schering's request, to enable Schering to investigate and respond to such complaints, but only to the extent set forth in Section 2.17 hereof.

(e) Notwithstanding the foregoing, Schering shall immediately notify Heska upon Schering's receipt of a Product Quality Complaint or any other complaints regarding the Product. Notification shall be given by telephone, with a facsimile confirmation following within one (1) business day. Schering shall,

at Heska's request, assist Heska in investigating all such complaints. Schering shall be responsible for addressing all complaints related to Schering's marketing, distribution, order processing, shipping and handling of the Product to its customers; Heska shall be responsible for addressing all other complaints relating to the Product. Neither Party shall have the authority to bind the other Party in the settlement of any complaints made by a third party.

C. Written Procedures, Recordkeeping and Audits.

(a) Schering and Heska shall develop and maintain written procedures for the surveillance, receipt, evaluation, and reporting of Adverse Event and Product Quality Complaint information for the Products as required under 21 CFR § 510.300 and 21 CFR § 514.80.

(b) Schering and Heska shall maintain complaint files regarding the finished Product, the ingredients or components thereof, and the manufacturing processes either for the finished Product or that may relate to the quality of the finished Product or its ingredients or components.

(c) Each Party shall maintain records of information concerning all Adverse Events for the Product for a period of at least five (5) years. Each Party shall maintain records of information concerning Product Quality Complaints for the Product for a period of at least three (3) years. Each Party shall provide the other Party with reasonable access to all information in the other Party's possession or control relating to Adverse Events and Product Quality Complaints within five (5) business days of receiving the information; provided, however, any access by Schering shall not include any information pertaining to the identification of the Product formulation.

(d) Each Party shall allow access to its facilities, systems, personnel, and records, in whatever form and in any location (including locations owned and operated by a third-party), as reasonably necessary to enable the other Party, and any third party designated by the other Party, to evaluate and ensure compliance with this Section 2.17, with 21 CFR § 510.300 and 21 CFR § 514.80, and with any other applicable legal or regulatory requirements provided, however, any access by Schering shall not include any information pertaining to the identification of the Product formulation.

D. Marketing Materials. Schering shall be responsible for filing advertising, mailing pieces, and any labeling devised for the promotion of the Product at the time of dissemination or publication or at other intervals as required by 21 CFR § 510.300 and 21 CFR § 514.80. Schering shall provide Heska with copies of such filings and reports within five (5) business days.

3. Trademarks

3.1 [***]

3.2 Trademark Warranty. Heska warrants and represents that to the best of its knowledge (a) the Trademark is not involved in any pending or threatened lawsuit in the Territory, (b) Heska has not received any written notice of infringement of the rights of others with respect to the Trademark, (c) no other firm, corporation, association or person has the right to use the Trademark on the goods on which they are now being used in identical form or in such near resemblance thereto as to be likely, when applied to the goods of any such firm, corporation, association or person to cause confusion with the Trademark, and (d) no third party is claiming any ownership or right to use said Trademark.

3.3 [***]

3.4 Schering's License and Use. Heska grants to Schering, a non-exclusive license (with right to sublicense) the right to use Heska's name and logo in connection with the promotion, distribution and sale of the Product in the Territory during the term of this Agreement in accordance with applicable laws and Heska's policies regarding advertising and trademark usage as established and amended by Heska from time-to-time. Moreover, Schering shall include Heska's name and logo in any literature, promotional materials or advertising which Schering produces or distributes concerning the Product. In addition, Schering shall not use Heska's name and logo other than with respect to the direct promotion and sales of the Product.

3.5 Ownership of Trademarks. Each Party acknowledges that subject to the terms of this Agreement, the licensed trademarks, names and logos are and shall remain the sole property of the respective Parties as identified herein and agrees not to do anything inconsistent with that ownership or to contest the ownership thereof. Each Party further agrees that all use of the licensed trademarks, trade names and logos by it shall inure to the benefit of, and be on behalf of, the Party owning such trademarks, trade names and logos.

4. Fees, Prices and Payment

4.1 License Fee. Schering agrees to pay Heska a one-time fee of [***], which sum shall be non-refundable and non-creditable toward any payments specified herein, due and payable upon FDA approval of the Product in the Territory. Payment shall be made by wire transfer to: Wells Fargo Bank, 633 Seventeenth Street, Denver, CO 80202 RTN#: 121000248, Acct# 4496-860776, Account Name: Heska Corporation - Lockbox Account.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

4.2 Prices.

(a) Heska shall supply the Product to Schering at the transfer prices set forth in Appendix A, a copy of which is attached hereto and made a part hereof, through the first anniversary of the Effective Date. Thereafter, Heska reserves the right, upon at least one hundred and twenty (120) days' written notice to Schering, which notice shall be furnished to Schering prior to the beginning of the next Calendar Year, to increase or decrease the price once per Calendar Year to reflect any increase or decrease in raw material and/or direct labor costs, provided any increase due to direct labor costs shall not be more than the annual increase of the Consumer Price Index during the preceding year.

(b) Notwithstanding Section 4.2(a) hereof, the current transfer prices of any of the three (3) sizes of the Product shall be changed only upon the following conditions: (i) [***], or (ii) [***]. Any reduction due to (i) or (ii) hereof shall become [***] for purposes of determining future price reductions or increases under this Section 4.2(b).

If either condition under (i) or (ii) above occurs, Schering shall notify Heska in writing and provide reasonable written documentation of such condition. If accepted by Heska, which acceptance shall not be unreasonably withheld, then the current transfer prices of the affected tablet size(s) of the Product shall be reduced by Heska [***], then the current transfer price of the respective tablet size(s) of the Product shall increase by such percentage up to, but no higher than, the respective transfer price(s) set forth in Appendix A or as amended per Section 4.2(a).

(c) All prices are F.O.B. Heska and are exclusive of any federal, state, county or municipal sales or use tax, excise, customs charges, duties or similar charge, or any other tax assessment (other than taxes assessed against Heska's income), insurance, license fee (excluding regulatory license fees), or other similar charge lawfully assessed or charged on the sale or transportation of the Product, all of which shall be the responsibility of Schering.

4.3 Payment. Schering shall pay Heska within forty-five (45) days of receipt of each invoice for the Product supplied by Heska. Any late payments of invoices or other payments to be paid by Schering under this Agreement shall be subject to interest at the annual prime rate plus two and a half percent (2.5%).

4.4 United States Dollars. All fees, prices and payments shall be in United States Dollars.

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5. Warranties, Audits and Indemnification

5.1 Product Warranty.

(a) Heska warrants that the Product supplied under this Agreement shall meet the specifications set forth in Appendix B hereof. HESKA MAKES NO OTHER WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO THE PRODUCT. ALL OTHER WARRANTIES, EXPRESS OR IMPLED, INCLUDING, WITHOUT LIMITATION, THE IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARE HEREBY DISCLAIMED.

(b) If the Parties determine that the Product fails to meet the specifications set forth in Appendix B hereof and such failure is not the fault of Schering, then Schering may return the defective Product at Heska's expense for a refund or credit, at Heska's sole option.

(c) Heska represents, warrants, and covenants that the Product sold to Schering pursuant to this Agreement shall: (i) be manufactured, packaged, and labeled in accordance with Good Manufacturing Practices, any substantive equivalent of Good Manufacturing Practices in the Territory, the specifications of Appendix B hereof, and the terms of this Agreement; (ii) be free of all defects and deleterious materials; (iii) not be adulterated or misbranded under the provisions of the Federal Food and Drug Cosmetic Act, as amended by the FDA Modernization Act of 1997; (iv) be manufactured, packaged, and tested to ensure that the Product meets the specifications of Appendix B hereof for identity, potency, quality, purity, and stability; (v) be manufactured in accordance with the quality control program which Heska shall maintain during the term and any subsequent term of this Agreement; (vi) bear a true and accurate expiration date as set forth in the specifications of Appendix B hereof; and (vii) have, as of the date of receipt of such Product at the facility of Schering, a remaining shelf life of not less than three (3) months shorter than the total stated shelf life of such Product as set forth in Section 5.1(c)(vi) above. Heska shall use its best efforts to extend the expiration date to a total stated shelf-life consistent with the total stated shelf life of HEARTGARDâ Plus for dogs manufactured by Merial Limited, as determined by stability studies, such studies to begin with the first three (3) lots of Product produced under this Agreement. For purposes of this Agreement, the term "Good Manufacturing Practices" shall mean all laws, regulations, and other applicable quality standards for manufacture, production, or other handling of the Product, as established under applicable laws, including, without limitation, the current Good Manufacturing Practices now or hereafter in effect and as amended from time to time by any governmental authority in the Territory.

(d) Heska shall notify Schering in writing in the event Heska changes or causes to be changed any materials, equipment, or method of production or testing relating to the Product; provided, however, that any such change shall also comply in all respects with Good Manufacturing Practices, any substantive equivalent of Good Manufacturing Practices in the Territory, the specifications set forth in Appendix B hereof, and applicable laws.

5.2 No Conflicts. Each Party warrants and represents that the terms of this Agreement do not conflict with any contractual obligations, express or implied, with any third party.

5.3 Audits. Schering shall have access to Heska's offices, facilities (including Heska's manufacturing site) and records at a mutually agreeable time for the sole purpose of (a) inspecting any such facility relating to or otherwise involved in the manufacture, packaging, testing, storage, or inventory of the Product, (b) conducting a physical inventory of Heska's inventory of the Product, and (c) reviewing and auditing Heska's files and records with respect to the manufacture of the Product, to ensure compliance with regulatory or government regulations. Such access shall be at most once per twelve (12)-month period unless requested by Schering for reasonable cause. Such access shall in no way give Schering the right to any of Heska's confidential or proprietary information. In the event Schering reasonably determines, based on such an inspection, that Heska's facility has deficiencies with respect to Good Manufacturing Practices, Heska agrees to consult with Schering within ten (10) business days of written notification from Schering of such deficiencies to determine whether any of such deficiencies is recognized as such by the FDA and agrees to work with Schering to put in place and implement a plan to correct such FDA-recognized deficiencies in a timely manner. Heska agrees to notify Schering, in writing, within two (2) business days, of any governmental authority inspection, inquiry, or notification related to the Product and shall keep Schering informed of the progress of such inquiry or notification.

5.4 Indemnification.

(a) Indemnification by Schering. Schering shall, at its cost and expense, indemnify, defend, and forever hold harmless Heska, its Affiliates, and its and their respective Agents from and against any claims, suits, actions, proceedings, damages, losses, liability, costs, and expenses, including reasonable attorneys' fees (collectively, "Claim") arising out of or resulting from (i) Schering's breach of its obligations, representations, or warranties under this Agreement, or (ii) Schering's negligence, errors, or omissions. Heska shall, within three (3) business days from the date of receipt of notice of any Claim, furnish to Schering a copy of such notice and inform Schering of all facts relating to such Claim.

(b) Indemnification by Heska. Heska shall, at its cost and expense, indemnify, defend, and forever hold harmless Schering, its Affiliates, and its and their respective Agents from and against any Claim arising out of or resulting from (i) Heska's breach of its obligations, representations, or warranties under this Agreement, or (ii) Heska's negligence, errors, or omissions. Schering shall, within three (3) business days from the date of receipt of notice of any Claim, furnish to Heska a copy of such notice and inform Heska of all facts relating to such Claim.

(c) Assistance. Each Party shall provide all information in its possession and reasonable assistance to the other Party as necessary to enable the other Party to defend any such suit, claim, or demand.

(d) Consequential Damages. Neither Party shall be liable to the other Party for any special or consequential damages, whether based upon lost goodwill, lost resale profits, work stoppage, or impairment of other goods or arising out of breach of warranty, breach of contract, strict liability, or negligence.

5.5 Limits of Liability. **IN NO EVENT WILL EITHER PARTY BE LIABLE FOR LOST PROFITS, OR ANY OTHER SPECIAL, PUNITIVE, INDIRECT, CONSEQUENTIAL OR INCIDENTAL DAMAGES, HOWEVER CAUSED AND ON ANY THEORY OF LIABILITY, ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY. 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.**

5.6 Representations of Schering. Schering hereby represents and warrants to Heska that, as of the date of this Agreement, the following statements are and shall be true and correct in all material respects:

(a) Organization and Good Standing. Schering: (i) is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware; (ii) has the corporate power and authority to conduct the business in

which it presently is engaged, to enter into this Agreement, and to perform its obligations hereunder; and (iii) is qualified to do business in, and is in good standing in, each jurisdiction of the Territory where the nature of its business in such jurisdiction requires it to be so qualified.

(b) Authorization and Binding Effect. All corporate action on the part of Schering and its officers and directors necessary for the authorization, execution, and delivery of this Agreement and for the performance of all of Schering's obligations hereunder has been taken, and this Agreement, when executed and delivered, shall constitute a legal, valid and binding obligation of Schering enforceable against Schering in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, and other laws affecting creditors' rights generally or by general equitable principles.

(c) Execution, Delivery and Performance. The execution, delivery, and performance by Schering of this Agreement do not: (i) violate or breach the certificate of incorporation or bylaws of Schering; (ii) violate or conflict with any applicable laws; (iii) violate, breach, cause a default under, or otherwise give rise to a right of termination, cancellation, or acceleration with respect to (presently, with the giving of notice or the passage of time), any agreement, contract, or instrument to which Schering is a party or by which any of its assets are bound; or (iv) result in creation or imposition of any lien, pledge, mortgage, claim, charge, or encumbrance upon any assets of Schering.

(d) Governmental and Other Consents. Other than regulatory approval of the Product by the FDA, no other consent, authorization, license, permit, registration or approval of, or exemption or other action by, any entity is required in connection with Schering's execution and delivery of this Agreement or with the performance by Schering of its obligations hereunder.

(e) Inconsistent Obligations. Schering has, as of the Effective Date, no obligation or commitment, and will not, during the term of this Agreement, assume or undertake any obligation or commitment, that is inconsistent with its obligations under, or the terms and conditions of, this Agreement.

5.7 Representations of Heska. Heska hereby represents and warrants to Schering that, as of the date of this Agreement, the following statements are and shall be true and correct in all material respects:

(a) Organization and Good Standing. Heska: (i) is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware; (ii) has the corporate power and authority to conduct the business in which it presently is engaged, to enter into this Agreement, and to perform its obligations hereunder; and (iii) is qualified to do business in, and is in good standing in, each jurisdiction of the Territory where the nature of its business in such jurisdiction requires it to be so qualified.

(b) Authorization and Binding Effect. All corporate action on the part of Heska and its officers and directors necessary for the authorization, execution, and delivery of this Agreement and for the performance of all of Heska's obligations hereunder has been taken, and this Agreement, when executed and delivered, shall constitute a legal, valid and binding obligation of Heska enforceable against Heska in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, and other laws affecting creditors' rights generally or by general equitable principles.

(c) Execution, Delivery and Performance. The execution, delivery, and performance by Heska of this Agreement do not: (i) violate or breach the certificate of incorporation or bylaws of Heska; (ii) violate or conflict with any applicable laws; (iii) violate, breach, cause a default under, or otherwise give rise to a right of termination, cancellation, or acceleration with respect to (presently, with the giving of notice or the passage of time), any agreement, contract, or instrument to which Heska is a party or by which any of its assets are bound; or (iv) result in creation or imposition of any lien, pledge, mortgage, claim, charge, or encumbrance upon any assets of Heska.

(d) Governmental and Other Consents. Other than regulatory approval of the Product by the FDA, no other consent, authorization, license, permit, registration or approval of, or exemption or other action by, any entity is required in connection with Heska's execution and delivery of this Agreement or with the performance by Heska of its obligations hereunder.

(e) Inconsistent Obligations. Heska has, as of the Effective Date, no obligation or commitment, and will not, during the term of this Agreement, assume or undertake any obligation or commitment, that is inconsistent with its obligations under, or the terms and conditions of, this Agreement.

6. Confidential Information

6.1 Term of Confidentiality. All confidential and/or proprietary information relating to this Agreement and/or the Product ("Confidential Information") furnished by one Party (the "Disclosing Party") to the other Party (the "Receiving Party") during the term of this Agreement shall be kept confidential by the Receiving Party, except as expressly authorized by this Agreement, and shall not be disclosed to a third party, nor shall the Receiving Party use such Confidential Information for any purpose other than the purposes specifically authorized under this Agreement, during the term of this Agreement and for a period of ten (10) years from the expiration or termination of this Agreement. The Receiving Party may disclose the same to its officers, agents, consultants and employees on a need-to-know basis, provided that such officers, agents, consultants and employees have signed appropriate confidentiality agreements.

6.2 Non-Confidential Information. The obligations under Section 6.1 hereof shall not apply to any information that:

(a) is or becomes a part of the public domain through no fault of the Receiving Party;

(b) was otherwise in the Receiving Party's lawful possession prior to its disclosure as shown by its written records;

(c) is lawfully disclosed to the Receiving Party by a third party purporting not to be in violation of an obligation of confidentiality to the Disclosing Party; or

(d) is released from confidential status by mutual agreement of the Parties.

6.3 Requests for Confidential Information. If the Receiving Party is requested or required by subpoena, court order, applicable law or governmental agency (including, but not limited to, the Securities and Exchange Commission, regulatory agencies and the like), or similar process to disclose any Confidential Information of the Disclosing Party, the Parties agree that the Receiving Party shall provide the Disclosing Party with prompt written notice of such request or requirement so that the Disclosing Party may seek an appropriate protective order and/or waive the Receiving Party's compliance with the provisions of this Article 6.

6.4 Return of Confidential Information. All Confidential Information received from the Disclosing Party or generated by the Receiving Party and containing the Confidential Information of the Disclosing Party shall be the property of the Disclosing Party, and the Receiving Party shall deliver all such materials to the Disclosing Party upon the earlier of the termination of this Agreement or the request of the Disclosing Party; provided, however, the Receiving Party's legal department may retain one (1) copy of Confidential Information of the Disclosing Party for the sole purpose of identifying such Confidential Information.

7. Term and Termination

7.1 Term. [***]

7.2 Termination. This Agreement may be terminated:

(a) at any time upon the mutual written consent of the Parties;

(b) by either Party for a material breach of this Agreement by the other Party upon sixty (60) days' prior written notice to the breaching Party if during such sixty (60) day period, (i) substantial steps to cure the default have not been undertaken by the breaching Party within thirty (30) days of such notice, or (ii) the default has not been cured to the reasonable satisfaction of the non-defaulting Party;

(c) by either Party after giving the other Party sixty (60) days' written notice if such other Party has entered into or committed any act of liquidation, bankruptcy, insolvency, receivership, or assignment for the benefit of creditors, to the extent such act is permitted by law; or

(d) by Schering upon twelve (12) months' prior written notice to Heska of its intent to terminate this Agreement at the end of the succeeding Calendar Year and upon payment of all amounts due Heska through the effective date of termination.

7.3 Payment upon Termination. Schering shall receive a payment in the event that the Agreement is terminated, at Schering's option, for the following reasons: (a) Heska's inability to supply the Product due to force majeure or any other reason under the control of Heska that prevents Heska from supplying the Product for a period of longer than four (4) consecutive months; or (b) [***]. Such payment will be due [***] the termination date as set forth in this Section 7.3. The Parties hereby agree that the payment schedule shall be as follows:

Year of Termination	Amount Refunded to Schering
2003	[***]
2004	[***]
2005	[***]
2006	[***]
2007	[***]
2008	[***]

7.4 Effect of Termination. Upon termination of this Agreement, neither Party shall be released from any obligation that matured prior to the effective date of such termination. Schering shall, however, after the effective date of such termination, sell all Product in its inventory within six (6) months.

8. Dispute Resolution

The Parties agree to attempt in good faith to resolve any dispute arising out of or relating to this Agreement promptly by negotiation between representatives who have the

authority to settle the controversy. Any Party may give the other Party written notice of any dispute not resolved in the normal course of business. Within fifteen (15) days after delivery of the notice, the receiving Party shall submit to the other a written response. The notice and response shall include (a) a statement of each Party's position and a summary of arguments supporting that position, and (b) the name and title of the representative who will represent that Party and any other person who will accompany the representative. Within thirty (30) days after delivery of the disputing Party's notice, the representatives of both parties shall meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary to attempt to resolve the dispute. All reasonable requests for information made by one Party to the other will be honored.

All negotiations pursuant to this Section are confidential and shall be treated as compromise and settlement negotiations for purposes of applicable rules of evidence. If the dispute between the Parties is resolved, such decision shall be binding upon the Parties. If the dispute has not been resolved by negotiation within forty-five (45) days of the disputing Party's notice, the Parties shall endeavor to settle the dispute by mediation under the then current CPR Model Mediation Procedure for Business Disputes. If the dispute between the Parties is resolved by mediation, such decision shall be binding upon the

Parties. Each Party will bear its own costs. The provisions of this Section shall not apply if one Party refuses to negotiate the dispute in good faith or if more prompt legal action is required to avoid material loss or damage.

9. **Miscellaneous**

9.1 Relationship of Parties. The relationship of Schering to Heska under this Agreement is intended to be that of an independent contractor. Nothing contained in this Agreement is intended or is to be construed so as to constitute Schering and Heska as employer/employee or principal/agent, or the employees or the agents of any Party hereto as employees or agents of the other Party hereto. Neither Party has any express or implied right or authority under this Agreement to assume or create any obligations on behalf of or in the name of the other Party or to bind the other Party to any contract, agreement, or undertaking with any third party, other than the successors and permitted assigns of the respective Parties hereto.

9.2 Assignments. Neither Party shall have the right to transfer or assign its interest in this Agreement without the prior written consent of the other Party, which consent shall not be unreasonably withheld; provided, however, that either Party may make such transfer or assignment to an Affiliate, or to an entity acquiring all or substantially all relevant assets of a Party to which this Agreement pertains, including, but not limited to, the transfer of assets in connection with a merger, acquisition or the like. No transfer or assignment will relieve the transferor or assignor of any liability or obligations hereunder. This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns.

9.3 Publicity. The Parties agree to mutually approve the text of any press releases or any other public statements to be issued announcing the execution of this Agreement or the transactions contemplated hereby, which approval shall not be unreasonably withheld. The foregoing shall not be deemed to prevent either Party from

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[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

making any public disclosure which may be required of either Party or its Affiliates under the applicable government securities laws.

9.4 Waiver. No waiver by either Party of any default shall be effective unless in writing nor shall any such waiver operate as a waiver of any other default or of the same default on a future occasion.

9.5 Severability. If one or more provisions of this Agreement is held invalid, illegal or unenforceable, the remaining provisions shall not in any way be affected or impaired. In the event any provision is held invalid, illegal or unenforceable, the Parties shall use reasonable efforts to substitute a valid, legal and enforceable provision which, insofar as is practical, implements the purposes of such provision.

9.6 Survival. The provisions of Articles 4, 5, 6, 7, 8, and 9 shall survive the termination of this Agreement.

9.7 Notices. Except as expressly provided in this Agreement, all notices under this Agreement shall be in writing and shall be deemed given upon receipt if sent by facsimile, (except for the legal process in each case), certified or registered mail or commercial courier (return receipt or confirmation of delivery requested), or by personal delivery to the Party to receive such notices or other communications called for by this Agreement at the following addresses for a party as shall be specified by such Party by like notice:

If to Schering:

Schering-Plough Animal Health Corporation
1095 Morris Avenue
Union, New Jersey 07093-1982
Attention: Director, Worldwide Business Development facsimile [***]

If to Heska:

Heska Corporation
1613 Prospect Parkway
Fort Collins, CO 80525
Attention: Chief Executive Officer
Facsimile: 1.970.484.9505
Copy to: Executive Vice President, Intellectual Property and Business Development
Facsimile: 1.970.491.9976.

9.8 Force majeure. Either Party shall be excused from the performance of its obligations hereunder, or such performance may be delayed, by causes beyond its reasonable control, including, without limitation, acts of God, war, riot, epidemic, fire, flood, insurrection, military authorities, labor disputes, delay or inability to obtain supplies, labor, raw materials, energy or failure of transportation or communication and

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any other similar contingency, provided that if such nonperformance continues for more than ninety (90) days, the other Party may terminate the Agreement upon written notice, except as specified in Section 7.3.

9.9 Governing Law. This Agreement shall be governed by and construed under the laws of the State of Delaware without reference to conflicts of laws principles.

9.10 Entire Agreement. This Agreement and the Appendices hereto constitute the entire agreement and understanding of the Parties with regard to the subject matter hereof and supercede all prior agreements and understanding, written or oral, between the Parties. This Agreement may only be altered, modified or amended in a writing signed by the Parties.

9.11 Counterparts. This Agreement may be executed in counterparts, each of which is deemed to be an original, but all of which together shall constitute one and the same instrument. Facsimile and photocopy signatures shall carry the same force and effect, and shall bind the Parties hereto in the same manner, as original signatures to this Agreement.

9.12 Construction.

(a) The language and terms of this Agreement are to be understood in their ordinary sense (except where otherwise defined herein) and are not to be interpreted in a technical manner so as to unfairly deprive any Party of substantive rights.

(b) The text of this Agreement is the product of negotiation among both Parties and is not to be construed as having been prepared by one Party or the other.

(c) The headings used in this Agreement are for convenience only and are not part of this Agreement.

9.13 Warranty of Authorized Signatories. Each of the signatories to this Agreement warrants and represents that he or she is competent and authorized to enter into this Agreement on behalf of the Party for whom he or she purports to sign.

9.14 Insurance.

(a) During the term of this Agreement and for a period of five (5) years thereafter, Heska shall, at its own cost and expense, (i) maintain, and shall cause any of its Affiliates to maintain, general liability insurance, including coverage for product liability and contractual liability, in an amount not less than Five Million Dollars (U.S.$5,000,000) and (ii) furnish to Schering, upon request, a certificate of insurance evidencing compliance with the requirements of this Section 9.14(a). Such certificate shall provide that Schering shall be notified in writing of any cancellation or material change in such insurance not less than thirty (30) days prior to the date of such cancellation or change.

(b) Schering represents that all insurance maintained by it or its Affiliates are consistent with industry practice and subject to deductibles and self-insurance limits.

The Parties have caused this Agreement to be signed by their duly authorized representatives.

SCHERING-PLOUGH ANIMAL HEALTH CORPORATION		HESKA CORPORATION	
By:	/s/ Raul E. Kohan	By:	/s/ Carol Talkington Verser
Name:	Raul E. Kohan	Name:	Carol Talkington Verser, Ph.D.
Title:	President	Title:	Executive Vice President
Date:	August 4, 2003	Date:	August 1, 2003

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

APPENDIX A

PRICE, MINIMUM PURCHASE SIZE, AND ANNUAL MINIMUM PURCHASE REQUIREMENT

1. Product transfer price:

Small tablets	[***] per packet of six (6) tablets
Medium tablets	[***] per packet of six (6) tablets
Large tablets	[***] per packet of six (6) tablets

2. Minimum Purchase Size:

Small tablets	[***] packets, equivalent to [***] Display Cases
Medium tablets	[***] packets, equivalent to [***] Display Cases
Large tablets	[***] packets, equivalent to [***] Display Cases

3. Annual Minimum Purchase Requirement per Calendar Year:

Small tablets	[***] packets, equivalent to [***] Display Cases
Medium tablets	[***] packets, equivalent to [***] Display Cases
Large tablets	[***] packets, equivalent to [***] Display Cases

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[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

APPENDIX B

PRODUCT SPECIFICATIONS

A. SMALL TABLETS:

Labeled amount of ivermectin, per tablet: 68 mcg
Labeled amount of pyrantel (as pyrantel pamoate), per tablet: 57 mg

1. Appearance: Round, brown convex tablet with no imprinting, approximately 0.56 inches in diameter and 1.25 grams in weight

2. Identification:
Ivermectin: retention times of reference standard and sample compare satisfactorily
Pyrantel: retention times of reference standard and sample compare satisfactorily

3. Ivermectin content (average): 90.0 to 115.0 % of labeled amount

4. Pyrantel content (average): 90.0 to 110.0 % of labeled amount

5. Microbial limits:
Salmonella: none detected
Escherichia coli: not more than 2.2 CFU per gram

6. pH: 4.0 to 6.0

7. [***]

B. MEDIUM TABLETS:

Labeled amount of ivermectin, per tablet: 136 mcg
Labeled amount of pyrantel (as pyrantel pamoate), per tablet: 114 mg

1. Appearance: Round, brown convex tablet with no imprinting, approximately 0.75 inches in diameter and 2.5 grams in weight

2. Identification:
Ivermectin: retention times of reference standard and sample compare satisfactorily
Pyrantel: retention times of reference standard and sample compare satisfactorily

3. Ivermectin content (average): 90.0 to 115.0 % of labeled amount

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[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

4. Pyrantel content (average): 90.0 to 110.0 % of labeled amount

5. Microbial limits:
Salmonella: none detected

Escherichia coli: not more than 2.2 CFU per gram

6. pH: 4.0 to 6.0

7. [***]

C. LARGE TABLETS:

Labeled amount of ivermectin, per tablet: 272 mcg
Labeled amount of pyrantel (as pyrantel pamoate), per tablet: 227 mg

1. Appearance: Round, brown convex tablet with no imprinting, approximately 0.94 inches in diameter and 5.0 grams in weight

2. Identification:
Ivermectin: retention times of reference standard and sample compare satisfactorily
Pyrantel: retention times of reference standard and sample compare satisfactorily

3. Ivermectin content (average): 90.0 to 115.0 % of labeled amount

4. Pyrantel content (average): 90.0 to 110.0 % of labeled amount

5. Microbial limits:
Salmonella: none detected
Escherichia coli: not more than 2.2 CFU per gram

6. pH: 4.0 to 6.0

7. [***]

D. BLISTER CARDS AND DISPLAY CASE:

1. Blister Card: Preprinted, six (6) panels folded into three (3) sections, with six (6) Blisters in circular configuration in middle section, with one (1) tablet contained in each Blister.

2. Blister:
Barrier film: 7.5 mil PVC / 2 mil ACLAR laminate.
Push-through foil: Reynolds 701

3. Display Case: Preprinted, containing fourteen (14) Blister Cards.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

APPENDIX C

[***]

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

APPENDIX D

[***]

Exhibit 10.33

[***] — Certain information in this exhibit have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

THIRD AMENDMENT
TO
AMENDED AND RESTATED
BOVINE VACCINE DISTRIBUTION AGREEMENT

This Third Amendment ("Third Amendment") is entered into as of the 26th day of May, 2006 ("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 LABORATORIES, LTD.**, a Delaware corporation, with offices at 20927 State Route K, St. Joseph, Missouri 64505 ("Distributor") as an amendment to that certain Amended and Restated Bovine Vaccine Distribution Agreement dated as of September 30, 2002 between Diamond and Distributor (the "Original Agreement"), as amended by that certain First Amendment dated as of September 20, 2004 (the "First Amendment") and that certain Second Amendment dated as of December 10, 2004 (the "Second Amendment") (collectively, the "Agreement").

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

WHEREAS, Diamond and Distributor desire to amend the Agreement on the terms and conditions of this Third Amendment.

NOW, THEREFORE, the parties agree as follows:

1. Definitions. Capitalized terms used herein shall have the meaning ascribed to them in the Agreement, unless otherwise defined herein.

2. Prepayments. Distributor hereby reaffirms its obligation to make a [***] prepayment on each of June 16, 2006 and September 16, 2006, as outlined in and subject to the terms and conditions of Section 3.04(iii)(A) of the Agreement.

3. Use of Prepayment Proceeds. The unused balance of any prepayment made by Distributor on June 16, 2006 and September 16, 2006 shall be carried over as a credit for purchases in future periods, including Contract Year 2007 if necessary, and any revenue from such balance shall be included in Initial Product Qualified Revenues and Qualified Revenues for Contract Year 2006 only, regardless of the actual fulfillment date.

4. Take or pay obligations. Diamond hereby waives Distributor's obligations under Section 3.04(iii)(D) of the Agreement for the third and fourth quarter of Contract Year 2006 only.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

5. Reaffirmation of purchase orders. Distributor reaffirms its obligations under firm written purchase orders currently outstanding for delivery in the third and fourth quarter of Contract Year 2006, as outlined on Exhibit C, and subject to regulatory approval and the terms and conditions of this Agreement.

6. Third quarter [***] orders. Distributor agrees to submit firm written purchase orders for Products other than [***] Products scheduled for delivery in the third quarter of Contract Year 2006 of at least [***]. If there are less than [***] of such purchase orders on Exhibit C for Products other than [***] Products, Distributor shall promptly submit enough of such purchase orders so that there are [***] of such purchase orders. Distributor shall not be required to pay or lose prepayment credit on any order unless and until Diamond fulfills such order. All revenue from these purchase orders shall be included in Initial Product Qualified Revenues and Qualified Revenues for Contract Year 2006 only, regardless of the actual fulfillment date.

7. Fourth quarter [***] orders. Distributor agrees to submit firm written purchase orders for Products other than [***] Products scheduled for delivery in the fourth quarter of Contract Year 2006 of at least [***]. Distributor shall not be required to pay or lose prepayment credit on any order unless and until Diamond fulfills such order. All revenue from these purchase orders shall be included in Initial Product Qualified Revenues and Qualified Revenues for Contract Year 2006 only, regardless of the actual fulfillment date.

8. [***] Orders. If necessary to purchase [***], including amounts from Section 6 and 7 above, from Diamond during the last six months of Contract Year 2006 if [***] on or before [***], Distributor agrees to issue purchase orders for [***] Products in addition to those listed on Exhibit C. Distributor shall not be required to pay or lose prepayment credit on any order unless and until Diamond fulfills such order. All revenue from these purchase orders shall be included in Initial Product Qualified Revenues and Qualified Revenues for Contract Year 2006 only, regardless of the actual fulfillment date.

9. [***]. [***] on or before [***], Distributor will commit to purchase at least [***] from Diamond during the last six months of Contract Year 2006. If at the time [***], Distributor has not submitted firm written purchase orders for delivery in the last six months of Contract Year 2006 totaling at least [***], Distributor shall promptly submit enough of such purchase orders so that there are [***] of such purchase orders. Distributor shall not be required to pay or lose prepayment credit on any order unless and until Diamond fulfills such order. All revenue from these purchase orders shall be included in Initial Product Qualified Revenues and Qualified Revenues for Contract Year 2006 only, regardless of the actual fulfillment date.

10. Amendment of Loan. Pursuant to Section 3 of the Second Amendment Diamond delivered to Distributor a substitute Note (the "Substitute Note") attached as Exhibit A to evidence the Loan. Upon execution and delivery of this Third Amendment, the parties shall cancel the Substitute Note and execute and deliver a second substitute note (the "2007 Note") in the form attached hereto as Exhibit B.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

11. [***]. If [***], there shall be no change to Section 3.07 of the Agreement, which is entitled [***]. If [***], the first sentence of Section 3.07 of the Agreement shall be deleted in its entirety and replaced with the following sentence:

[***]

12. Effect of Amendment. This Third Amendment is hereby incorporated by reference into the Agreement as if fully set forth therein, the Agreement as amended by this Third Amendment shall continue in full force and effect following execution and delivery hereof, and references to the term "Agreement" shall include this Third Amendment. In the event of any conflict between the terms and conditions of the Original Agreement, First Amendment or Second Amendment and this Third Amendment, the terms and conditions of this Third Amendment shall control.

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

DIAMOND ANIMAL HEALTH, INC.

By: /s/ Jason A. Napolitano
Its: Chief Financial Officer

AGRI LABORATORIES, LTD.

By: /s/ Steve Schram
Its: CEO/President

EXHIBIT A

**AMENDED AND RESTATED
PROMISSORY NOTE**

$500,000.00 as of April 15, 2002
Des Moines, Iowa

FOR VALUE RECEIVED, the undersigned DIAMOND ANIMAL HEALTH, INC., an Iowa corporation ("**Maker**"), promises to pay to AGRI LABORATORIES, LTD., a Delaware corporation ("**Holder**"), or order, at such place as the Holder of this Note shall designate in writing, the sum of Five Hundred Thousand Dollars ($500,000.00) in lawful money of the United States of America. Beginning from the date hereof interest shall accrue until the effective date of that certain Second Amendment to the Distribution Agreement (defined below) on the outstanding principal balance at the "prime rate" plus one-quarter percent (1/4%) per annum and thereafter, at the "prime rate" plus one percent (1%) per annum. Accrued interest shall be paid quarterly on each quarterly anniversary of the date of this Note, and shall accrue based upon a thirty-day month and a 360-day year. Principal under this Note shall be paid in one annual installment on May 31, 2006.

All principal and any accrued but unpaid interest shall be due and payable on the maturity date of this Note.

Notwithstanding any provision of this Note to the contrary, all principal and unpaid accrued interest shall be due and payable on the ninetieth (90^{th}) day following the date that either (i) Holder's exclusivity rights under that certain Amended and Restated Bovine Vaccine Distribution Agreement dated as of September 30, 2002, as amended (the "**Distribution Agreement**") are terminated due to Distributor's nonpayment of any Additional Payment under the Distribution Agreement or (ii) in the event of a merger, sale or fifty percent (50%) change in ownership of Maker.

The "prime rate" shall be the annual rate of interest announced from time to time by Wells Fargo Business Credit, Inc. ("**Wells Fargo**") as its prime rate. The interest accruing on the principal balance of this Note shall fluctuate from time to time concurrently with changes in the prime rate, effective as of the date any change in the prime rate is publicly announced. If Wells Fargo ceases to announce the prime rate, the prime rate as published in the Wall Street Journal in its "Money Rates" section or a similar financial publication shall be used, as reasonably determined by Maker.

Maker shall have the right at any time or from time to time to prepay all or a portion of the principal or interest without premium or penalty, and such prepayments shall be applied first to accrued interest and then to principal.

If default be made in the payment of any of the installments of principal, interest, or other amounts when due under this Note, the entire principal sum and accrued interest and all other amounts due hereunder shall become due at the option of Holder if not paid within ten (10) days of written notice to Maker.

In the event garnishment, attachment, levy or execution is issued against any substantial or material portion of the property or assets of Maker, or any of them if more than one, or upon the happening of any event which constitutes a default pursuant to the terms of any agreement or other instrument entered into or given in connection herewith, or upon the adjudication of Maker, or any of them if more than one, a bankrupt, such event shall be deemed a default hereunder and Holder may declare this Note immediately due and payable without notice to Maker or exercise any of its remedies hereunder or at law or equity. Should suit be brought to recover on this Note, or should the same be placed in the hands of an attorney for collection, Maker promises to pay all reasonable attorneys' fees and costs incurred in connection therewith.

Failure of Holder to exercise any option hereunder shall not constitute a waiver of the right to exercise the same in the event of any subsequent default, or in the event of continuance of any existing default.

Maker waives demand, diligence, presentment for payment, protest and notice of demand, protest, nonpayment and exercise of any option hereunder. Maker agrees that the granting without notice of any extension or extensions of time for payment of any sum or sums due hereunder, or for the performance of any covenant, condition or agreement hereof shall in no way release or discharge the liability of Maker hereof.

This Note shall be governed by the laws of the State of Iowa.

Time is of the essence of this Note and each and every term and provision hereof.

This Note is secured by that certain Security Agreement, dated as of even date herewith, by and between Maker and Holder. Debtor and its affiliates are parties to that certain Second Amended and Restated Credit and Security Agreement by and between Debtor and Wells Fargo Business Credit, Inc., fka Norwest Business Credit, Inc., a Minnesota corporation (**"Wells Fargo"**), originally dated June 4, 2000, as amended, that certain Loan Agreement dated as of April 4, 1994 and related Promissory Note between the City of Des Moines, Iowa and Debtor, as amended, and that certain CEBA Loan Agreement dated January 20, 1994 and related Promissory Notes between Iowa Department of Economic Development and Debtor, as amended (collectively, the "**Senior Loan Agreements**" and the lender parties thereto collectively, the "**Senior Lenders**"). This Note and Maker's obligations hereunder shall be junior and subordinated to all any and all indebtedness and obligations for borrowed money (including, without limitation, principal, premium (if any), interest, fees, charges, expenses, costs, professional fees and expenses, and reimbursement obligations) ("**Indebtedness**") at any time owing by Debtor to the Senior Lenders, their successors and assigns under the Senior Loan Agreements or otherwise, and the extension, renewal or refinancing (including without limitation any additional advances made in connection therewith) of all or any portion of such Indebtedness by any of the Senior Lenders or any successor lender and any and all security interests securing any portion of such Indebtedness and additional advances from time to time (such Indebtedness, additional advances and security interests, the "**Senior Indebtedness**"). Holder hereby agrees to take such actions, and to execute and deliver such documents and instruments, as shall be requested from time to time by any holder of Senior Indebtedness to confirm and further implement such subordination. In addition, this Note is subject to the terms and conditions of that certain Subordination Agreement dated as of even date herewith by and among Maker, Holder and Wells Fargo.

This Note replaces that certain Amended and Restated Promissory Note dated as of April 15, 2004 given by Maker to Holder.

THE PARTIES WAIVE ANY RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED ON OR PERTAINING TO THIS NOTE.

DIAMOND ANIMAL HEALTH, INC., an Iowa corporation, Maker

By: /s/ Jason A. Napolitano
Its: Chief Financial Officer

THIS INSTRUMENT IS SUBJECT TO THE TERMS OF A SUBORDINATION AGREEMENT BY AGRI LABORATORIES, LTD. IN FAVOR OF WELLS FARGO BUSINESS CREDIT, INC. DATED AS OF APRIL 15, 2002.

EXHIBIT B

2007 Note

AMENDED AND RESTATED

PROMISSORY NOTE

$500,000.00 as of April 15, 2002
Des Moines, Iowa

FOR VALUE RECEIVED, the undersigned DIAMOND ANIMAL HEALTH, INC., an Iowa corporation ("**Maker**" **or "Debtor"**), promises to pay to AGRI LABORATORIES, LTD., a Delaware corporation ("**Holder**"), or order, at such place as the Holder of this Note shall designate in writing, the sum of Five Hundred Thousand Dollars ($500,000.00) in lawful money of the United States of America. Beginning from the date hereof interest shall accrue until the effective date of that certain Second Amendment to the Distribution Agreement (defined below) on the outstanding principal balance at the "prime rate" plus one-quarter percent (1/4%) per annum and thereafter, at the "prime rate" plus one percent (1%) per annum. Accrued interest shall be paid quarterly on each quarterly anniversary of the date of this Note, and shall accrue based upon a thirty-day month and a 360-day year. Principal under this Note shall be paid in one annual installment on May 31, 2007.

All principal and any accrued but unpaid interest shall be due and payable on the maturity date of this Note.

Notwithstanding any provision of this Note to the contrary, all principal and unpaid accrued interest shall be due and payable on the ninetieth (90th) day following the date that either (i) Holder's exclusivity rights under that certain Amended and Restated Bovine Vaccine Distribution Agreement dated as of September 30, 2002, as amended (the "**Distribution Agreement**") are terminated due to Distributor's nonpayment of any Additional Payment under the Distribution Agreement or (ii) in the event of a merger, sale or fifty percent (50%) change in ownership of Maker.

The "prime rate" shall be the annual rate of interest announced from time to time by Wells Fargo Bank, National Association ("**Wells Fargo**") as its prime rate. The interest accruing on the principal balance of this Note shall fluctuate from time to time concurrently with changes in the prime rate, effective as of the date any change in the prime rate is publicly announced. If Wells Fargo ceases to announce the prime rate, the prime rate as published in the Wall Street Journal in its "Money Rates" section or a similar financial publication shall be used, as reasonably determined by Maker.

Maker shall have the right at any time or from time to time to prepay all or a portion of the principal or interest without premium or penalty, and such prepayments shall be applied first to accrued interest and then to principal.

If default be made in the payment of any of the installments of principal, interest, or other amounts when due under this Note, the entire principal sum and accrued interest and all other amounts due hereunder shall become due at the option of Holder if not paid within ten (10) days of written notice to Maker.

In the event garnishment, attachment, levy or execution is issued against any substantial or material portion of the property or assets of Maker, or any of them if more than one, or upon the happening of any event which constitutes a default pursuant to the terms of any agreement or other instrument entered into or given in connection herewith, or upon the adjudication of Maker, or any of them if more than one, a bankrupt, such event shall be deemed a default hereunder and Holder may declare this Note immediately due and payable without notice to Maker or exercise any of its remedies hereunder or at law or equity. Should suit be brought to recover on this Note, or should the same be placed in the hands of an attorney for collection, Maker promises to pay all reasonable attorneys' fees and costs incurred in connection therewith.

Failure of Holder to exercise any option hereunder shall not constitute a waiver of the right to exercise the same in the event of any subsequent default, or in the event of continuance of any existing default.

Maker waives demand, diligence, presentment for payment, protest and notice of demand, protest, nonpayment and exercise of any option hereunder. Maker agrees that the granting without notice of any extension or extensions of time for payment of any sum or sums due hereunder, or for the performance of any covenant, condition or agreement hereof shall in no way release or discharge the liability of Maker hereof.

This Note shall be governed by the laws of the State of Iowa.

Time is of the essence of this Note and each and every term and provision hereof.

This Note is secured by that certain Security Agreement, dated as of even date herewith, by and between Maker and Holder. Debtor and its affiliates are parties to that certain Third Amended and Restated Credit and Security Agreement by and between Debtor and Wells Fargo Bank, National Association, as successor in interest to Wells Fargo Business Credit, Inc. (**"Wells Fargo"**), dated December 30, 2005 and Debtor is party to a certain promissory note with the City of Des Moines, due in monthly installments through June 2006 (collectively, the "**Senior Loan Agreements**" and the lender parties thereto collectively, the "**Senior Lenders**"). This Note and Maker's obligations hereunder shall be junior and subordinated to all any and all indebtedness and obligations for borrowed money (including, without limitation, principal, premium (if any), interest, fees, charges, expenses, costs, professional fees and expenses, and reimbursement obligations) ("**Indebtedness**") at any time owing by Debtor to the Senior Lenders, their successors and assigns under the Senior Loan Agreements or otherwise, and the extension, renewal or refinancing (including without limitation any additional advances made in connection therewith) of all or any portion of such Indebtedness by any of the Senior Lenders or any successor lender and any and all security interests securing any portion of such Indebtedness and additional advances from time to time (such Indebtedness, additional advances and security interests, the "**Senior Indebtedness**"). Holder hereby agrees to take such actions, and to execute and deliver such documents and instruments, as shall be requested from time to time by any holder of Senior Indebtedness to confirm and further implement such subordination. In addition, this Note is subject to the terms and conditions of that certain Subordination Agreement dated as of even date herewith by and among Maker, Holder and Wells Fargo.

This Note replaces that certain Amended and Restated Promissory Note dated as of April 15, 2004 given by Maker to Holder.

THE PARTIES WAIVE ANY RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED ON OR PERTAINING TO THIS NOTE.

DIAMOND ANIMAL HEALTH, INC., an Iowa corporation, Maker

By: /s/ Jason A. Napolitano
Its: Chief Financial Officer

THIS INSTRUMENT IS SUBJECT TO THE TERMS OF A SUBORDINATION AGREEMENT BY AGRI LABORATORIES, LTD. IN FAVOR OF WELLS FARGO BUSINESS CREDIT, INC. DATED AS OF APRIL 15, 2002.

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Exhibit C

AgriLabs 3rd Quarter Purchase Orders and 4th Quarter Purchase Orders and Forecast as of 5/25/06

1. 3rd Quarter 2006

[***]

[***] — Certain information on this page have been omitted and filed separately with the Securities and Exchange Commission. Confidential treatment has been requested with respect to the omitted portions.

Exhibit C

(Cont.)

AgriLabs 3rd Quarter Purchase Orders and 4th Quarter Purchase Orders and Forecast as of 5/25/06

(Cont.)

2. 4th Quarter 2006

[***]

Exhibit 10.35

Heska Corporation 2007 Management Incentive Plan

The following is intended to implement the Heska Corporation Management Incentive Plan Master Document for the year beginning on January 1, 2007 and ending on December 31, 2007 (the "2007 MIP"). The Compensation Committee has agreed on the following for the 2007 MIP.

1) The Category Percentages for the 2007 MIP are as follows:

Chief Executive Officer	50.0% of base pay
Chief Financial Officer	35.0% of base pay
Vice Presidents	35.0% of base pay
Directors	25.0% of base pay

2) The Plan Allocation for the 2007 MIP is as follows:

75% on overall achievement of the company-wide financial objective and 25% on individual performance

3) The Key Parameters for the 2007 MIP is as follows:

Pre-MIP Operating Income

4) The Payout Structure for the 2007 MIP is as follows:

Pre-MIP Operating Income (A)	MIP Payout (A)	MIP Amount (B)	Post-MIP Operating Income
<=4,500,000	0.0%	—	<=4,500,000
4,937,500	10.0%	(110,000)	4,827,500
5,375,000	20.0%	(220,000)	5,155,000
5,812,500	30.0%	(330,000)	5,482,500
6,250,000	40.0%	(440,000)	5,810,000
6,687,500	50.0%	(550,000)	6,137,500
7,125,000	60.0%	(660,000)	6,465,000
7,562,500	70.0%	(770,000)	6,792,500
8,000,000	80.0%	(880,000)	7,120,000
8,437,500	90.0%	(990,000)	7,447,500
8,875,000	100.0%	(1,100,000)	7,775,000
9,312,500	110.0%	(1,210,000)	8,102,500
9,750,000	120.0%	(1,320,000)	8,430,000
10,187,500	130.0%	(1,430,000)	8,757,500
10,625,000	140.0%	(1,540,000)	9,085,000
11,062,500	150.0%	(1,650,000)	9,412,500
11,062,501+	Capped	(1,650,000)	9,412,501+

Notes:

(A) Pre-MIP Operating Income to include gains from any United Vaccine lawsuit proceeds/settlements.

(B) MIP payout equals 25.14% of incremental operating income above the baseline point of 2006, capped at a maximum of $1.65 million (which occurs at pre-MIP operating income of $11,062,500).

Any MIP payment based on Pre-MIP Net Income over $11,062,500 will be at the sole and absolute discretion of the Compensation Committee.

Exhibit 21.1

SUBSIDIARIES OF COMPANY

Diamond Animal Health, Inc., an Iowa corporation

Heska AG, a corporation incorporated under the laws of Switzerland

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements Nos. 333-102871, 333-30951, 333-34111, 333-39448, 333-47129, 333-72155, 333-38138, 333-55112, 333-82096, 333-89738, 333-106679, 333-112701, 333-115995, 333-123196 and 333-132916 of Heska Corporation (the "Company") on Form S-8, of our report dated March 23, 2007, relating to the consolidated financial statements of the Company, appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. We also consent to the reference to us under the caption "Experts" in the Registration Statements.

/s/ Ehrhardt Keefe Steiner & Hottman PC

March 28, 2007
Denver, Colorado

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Heska Corporation:

We consent to the incorporation by reference in the Registration Statements File Nos. 333-102871, 333-30951, 333-34111, 333-39448, 333-47129, 333-72155, 333-38138, 333-55112, 333-82096, 333-89738, 333-106679, 333-112701, 333-115995, 333-123196 and 333-132916 (Form S-8) of Heska Corporation and subsidiaries of our report dated March 29, 2006, with respect to the consolidated balance sheet of Heska Corporation and subsidiaries as of December 31, 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2004 and 2005 and related financial statement schedule, which report appears in the December 31, 2006 annual report on Form 10-K of Heska Corporation and subsidiaries.

/s/ KPMG LLP

Denver, Colorado
March 26, 2007

Exhibit 31.1

CERTIFICATION

I, Robert B. Grieve, certify that:

1. I have reviewed this annual report on Form 10-K of Heska Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2007

/s/ Robert B. Grieve
ROBERT B. GRIEVE
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Jason A. Napolitano, certify that:

1. I have reviewed this annual report on Form 10-K of Heska Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2007

/s/ Jason A. Napolitano
JASON A. NAPOLITANO
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert B. Grieve, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Heska Corporation on Form 10-K for the year ended December 31, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-K fairly presents in all material respects the financial condition and results of operations of Heska Corporation.

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

I, Jason A. Napolitano, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Heska Corporation on Form 10-K for the year ended December 31, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-K fairly presents in all material respects the financial condition and results of operations of Heska Corporation.

By:	/s/ Jason A. Napolitano
Name:	JASON A. NAPOLITANO
Title:	Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Heska Corporation and will be retained by Heska Corporation and furnished to the Securities and Exchange Commission or its staff upon request.