

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2013

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:

**Public Common Stock, \$.01 par value**  
(Title of Class)

**The Nasdaq Stock Market LLC**  
(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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer o

Accelerated filer o

Non-accelerated filer o (Do not check if a small reporting company)

Smaller Reporting Company 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 \$36,561,525 as of June 28, 2013 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.

6,044,568 shares of the Registrant's Public Common Stock, \$.01 par value, were outstanding at March 28, 2014.

**DOCUMENTS INCORPORATED BY REFERENCE**

Items 10, 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 2014 Annual Meeting of Stockholders.

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HESKA, ALLERCEPT, E-SCREEN, HEMATRU, SOLO STEP, THYROMED, VET/OX and VITALPATH are registered trademarks and CBC-DIFF, ELEMENT DC, G2 DIGITAL and VET/IV are trademarks of Heska Corporation. TRI-HEART is a registered trademark of Intervet Inc., d/b/a Merck Animal Health, formerly known as Schering-Plough Animal Health Corporation ("Merck Animal Health"), in the United States and is a registered trademark of Heska Corporation in other countries. DRI-CHEM is a registered trademark of FUJIFILM Corporation. This Form 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 (the "Exchange Act"). 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 our 2014 definitive proxy statement on Schedule 14A, as of the date of the Schedule 14A.

## Internet Site

Our Internet address is [www.heska.com](http://www.heska.com). Because we believe it provides useful information in a cost-effective manner to interested investors, via a link on our 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 Exchange Act are publicly available free of charge and we believe are available as soon as reasonably practical after we electronically file such material with, or furnish it to, the Securities Exchange Commission (the "SEC"). Information contained on our website is not a part of this annual report on Form 10-K.

## PART I

### Item 1. Business.

We develop, manufacture, market, sell 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.

Our business is composed of two reportable segments, Core Companion Animal Health and Other Vaccines, Pharmaceuticals and Products. The Core Companion Animal Health segment ("CCA") includes, primarily for canine and feline use, blood testing instruments and supplies, digital imaging products, software and services, and single use products and services such as heartworm diagnostic tests, heartworm preventive products, allergy immunotherapy products and allergy testing. These products are sold directly to veterinarians by us as well as through distribution relationships. The Other Vaccines, Pharmaceuticals and Products segment ("OVP") includes private label vaccine and pharmaceutical production, primarily for cattle but also for other animals including small mammals. All OVP products are sold by third parties under third party labels. Please refer to Note 10 of our audited consolidated financial statements filed herewith for financial information about each of our segments.

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](http://www.heska.com). We originally incorporated in California in 1988, and we subsequently incorporated in Delaware in 1997.

## **Background**

We were founded as Paravax, Inc. in 1988 and conducted research on vaccines to prevent infections by parasites. We changed our name to Heska Corporation in 1995, completed our initial public offering in 1997 and 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. In 2001 and 2002, we took steps to lower our expense base, largely in internal research and development. We subsequently continued to concentrate our efforts on operating improvements, such as enhancing the effectiveness of our sales and marketing efforts and pursuing cost efficiencies, as well as seeking new product opportunities with third parties. We acquired a 54.6% interest in Cuatro Veterinary USA, LLC in February 2013, which marked our entry into the digital imaging market. In June 2013, we sold certain non-core assets useful for the production of both bovine and feline vaccines to Elanco Animal Health ("Elanco"), a division of Eli Lilly and Company.

## **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 Blood Testing and Other Non-Imaging Instruments***

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

- *Blood Chemistry.* The Element DC™ Veterinary Chemistry Analyzer (the "Element DC") was launched in October 2012. The Element DC is an easy-to-use, robust system that uses dry slide technology for blood chemistry and electrolyte analysis and has the ability to run 22 tests at a time with a single blood sample. Test slides are available as both pre-packaged panels as well as individual slides. The Element DC is faster and has an enhanced user interface compared to the instrument it replaced, the DRI-CHEM 4000 Veterinary Chemistry Analyzer (the "DRI-CHEM 4000"). The DRI-CHEM 7000 Veterinary Chemistry Analyzer (the "DRI-CHEM 7000") is a complementary chemistry offering, co-branded with FUJIFILM Corporation ("FUJIFILM"), with higher throughput, multiple patient staging and a "STAT" feature which provides emergency sample flexibility in critical cases. The Element DC, DRI-CHEM 7000 and DRI-CHEM 4000 all utilize the same test slides. We are supplied with the Element DC, the DRI-CHEM 7000 and affiliated test slides and supplies under a contractual agreement with FUJIFILM.
- *Hematology.* The HEMATRUE Veterinary Hematology Analyzer is an easy-to-use blood analyzer that measures such key parameters as white blood cell count, red blood cell count, platelet count and hemoglobin levels in animals. In addition, we continue to service and support our previous hematology instrument, the HESKA CBC-DIFF Veterinary Hematology System. We are supplied new instruments and affiliated reagents and supplies of these products under a contractual agreement with Boule Medical AB ("Boule").

- *Blood Gases and Electrolytes.* The Element POC™ Blood Gas & Electrolyte Analyzer ("EPOC") is a handheld, wireless analyzer which delivers rapid blood gas, electrolyte, metabolite, and basic blood chemistry testing. EPOC features test cards with room temperature storage which can offer results with less than 100 µL of sample as well as WiFi and Bluetooth connectivity. We began to ship EPOC units to customers in October 2013. EPOC and affiliated consumables and supplies are supplied to us under contractual agreement with BBI Animal Health Limited, a unit of Alere Inc. In addition, we continue to service and support our previous blood gas and electrolyte instrument for which we are supplied affiliated consumables and supplies under a contractual agreement with Roche Diagnostics Corporation ("Roche").
- *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.

### ***Veterinary Imaging Instruments and Services***

On February 24, 2013, we acquired a 54.6% interest in Cuattro Veterinary USA, LLC, which was subsequently renamed Heska Imaging US, LLC ("Heska Imaging") and operates only in the United States. This transaction marked our entry into the veterinary imaging area. Heska Imaging's offerings in this area include:

*Digital Radiography Solutions.* Our digital radiography solutions are marketed and sold under the "Cuattro" brand name. We sell hardware including digital radiography detectors, acquisition workstation equipment, positioning aides such as tunnels and tables, viewing computers and other accessories along with embedded software and support, data hosting and other services. The CloudDR™ solution combines flat panel digital radiography with web-based image storage. The Cloudbank™ archive is an automatic, secure, web-based image storage solution designed to interface with the software we sell. ViewCloud™ is a PACS (Picture Archival and Communications System) for Cloudbank for web or local viewing, reporting, planning and email sharing of studies on internet devices, including personal computers, Mac desktop and portable systems, tablet devices, iPad™ devices and smartphones. SupportCloud™ is a support package including call center voice and remote diagnostics, recovery and other services, such as the provision of warranty-related loaner units, to support CloudDR, Cloudbank and ViewCloud.

We also sell mobile digital radiography products, primarily for equine use. The Uno 4™ is a full powered, seamlessly integrated, portable digital radiography generator with an embedded detector and touchscreen computer based upon a patented design of Cuattro, LLC. The Slate 4™ Wireless features a 16 bit detector for use with an existing generator and which communicates wirelessly with a mobile, case-based direct sunlight readable display, including multi-touch software and the ability to natively link to Digital Imaging and Communication in Medicine, or DICOM, servers of all types as well as Cloudbank. Slate 4™ comes in a 19" model and a 12" model, both of which are handheld, touchscreen, tablets with embedded wireless communication, battery-powered and line-powered capabilities, and image acquisition and communication functions.

Cuattro, LLC provides us with the hardware, software and support, data hosting and other services for our digital radiography solutions under exclusive contractual arrangements in the United States.

*Ultrasound Systems.* Our ultrasound products, including affiliated probes and peripherals, are provided to us under an exclusive agreement with Esaote USA ("Esaote"). We sell several different ultrasound products with varying features and corresponding price points, all under Esaote's trade names or logos. These offerings include the MyLab 30 Gold Vet, a compact, portable, high performance model offering optional products for use with abdominal, cardiac and small parts applications. The ultrasound

products we sell generally seamlessly integrate with our Cloudbank and ViewCloud offerings discussed above for image storing and viewing.

#### ***Point-of-Care Heartworm Diagnostic Tests***

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").

#### ***Heartworm Preventive Products***

We have an agreement with Merck Animal Health, a unit of Merck & Co., Inc., granting Merck Animal Health the exclusive distribution and marketing rights for our canine heartworm prevention product, TRI-HEART Plus Chewable Tablets, ultimately sold to or through veterinarians in the United States and Canada. 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.

#### ***Allergy Products and 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.

Our ALLERCEPT Definitive Allergen Panels provide the most accurate determination of which we are aware 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 Therapy Shots and ALLERCEPT Therapy Drops. We operate veterinary laboratories in Loveland, Colorado and Fribourg, Switzerland which both offer blood testing using our ALLERCEPT Definitive Allergen Panels.

We sell kits to conduct blood testing using our ALLERCEPT Definitive Allergen Panels to third-party veterinary diagnostic laboratories outside of the United States. We also sell products to screen for the presence of allergen-specific IgE to these customers – 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 E-SCREEN Test. Animals testing positive for allergen-specific IgE using these screening tests are candidates for further evaluation using our ALLERCEPT Definitive Allergen Panels.

Veterinarians who use our ALLERCEPT Definitive Allergen Panels often purchase our ALLERCEPT Therapy Shots 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. Immunotherapy delivered by injection is referred to as subcutaneous immunotherapy. We offer canine, feline and equine subcutaneous immunotherapy treatment products. In February 2012, we announced we had licensed intellectual property for a proprietary, sublingual (administered under the tongue) therapy treatment for pets suffering with allergies – now known as ALLERCEPT Therapy Drops. We believe our ALLERCEPT Therapy Drops offer a convenient alternative to subcutaneous injection, thereby enhancing the likelihood of pet owner compliance.

*Other Core Companion Animal Health Single Use Products.* We also sell other products in our Core Companion Animal Health segment. For example, we sell E.R.D. Reagent Packs used to detect microalbuminuria, the most sensitive indicator of renal damage, to VCA Antech, Inc. for use in its veterinary diagnostic laboratories.

### **Other Vaccines, Pharmaceuticals and Products Segment**

We developed a line of bovine vaccines that are licensed by the United States Department of Agriculture ("USDA"). Historically, the largest distributor of these vaccines was Agri Laboratories, Ltd. ("AgriLabs"), who sold these vaccines primarily under the Titanium<sup>®</sup> and MasterGuard<sup>®</sup> brands. In November 2013, AgriLabs assigned the long-term agreement with us related to these vaccines to, and the agreement was assumed by, Eli Lilly and Company ("Eli Lilly") acting through Elanco.

We manufacture biological and pharmaceutical products for a number of other animal health companies. We manufacture products for animals other than cattle including horses and small mammals. 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 and Customer Support**

We estimate that there are approximately 53,000 veterinarians in the United States whose practices are devoted principally to small animal medicine. These veterinarians practice in approximately 24,000 clinics in the United States. In 2013, our products were sold to approximately 13,000 such clinics in the United States. Veterinarians may obtain our products directly from us or indirectly through others. All our Core Companion Animal Health products ultimately are sold primarily 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 an outside field organization, a telephone sales force, independent third-party distributors, as well as through trade shows and print advertising and through other distribution relationships, such as Merck Animal Health in the case of our heartworm preventive. Our outside field organization currently consists of 36 individuals in various parts of the United States. Our inside sales force consists of 18 persons.

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 product 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 provide customer support. Novartis Japan exclusively markets and distributes SOLO STEP CH in Japan.

All OVP products are marketed and sold by third parties under third-party labels.

We grant third parties rights to our intellectual property as well as our products, with our compensation often taking the form of royalties and/or milestone payments.

### **Manufacturing**

The majority of our 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 key components of our heartworm point-of-care diagnostic tests. Our chemistry instruments and affiliated supplies are manufactured under contract with FUJIFILM. Our hematology instruments and affiliated supplies are manufactured under contract with Boule. Our digital radiography products are supplied under contract with Cuatro, LLC, which typically buys its hardware products and components from third parties. Our ultrasound products are supplied under a contract with Esaote USA. Key components of our heartworm point-of-care diagnostic tests are manufactured under a contract with Quidel. We manufacture and supply Quidel with certain critical raw materials and perform the final packaging operations for these products. 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, for the foreseeable future, manufacture most or all of our pharmaceutical and biological 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 allergy treatment products and all our OVP segment products at this facility. Our OVP segment's customers purchase products in both finished and bulk 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 more than one source.

### **Product Development**

We are committed to providing innovative products to address 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;

- Boule for the development of veterinary applications for the HEMATRU Veterinary Hematology Analyzer and associated reagents; and
- FUJIFILM for the development of veterinary applications for the Element DC Veterinary Chemistry Analyzer and associated slides and supplies.

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 \$1.7 million, \$1.0 million and \$1.5 million in the years ended December 31, 2011, 2012 and 2013, 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 are primarily protected through trade secret protection of, for example, our manufacturing processes in this area.

We actively seek patent protection both in the United States and abroad. Our issued and pending patent portfolios primarily relate to heartworm control, flea control, allergy, infectious disease vaccines, diagnostic and detection tests, immunomodulators, instrumentation, nutrition, pain control and vaccine delivery technologies. As of December 31, 2013, we owned, co-owned or had rights to 185 issued U.S. patents expiring at various dates from January 2014 to May 2028 and had no pending U.S. patent applications. 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, 2013 included 141 issued patents and 4 pending applications in various foreign countries expiring at various dates from January 2014 to March 2026.

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

### **Seasonality**

In 2013, our fourth quarter results were significantly stronger than those for any other quarter. We expect this trend to continue in the future, primarily as this is our understanding of the historical results at Heska Imaging and other digital imaging businesses.

### **Government Regulation**

Although the majority of our 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 major 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 in excess of \$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 typically 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 4 to 6 years from the initiation of a regulatory process to market introduction and costs approximately \$4 to \$6 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, which are estimated to be approximately 10 to 12 years from the initiation of a regulatory process to market introduction and may have costs of approximately \$10 to \$12 million.
- *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 and/or reports.

A number of our animal health products are not regulated. For example, certain products such as our ALLERCEPT panels 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.

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 Center for Veterinary Biologics, or CCVB; in Japan, which is governed by the Japanese Ministry of Agriculture, Forestry and Fisheries, or MAFF; in Australia, which is governed by the Australian Department of Agriculture, Fisheries and Forestry, or ADAFF; in South Africa, which is governed

by the Republic of South Africa Department of Agriculture, or RSADA; and in certain other 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.

<b>Products</b>	<b>Country</b>	<b>Regulated</b>	<b>Agency</b>	<b>Status</b>
ALLERCEPT Allergy Treatment Sets	United States	Yes	USDA	Licensed
SOLO STEP CH	United States	Yes	USDA	Licensed
	EU	No-in most countries		
	Canada	Yes	CCVB	Licensed
	Japan	Yes	MAFF	Licensed
	Australia	Yes	ADAFF	Licensed
SOLO STEP CH Batch Test Strips	United States	Yes	USDA	Licensed
	Canada	Yes	CCVB	Licensed
SOLO STEP FH	United States	Yes	USDA	Licensed
	Canada	Yes	CCVB	Licensed
	Australia	Yes	ADAFF	Licensed
TRI-HEART Plus Heartworm Preventive	United States	Yes	FDA	Licensed
	Japan	Yes	MAFF	Licensed
	South Korea	Yes	NVRQS	Licensed

### **Competition**

Our market 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 Laboratories, Inc. ("IDEXX"), Abaxis, Inc. ("Abaxis") and Synbiotics Corporation ("Synbiotics"), a unit of Zoetis Inc. ("Zoetis"). 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, CEVA Santé Animale, Eli Lilly and Company, Merck & Co., Inc. ("Merck"), Novartis AG, sanofi-aventis, Vétoquinol S.A., Virbac S.A. and Zoetis 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.

### **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, 2013, we and our subsidiaries employed 290 people, of whom 125 were focused in production and technical and logistical services, including instrumentation service, 112 in sales, marketing and customer support, 47 in general administrative services, such as accounting, and 6 in product development. 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.

## 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 Corporation, that file electronically with the Securities and Exchange Commission.

## Executive Officers of the Registrant

Our executive officers and their ages as of March 31, 2014 are as follows:

Name	Age	Position
Robert B. Grieve, Ph.D.	62	Chair of the Board and Chief Executive Officer <sup>(1)</sup>
Kevin S. Wilson	42	President and Chief Operating Officer <sup>(2)</sup>
Jason A. Napolitano	45	Executive Vice President, Chief Financial Officer and Secretary
Michael J. McGinley, Ph.D.	53	President, Biologicals & Pharmaceuticals
Steven M. Eyl	48	Executive Vice President, Commercial Operations
Nancy Wisnewski, Ph.D.	51	Executive Vice President, Product Development and Customer Support
Steven M. Asakowicz	48	Executive Vice President, Companion Animal Health Sales
Rodney A. Lippincott	40	Executive Vice President, Companion Animal Health Sales

*Robert B. Grieve, Ph.D.*, one of our founders, currently serves as Chief Executive Officer and Chair 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.

*Kevin S. Wilson* was appointed our President and Chief Operating Officer in February 2013. Mr. Wilson is a founder, member and officer of Cuattro, LLC. Since 2008, he has been involved in developing technologies for radiographic imaging with Cuattro, LLC and as a founder of Cuattro Software, LLC, Cuattro Medical, LLC and Cuattro Veterinary, LLC. Mr. Wilson served on the board of various private, non-profit, and educational organizations from 2005 to 2011. He was a founder of Sound Technologies, Inc., a diagnostic imaging company, in 1996. After Sound Technologies, Inc. was sold to VCA Antech, Inc. in 2004, Mr. Wilson served as Chief Strategy Officer for VCA Antech, Inc. until 2006. Mr. Wilson attended Saddleback College.

*Jason A. Napolitano* was appointed Executive Vice President and Chief Financial Officer in May 2002. He was appointed our Secretary in February 2009. 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.

*Michael J. McGinley, Ph.D.* was appointed President, Biologicals & Pharmaceuticals in February 2013. He previously served as President and Chief Operating Officer from January 2009 to February 2013, Vice President, Global Operations from April through December 2008, Vice President, Operations and Technical Affairs and General Manager, Heska Des Moines from January 2002 to April 2008 and in other positions beginning in June 1997. Prior to joining the Company, Dr. McGinley held positions with Bayer Animal Health and Fort Dodge Laboratories. He holds Ph.D. and M.S. degrees in Immunobiology from Iowa State University and successfully completed the Advanced Management Program at the Harvard Business School in 2008.

*Steven M. Eyl* has served as our Executive Vice President, Commercial Operations since May 2013. Mr. Eyl was a principal of Eyl Business Services, a consulting firm, from January 2012 to May 2013. He was President of Sound Technologies, Inc. ("Sound") from 2000 to 2011, including after Sound's acquisition by VCA Antech, Inc. in 2004. Mr. Eyl has an extensive background in medical technology sales. He is a graduate of Indiana University.

*Nancy Wisnewski, Ph.D.* was appointed Executive Vice President, Product Development and Customer Support in April 2011. She served as Vice President, Product Development and Technical Customer Service from December 2006 to April 2011. From January 2006 to November 2006, Dr. Wisnewski was Vice President, Research and Development. Dr. Wisnewski held various positions in Heska's Research and Development organization between 1993 and 2005. She holds a Ph.D. in Parasitology/Biochemistry from the University of Notre Dame and a B.S. in Biology from Lafayette College.

*Steven M. Asakowicz* was appointed Executive Vice President, Companion Animal Health Sales in February 2013. From July 2011 to February 2013, he was employed by Cuattro, LLC as Vice President, Sales – US Veterinary and sold exclusively on behalf of Cuattro Veterinary USA, LLC. Mr. Asakowicz previously worked as Sales Director for Sound Technologies, Inc. ("Sound") from November 2002 to June 2011, including after Sound was acquired by VCA Antech, Inc. in 2004. Prior to entering the animal health market, Mr. Asakowicz spent 3.5 years employed by Smith Micro Software, Inc. as a Sales Manager and spent 7.5 years employed by AirTouch Cellular and PacTel Cellular (currently Verizon Wireless) as a Corporate Account Executive. Mr. Asakowicz holds a B.A. degree from San Diego State University.

*Rodney A. Lippincott* was appointed Executive Vice President, Companion Animal Health Sales in February 2013. From July 2011 to February 2013, he was employed by Cuattro, LLC as Vice President, Sales – US Veterinary and sold exclusively on behalf of Cuattro Veterinary USA, LLC. Mr. Lippincott held various positions including Sales Director for Sound Technologies, Inc., a unit of VCA Antech, Inc., from September 2007 to June 2011. Prior to entering the animal health market, Mr. Lippincott spent 13.5 years employed by Smith Micro Software, Inc. and held positions including US and International Sales Manager and Director of Marketing. Mr. Lippincott attended Saddleback College and completed the Executive Education Marketing Management Program at Stanford University, Graduate School of Business.

<sup>(1)</sup> Dr. Grieve is to assume the title "Executive Chair of the Board" immediately following the filing of this 10-K with the SEC. Dr. Grieve's title changed from "Chairman of the Board and Chief Executive Officer" to "Chair of the Board and Chief Executive Officer" in February 2014 due to a change in our bylaws approved by our Board of Directors at that time.

(2) Mr. Wilson is to become Chief Executive Officer and President of the Company immediately following the filing of this 10-K with the SEC.

## 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 some of these factors and the possible impact of these factors on future results of operations. The risks and uncertainties described below are not the only ones we face. Additional risks or uncertainties not presently known to us or that we deem to be currently immaterial also may impair our business 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 Public Common Stock could decline and you could experience losses on your investment.

***Our February 2013 acquisition of a 54.6% majority interest (the "Acquisition") in Cuattro Veterinary USA, LLC, which has been renamed Heska Imaging US, LLC, is subject to various puts and calls and other provisions which could be detrimental to the interests of our shareholders.***

Under the Amended and Restated Operating Agreement of Heska Imaging US, LLC (the "Operating Agreement") for up to 18 months following the Acquisition, the unit holders of the 45.4% of Heska Imaging we do not own (the "Imaging Minority") may repurchase our 54.6% interest in Heska Imaging at a premium to our Acquisition purchase price under a call option we have granted the Imaging Minority. Through the first year anniversary of the Acquisition, such repurchase could have been made at 1.3 times our purchase price and following the first year anniversary of the Acquisition and through the 18-month anniversary of the Acquisition, such repurchase may be made at 1.45 times our purchase price. Furthermore, the Imaging Minority may deliver any Heska shares resulting from and held since the Acquisition as consideration, with such shares to be valued based on market value, although not less than \$5 per share. Should the Imaging Minority exercise this call, it could be significantly disruptive to our business and if Heska Imaging represents a significant portion of our revenue and earnings at the time of such exercise, our stock price could decline significantly following such exercise. Furthermore, should Heska stock have appreciated significantly, the Imaging Minority might not have to repay some or all of the cash we paid in the Acquisition, or even deliver all the shares we issued in the Acquisition. In addition, if our stock price has declined below \$5 per share prior to the time of exercise, we may not realize the full economic premium (1.45 at this point), or any premium, anticipated in the repurchase. In addition, should our stock price decline enough, we could be placed in a position where the repurchase is at an economic discount to our purchase price.

Under the Operating Agreement, should Heska Imaging meet certain performance criteria, the Imaging Minority has been granted a put option to sell us some or all of the Imaging Minority's position in Heska Imaging following the audit of our financial statements for 2015, 2016 and 2017. Based on Heska Imaging's current ownership position, this put option could require us to deliver either up to \$17.0 million following calendar year 2015, \$25.5 million following calendar year 2016 or \$36.9 million following calendar year 2017 - as well as 25% of Heska Imaging's cash (any applicable payment in aggregate to be defined as the "Put Payment") to acquire the outstanding minority interest in Heska Imaging. While we have the right to deliver up to 55% of the consideration in our Public Common Stock under certain circumstances, such stock is to be valued based on 90% of market value (the "Delivery Stock Value") and is limited to approximately 650 thousand shares in any case. If the Delivery Stock Value is less than the market value of our Public Common Stock at the time of the Acquisition, we do not have the right to deliver any Public Common Stock as consideration. Cash required under any Put Payment could put a significant strain on our financial position or require us to raise additional capital. There is no guarantee that additional capital will be available in such a circumstance on reasonable terms, if at all. We may be unable to obtain debt financing, the public markets may be unreceptive to equity financing and we may not be able to obtain financing from other alternative sources, such as private equity. Any debt financing, if available, may include restrictive covenants and high interest rates and any equity financing would likely be dilutive to stockholders in this scenario. 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.

Under the Operating Agreement, should Heska Imaging meet certain performance criteria, and the Imaging Minority fail to exercise an applicable put to sell us all of the Imaging Minority's position in Heska Imaging following the audit of our financial statements for 2015, 2016 and 2017, we would have a call option to purchase all, but not less than all, of the Imaging Minority's position in Heska Imaging. Based on Heska Imaging's current ownership position, exercising this call option could require us to deliver up to \$19.6 million following calendar year 2015, \$29.4 million following calendar year 2016 or \$42.4 million following calendar year 2017 - as well as 25% of Heska Imaging's cash (any applicable payment in aggregate to be defined as the "Call Payment") to acquire the outstanding minority interest in Heska Imaging. While we have the right to deliver up to 55% of the consideration in our Public Common Stock under certain circumstances, such stock is to be valued based on 90% of market value (the "Delivery Stock Value") and is limited to approximately 650 thousand shares in any case. If the Delivery Stock Value is less than the market value of our stock at the time of the Acquisition, we do not have the right to deliver any Public Common Stock as consideration. If we believe it is desirable to exercise any one of these calls, cash required under the Call Payment could put a significant strain on our financial position or require us to raise additional capital. There is no guarantee that additional capital will be available in such a circumstance on reasonable terms, if at all. If we believe it is desirable to exercise any such call, determine we are unable to economically finance the Call Payment and do not exercise the call as a result, we could be subject to a more expensive Put Payment less than a year in the future. In this circumstance, unless there is a significant change in our financial position or market conditions, such a Put Payment could have a material adverse effect on our business, financial condition and our ability to continue as a going concern.

Under and as defined in the Operating Agreement, should we undergo a change in control prior to the end of 2017, the Imaging Minority will be entitled to sell their Heska Imaging units to us for cash at the highest call value they otherwise could have obtained (the "Change in Control Payment"). If Heska Imaging meets certain minimum performance criteria, this will be \$42.4 million as well as 25% of Heska Imaging's cash until at least the end of 2015. The Change in Control Payment may materially decrease the interest of third parties in acquiring the Company or a majority of the Company's shares, which could otherwise have occurred at a significant premium to the Company's then current market price for the benefit of some or all of our shareholders. This could make some investors less likely to buy and hold our stock.

Under the terms of the Operating Agreement, Heska Imaging will be managed by a three-person board of managers, two of which are to be appointed by Heska Corporation and one of which is to be appointed by Kevin S. Wilson, who has been Heska Corporation's President and Chief Operating Officer since the Acquisition closing, is to be Heska Corporation's Chief Executive Officer and President immediately following the filing of this 10-K with the SEC and is a founder of Heska Imaging. The current board of managers consists of Robert B. Grieve, Ph.D., Heska Corporation's current Chair and Chief Executive Officer and who is to be Executive Chair immediately following the filing of this 10-K with the SEC, Mr. Wilson and Jason A. Napolitano, Heska Corporation's Executive Vice President, Chief Financial Officer and Secretary. Until the earlier of (1) our acquiring 100% of the units of Heska Imaging pursuant to the puts and/or calls discussed above or (2) the sixth anniversary of the acquisition, Heska Imaging may only take the following actions, among others, by unanimous consent of the board of managers: (i) issue securities, (ii) incur, guarantee, prepay, refinance, renew, modify or extend debt, (iii) enter into material contracts, (iv) hire or terminate an officer or amend the terms of their employment, (v) make a distribution other than a tax or liquidation distribution, (vi) enter into a material acquisition or disposition arrangement or a merger, (vii) lease or acquire an interest in real property, (viii) convert or reorganize Heska Imaging, or (ix) amend its certificate of formation or the Heska Imaging Agreement. This unanimous consent provision may hinder our ability to optimize the value of its investment in Heska Imaging in certain circumstances.

Mr. Wilson's employment agreement with us acknowledges that Mr. Wilson has business interests in Cuattro, LLC, Cuattro Software, LLC, Cuattro Medical, LLC and Cuattro Veterinary, LLC which may require a portion of his time, resources and attention in his working hours. If Mr. Wilson is distracted by these or other business interests, he may not contribute as much as he otherwise would have to enhancing our business, to the detriment of our shareholder value. Mr. Wilson, Mrs. Wilson and trusts for their children and family own a majority interest in Cuattro Veterinary, LLC and Cuattro Medical, LLC. In addition, including shares held by Mrs. Wilson and by trusts for the benefit of Mr. and Mrs. Wilson's children and family, Mr. Wilson also owns a 100% interest in Cuattro, LLC, the largest supplier to Heska Imaging. Cuattro, LLC owns a 100% interest in Cuattro Software, LLC. While the terms of both the Amended and Restated Master License Agreement and the Supply Agreement between Heska Imaging and Cuattro, LLC were negotiated at arm's length as part of the Acquisition, Mr. Wilson has an interest in these agreements and any time and resources devoted to monitoring and overseeing this relationship may prevent us from deploying such time and resources on more productive matters.

Since the Acquisition closed, Cuattro, LLC charged Heska Imaging \$6.8 million, primarily related to digital imaging products, for which there is an underlying supply contract with minimum purchase obligations, software and services as well as other operating expenses provided for under a license agreement and a supply agreement, respectively; Heska Corporation charged Heska Imaging \$2.2 million, primarily related to sales expenses; Heska Corporation net charged Cuattro, LLC \$140 thousand, primarily related to facility usage and other services.

At December 31, 2013, Heska Imaging had a \$1.4 million note receivable, including accrued interest, from Cuattro Veterinary, LLC, which is due on March 15, 2016; Heska Imaging has accounts receivable from Cuattro Software, LLC of \$892 thousand; Heska Corporation had accounts receivable from Heska Imaging of \$3.3 million, including accrued interest; Heska Corporation had net accounts receivable from Cuattro, LLC of \$110 thousand; Heska Imaging had net accounts receivable from Cuattro, LLC of \$198 thousand. All monies owed accrue interest at the same interest rate Heska Corporation pays under its credit and security agreement with Wells Fargo Bank, National Association ("Wells Fargo") once past due, with the exception of the note receivable, which accrues at this rate to its maturity date.

Mrs. Wilson, Clint Roth, DVM, Mr. Asakowicz, Mr. Lippincott, Mr. Wilson and Cuattro, LLC own approximately 29.75%, 8.39%, 4.09%, 3.07%, 0.05% and 0.05% of Heska Imaging, respectively, each are a member of Heska Imaging, and each have an interest in the puts and calls discussed above. If Mr. Wilson, Mr. Asakowicz or Mr. Lippincott is distracted by these holdings or interests, they may not contribute as much as they otherwise would have to enhancing our business, to the detriment of our shareholder value. While the Operating Agreement was negotiated at arm's length as part of the Acquisition, and requires that none of the members shall cause Heska Imaging to operate its business in any manner other than the ordinary course of business, any time and resources devoted to monitoring and overseeing this relationship may prevent us from deploying such time and resources on more productive matters.

In addition, like any acquisition, if Heska Imaging significantly underperforms our financial expectations, it may serve to diminish rather than enhance shareholder value.

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

If our actual performance deviates from our operating plan, we may be required to raise additional capital in the future. If necessary, we expect to raise these additional funds by borrowing under our revolving line of credit, the increased sale of customer leases, the sale of equity securities or the issuance of new term debt secured by the same assets as the term loans which we fully repaid in 2010. There is no guarantee that additional capital will be available from these sources on reasonable terms, if at all, and certain of these sources may require approval by existing lenders. Funds 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. Financial institutions and other potential interested parties may not be interested in purchasing our customer leases on economic terms, or at all. 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. We believe the credit markets are particularly restrictive and it may be more difficult to obtain funding versus recent history. 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 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 maintain sustained 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, and Synbiotics, a unit of Zoetis. 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 those of our OVP segment's customers. Competitors may have facilities with similar capabilities to our OVP segment, which they may operate and sell at a lower unit price to customers than our OVP segment does, which could cause us to lose customers. Companies with a significant presence in the companion animal health market, such as Bayer AG, CEVA Santé Animale, Eli Lilly, Merck, Novartis AG, sanofi-aventis, Vétoquinol S.A., Virbac S.A. and Zoetis 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 and service organizations than we do. Our competitors may offer broader product lines and have greater name recognition than we do. For example, if Zoetis devotes its significant commercial and financial resources to growing Synbiotics' market share, our sales could suffer significantly. Our competitors may also 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, sales or support capabilities to compete successfully. We believe that currently one of our largest competitors, IDEXX, in effect prohibits all of its distributors except one from selling certain competitive products, including our blood testing instruments and heartworm diagnostic tests. Another of our competitors, Abaxis, recently launched a veterinary diagnostic laboratory offering which may serve to intensify competition and lower our margins.

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.

***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.***

Revenue from Merck entities, including Merck Animal Health, represented approximately 13% of our consolidated revenue for each of the twelve months ended December 31, 2013, and the twelve months ended December 31, 2011. No other single customer accounted for more than 10% of our consolidated revenue for the twelve months ended December 31, 2012. One customer accounted for 16%, and another customer

accounted for 12% of our accounts receivable at December 31, 2013. A third customer accounted for approximately 29% of our consolidated accounts receivable at December 31, 2012. No single customer accounted for more than 10% of our consolidated accounts receivable at December 31, 2011.

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.

***We may be unable to market and sell our products successfully.***

We may not develop and maintain marketing and/or sales capabilities successfully, and we may not be able to make arrangements with third parties to perform these activities on satisfactory terms. If our marketing and sales strategy is unsuccessful, our ability to sell our products will be negatively impacted and our revenues will decrease. This could result in the loss of distribution rights for products or failure to gain access to new products and could cause damage to our reputation and adversely affect our business and future prospects.

We believe the recent worldwide economic weakness has had a negative effect on our business, and this may continue in the future. This is particularly notable in the sale of new instruments, which is a capital expenditure many, if not most, veterinarians may choose to defer in times of perceived economic weakness. Even if the overall economy begins to grow in the future, there may be a lag before veterinarians display confidence such growth will continue and return to historical capital expenditure purchasing patterns. As the vast majority of cash flow to veterinarians ultimately is funded by pet owners without private insurance or government support, our business may be more susceptible to severe economic downturns than other health care businesses which rely less on individual consumers.

The market for companion animal healthcare products is highly fragmented. Because our CCA proprietary products are generally available only to veterinarians or by prescription and our medical instruments require technical training to operate, we ultimately sell all our CCA products primarily 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 believe that currently one of our largest competitors, IDEXX, in effect prohibits all of its distributors except for MWI Veterinary Supply, Inc. ("MWI") from selling certain competitive products, including our blood testing instruments and heartworm diagnostic tests. This situation may hinder our ability to sell and market our products if these distributors are increasingly successful. While we have an agreement with MWI to sell our heartworm diagnostic tests, there can be no assurance this agreement will prove to be ultimately successful in enhancing our profitability or market presence.

***We may not be able to continue to achieve sustained profitability or increase profitability on a quarterly or annual basis.***

Prior to 2005, we incurred net losses on an annual basis since our inception in 1988 and, as of December 31, 2013, we had an accumulated deficit of \$171.1 million. We have achieved only three quarters with income before income taxes greater than \$1.5 million. Accordingly, relatively small differences in our performance metrics may cause us to generate an operating or net loss in future periods. Our ability to continue to be profitable in future periods will depend, in part, on our ability to increase sales in our CCA 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 as well as avoid or effectively manage any unanticipated issues. We may not be able to generate, 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.

***We rely substantially on third-party suppliers. The loss of products or delays in product availability from one or more third-party suppliers 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. Similarly, we must provide ourselves, or contract for the supply of certain services. Such services must be provided in a timely and appropriate manner. Failure to do any of the above could substantially harm our business.

We rely on third-party suppliers to manufacture those products we do not manufacture ourselves and to provide services we do not provide ourselves. Proprietary products provided by these suppliers represent a majority of our revenue. We currently rely on these suppliers for our blood testing instruments and consumable supplies for these instruments, for our imaging products and related software and services, for key components of our point-of-care diagnostic tests as well as for the manufacture of other products.

The loss of access to products from one or more suppliers could have a significant, negative impact on our business. Major suppliers who sell us proprietary products which are responsible for more than 5% of our revenue for the twelve months ended December 31, 2013 assuming we had consolidated Heska Imaging for the entire period (which we define as "Pro forma 2013") are Boule, Cuatro, LLC, Esaote, FUJIFILM, and Quidel. None of these suppliers sold us proprietary products which were responsible for more than 20% of our Pro forma 2013 revenue, although the proprietary products of one of these suppliers was responsible for more than 15% of our Pro forma 2013 revenue and one other was responsible for more than 10% of our Pro forma 2013 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 blood testing instruments and our digital radiography solutions we are typically entitled to non-exclusive access to consumable supplies, or ongoing non-exclusive access to products and services to meet the needs of an existing customer base, respectively, 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 will be able to maintain supply of our major product and service offerings in the near future, there can be no assurance that our suppliers will meet their obligations under any agreements we may have in place with them or that we will be able to compel them to do so. Risks of relying on suppliers include:

- *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.
- *Loss of exclusivity.* In the case of our blood testing instruments, if we are entitled to non-exclusive access to consumable supplies for a defined period upon expiration of exclusive rights, we may face increased competition from a third party with similar non-exclusive access or our former supplier, which could cause us to lose customers and/or significantly decrease our margins and could significantly affect our financial results. In addition, 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 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.

- *Changes in economics.* An underlying change in the economics with a supplier, such as a large price increase or new requirement of large minimum purchase amounts, could have a significant, adverse effect on our business, particularly if we are unable to identify and implement an alternative source of supply in a timely manner.
- *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 for a product to which we lost rights, 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 our blood testing instrument products we could face significant competition and lose all or some of 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 generally 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.
- *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.
- *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.
- *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 or may require terms that are less advantageous if available at all.
- *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, state and foreign agencies for compliance with strictly enforced Good Manufacturing Practices, regulations and similar foreign standards. We do not have control over our suppliers' compliance with these regulations and standards. Regulatory 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 typically do not have intellectual property rights, or may have to share intellectual property rights, to the products supplied by third parties and any improvements to the manufacturing processes or new manufacturing processes for these products.

Potential problems with suppliers such as those discussed above could substantially decrease sales, lead to higher costs and/or 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 sell our products effectively and substantially harming our business.

***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.

***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 marketing rights. We are party to an agreement with Merck Animal Health, which grants Merck Animal Health exclusive distribution and marketing rights for our canine heartworm preventive product, TRI-HEART Plus Chewable Tablets, ultimately sold to or through veterinarians in the United States and Canada. Novartis Agro K.K., Tokyo ("Novartis Japan") markets and distributes our SOLO STEP CH heartworm test in Japan under an exclusive arrangement. AgriLabs had the non-exclusive right to sell certain of our bovine vaccines in the United States, Africa and Mexico and has historically generated the majority of our sales of those vaccines in those territories under an agreement which was assigned to and assumed by Eli Lilly acting through Elanco in November 2013. One or more of these marketing partners may not devote sufficient resources to marketing our products and our sales and financial position could suffer significantly as a result. Revenue from Merck entities, including Merck Animal Health, represented 13% of our Pro forma 2013 revenue. If Merck Animal Health personnel fail to market, sell and support our heartworm preventive sufficiently, our sales could decline significantly. 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. For example, we believe a unit of Merck has obtained FDA approval for a canine heartworm preventive product with additional claims compared with our TRI-HEART Plus Chewable Tablets, which we believe is not currently being marketed actively. Should Merck decide to emphasize sales and marketing efforts of this product rather than our TRI-HEART Plus Chewable Tablets or cancel our agreement regarding canine heartworm preventive distribution and marketing, our sales could decline significantly. 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 maintain our current market share or commercialize certain of our products and our sales will decline accordingly.

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

The product 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 may be developing for the veterinary marketplace may not perform consistently within our expectations. Because we have limited resources to devote to product development and commercialization, any delay in the development of one product or reallocation of resources to product development efforts that prove unsuccessful may delay or jeopardize the development of 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 development of a product or obtain rights to a product from a third-party supplier, we may experience delays or shortfalls in commercialization and/or market acceptance of the product. 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. 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. For example, our VitalPath Blood Gas and Electrolyte Analyzer generated significantly less revenue than we anticipated following its launch in May 2010 as placements of this product with customers did not occur as we expected.

***If we are unable to maintain various financial and other covenants required by 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, 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 may be important to continue to fund our operations. Among the financial covenants are requirements for minimum capital monthly, minimum net income quarterly and capital expenditures monthly. 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 under our credit and security agreement with Wells Fargo. For example, we failed to comply with the net income covenant as of June 30, 2013, for which we obtained a waiver and subsequently negotiated new covenants. Although Wells Fargo has 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 and could cause all outstanding borrowings under our credit and security agreement to become immediately due and payable, or impact our ability to borrow under the agreement. In addition, Wells Fargo has discretion in setting the advance rates which we may borrow against eligible assets. We may need 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 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 introduce 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. For example, we have experienced significant delays compared to our expectations in our development of products in collaboration with Rapid Diagnostek, Inc.

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

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 SEC, the Financial Accounting Standards Board ("FASB") and others who interpret and create 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. Such changes may adversely affect our reported financial results, the way we conduct our business or have a negative impact on us if we fail to track such changes. For example, we have found FASB's recent decision to codify the accounting standards has made it more difficult to research complex accounting matters, increasing the risk we will fail to account consistent with FASB rules in the future.

If our regulators and/or auditors adopt or interpret more stringent standards than we anticipate, we could experience unanticipated changes in our reported financial statements, including but not limited to restatements, which could adversely affect our business due to litigation and investor confidence in our financial statements. In addition, changes in the underlying circumstances to which we apply given accounting standards and principles may affect our results of operations and have a negative impact on us. For example, if we were to experience another loss before income taxes in 2014, we expect we would conclude we were no longer more likely than not to utilize deferred tax assets recognized on our consolidated balance sheets, increase our valuation allowance affiliated with these deferred tax assets to an amount equal to the deferred tax assets and recognize an income tax expense of equal magnitude in our statement of operations – resulting in a \$28.5 million reduction in deferred tax assets recognized on our consolidated balance sheets and a \$28.5 million increase in our income tax expense based on the total deferred tax assets recognized on our consolidated balance sheets as of December 31, 2013. There can be no assurance that future reductions in deferred tax assets recognized on our consolidated balance sheets with corresponding increases in income tax expense will not occur if projected financial results are not met, or otherwise. Similarly, we review goodwill recognized on our consolidated balance sheets at least annually and if we were to conclude there was an impairment of goodwill, we would reduce the corresponding goodwill to its estimated fair value and recognize a corresponding expense in our statement of operations. This impairment and corresponding expense could be as large as the total amount of goodwill recognized on our consolidated balance sheets, which was \$21.6 million at December 31, 2013. There can be no assurance that future goodwill impairments will not occur if projected financial results are not met, or otherwise.

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") has increased our required administrative actions and expenses as a public company since its enactment. The general and administrative costs of complying with Sarbanes-Oxley will depend on how it is interpreted over time. Of particular concern are the level 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 anticipate, 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. For

example, we excluded the operations of Heska Imaging, an entity in which we acquired a majority interest in 2013, from our assessment of disclosure controls and procedures and internal control over financial reporting as of December 31, 2013 and while in the first quarter of 2014 we integrated the accounting and financial reporting of Heska Imaging into our existing infrastructure including disclosure controls and procedures and internal control over financial reporting and expect these changes to materially strengthen our disclosure controls and procedures and internal control over financial reporting related to these operations, there can be no assurance thereof at this point. 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. In addition, if our stock market value increases to a certain level on June 30, 2014, we will be required to have our independent registered public accountant conduct an audit of our internal controls, which would increase our general and administrative costs.

Similarly, we are required to comply with the SEC's mandate to provide interactive data using the eXtensible Business Reporting Language as an exhibit to certain SEC filings. Compliance with this mandate has required a significant time investment, which has and may in the future preclude some of our employees from spending time on more productive matters. 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.

***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. We may have to use legal means to collect payment for goods shipped to third parties. A legal dispute leading to an unfavorable ruling or settlement could have significant material adverse consequences on our business.

We may become subject to 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 likely to be costly, time-consuming and distracting. 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. Any legal action against us or our collaborators or suppliers may require us or our collaborators or suppliers to obtain one or more licenses in order to market or manufacture affected products or services. However, we or our collaborators or 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, any of which could substantially harm our business.

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 proceedings will likely result in substantial expense to us and significant diversion of the efforts of our technical and management personnel. Any adverse determination in litigation or interference proceedings could subject us to significant liabilities to third parties. Further, as a result of litigation or other proceedings, we may be required to seek licenses from third parties which may not be available on commercially reasonable terms, if at all.

***Our stock price has historically experienced high volatility, and could do so in the future, including experiencing a material price decline resulting from a large sale in a short period of time. In addition, our Public Common Stock has certain transfer restrictions which could reduce trading liquidity from what it otherwise would have been and have other undesired effects.***

According to the latest available filings with the SEC of which we are aware and excluding our executive officers, we have one shareholder who controls more than 5% of our shares outstanding. This shareholder holds approximately 9% of our shares outstanding. Should this shareholder or another relatively large shareholder decide to sell a large number of shares in a short period of time, it could lead to an excess supply of our shares available for sale and correspondingly result in a significant decline in our stock price. For example, we had a shareholder who held over 16% of our shares outstanding as of September 30, 2011 sell all of its holdings in our stock on or before December 7, 2011 – and we believe this contributed to a corresponding decline in our stock price during this period.

The securities markets have experienced significant price and volume fluctuations and the market prices of securities of many microcap and small cap companies have in the past been, and can in the future be expected to be, especially volatile. During the twelve months ended December 31, 2013, our closing stock price has ranged from a low of \$5.18 to a high of \$9.30. Fluctuations in the trading price or liquidity of our Public 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 Public Common Stock include:

- stock sales by large stockholders or by insiders;
- changes in the outlook for our business;
- our quarterly operating results, including as compared to expected revenue or earnings and in comparison to historical results;
- termination, cancellation or expiration 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 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;
- 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 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.

On May 4, 2010, our shareholders approved an amendment (the "Amendment") to our Restated Certificate of Incorporation. The Amendment places restrictions on the transfer of our stock that could adversely affect our ability to use our domestic Federal Net Operating Loss carryforward ("NOL"). In particular, the Amendment prevents the transfer of shares without the approval of our Board of Directors if, as a consequence, an individual, entity or groups of individuals or entities would become a 5-percent holder under Section 382 of the Internal Revenue Code of 1986, as amended, and the related Treasury regulations, and also prevents any existing 5-percent holder from increasing his or her ownership position in the Company without the approval of our Board of Directors. This may cause certain individuals or entities who may have otherwise been willing and able to bid on our stock to not do so, reducing the class of potential acquirers and trading liquidity from what it otherwise might have been. The Amendment could also have an adverse impact

on the value of our stock if certain buyers who would otherwise have purchased our stock, including buyers who may not be comfortable owning stock with transfer restrictions, do not purchase our stock as a result of the Amendment. In addition, because some corporate takeovers occur through the acquirer's purchase, in the public market or otherwise, of sufficient shares to give it control of a company, any provision that restricts the transfer of shares can have the effect of preventing a takeover. The Amendment could discourage or otherwise prevent accumulations of substantial blocks of shares in which our stockholders might receive a substantial premium above market value and might tend to insulate management and the Board of Directors against the possibility of removal to a greater degree than had the Amendment not passed.

***Obtaining and maintaining regulatory approvals in order to market our products may be costly and delay the marketing and sales of our products. Failure to meet all regulatory requirements could cause significant losses from affected inventory and the loss of market share.***

Many of the products we develop, market or manufacture may subject us to extensive regulation by one or more of the USDA, the FDA, the EPA and foreign and other regulatory authorities. These regulations govern, among other things, the development, testing, manufacturing, labeling, storage, pre-market approval, advertising, promotion and sale 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 decision by a regulatory authority to regulate a currently non-regulated product or product area could significantly impact our revenue and have a corresponding adverse impact on our financial performance and position while we attempt to comply with the new regulation, if such compliance is possible at all.

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. Difficulties in making established products to all regulatory specifications may lead to significant losses related to affected inventory as well as market share. For instance, in 2010 we discovered we had produced a significant level of cattle vaccine product in our OVP segment which conformed to regulatory specifications for safety, potency and efficacy but not purity. We did not ship any related cattle vaccine product in the three months ended June 30, 2010 as we investigated and worked to resolve the situation. There can be no assurance that our efforts at remediation to ensure this or similar problems will not recur in the future will be successful or that the USDA will not suspend our ability to produce these, similar or other products for an extended time at some point in the future.

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 and other requirements. 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, but not limited to, 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 may 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.

***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, cancelation or expiration of such relationships;
- competition and pricing pressures from competitive products;
- the introduction of new products or services by our competitors or by us;
- large customers failing to purchase at historical levels;
- fundamental shifts in market demand;
- manufacturing delays;
- shipment problems;
- information technology problems, which may prevent us from conducting our business effectively, or at all, and may also raise our costs;
- 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, including those related to personnel. Many of these expenses are fixed in the short term and may increase over the course of the coming year. If any of the factors listed above cause our revenues to decline, our operating results could be substantially harmed.

***Our Public 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. In addition, we have less than 300 record holders, which would allow us to terminate voluntarily the registration of our common stock with the SEC and after which we would no longer be eligible to maintain the listing of our Public Common Stock on the Nasdaq Capital Market.***

Our Public 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. We completed a 1-for-10 reverse stock split effective December 30, 2010 in order to resolve an ongoing minimum bid price deficiency. While we believe we are currently in compliance with all Nasdaq requirements, there can be no assurance we will continue to meet Nasdaq listing requirements including the minimum bid price, that Nasdaq will interpret these requirements in the same manner we do if we believe we meet the requirements, or that Nasdaq will not change such requirements or add new requirements to include requirements we do not meet in the future. If we are delisted from the Nasdaq Capital Market, our Public 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 Public Common Stock, which could severely limit market liquidity of the Public Common Stock and any stockholder's ability to sell our securities in the secondary market. This lack of liquidity would also likely make it more difficult for us to raise capital in the future.

We have less than 300 recordholders as of our latest information, a fact which would make us eligible to terminate voluntarily the registration of our common stock with the SEC and therefore suspend our reporting obligations with the SEC under the Exchange Act and become a non-reporting company. If we were to cease reporting with the SEC, we would no longer be eligible to maintain the listing of our common

stock on the Nasdaq Stock Market, which we would expect to materially adversely affect the liquidity and market price for our common stock.

***We may face product returns and product liability litigation in excess of, or not covered by, our insurance coverage or indemnities and/or warranties from our suppliers. 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.

***We may be held liable for the release of hazardous materials, which could result in extensive remediation 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 bio hazardous materials, including chemicals and infectious disease agents. 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 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 has approximately 6,000 square feet leased under an agreement which expires in 2017.

**Item 3. Legal Proceedings.**

From time to time, we may be involved in litigation related to claims arising out of our operations. At December 31, 2013, we were not a party to any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on our business, financial condition or operating results.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our Public Common Stock is quoted on the Nasdaq Capital Market under the symbol "Hska." The following table sets forth the high and low sales prices for our Public Common Stock as reported by the Nasdaq Capital Market for the periods indicated below:

	<b>High</b>	<b>Low</b>
<b>2012</b>		
First Quarter	\$ 12.25	\$ 6.83
Second Quarter	13.00	10.95
Third Quarter	11.40	7.55
Fourth Quarter	9.70	7.48
<b>2013</b>		
First Quarter	9.30	8.02
Second Quarter	9.17	6.67
Third Quarter	6.97	5.18
Fourth Quarter	8.72	5.70
<b>2014</b>		
First Quarter (through March 28)	11.21	8.63

As of March 28, 2014, there were approximately 246 record holders of our Public Common Stock, including approximately 87 participant accounts of Cede & Co.'s position held with our registrar, and approximately 3,200 beneficial stockholders. While we paid \$1.6 million in dividends in 2012, we do not anticipate any dividend payments in the foreseeable future.

**Item 6. Selected Financial Data.**

The following consolidated statement of operations and consolidated balance sheets 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. We completed a 1-for-10 reverse stock split effective December 30, 2010. Except as otherwise indicated, all related amounts reported below have been retroactively adjusted for the effect of this reverse stock split.

	Year Ended December 31,				
	2009	2010	2011	2012	2013
	(in thousands, except per share amounts)				
<b>Consolidated Statement of Operations Data:</b>					
Revenue:					
Core companion animal health	\$ 66,449	\$ 55,655	\$ 57,481	\$ 61,502	\$ 66,404
Other vaccines, pharmaceuticals and products	9,229	9,796	12,584	11,303	11,935
Total revenue, net	<u>75,678</u>	<u>65,451</u>	<u>70,065</u>	<u>72,805</u>	<u>78,339</u>
Cost of revenue	<u>47,219</u>	<u>40,659</u>	<u>40,878</u>	<u>41,704</u>	<u>47,707</u>
Gross profit	<u>28,459</u>	<u>24,792</u>	<u>29,187</u>	<u>31,101</u>	<u>30,632</u>
Operating expenses:					
Selling and marketing	14,524	14,726	15,167	18,339	19,428
Research and development	1,718	1,597	1,650	958	1,500
General and administrative	8,173	8,111	9,121	9,646	11,134
Total operating expenses	<u>24,415</u>	<u>24,434</u>	<u>25,938</u>	<u>28,943</u>	<u>32,062</u>
Operating income (loss)	4,044	358	3,249	2,158	(1,430)
Interest and other (income) expense, net	306	289	(117)	135	(37)
Income (loss) before income taxes	3,738	69	3,366	2,023	(1,393)
Income tax expense:					
Current income tax expense	205	61	165	214	183
Deferred income tax expense (benefit)	1,291	(10)	1,056	606	(637)
Total income tax expense (benefit)	<u>1,496</u>	<u>51</u>	<u>1,221</u>	<u>820</u>	<u>(454)</u>
Net income (loss)	<u>\$ 2,242</u>	<u>\$ 18</u>	<u>\$ 2,145</u>	<u>\$ 1,203</u>	<u>\$ (939)</u>
Net income (loss) attributable to non-controlling interest	—	—	—	—	257
Net income (loss) attributable to Heska Corporation	<u>2,242</u>	<u>18</u>	<u>2,145</u>	<u>1,203</u>	<u>(1,196)</u>
Basic net income (loss) per share attributable to Heska Corporation	<u>\$ 0.43</u>	<u>\$ 0.00</u>	<u>\$ 0.41</u>	<u>\$ 0.23</u>	<u>\$ (0.21)</u>
Diluted net income (loss) per share attributable to Heska Corporation	<u>\$ 0.43</u>	<u>\$ 0.00</u>	<u>\$ 0.40</u>	<u>\$ 0.22</u>	<u>\$ (0.21)</u>
Dividends declared per share	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0.30</u>	<u>\$ —</u>
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 5,400	\$ 5,492	\$ 6,332	\$ 5,784	\$ 6,016
Total current assets	28,493	27,279	28,891	32,955	33,911
Note receivable - related party	—	—	—	—	1,407
Total assets	64,134	63,048	61,894	66,826	93,553
Line of credit	4,201	3,079	—	2,552	4,798
Other short-term borrowings, including current portion of long-term debt	381	—	—	—	132
Total current liabilities	14,107	12,660	9,289	14,389	17,706
Long-term debt, excluding current portion	—	—	—	—	369
Non-controlling interest	—	—	—	—	13,659
Public Common Stock subject to redemption	—	—	—	—	3,405
Total stockholders' equity	45,055	45,798	48,439	48,862	47,116

**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 the close of business on March 28, 2014, and we undertake no duty and do not intend to update this information.

**Overview**

We develop, manufacture, market, sell and support veterinary products. Our business is comprised of two reportable segments, Core Companion Animal Health ("CCA"), which represented 85% of Pro forma 2013 revenue and Other Vaccines, Pharmaceuticals and Products ("OVP"), which represented 15% of Pro forma 2013 revenue.

The Core Companion Animal Health segment ("CCA") includes, primarily for canine and feline use, blood testing instruments and supplies, digital imaging products, software and services, and single use products and services such as heartworm diagnostic tests, heartworm preventive products, allergy immunotherapy products and allergy testing.

Blood testing and other non-imaging instruments and supplies represented approximately 34% of our Pro forma 2013 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 28% of our Pro forma 2013 revenue resulted from the sale of such consumables to an installed base of instruments and approximately 6% of our Pro forma 2013 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 of our blood testing and other non-imaging instruments and supplies 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 chemistry instruments, our hematology instruments and our blood gas instruments and their affiliated operating consumables. Revenue from products in these three areas, including revenues from consumables, represented approximately 30% of our Pro forma 2013 revenue.

Imaging hardware, software and services represented approximately 17% of Pro forma 2013 revenue. Digital radiography is the largest product offering in this area, which also includes ultrasound instruments. Digital radiography solutions typically consist of a combination of hardware and software placed with a customer, often combined with an ongoing service and support contract. It has been our experience that most of the economic benefit is generated at the time of sale in this area, in contrast to the blood testing category discussed above where ongoing consumable revenue is often a larger component of economic value.

Other CCA revenue, including single use diagnostic and other tests, pharmaceuticals and biologicals as well as research and development, licensing and royalty revenue, represented approximately 33% of our Pro forma 2013 revenue. Since items in this area are often single use by their nature, our typical 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 preventives, our allergy test kits, our allergy immunotherapy and our allergy tests. Combined revenue from heartworm-related products and allergy-related products represented 30% of our Pro forma 2013 revenue.

We consider the CCA 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 occur in the CCA segment. The majority of our research and development spending is dedicated to this segment as well.

All our CCA products are ultimately sold primarily 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. CCA products are sold directly to end users by us as well as through distribution relationships, such as our corporate agreement with Merck Animal Health, the sale of kits to conduct blood testing to third-party veterinary diagnostic laboratories and independent third-party distributors. Revenue from direct sales and distribution relationships represented approximately 68% and 32%, respectively, of CCA Pro forma 2013 revenue.

We intend to sustain profitability over the long term through a combination of revenue growth, gross margin improvement and expense control. Accordingly, we closely monitor revenue growth trends in our CCA segment. Pro forma 2013 revenue in this segment decreased 6% as compared to Pro forma revenue for the twelve months ended December 31, 2012 assuming we had consolidated Heska Imaging for the entire period. We believe poor economic conditions over the past several years have impacted our revenue as, for example, veterinarians have continued to delay or defer capital expenditures on new diagnostic instrumentation.

The OVP segment includes our 168,000 square foot USDA- and FDA-licensed production facility in Des Moines, Iowa. We view this facility as an asset which could allow us to control our cost of goods on any pharmaceuticals and vaccines that we may commercialize in the future. We have increased integration of this facility with our operations elsewhere. For example, virtually all our U.S. inventory, excluding Heska Imaging, 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 CCA segment.

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

We developed a line of bovine vaccines that are licensed by the USDA. We have an agreement which was assigned by a previous distributor, AgriLabs to, and assumed by, Eli Lilly acting through Elanco in November 2013, for the marketing and sale of certain of these vaccines which AgriLabs sold primarily under the Titanium<sup>®</sup> and MasterGuard<sup>®</sup> brands. This agreement has historically generated a significant portion of our OVP segment's revenue. Our OVP segment also produces vaccines and pharmaceuticals for other third parties.

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

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

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

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

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

Recording revenue from license arrangements involves the use of estimates. The primary estimate made by management is determining the useful life of the related agreement, product,

patent or technology. We evaluate all of our licensing arrangements by estimating the useful life of either the product or the technology, the length of the agreement or the legal patent life and defer the revenue for recognition over the appropriate period.

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 collectability risk based on such factors, among others, as: (i) the aging of the accounts receivable balance; (ii) the client's past payment history; (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 uncollectable 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 excess/obsolescence inventory. 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.

#### **Deferred Tax Assets – Valuation Allowance**

Our deferred tax assets, such as a domestic Net Operating Loss ("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 a deferred tax asset based upon our estimates of future taxable income, 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 the deferred tax asset in the future. The first time this occurs in a given jurisdiction, it will result in a net deferred tax asset on our consolidated balance sheets 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 the related deferred tax asset. 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. For example, if we were to conclude our estimates of future taxable income were not sufficient and thus we were no longer more likely than not to utilize deferred tax assets recognized on our consolidated balance sheets, we would increase the valuation allowance affiliated with these deferred tax assets and recognize an income tax expense of an equal magnitude in our statement of operations. At December 31, 2013, we had generated cumulative three year income before income taxes as well as eight consecutive years of federal taxable income and concluded we were more likely than not to utilize deferred tax assets recognized on our consolidated balance sheets as of such date. If we were to experience another loss before income taxes in 2014, we expect we would conclude we were not more likely than not to utilize deferred tax assets recognized on our consolidated balance sheets, increase our valuation allowance affiliated with these deferred tax assets to an amount equal to the deferred tax assets and recognize an income tax expense of equal magnitude in our statement of operations.

## Results of Operations

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

	Year Ended December 31,		
	2011	2012	2013
(in thousands except per share amounts)			
<b>Consolidated Statement of Income Data:</b>			
Revenue:			
Core companion animal health	\$ 57,481	\$ 61,502	\$ 66,404
Other vaccines, pharmaceuticals and products	12,584	11,303	11,935
Total revenue, net	70,065	72,805	78,339
Cost of revenue	40,878	41,704	47,707
Gross profit	29,187	31,101	30,632
Operating expenses:			
Selling and marketing	15,167	18,339	19,428
Research and development	1,650	958	1,500
General and administrative	9,121	9,646	11,134
Total operating expenses	25,938	28,943	32,062
Operating income (loss)	3,249	2,158	(1,430)
Interest and other (income) expense, net	(117)	135	(37)
Income (loss) before income taxes	3,366	2,023	(1,393)
Income tax expense (benefit):			
Current tax expense	165	214	183
Deferred tax expense (benefit)	1,056	606	(637)
Total income tax expense (benefit)	1,221	820	(454)
Net income (loss)	\$ 2,145	\$ 1,203	\$ (939)
Net income (loss) attributable to non-controlling interest	\$ —	\$ —	\$ 257
Net income (loss) attributable to Heska Corporation	\$ 2,145	\$ 1,203	\$ (1,196)
Basic net income (loss) per share attributable to Heska Corporation	\$ 0.41	\$ 0.23	\$ (0.21)
Diluted net income (loss) per share attributable to Heska Corporation	\$ 0.40	\$ 0.22	\$ (0.21)
Weighted average outstanding shares used to compute basic net income (loss) per share attributable to Heska Corporation			
	5,237	5,326	5,755
Weighted average outstanding shares used to compute diluted net income (loss) per share attributable to Heska Corporation			
	5,338	5,489	5,755

### Revenue

Total revenue increased 8% to \$78.3 million in 2013 compared to \$72.8 million in 2012. Total revenue increased 4% to \$72.8 million in 2012 compared to \$70.1 million in 2011.

CCA segment revenue increased 8% to \$66.4 million in 2013 compared to \$61.5 million in 2012. The largest factor in the increase was \$12.7 million in revenue from Heska Imaging, which represents the revenue from sales after our acquisition of Heska Imaging on February 24, 2013. We also generated greater revenue from sales of our heartworm preventive to Merck Animal Health. These were somewhat offset by lower revenue from domestic sales of our heartworm diagnostic tests, our chemistry instruments, our hematology instruments, our instrument consumables and our international allergy business. CCA segment revenue increased 7% to \$61.5 million in 2012 compared to \$57.5 million in 2011. Greater revenue from instrument consumables was a factor in the increase.

OVP segment revenue increased 6% to \$11.9 million in 2013 compared to \$11.3 million in 2012. Increased revenue from sponsored research and development activities was the largest factor in the increase. OVP segment revenue decreased 10% to \$11.3 million in 2012 compared to \$12.6 million in 2011. Lower sales of cattle vaccines under our contract with AgriLabs and lower international sales of cattle vaccines were factors in the decline.

### ***Cost of Revenue***

2013 Cost of revenue was \$47.7 million, an increase of 14% compared to \$41.7 million in 2012. Gross profit decreased 2% to \$30.6 million in 2013 from \$31.1 million in 2012. 2013 gross profit included \$5.1 million in gross profit from Heska Imaging. Gross Margin, i.e. gross profit divided by total revenue, decreased to 39.1% in 2013 from 42.7% in 2012. In June 2013, we recognized a reserve (the "Roche Reserve") related to an agreement (the "Roche Agreement") with Roche related to our blood gas analyzers under which we would be relieved of any minimum purchase obligations other than the Roche Agreement and Roche would be obligated to supply us with consumables and spare parts for a shortened period of time. The Roche Reserve was \$1.1 million, as follows: \$600 thousand recognized in cost of revenue related to required purchase of new instruments under the Roche Agreement, \$168 thousand recognized in cost of revenue related to instruments already in inventory and accelerated depreciation on service units, \$13 thousand recognized in sales and marketing expenses related to accelerated depreciation on demonstration units, \$99 thousand recognized in research and development expenses related to the purchase of research and development equipment required under the Roche Agreement we would not have otherwise purchased and \$243 thousand recognized in general and administrative expenses related to other anticipated costs related to the Roche Agreement. In addition, in June 2013 we recognized a \$453 thousand reserve (the "SpotChem Reserve") related to consumable and accessory inventory which we did not expect to sell. A shift in product mix to relatively lower margin product areas as well as the impact of the Roche Reserve and the SpotChem Reserve, were factors in the decline in Gross Margin for the twelve months ended December 31, 2013 as compared to the prior year period.

2012 Cost of revenue was \$41.7 million, an increase of 2% compared to \$40.9 million in 2011. Gross profit increased 7% to \$31.1 million in 2012 from \$29.2 million in 2011. Gross Margin, i.e. gross profit divided by total revenue, increased to 42.7% in 2012 from 41.7% in 2011. A key factor in the increase was product mix, where the overall sales shift was toward higher margin products including instrument consumables.

### ***Operating Expenses***

Selling and marketing expenses increased by 6% to \$19.4 million in 2013 compared to \$18.3 million in 2012. Heska Imaging sales and marketing expense of \$3.3 million recognized in 2013 but not 2012, was the largest factor in the change. This was somewhat offset by lower spending on travel and compensation for members of our sales force and lower marketing expenses related to advertising and other third party services. Selling and marketing expenses increased by 21% to \$18.3 million in 2012 compared to \$15.2 million in 2011. Greater recruiting and relocation costs related to the expansion of our sales force and increased spending related to product marketing programs were factors in the increase.

Research and development expenses were \$1.5 million in 2013, including \$175 thousand in expense from Heska Imaging, an increase of \$542 thousand as compared to \$958 thousand in 2012. Other factors in the change include a reserve for equipment that had been previously used in a project that was recently discontinued and expenses related to the Roche Reserve. Research and development expenses decreased by \$692 thousand to \$958 thousand in 2012 from \$1.7 million in 2011. The largest factor in the change was lower payments to third parties related to product collaborations in 2012 as compared to 2011.

General and administrative expenses were \$11.1 million and included approximately \$1.0 million in expense from Heska Imaging in 2013, an increase of 15% as compared to \$9.6 million in 2012. In addition to expenses from and related to the acquisition of Heska Imaging, severance expenses related to the termination of certain employees and expenses related to the Roche Reserve were key factors in the increase. General and administrative expenses were \$9.6 million in 2012, a 6% increase as compared to \$9.1 million in 2011. A favorable arbitration ruling in 2011 where the other side paid our legal costs along with increased legal spending in 2012 were factors in the increase.

#### ***Interest and Other Expense, Net***

Interest and other expense, net, was income of \$37 thousand in 2013, as compared to an expense of \$135 thousand in 2012 and income of \$117 thousand in 2011. This line item can be broken into two components: net interest expense or income and net foreign currency gains and losses. Net interest was income of \$53 thousand in 2013, as compared to an expense of \$22 thousand in 2012 and income of \$144 thousand in 2011. We recognized interest income related to Heska Imaging in 2013, primarily related to income on an interest-bearing note from Cuatro Veterinary, LLC, which did not occur in 2012 or 2011. We recognized interest income related to arbitration judgments in 2012 and 2011, although the interest income recognized in 2012 was not at the same level as in 2011 and no such income was recognized in 2013. Net foreign currency losses were \$16 thousand in 2013, \$113 thousand in 2012 and \$27 thousand in 2011.

#### ***Income Tax Expense (Benefit)***

In 2013, we had total income tax benefit of \$454 thousand, including \$637 thousand in domestic deferred income tax benefit, a non-cash item, and \$183 thousand in current income tax expense. In 2012, we had total income tax expense of \$820 thousand, including \$606 thousand in domestic deferred income tax expense, a non-cash item, and \$214 thousand in current income tax expense. In 2011, we had total income tax expense of \$1.2 million, including \$1.1 million in domestic deferred income tax expense, and \$165 thousand in current income tax expense. Domestically, the effect of permanent differences between tax and GAAP accounting, such as incentive stock option amortization, raised the implied tax rate to 41% in 2011. The same effect occurred to some degree in 2012, although in general this effect will decline as the profitability level increases. We had a deferred income tax benefit in 2013 as we had a loss before income taxes in 2013.

In 2014, we expect to generate income before income taxes, and we expect to have both current income tax expense and deferred income tax expense, accordingly.

#### ***Net Income (Loss)***

Our 2013 net loss was \$939 thousand as compared to net income of \$1.2 million in 2012 and net income of \$2.1 million in 2011. Increased operating expenses and lower Gross Margin, somewhat offset by higher revenue, were the most important factors in the decline from 2012 to 2013. Increased operating expenses, somewhat offset by higher revenue and improved Gross Margin, was the most important factor in the decline from 2011 to 2012.

### ***Net Income (Loss) attributable to Heska Corporation***

Net loss attributable to Heska Corporation was \$1.2 million in 2013, as compared to net income attributable to Heska Corporation of \$1.2 million in 2012 and net income attributable to Heska Corporation of \$2.1 million in 2011. The difference between this line item and "Net Income (Loss)" above is the net income or loss attributable to the minority interest in Heska Imaging, which was net income of \$257 thousand in 2013. There were no corresponding entries for 2012 and 2011 as Heska Imaging was not consolidated into our financial statements until February 24, 2013.

### **Liquidity, Capital Resources and Financial Condition**

We have incurred net cumulative negative cash flow from operations since our inception in 1988. For the year ended December 31, 2013, we had net loss of \$939 thousand. In 2013, net cash used in operations was \$1.4 million. At December 31, 2013, we had \$6.0 million of cash and cash equivalents, working capital of \$16.2 million and \$4.8 million outstanding borrowings under our revolving line of credit, discussed below.

Net cash flows from operating activities used cash of \$1.4 million in 2013 as compared to \$369 thousand in 2012, a change of approximately \$1.0 million. A key factor in the change was a \$3.4 million change in cash used in moving from reported income in 2012 to reported loss in 2013, including the impact on reported tax expense or benefit. We had higher levels of accounts receivable, accounts payable, accrued liabilities and other current assets at year end 2012 than we did at year end 2011 and year end 2013, which had corresponding cash flow effects; we experienced \$4.2 million greater cash usage due to accounts payable, accrued liabilities and other short term liabilities in 2013 as compared to 2012; we also experienced \$3.8 million greater cash generated from accounts receivable and other current assets in 2013 as compared to 2012. We were provided \$2.4 million greater cash from deferred revenue, other long-term liabilities and other long-term assets, primarily related to upfront payments received in 2013 as compared to 2012. Depreciation and amortization provided \$798 thousand more cash in 2013 as opposed to 2012, with the increase primarily related to depreciation and amortization from Heska Imaging. Net cash flows from operating activities used cash of \$369 thousand in 2012 as compared to provided cash of \$4.9 million in 2011, a change of \$5.3 million. The largest factor in the change was a \$4.0 million decrease in cash provided from accounts receivable as in 2012 we had a significant level of our products ship to customers prior to year end, without such customers paying prior to year end, an effect which was not present to the same degree in 2011. In addition, our lower profitability level in 2012 as compared to 2011, with a \$942 thousand decline in cash from net income and a related \$450 thousand decline in cash provided by deferred tax expense, contributed to the decline. A \$1.0 million refundable prepayment for exclusive negotiating rights on a potential acquisition in 2012 but not 2011 also contributed to the change. We also experienced \$555 thousand greater cash used in inventory primarily related to increased transfers of inventory to property and equipment for our instruments installed with customers where we have retained instrument ownership as well as \$353 thousand less cash provided by lower depreciation and amortization expense, primarily related to lower depreciation on instrument units available for customer rental which were fully depreciated in 2011. This was somewhat offset by \$2.5 million in cash from accounts payable, accrued liabilities and other items resulting to some degree from the increase in our 2012 operating expenses as compared to 2011.

Net cash flows from investing activities provided cash of \$71 thousand in 2013 as compared to using cash of \$1.5 million in 2012 and using cash of \$1.1 million in 2011. The major factor in the change in 2013 from 2012 was \$5.0 million in proceeds from disposition of property, including non-core vaccine-related intellectual property, which occurred in June 2013. Purchases of property and equipment also increased \$421 thousand in 2013 as compared to 2012. The largest factor in the change was capitalized software costs related to a new customer relationship management system. Purchases of property and equipment increased by \$425 thousand in 2012 as compared to 2011 with the largest factor in the change related to greater property and equipment purchases in our OVP segment.

Net cash flows from financing activities provided cash of \$1.5 million in 2013, provided cash of \$1.3 million in 2012 and used cash of \$3.0 million in 2011. In 2013, we borrowed \$2.2 million under our line of credit and received \$323 thousand in proceeds from the issuance of common stock under our Employee Stock Purchase Plan and upon option exercises, which were cash inflows, but we repaid \$1.0 million in other debt which was a cash outflow. The increased line of credit borrowing was largely necessary to fund the other debt repayments as well as cash used in our operating activities. In 2012, we borrowed \$2.6 million under our line of credit and received \$390 thousand in proceeds from the issuance of common stock under our Employee Stock Purchase Plan and upon option exercises, somewhat offset by funds paid to participating shareholders in our odd lot tender offer for shareholders with 99 shares or less. These cash flows were somewhat offset by \$1.6 million in dividends we paid. In 2012, we essentially borrowed under our line of credit to finance dividends paid to shareholders, our capital expenditures and cash used in our operating activities. In 2011, we used cash to fully repay our remaining \$3.1 million in line of credit borrowings, which was partially offset by proceeds from the issuance of common stock under our Employee Stock Purchase Plan and upon option exercises.

At December 31, 2013, Heska Corporation had accounts receivable from Heska Imaging of \$3.3 million, including accrued interest, which eliminates upon consolidation of our financial statements. These monies accrue interest at the same interest rate as Heska Corporation pays under its asset-based revolving line of credit with Wells Fargo once past due.

At December 31, 2013, we had an account receivable from Cuattro Software, LLC of \$892 thousand and net accounts receivable from Cuattro, LLC of \$308 thousand. These items are listed on our consolidated balance sheets as "Due from - related party" as Kevin S. Wilson, our President and Chief Operating Officer, Mrs. Wilson and trusts for their children and family hold a 100% interest in Cuattro, LLC and Cuattro, LLC owns a 100% interest in Cuattro Software, LLC. All monies owed are to accrue interest at the same interest rate the Company pays under its credit and security agreement with Wells Fargo once past due.

At December 31, 2013, we had a \$1.4 million note receivable, including accrued interest, from Cuattro Veterinary, LLC. The note is to pay interest at the same interest rate as the Company pays under its asset-based revolving line of credit with Wells Fargo and is due on March 15, 2016. Cuattro Veterinary, LLC sells the same digital radiography solutions outside the United States that Heska Imaging sells in the United States. The note is listed on our consolidated balance sheets as "note receivable – related party" as Kevin S. Wilson, Mrs. Wilson and trusts for their children and family hold a majority interest in Cuattro Veterinary, LLC. This note was held by Heska Imaging at the time of our acquisition of a majority interest in Heska Imaging on February 24, 2013.

At December 31, 2013, we had a \$15.0 million asset-based revolving line of credit with Wells Fargo which has a maturity date of December 31, 2015 as part of our credit and security agreement with Wells Fargo. At December 31, 2013, we had \$4.8 million of borrowings outstanding on this line of credit. Our ability to borrow under this line of credit varies based upon available cash, eligible accounts receivable and eligible inventory. On December 31, 2013, any interest on borrowings due was to be charged at a stated rate of three month LIBOR plus 3.75% and payable monthly. We are required to comply with various financial and non-financial covenants, and we have made various representations and warranties under our agreement with Wells Fargo. Among the financial covenants are requirements for minimum capital monthly, minimum net income quarterly and capital expenditures monthly. 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 to become immediately due and payable or impact our ability to borrow under the agreement. We were in compliance with all financial covenants as of December 31, 2013. We failed to comply with the net income covenant as of June 30, 2013, for which we obtained a waiver and subsequently negotiated new covenants as well as an extension of our asset-based revolving line of credit with Wells Fargo to December 31, 2015. At December 31, 2013, our available borrowing capacity based upon

eligible accounts receivable and eligible inventory under our revolving line of credit was approximately \$3.8 million.

At December 31, 2013, we had other borrowings outstanding totaling \$501 thousand, all of which were obligations of a Heska Imaging loan from De Lage Landen Financial Services, Inc. ("DLL"). The note bears an interest rate of 6% and is due in equal monthly payments, including principal and interest, of \$13 thousand through June 2017. The note may be prepaid prior to maturity, but is subject to a surcharge in such a circumstance. \$132 thousand of principal associated with this note is listed as short term on our consolidated balance sheets as it is due within a year.

At December 31, 2013, our consolidated balance sheets included \$13.7 million in non-controlling interest. This represents the value of the aggregate position in Heska Imaging of the Imaging Minority. We estimated a weighted average valuation for this position and are accreting to this value over a three year period using a weighted average cost of capital of 18.65%. The cost of capital assumption was provided to us by a third party with expertise in estimating such items. The accretion is to be recorded as a credit which will tend to increase this entry over time, with the corresponding debit to directly reduce additional paid-in-capital as we have an accumulated deficit. We intend to evaluate the value of this position every reporting period and adjust our accretion accordingly if necessary.

At December 31, 2013, our consolidated balance sheets included \$3.4 million in Public Common Stock subject to redemption. This represents the stock we issued to acquire our position in Heska Imaging, which may be used to meet the purchase obligation if a Cuattro 12-month Call Option or a Cuattro 18-month Call Option is exercised under the Operating Agreement. We intend to mark this line item to market every applicable reporting period with the corresponding debit or credit taken directly to additional paid-in-capital.

Our financial plan for 2014 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 2014 and into 2015. 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 increased sale of customer leases, the sale of equity securities or the issuance of new term debt secured by the same assets as the term loans which were fully repaid in 2010. 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. See "Risk Factors" in Item 1A of this Form 10-K for a discussion of some of the factors that affect our capital raising alternatives.

Under the Operating Agreement, should Heska Imaging meet certain performance criteria, the Imaging Minority has been granted a put option to sell us some or all of the Imaging Minority's remaining 45.4% position in Heska Imaging following the audit of our financial statements in 2015, 2016 and 2017. Furthermore, should Heska Imaging meet certain performance criteria, and the Imaging Minority fail to exercise an applicable put to sell us all of the Imaging Minority's position in Heska Imaging following the audit of our financial statements in 2015, 2016 and 2017, we would have a call option to purchase all, but not less than all, of the Imaging Minority's position in Heska Imaging.

We believe it is likely that Heska Imaging will meet the required performance criteria for its 2015 highest strike put in 2015. In this case, the Imaging Minority would be granted a put following our 2015 audit which could require us to deliver up to \$17.0 million, as well as 25% of Heska Imaging's cash, to purchase the 45.4% of Heska Imaging we do not own. If this put is not exercised in full, we would have a call option to purchase all, but not less than all, of the Imaging Minority's position in Heska Imaging for \$19.6 million, as well as 25% of Heska Imaging's cash. In both cases, while we have the right to deliver up to 55% of the consideration in our Public Common Stock under certain circumstances, such stock is to be valued based on 90% of market value (the "Delivery Stock Value") and is limited to approximately 650 thousand shares in any

case. If the Delivery Stock Value is less than the market value of our stock at the time of the Acquisition, we do not have the right to deliver any Public Common Stock as consideration.

If Heska Imaging meets the required performance criteria for its 2015 highest strike put in 2015, we anticipate that either the Imaging Minority will exercise its put or we will desire to exercise our call, or perhaps both, following our 2015 audit in 2016. While we intend to meet this payment obligation with funds provided by our ongoing operations and assets, likely supplemented by debt financing and potentially with equity financing, there can be no assurance our results will unfold according to our expectations. This potential payment obligation in 2016 is an important consideration for us in our cash management decisions.

We would consider acquisitions if we felt they were consistent with our strategic direction. We paid \$1.6 million in dividends in 2012, and while we may consider paying dividends again in the long term, we do not anticipate the payment of any further dividends for the foreseeable future. We conducted an odd lot tender offer in 2012 which could have led to the repurchase of approximately \$400 thousand of our stock if all eligible holders had chosen to participate, and while we may consider stock repurchase alternatives in an opportunistic manner or in the long term, we do not anticipate any stock repurchase programs in the foreseeable future.

A summary of our contractual obligations at December 31, 2013 is shown below:

	Payments Due by Period (in thousands)				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
<b>Contractual Obligations</b>					
Line of credit	\$ 4,798	\$ 4,798	\$ —	\$ —	\$ —
Unconditional purchase obligations	14,225	8,000	3,075	3,150	—
Operating Leases	15,241	1,760	3,213	3,028	7,240
Total contractual cash obligations	<u>\$ 34,264</u>	<u>\$ 14,558</u>	<u>\$ 6,288</u>	<u>\$ 6,178</u>	<u>\$ 7,240</u>

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. Any 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.

If Heska Imaging meets the required performance criteria for its 2015 highest strike put in 2015, we anticipate that either the Imaging Minority will exercise its put or we will desire to exercise our call, or perhaps both, following our 2015 audit in 2016. For further information, please see "Liquidity, Capital Resources and Financial Condition" above.

#### Net Operating Loss Carryforwards

As of December 31, 2013, we had a net domestic operating loss carryforward, or NOL, of approximately \$109.0 million, a domestic alternative minimum tax credit carryforward of approximately \$297 thousand and a domestic research and development tax credit carryforward of approximately \$598 thousand for federal tax purposes. Our federal NOL is expected to expire as follows if unused: \$103.1 million in 2018 through 2022, \$5.5 million in 2024 and 2025 and \$385 thousand in 2027. 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 Ownership Change occurred at the time of our initial public offering in July 1997.

## **Recent Accounting Pronouncements**

Management has evaluated recent accounting pronouncements and determined none would have a material impact on the Company's 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**

At December 31, 2013, there was approximately \$4.8 million outstanding on our line of credit with Wells Fargo. We also had approximately \$6.0 million of cash and cash equivalents at December 31, 2013, the majority of which was invested in liquid interest bearing accounts. We had no interest rate hedge transactions in place on December 31, 2013. 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 a decrease/increase in annual net interest expense of approximately \$7 thousand based on our outstanding balances as of December 31, 2013.

### **Foreign Currency Risk**

Our investment in foreign assets consists primarily of our investment in our Swiss 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, 2013.

We have a wholly-owned subsidiary in Switzerland which uses the Swiss Franc as its functional currency. We purchase inventory in foreign currencies, primarily Euros and Japanese Yen, and sell corresponding products in U.S. dollars. We also sell products in foreign currencies, primarily Euros and Japanese Yen, where our inventory costs are largely in U.S. dollars. Based on our 2013 results of operations, if foreign currency exchange rates were to strengthen/weaken by 25% against the dollar, we would expect a resulting loss/gain in income before income taxes of approximately \$7 thousand, if all other currencies were to strengthen/weaken by 25% against the Swiss Franc, we would expect a resulting gain/loss in income before income taxes of approximately \$135 thousand and if all other currencies were to strengthen/weaken by 25% against the Euro, we would expect a resulting loss/gain in income before income taxes of approximately \$149 thousand.

Item 8. Financial Statements and Supplementary Data.

HESKA CORPORATION

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of Heska Corporation and subsidiaries (the "Company") as of December 31, 2012 and 2013, and the related consolidated statements of operations, stockholders' equity, comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2013. Our audits also included the financial statement schedule appearing under Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the 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. 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2012 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ EKS&H LLLP

March 31, 2014  
Boulder, Colorado

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

	December 31,	
	2012	2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,784	\$ 6,016
Accounts receivable, net of allowance for doubtful accounts of \$155 and \$209, respectively	11,044	11,409
Due from - related party	—	1,200
Inventories, net	12,483	11,687
Deferred tax asset, current	1,130	2,156
Other current assets	2,514	1,443
Total current assets	<u>32,955</u>	<u>33,911</u>
Property and equipment, net	6,005	9,928
Note receivable – related party	—	1,407
Goodwill and other intangibles	1,120	21,571
Deferred tax asset, net of current portion	26,746	26,358
Other long-term assets	—	378
Total assets	<u>\$ 66,826</u>	<u>\$ 93,553</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,298	\$ 4,448
Accrued liabilities	4,132	4,420
Current portion of deferred revenue	2,407	3,908
Line of credit	2,552	4,798
Other short-term borrowings, including current portion of long-term note payable	—	132
Total current liabilities	<u>14,389</u>	<u>17,706</u>
Long-term note payable, net of current portion	—	369
Deferred revenue, net of current portion, and other	3,575	11,298
Total liabilities	<u>17,964</u>	<u>29,373</u>
Commitments and contingencies		
Non-Controlling Interest	—	13,659
Public Common Stock subject to redemption	—	3,405
Stockholders' equity:		
Preferred stock, \$.01 par value, 2,500,000 shares authorized; none issued or outstanding	—	—
Common stock, \$.01 par value, 7,500,000 shares authorized, none issued or outstanding	—	—
Public common stock, \$.01 par value, 7,500,000 shares authorized, 5,372,336 and 5,845,931 shares issued and outstanding, respectively	54	58
Additional paid-in capital	218,544	217,588
Accumulated other comprehensive income	296	580
Accumulated deficit	(170,032 )	(171,110 )
Total stockholders' equity	<u>48,862</u>	<u>47,116</u>
Total liabilities and stockholders' equity	<u>\$ 66,826</u>	<u>\$ 93,553</u>

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,		
	2011	2012	2013
Revenue:			
Core companion animal health	\$ 57,481	\$ 61,502	\$ 66,404
Other vaccines, pharmaceuticals and products	12,584	11,303	11,935
Total revenue, net	<u>70,065</u>	<u>72,805</u>	<u>78,339</u>
Cost of revenue	<u>40,878</u>	<u>41,704</u>	<u>47,707</u>
Gross profit	<u>29,187</u>	<u>31,101</u>	<u>30,632</u>
Operating expenses:			
Selling and marketing	15,167	18,339	19,428
Research and development	1,650	958	1,500
General and administrative	9,121	9,646	11,134
Total operating expenses	<u>25,938</u>	<u>28,943</u>	<u>32,062</u>
Operating income (loss)	3,249	2,158	(1,430)
Interest and other (income) expense, net	(117)	135	(37)
Income (loss) before income taxes	<u>3,366</u>	<u>2,023</u>	<u>(1,393)</u>
Income tax expense:			
Current income tax expense	165	214	183
Deferred income tax expense (benefit)	1,056	606	(637)
Total income tax expense (benefit)	<u>1,221</u>	<u>820</u>	<u>(454)</u>
Net income (loss)	<u>\$ 2,145</u>	<u>\$ 1,203</u>	<u>\$ (939)</u>
Net income (loss) attributable to non-controlling interest	<u>—</u>	<u>—</u>	<u>257</u>
Net income (loss) attributable to Heska Corporation	<u>2,145</u>	<u>1,203</u>	<u>(1,196)</u>
Basic net income (loss) per share attributable to Heska Corporation	<u>\$ 0.41</u>	<u>\$ 0.23</u>	<u>\$ (0.21)</u>
Diluted net income (loss) per share attributable to Heska Corporation	<u>\$ 0.40</u>	<u>\$ 0.22</u>	<u>\$ (0.21)</u>
Weighted average outstanding shares used to compute basic net income (loss) per share attributable to Heska Corporation	<u>5,237</u>	<u>5,326</u>	<u>5,755</u>
Weighted average outstanding shares used to compute diluted net income (loss) per share attributable to Heska Corporation	<u>5,338</u>	<u>5,489</u>	<u>5,755</u>

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2011	2012	2013
Net income (loss)	\$ 2,145	\$ 1,203	\$ (939)
Other comprehensive income (expense):			
Minimum pension liability	(20)	(20)	182
Unrealized gain (loss) on available for sale investments	(8)	—	30
Foreign currency translation	(14)	74	72
Comprehensive income (loss)	<u>\$ 2,103</u>	<u>\$ 1,257</u>	<u>\$ (655)</u>
Comprehensive income (loss) attributable to non-controlling interest	\$ —	\$ —	\$ 257
Comprehensive income (loss) attributable to Heska Corporation	<u>\$ 2,103</u>	<u>\$ 1,257</u>	<u>\$ (912)</u>

See accompanying notes to consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Other	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount		Comprehensive		
			Income (Loss)			
Balances, January 1, 2011	5,231	\$ 52	\$ 217,240	\$ 284	\$ (171,778)	\$ 45,798
Net Income (loss)	—	—	—	—	2,145	2,145
Issuance of common stock related to options, ESPP and other	19	—	124	—	—	124
Recognition of stock based compensation	—	—	414	—	—	414
Minimum pension liability adjustments	—	—	—	(20)	—	(20)
Unrealized gain (loss) on available for sale investments	—	—	—	(8)	—	(8)
Foreign currency translation adjustments	—	—	—	(14)	—	(14)
Balances, December 31, 2011	5,250	52	217,778	242	(169,633)	48,439
Net income	—	—	—	—	1,203	1,203
Issuance of common stock related to options, ESPP and other	122	2	388	—	—	390
Recognition of stock based compensation	—	—	378	—	—	378
Dividends paid	—	—	—	—	(1,602)	(1,602)
Minimum pension liability adjustments	—	—	—	(20)	—	(20)
Foreign currency translation adjustments	—	—	—	74	—	74
Balances, December 31, 2012	5,372	54	218,544	296	(170,032)	48,862
Net income (loss)	—	—	—	—	(939)	(939)
Issuance of common stock related to options, ESPP and other	55	—	323	—	—	323
Recognition of stock based compensation	—	—	423	—	—	423
Stock issued for Heska Imaging	419	4	3,571	—	—	3,575
Stock issued for Heska Imaging Mark to Market	—	—	(3,405)	—	—	(3,405)
Accretion of non-controlling interest	—	—	(1,868)	—	—	(1,868)
Accrued distribution for Heska Imaging minority	—	—	—	—	(139)	(139)
Minimum pension liability adjustments	—	—	—	182	—	182
Unrealized gain on available for sale investments	—	—	—	30	—	30
Foreign currency translation adjustments	—	—	—	72	—	72
Balances, December 31, 2013	5,846	\$ 58	\$ 217,588	\$ 580	\$ (171,110)	\$ 47,116

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2011	2012	2013
<b>CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 2,145	\$ 1,203	\$ (939)
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Depreciation and amortization	2,052	1,699	2,497
Deferred tax (benefit) expense	1,056	606	(637)
Stock based compensation	414	378	423
Unrealized (gain) loss on foreign currency translation	10	46	20
Changes in operating assets and liabilities:			
Accounts receivable	929	(3,099)	(159)
Inventories	(850)	(1,405)	(1,687)
Other current assets	(93)	(1,551)	(642)
Accounts payable	(164)	1,298	(2,276)
Accrued liabilities and other	(259)	741	(130)
Other non-current assets	—	—	(179)
Deferred revenue and other	(352)	(285)	2,312
Net cash provided by (used in) operating activities	<u>4,888</u>	<u>(369)</u>	<u>(1,397)</u>
<b>CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:</b>			
Investment in subsidiary	—	—	(3,019)
Purchases of property and equipment	(1,084)	(1,509)	(1,930)
Proceeds from disposition of property and equipment	—	—	5,020
Net cash provided by (used in) investing activities	<u>(1,084)</u>	<u>(1,509)</u>	<u>71</u>
<b>CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:</b>			
Proceeds from issuance of common stock	124	390	323
Proceeds from (repayments of) line of credit borrowings, net	(3,079)	2,552	2,246
Proceeds from (repayments of) other debt	—	—	(1,025)
Dividends paid to stockholders	—	(1,602)	—
Net cash provided by (used in) financing activities	<u>(2,955)</u>	<u>1,340</u>	<u>1,544</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(9)	(10)	14
INCREASE IN CASH AND CASH EQUIVALENTS	840	(548)	232
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,492	6,332	5,784
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,332</u>	<u>\$ 5,784</u>	<u>\$ 6,016</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash paid for interest	<u>\$ 28</u>	<u>\$ 77</u>	<u>\$ 78</u>
Cash paid for income taxes	<u>\$ 214</u>	<u>\$ 153</u>	<u>\$ 84</u>
Non-cash transfer of inventory to property and equipment and other long-term assets	<u>\$ 351</u>	<u>\$ 1,327</u>	<u>\$ 3,950</u>
Prepaid applied to acquisition of Heska Imaging	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,000</u>
Issuance of stock for investment in subsidiary	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,571</u>
Accretion of non-controlling interest	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,867</u>

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") develops, manufactures, markets, sells and supports veterinary products. Heska's core focus is on the canine and feline companion animal health markets.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

The accompanying consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and its majority-owned subsidiaries since their respective dates of acquisitions. All material intercompany transactions and balances have been eliminated in consolidation. Where the Company's ownership of a subsidiary is less than 100%, the non-controlling interest is reported on the Company's consolidated balance sheets. The non-controlling interest in the Company's consolidated net income is reported as "Net income (loss) attributable to non-controlling interest" on the Company's consolidated statements of operations.

*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 and intangible assets for impairment, determining the allocation of purchase price under purchase accounting, estimating the expense associated with the granting of stock options and in determining the need for, and the amount of, a valuation allowance on deferred tax assets.

*Trade Accounts Receivable*

Trade accounts receivable are recorded at the invoiced amount. 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 collectability. 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. The Company has no significant off-balance-sheet concentrations of credit risk such as foreign exchange contracts, options contracts or other foreign currency hedging arrangements. Its accounts receivable balances are due primarily from domestic veterinary clinics and individual veterinarians, and both domestic and international corporations.

**HESKA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

*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 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 332,888 and 321,411 Euros at December 31, 2012 and 2013, respectively. The Company held 3,406,393 and 1,252,220 Yen at December 31, 2012 and 2013, respectively. The Company held 65,472 and 209,486 Swiss Francs at December 31, 2012 and 2013, respectively. The majority of the Company's cash and cash equivalents are held at U.S.-based or Swiss-based financial institutions in accounts not insured by governmental entities.

*Fair Value of Financial Instruments*

The Company's financial instruments consist of cash and cash equivalents, short-term trade receivables and payables and the Company's revolving line of credit. The carrying values of cash and cash equivalents and short-term trade receivables and payables approximate fair value. The fair value of the Company's line of credit balance is estimated based on current rates available for similar debt with similar maturities and collateral, and at December 31, 2012 and 2013, 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):

	<b>December 31,</b>	
	<b>2012</b>	<b>2013</b>
Raw materials	\$ 5,275	\$ 5,787
Work in process	3,342	2,920
Finished goods	4,671	4,784
Allowance for excess or obsolete inventory	(805)	(1,804)
	<u>\$ 12,483</u>	<u>\$ 11,687</u>

*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.

**HESKA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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

	<b>Estimated Useful Life</b>	<b>December 31,</b>	
		<b>2012</b>	<b>2013</b>
Land	N/A	\$ 377	\$ 377
Building	10 to 20 years	2,678	2,868
Machinery and equipment	3 to 15 years	30,346	36,107
Leasehold and building improvements	7 to 15 years	5,429	5,838
Construction in progress		1,091	753
		39,921	45,943
Less accumulated depreciation and amortization		(33,916)	(36,015)
		<u>\$ 6,005</u>	<u>\$ 9,928</u>

From time to time, the Company utilizes marketing programs whereby its instruments in inventory may be placed in a customer's location on a rental basis. The cost of these instruments is transferred to machinery and equipment or other long-term assets and depreciated, typically over a five to seven year period depending on the circumstance under which the instrument is placed with the customer. During 2011, 2012 and 2013, total costs transferred from inventory were approximately \$351 thousand, \$1.3 million and \$3.9 million, respectively.

Depreciation and amortization expense for property and equipment was \$2.1 million, \$1.7 million and \$2.5 million for the years ended December 31, 2011, 2012 and 2013, respectively.

*Capitalized Software*

The Company capitalizes third-party software costs, where appropriate, and reports such capitalized costs, net of accumulated amortization, on the "property and equipment" line of its consolidated balance sheets. The Company had \$83 thousand and \$791 thousand of such capitalized costs, net of accumulated amortization, on the "property and equipment" line of its consolidated balance sheets as of December 31, 2012 and December 31, 2013, respectively. Capitalized software costs in a given year are reported on the "purchases of property and equipment" line item of the Company's consolidated statements of cash flows. The Company had \$121 thousand, \$11 thousand and \$809 thousand of capitalized software costs reported on the "purchases of property and equipment" line item of its consolidated statements of cash flows for the years ended December 31, 2011, 2012 and 2013, 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 with the estimated undiscounted future cash flows associated with them. If such evaluations indicate that the future undiscounted cash flows of amortizable long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their estimated fair values.

*Goodwill*

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

**HESKA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The Company's recorded goodwill relates to the February 2013 acquisition of a majority interest in Cuattro Veterinary USA, LLC and the 1997 acquisition of Heska AG, the Company's Swiss subsidiary. This goodwill is reviewed at least annually for impairment. This impairment assessment is completed at the reporting unit level. The Company completed its annual analysis of the Company's Swiss subsidiary estimating that the fair value of the reporting unit exceeds the carrying value of the reporting unit including goodwill at December 31, 2013 and determined there was no indicated impairment. The key inputs to the estimated fair value included estimates of future profitability for the reporting unit as well as discount rate and operating income terminal multiple. The Company determined there is no indication of impairment for goodwill related to the acquisition of Cuattro Veterinary USA, LLC at December 31, 2013. As this acquisition closed in February 2013, annual goodwill assessment is to begin in 2014. At December 31, 2012 and 2013, goodwill was approximately \$1.0 million and \$21.0 million, respectively, and was included in the assets of the Core Companion Animal Health segment. There can be no assurance that future goodwill impairments will not occur if projected financial results are not met, or otherwise.

*Revenue Recognition*

The Company generates its revenues through sale of products and services, licensing and sale 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
- Collectability 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 are 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 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. Similarly, upfront payments received by the Company under agreements where the Company is obligated to maintain a product or technology sold to a third party and/or transfer know-how or technology to a third party are initially deferred and revenue is subsequently recognized over the estimated life of the agreement. The Company received upfront payments totaling \$0, \$0 and \$7 million in 2011, 2012 and 2013, respectively. Revenue from royalties is recognized as the Company is informed of sales on which it is entitled to royalties.

**HESKA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

For multiple-element arrangements that are not subject to a higher level of authoritative literature, the Company follows the authoritative guidance for accounting for revenue arrangements with multiple deliverables in determining the separate units of accounting. For those arrangements subject to appropriate separation criteria, the Company 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, subject to revenue deferred estimated to be sufficient to cover the cost of servicing such revenue. In accounting for these multiple element arrangements, the Company must make determinations about whether elements can be accounted for separately and make estimates regarding their relative fair values.

*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, 2011, 2012 and 2013, the Company's income from operations and income before income taxes were reduced by \$414 thousand, \$378 thousand and \$423 thousand, respectively, and net income was reduced by \$348 thousand, \$219 thousand and \$380 thousand, respectively, for compensation related to stock options issued and shares issued under our employee stock purchase plan. Basic and diluted earnings per share were reduced by \$0.07 and \$0.07 in 2011, \$0.04 and \$0.04 in 2012 and \$0.07 and \$0.07 in 2013. For all years presented, there was no material impact on cash flow from operations and cash flow from financing activities. At December 31, 2013, the Company had two stock-based compensation plans. See Note 7 for a description of these plans and additional disclosures regarding the plans.

*Advertising Costs*

The Company expenses advertising costs as incurred. Advertising expenses were \$621 thousand, \$701 thousand and \$386 thousand for the years ended December 31, 2011, 2012 and 2013, respectively.

*Income Taxes*

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

**HESKA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

*Basic and Diluted Net Income (Loss) Per Share*

Basic net income (loss) per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net income (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.

For the twelve months ended December 31, 2011 and 2012, the Company reported net income attributable to Heska Corporation and therefore, dilutive common stock equivalent securities, as computed using the treasury method (but excluding options to purchase fractional shares resulting from the Company's December 2010 1-for-10 reverse stock split), were added to basic weighted average shares outstanding for the period to derive the weighted average shares for diluted earnings per share calculation. Common stock equivalent securities other than options to purchase fractional shares that were anti-dilutive for the twelve months ended December 31, 2011 and 2012, and therefore excluded, were outstanding options to purchase 1,029,151 and 643,094 shares of common stock, respectively. These securities are anti-dilutive primarily due to exercise prices greater than the average trading price of the Company's common stock during the twelve months ended December 31, 2011 and 2012.

For the twelve months ended December 31, 2013, the Company reported a net loss attributable to Heska Corporation and therefore all common stock equivalent securities would be anti-dilutive and were not included in the diluted earnings per share calculation for the period. Common stock equivalent securities other than options to purchase fractional shares that were anti-dilutive for the twelve months ended December 31, 2013, and therefore excluded, were outstanding options to purchase 1,321,232 shares of common stock.

*Comprehensive Income (Loss)*

Comprehensive income (loss) includes net income adjusted for the results of certain stockholders' equity changes. Such changes include foreign currency items and minimum pension liability adjustments. At December 31, 2011, Accumulated Other Comprehensive Income (Loss) consists of \$838 thousand gain for cumulative translation adjustments, \$609 thousand loss for unrealized pension liability and \$13 thousand of unrealized gain on available for sale investments. At December 31, 2012, Accumulated Other Comprehensive Income (Loss) consists of \$912 thousand gain for cumulative translation adjustments, \$629 thousand loss for unrealized pension liability and \$13 thousand of unrealized gain on available for sale investments. At December 31, 2013, Accumulated Other Comprehensive Income (Loss) consists of \$984 thousand gain for cumulative translation adjustments, \$447 thousand loss for unrealized pension liability and \$43 thousand of unrealized gain on available for sale investments.

*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.

**HESKA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

*Recent Accounting Pronouncements*

Management has evaluated recent accounting pronouncements and determined none would have a material impact on the Company's financial statements.

**3. ACQUISITION AND RELATED PARTY ITEMS**

On February 24, 2013, the Company acquired a 54.6% interest in Cuatro Veterinary USA, LLC ("Cuatro Vet USA") for approximately \$7.6 million in cash and stock, including more than \$4 million in cash and over 400 thousand shares of Heska stock (the "Acquisition"). Immediately following and as a result of the transaction, former Cuatro Vet USA unit holders owned approximately 7.2% of the Company's Public Common Stock. The remaining minority position (45.4%) in Cuatro Vet USA is subject to purchase by Heska under performance-based puts and calls following calendar year 2015, 2016 and 2017. Should Heska undergo a change in control, as defined, prior to the end of 2017, Cuatro Vet USA minority unit holders will be entitled to sell their Cuatro Vet USA units to Heska at the highest call value they could have otherwise obtained. The Company's position in Cuatro Vet USA is subject to premium repurchase or discounted sale under calls and puts expiring 18 months following the closing of the transaction.

The Company accounted for the acquisition pursuant to ASC No. 805, "Business Combinations." Accordingly, it recorded assets acquired, liabilities assumed and non-controlling interests at their estimated fair values. The intangible assets and non-controlling interest were valued based on a report from an independent third party. The following summarizes the aggregate consideration paid by the Company and the allocation of the purchase price based on current estimates as the Company continues to gather information to evaluate the appropriate accounting result (in thousands):

**Consideration**

Cash	\$	4,073
Stock		3,571
Total	\$	<u>7,644</u>
Inventories	\$	1,466
Note from Cuatro Veterinary, LLC, due March 15, 2016		1,360
Other tangible assets		1,278
Intangible assets		688
Goodwill		19,994
Notes payable and other borrowings		(1,527)
Accounts payable		(1,424)
Other assumed liabilities		(2,399)
Total Net Assets Acquired	\$	<u>19,436</u>
Non-controlling interest		(11,792)
Total	\$	<u>7,644</u>

Intangible assets and their amortization periods are as follows:

	<b>Useful Life (in years)</b>	<b>Fair Value</b>
Trade name	2.75	\$ 688
		<u>\$ 688</u>

**HESKA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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

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

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

Since the Acquisition closed, Cuattro, LLC charged Heska Imaging \$6.8 million, primarily related to digital imaging products, for which there is an underlying supply contract with minimum purchase obligations, software and services as well as other operating expenses; Heska Corporation charged Heska Imaging \$2.2 million, primarily related to sales expenses; Heska Corporation net charged Cuattro, LLC \$140 thousand, primarily related to facility usage and other services.

At December 31, 2013, Heska Imaging had a \$1.4 million note receivable, including accrued interest, from Cuattro Veterinary, LLC, which is due on March 15, 2016 and which is listed as "Note receivable – related party" on the Company's consolidated balance sheets; Heska Imaging has accounts receivable from Cuattro Software, LLC of \$892 thousand, which is included in "Due from - related party" on the Company's consolidated balance sheets; Heska Corporation had net accounts receivable from Cuattro, LLC of \$110 thousand which is included in "Due from - related party" on the Company's consolidated balance sheets; Heska Imaging had net accounts receivable from Cuattro, LLC of \$198 thousand which is included in "Due from - related party" on the Company's consolidated balance sheets; Heska Corporation had accounts receivable from Heska Imaging of \$3.3 million, including accrued interest, which eliminated in consolidation of the Company's financial statements; all monies owed accrue interest at the same interest rate Heska Corporation pays under its credit and security agreement with Wells Fargo Bank, National Association ("Wells Fargo") once past due with the exception of the note receivable, which accrues at this rate to its maturity date.

**HESKA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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

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

Beginning balance at closing date of February 24, 2013	\$ 11,792
Accretion of Put Value	\$ 1,867
Balance at December 31, 2013	\$ 13,659

In addition, the Company recorded an estimated distribution to the Imaging Minority the Company believes is contractually required under Heska Imaging's Operating Agreement of \$139 thousand, which effected the Company's accumulated deficit and accrued liabilities at December 31, 2013.

Cuatro Vet USA generated net revenue of \$12.7 million and net income of \$566 thousand, inclusive of net income of \$257 thousand attributable to non-controlling interest, for the period from February 24, 2013 to December 31, 2013. The following unaudited pro forma financial information presents the combined results of the Company and Cuatro Vet USA, in thousands, as if the Acquisition had closed on January 1, 2012.

	<b>Year Ended December 31,</b>	
	<b>2012</b>	<b>2013</b>
Revenue, net	\$ 83,122	\$ 79,239
Net income (loss) attributable to Heska Corporation	1,132	(1,948)
Basic earnings (loss) per share attributable to Heska Corporation	\$ 0.20	\$ (0.34)
Diluted earnings (loss) per share attributable to Heska Corporation	\$ 0.19	\$ (0.34)

**4. CREDIT FACILITY AND LONG-TERM DEBT**

The Company has a credit and security agreement with Wells Fargo Bank, National Association which expires December 31, 2015. The agreement includes a \$15.0 million asset-based revolving line of credit with a stated interest rate at December 31, 2013 of LIBOR plus 3.75% (4.00%). There is an annual minimum interest charge of \$100 thousand under the agreement. Amounts due under the credit facility are secured by a first security interest in essentially all of the Company's assets excluding assets securing the term debt referenced below, which is an obligation of Heska Imaging and which was outstanding when the Company acquired a majority interest in Heska Imaging. Under the agreement, the Company is required to comply with certain financial and non-financial covenants. Among the financial covenants are requirements for minimum capital monthly, minimum net income quarterly and capital expenditures monthly. 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, 2013, there was \$4.8 million of borrowings outstanding and there was approximately \$3.8 million available capacity for borrowings under the line of credit agreement.

**HESKA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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

	December 31,	
	2012	2013
Term loan with a financial entity, secured by demo equipment, due in monthly installments beginning July 2012 with the balance paid in full in June 2017 and a stated interest rate of 6.0%.	\$ —	\$ 501
Less current portion of long-term debt	—	132
Long-term debt, net of current portion	<u>\$ —</u>	<u>\$ 369</u>

Maturities of long-term debt as of December 31, 2013 were as follows (in thousands):

<u>Year Ending December 31,</u>	
2014	\$ 132
2015	141
2016	149
2017	78
	<u>\$ 501</u>

**5. SUPPLEMENTAL DISCLOSURE OF INTEREST AND OTHER EXPENSE (INCOME) INFORMATION**

	Year Ended December 31,		
	2011	2012	2013
	(in thousands)		
Interest and other expense (income):			
Interest income	\$ (268)	\$ (95)	\$ (127)
Interest expense	124	117	74
Other, net	27	113	16
	<u>\$ (117)</u>	<u>\$ 135</u>	<u>\$ (37)</u>

**6. INCOME TAXES**

As of December 31, 2013, the Company had a domestic net operating loss carryforward ("NOL"), of approximately \$109.0 million, a domestic alternative minimum tax credit of approximately \$297 thousand and domestic research and development tax credit carryforward of approximately \$598 thousand for federal tax purposes. The Company's federal NOL is expected to expire as follows if unused: \$103.1 million in 2018 through 2022, \$5.5 million in 2024 and 2025 and \$385 thousand in 2027. The NOL and tax credit carryforwards are subject to alternative minimum tax limitations and to examination by the tax authorities. In addition, the Company had a "change of ownership" as defined under the provisions of Section 382 of the Internal Revenue Code of 1986, as amended (an "Ownership Change"). The Company does not believe this Ownership Change will place a significant restriction on its ability to utilize its NOL in the future. The Company has established a valuation allowance against those NOL's for which it is more likely than not that they will expire unutilized. There can be no assurance that valuation allowance adjustments will not occur if projected financial results are not met, or otherwise. On September 13, 2013, the IRS released the final tangible property regulations under section 162 and 263, which generally apply to taxable years beginning on or after January 1, 2014. The company has reviewed the final regulations, and does not anticipate any material financial statement impact resulting from these final regulations.

**HESKA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

The Company is subject to income taxes in the U.S. federal jurisdiction, and various foreign, state and local jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. In the United States, the tax years 2010 – 2012 remain open to examination by the federal Internal Revenue Service and the tax years 2009 – 2012 remain open for various state taxing authorities.

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

	<b>Year Ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
Domestic	\$ 3,189	\$ 1,869	\$ (1,508)
Foreign	177	154	115
	<u>\$ 3,366</u>	<u>\$ 2,023</u>	<u>\$ (1,393)</u>

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

	<b>December 31,</b>	
	<b>2012</b>	<b>2013</b>
<b>Current deferred tax assets:</b>		
Inventory	\$ 323	\$ 692
Accrued compensation	251	131
Net operating loss carryforwards – domestic	45	1,589
Stock Options	463	443
Other	789	695
	<u>1,871</u>	<u>3,550</u>
Valuation allowance	(741)	(1,394)
Total current deferred tax assets	<u>\$ 1,130</u>	<u>\$ 2,156</u>
<b>Noncurrent deferred tax assets:</b>		
Research and development tax credit	\$ 526	\$ 598
Alternative minimum tax credit	233	297
Deferred revenue	1,884	3,978
Property and equipment	2,059	2,006
Net operating loss carryforwards – domestic	39,541	36,445
Other	—	60
	<u>44,243</u>	<u>43,384</u>
Valuation allowance	(17,497)	(17,026)
Total noncurrent deferred tax assets	<u>\$ 26,746</u>	<u>\$ 26,358</u>

**HESKA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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

	Year Ended December 31,		
	2011	2012	2013
Current income tax expense (benefit):			
Federal	\$ 37	\$ 41	\$ 95
State	90	140	62
Foreign	38	33	26
Total current expense (benefit)	<u>165</u>	<u>214</u>	<u>183</u>
Deferred income tax expense (benefit):			
Federal	977	560	(583)
State	79	46	(54)
Foreign	—	—	—
Total deferred expense (benefit)	<u>1,056</u>	<u>606</u>	<u>(637)</u>
Total income tax expense (benefit)	<u>\$ 1,221</u>	<u>\$ 820</u>	<u>\$ (454)</u>

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

	Year Ended December 31,		
	2011	2012	2013
Statutory federal tax rate	34 %	34 %	34 %
State income taxes, net of federal benefit	3 %	4 %	3 %
Non-controlling interest in Heska Imaging US, LLC	—	—	6 %
Other permanent differences	3 %	6 %	(10) %
Change in tax rate	(4) %	(1) %	— %
Foreign rate difference	(1) %	(1) %	(1) %
Change in valuation allowance	(137) %	(638) %	(13) %
Other	138 %	637 %	13 %
Effective income tax rate	<u>36 %</u>	<u>41 %</u>	<u>33 %</u>

ASC 740 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements. Tax positions must meet a "more-likely-than-not" recognition threshold before a benefit is recognized in the financial statements. As of December 31, 2013, the Company has not recorded a liability for uncertain tax positions. The Company would recognize interest and penalties related to uncertain tax positions in income tax (benefit)/expense. No interest and penalties related to uncertain tax positions were accrued at December 31, 2013.

## 7. 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 (the "1997 Plan") and terminated two prior option plans. All shares that remained available for grant under the terminated plans were incorporated into the 1997 Plan, including shares subsequently cancelled under prior plans. In May 2012, the stockholders approved an amendment to the 1997 Plan allowing for an increase of 250,000 shares and an annual increase through 2016 based on the number of non-employee directors serving as of the Company's Annual Meeting of Stockholders, subject to a maximum of 45,000 shares per year. In May 2003, the stockholders approved a new plan, the 2003 Equity Incentive Plan, which allows for the granting of

**HESKA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

options for up to 239,050 shares of the Company's common stock. The number of shares reserved for issuance under both plans as of January 1, 2014 was 276,507.

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 2011, 2012 and 2013; 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 2011, 2012 and 2013. 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 2011, 2012 and 2013. The Company's expected dividends input were zero in 2011, 4.3% in 2012 and zero in 2013. Weighted average assumptions used in 2011, 2012 and 2013 for each of these four key inputs are listed in the following table:

	2011	2012	2013
Risk-free interest rate	0.64%	0.38%	0.75%
Expected lives	3.0 years	3.0 years	3.4 years
Expected volatility	70%	57%	46%
Expected dividend yield	0%	4.3%	0%

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

	Year Ended December 31,					
	2011		2012		2013	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of period	1,341,876	\$ 11.003	1,448,675	\$ 10.425	1,245,161	\$ 11.054
Granted at Market	187,750	\$ 6.962	137,950	\$ 9.534	275,654	\$ 7.532
Cancelled	(73,871)	\$ 12.684	(118,330)	\$ 11.373	(166,286)	\$ 11.437
Exercised	(7,080)	\$ 4.564	(223,134)	\$ 5.863	(33,297)	\$ 6.488
Outstanding at end of period	<u>1,448,675</u>	\$ 10.425	<u>1,245,161</u>	\$ 11.054	<u>1,321,232</u>	\$ 10.386
Exercisable at end of period	<u>1,175,731</u>	\$ 11.427	<u>971,029</u>	\$ 12.129	<u>939,458</u>	\$ 11.556

The total estimated fair value of stock options granted during the years ended December 31, 2011, 2012 and 2013 were computed to be approximately \$602 thousand, \$402 thousand and \$701 thousand, 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, 2011, 2012 and 2013 was computed to be approximately \$3.21, \$2.92 and \$2.54, respectively. The total intrinsic value of options exercised during the years ended December 31, 2011, 2012 and 2013 was \$10 thousand, \$1.1 million and

\$42 thousand, respectively. The cash proceeds from options exercised during the years ended December 31, 2011, 2012 and 2013 was \$32 thousand, \$263 thousand and \$161 thousand.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2013, excluding outstanding options to purchase an aggregate of 74.1 fractional shares resulting from the Company's December 2010 1-for-10 reverse stock split with a weighted average remaining contractual life of 1.24 years, a weighted average exercise price of \$13.72 and exercise prices ranging from \$4.40 to \$30.20. The Company intends to issue whole shares only from option exercises.

Exercise Prices	Options Outstanding			Options Exercisable		
	Number of Options Outstanding at December 31, 2013	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number of Options Exercisable at December 31, 2013	Weighted Average Exercise Price	
\$ 2.70 - \$ 6.76	231,048	5.38	\$ 5.030	203,010	\$ 4.974	
\$ 6.77 - \$ 7.36	302,667	8.69	\$ 7.214	55,838	\$ 6.941	
\$ 7.37 - \$ 8.76	203,314	7.47	\$ 8.446	104,266	\$ 8.408	
\$ 8.77 - \$12.50	293,193	2.43	\$ 10.764	285,334	\$ 10.789	
\$ 12.51 - \$30.20	291,010	1.80	\$ 18.912	291,010	\$ 18.912	
\$ 2.70 - \$30.20	<u>1,321,232</u>	5.02	\$ 10.386	<u>939,458</u>	\$ 11.556	

As of December 31, 2013, there was \$935 thousand of total unrecognized compensation expense related to outstanding stock options. That cost is expected to be recognized over a weighted-average period of 2.2 years with all cost to be recognized by the end of November 2017, assuming all options vest according to the vesting schedules in place at December 31, 2013. As of December 31, 2013, the aggregate intrinsic value of outstanding options was \$1.4 million and the aggregate intrinsic value of exercisable options was \$892 thousand.

*Employee Stock Purchase Plan (the "ESPP")*

Under the 1997 Employee Stock Purchase Plan, the Company is authorized to issue up to 375,000 shares of common stock to its employees, of which 344,322 had been issued as of December 31, 2013. Employees of the Company 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. During the period from January 1, 2011 to June 30, 2013, the Company's ESPP had a five-year offering period and six-month accumulation periods ending on each June 30 and December 31. The purchase price of stock on June 30 and December 31 was 85% of the fair market value at purchase.

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

**HESKA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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

	2013
Risk-free interest rate	0.21%
Expected lives	1.3 years
Expected volatility	34%
Expected dividend yield	0%

For the years ended December 31, 2011, 2012 and 2013, the weighted-average fair value of the purchase rights granted was \$1.09, \$1.45 and \$1.28 per share, respectively.

**8. MAJOR CUSTOMERS**

One customer represented approximately 13% of the Company's 2011 revenue. One customer represented approximately 13% of the Company's 2013 revenue. One customer represented approximately 29% of the Company's accounts receivable at December 31, 2012. One customer represented approximately 16%, and another customer represented 12% of the Company's accounts receivable at December 31, 2013. No other customers represented 10% or more of revenue for 2011, 2012 or 2013 nor 10% or more of accounts receivable at December 31, 2012 or December 31, 2013.

**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, 2011, 2012 and 2013, royalties of \$531 thousand, \$503 thousand and \$391 thousand became payable under these agreements, respectively.

The Company has contracts with suppliers for unconditional annual minimum inventory purchases and milestone obligations to third parties the Company believes are likely to be triggered currently totaling approximately \$8.0 million for fiscal 2014, \$1.5 million for fiscal 2015, \$1.6 million for fiscal 2016 and \$1.6 million for fiscal 2017.

The Company has entered into operating leases for its office and research facilities and certain equipment with future minimum payments as of December 31, 2013 as follows (in thousands):

Year Ending December 31,		
2014	\$	1,760
2015		1,619
2016		1,594
2017		1,571
2018		1,457
Thereafter		7,240
	\$	15,241

The Company had rent expense of \$1.8 million, \$1.8 million and \$1.8 million in 2011, 2012 and 2013, respectively.

**HESKA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

From time to time, the Company may be involved in litigation relating to claims arising out of its operations. At December 31, 2013, the Company was not a party to any legal proceedings that were expected, individually or in the aggregate, to have a material adverse effect on its business, financial condition or operating results.

The Company's current terms and conditions of sale include a limited warranty that its products and services will conform to published specifications at the time of shipment and a more extensive warranty related to certain of its products. The Company also sells a renewal warranty for certain of its products. The typical remedy for breach of warranty is to correct or replace any defective product, and if not possible or practical, the Company will accept the return of the defective product and refund the amount paid. Historically, the Company has incurred minimal warranty costs. The Company's warranty reserve on December 31, 2013 was \$451 thousand.

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

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

**HESKA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

	<b>Core Companion Animal Health</b>	<b>Other Vaccines, Pharmaceuticals and Products</b>	<b>Total</b>
<b>2011:</b>			
Total revenue	\$ 57,481	\$ 12,584	\$ 70,065
Operating income	1,564	1,685	3,249
Interest expense	107	17	124
Total assets	51,172	10,722	61,894
Net assets	40,435	8,004	48,439
Capital expenditures	495	589	1,084
Depreciation and amortization	1,192	860	2,052

	<b>Core Companion Animal Health</b>	<b>Other Vaccines, Pharmaceuticals and Products</b>	<b>Total</b>
<b>2012:</b>			
Total revenue	\$ 61,502	\$ 11,303	\$ 72,805
Operating income	1,160	998	2,158
Interest expense	91	26	117
Total assets	55,071	11,755	66,826
Net assets	39,726	9,136	48,862
Capital expenditures	634	875	1,509
Depreciation and amortization	862	837	1,699

	<b>Core Companion Animal Health</b>	<b>Other Vaccines, Pharmaceuticals and Products</b>	<b>Total</b>
<b>2013:</b>			
Total revenue	\$ 66,404	\$ 11,935	\$ 78,339
Operating income (loss)	(2,295)	865	(1,430)
Interest expense	45	29	74
Total assets	81,041	12,512	93,553
Net assets	37,732	9,384	47,116
Capital expenditures	512	1,418	1,930
Depreciation and amortization	1,691	806	2,497

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

	<b>For the Years Ended December 31,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>
United States	\$ 60,383	\$ 64,552	\$ 71,713
Europe	3,408	2,996	2,738
Other International	6,274	5,257	3,888
<b>Total</b>	<b>\$ 70,065</b>	<b>\$ 72,805</b>	<b>\$ 78,339</b>

**HESKA CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)**

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

	December 31,		
	2011	2012	2013
United States	\$ 58,984	\$ 63,980	\$ 90,572
Europe	2,910	2,846	2,981
Other International	—	—	—
<b>Total</b>	<b>\$ 61,894</b>	<b>\$ 66,826</b>	<b>\$ 93,553</b>

**11. QUARTERLY FINANCIAL INFORMATION (unaudited)**

The following summarizes selected quarterly financial information for each of the two years in the periods ended December 31, 2012 and 2013 (amounts in thousands, except per share data).

	Q1	Q2	Q3	Q4	Total
<b>2012:</b>					
Total revenue	\$ 19,175	\$ 18,271	\$ 16,906	\$ 18,453	\$ 72,805
Gross profit	8,923	8,048	6,726	7,404	31,101
Operating income (loss)	1,082	383	(27)	720	2,158
Net income (loss)	584	262	(32)	389	1,203
Net income (loss) attributable to Heska Corporation	584	262	(32)	389	1,203
Basic net income (loss) per share attributable to Heska Corporation	0.11	0.05	(0.01)	0.07	0.23
Diluted net income (loss) per share attributable to Heska Corporation	0.11	0.05	(0.01)	0.07	0.22
<b>2013:</b>					
Total revenue	\$ 18,979	\$ 18,261	\$ 17,595	\$ 23,504	\$ 78,339
Gross profit	7,802	5,020	7,406	10,404	30,632
Operating income (loss)	(682)	(3,578)	75	2,755	(1,430)
Net income (loss)	(352)	(2,467)	(18)	1,898	(939)
Net income (loss) attributable to Heska Corporation	(386)	(2,228)	241	1,177	(1,196)
Basic net income (loss) per share attributable to Heska Corporation	(0.07)	(0.38)	0.04	0.20	(0.21)
Diluted net income (loss) per share attributable to Heska Corporation	(0.07)	(0.38)	0.04	0.20	(0.21)

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

None.

**Item 9A. Controls and Procedures.**

*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 December 31, 2013. Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures are effective 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 disclosure.

*Management's Report on Internal Control Over Financial Reporting.*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on criteria outlined in the 1992 COSO Internal Control over Financial Reporting – Guidance for Smaller Public Companies, a supplemental implementation guide issued in 2007 which modified criteria established in the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the Company's management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2013.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, even an effective system of internal control will provide only reasonable assurance that the objectives of the internal control system are met.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

*Changes in Internal Control over Financial Reporting.*

With the exception of the acquisition of Heska Imaging, an entity of which we acquired a majority interest in 2013, there has been no change in our internal control over financial reporting during the fourth fiscal quarter covered by this Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. As part of the supply agreement between Heska Imaging and Cuattro, LLC, Cuattro, LLC is to provide accounting services to Heska Imaging for at least one year following the commencement of the agreement. In the first quarter of 2014, we assumed responsibility for the accounting, as well as the disclosure controls and procedures and internal control over financial reporting, for Heska Imaging, which we believe will result in a significant improvement in Heska Imaging's disclosure controls and procedures and internal control over financial reporting.

### **Note Regarding Acquisition**

In making our assessment of disclosure controls and procedures and internal control over financial reporting as of December 31, 2013, we have excluded the operations of Heska Imaging, an entity of which we acquired a majority interest in 2013. As part of the supply agreement between Heska Imaging and Cuatro, LLC, Cuatro, LLC is to provide accounting services to Heska Imaging for at least one year following the commencement of the agreement. In the first quarter of 2014, we assumed responsibility for the accounting, as well as the disclosure controls and procedures and internal control over financial reporting, for Heska Imaging, which we believe will result in a significant improvement in Heska Imaging's disclosure controls and procedures and internal control over financial reporting. Heska Imaging represents approximately 16.3% of our 2013 revenue, Heska Imaging goodwill and other intangibles represent 21.8% of our total assets as of December 31, 2013 and other Heska Imaging assets represent 9.0% of our total assets as of December 31, 2013.

### **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 2014 Annual Meeting of Stockholders.

### **Item 10. Directors, Executive Officers and Corporate Governance.**

#### **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 of the Registrant."

#### **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 our 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](http://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 "Board Structure and Committees" in the Proxy Statement.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

The information required by this item is incorporated by reference to the information in the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" 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," "Executive Compensation," "Compensation Committee Report" and "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The other 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.

**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, 2013, 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	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights (1)	(b) Weighted-Average Exercise Price of Outstanding Options and Rights (1)	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
Equity Compensation Plans Approved by Stockholders	1,321,232	\$10.39	307,185
Equity Compensation Plans Not Approved by Stockholders	None	None	None
<b>Total</b>	<b>1,321,232</b>	<b>\$10.39</b>	<b>307,185</b>

(1) Excluding outstanding options to purchase an aggregate of 74.1 fractional shares resulting from our December 2010 reverse stock split.

**Item 13. Certain Relationships and Related Transactions and Director Independence.**

The information required by this section will be incorporated by reference to the information in the sections entitled "Board Structures and Committees" and "Significant Relationships and Transactions with Directors, Officers or Principal Stockholders" 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 2014 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)

	<u>Balance at Beginning of Year</u>	<u>Additions Charged to Costs and Expenses</u>	<u>Other Additions</u>	<u>Deductions</u>	<u>Balance at End of Year</u>
<b>Allowance for doubtful accounts</b>					
Year ended:					
December 31, 2011	\$ 136	\$ 109	—	\$ (71) (a)	\$ 174
December 31, 2012	\$ 174	\$ 76	—	\$ (95) (a)	\$ 155
December 31, 2013	\$ 155	\$ 98	—	\$ (44) (a)	\$ 209

(a) Write-offs of uncollectible accounts.

(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.

<b>Exhibit Number</b>	<b>Notes</b>	<b>Description of Document</b>
2.1	(22)	Unit Purchase Agreement among the Registrant, Cuattro Veterinary USA, LLC, Kevin S. Wilson and Continuing Members of Cuattro Veterinary USA, LLC named on the signature page thereto, dated February 22, 2013.
3(i)	(17)	Restated Certificate of Incorporation of the Registrant.
3(ii)	(17)	Certificate of Amendment to Restated Certificate of Incorporation of Registrant.
3(iii)	(17)	Certificate of Amendment to the Restated Certificate of Incorporation, as amended, of Registrant.
3(iv)		Amended and Restated Bylaws of the Registrant, as amended.
3(v)	(17)	Amended and Restated Operating Agreement of Heska Imaging US, LLC.
10.1*		1997 Stock Incentive Plan of Registrant, as amended and restated.
10.2*	(9)	1997 Stock Incentive Plan Employees and Consultants Option Agreement.
10.3*	(9)	1997 Stock Incentive Plan Outside Directors Option Agreement.
10.4*	(12)	2003 Equity Incentive Plan, as amended and restated.
10.5*	(12)	2003 Equity Incentive Plan Employees and Consultants Option Agreement.
10.6*		2003 Equity Incentive Plan Outside Directors Option Agreement.
10.7*	(18)	1997 Employee Stock Purchase Plan of Registrant, as amended and restated.
10.8*	(8)	Management Incentive Plan Master Document.
10.9*		2013 Management Incentive Plan Document.
10.10*		2014 Management Incentive Plan Document.
10.11*	(17)	Director Compensation Policy.
10.12*	(10)	Form of Indemnification Agreement entered into between Registrant and its directors and certain officers.
10.13*		Employment Agreement (Executive Chair) with Robert B. Grieve, effective as of March 26, 2014.
10.14*		Restricted Stock Grant Agreements between Registrant and Robert B. Grieve, effective as of March 26, 2014.
10.15*		Consulting Agreement (Founder Emeritus) with Robert B. Grieve, dated March 26, 2014.
10.16*		Employment Agreement between Registrant and Kevin S. Wilson, effective as of March 26, 2014.
10.17*		Restricted Stock Grant Agreement between Registrant and Kevin S. Wilson, effective as of March 26, 2014.
10.18*	(4)	Employment Agreement between Registrant and Jason A. Napolitano, effective as of May 6, 2002.
10.19*	(10)	Amendment to Employment Agreement between Registrant and Jason A. Napolitano, effective as of January 1, 2008.
10.20*	(9)	Employment Agreement between Diamond Animal Health, Inc. and Michael J. McGinley, effective as of May 1, 2000.
10.21*	(10)	Amendment to Employment Agreement between Diamond Animal Health, Inc. and Michael J. McGinley, effective as of January 1, 2008.
10.22*	(14)	Assignment and Second Amendment to Employment Agreement between Registrant and Michael J. McGinley, effective as of August 4, 2011.
10.23*		Employment Agreement between Registrant and Steven M. Eyl, effective as of May 15, 2013.

10.24*	(9)	Employment Agreement between Registrant and Nancy Wisnewski, effective as of April 15, 2002.
10.25*	(10)	Amendment to Employment Agreement between Registrant and Nancy Wisnewski, effective as of January 1, 2008.
10.26*	(17)	Employment Agreement between Registrant and Steven M. Asakowicz, effective as of February 22, 2013.
10.27*	(17)	Employment Agreement between Registrant and Rodney A. Lippincott, effective as of February 22, 2013.
10.28	(6)	Net Lease Agreement between Registrant and CCMRED 40, LLC, effective as of May 24, 2004.
10.29	(7)	First Amendment to Net Lease Agreement and Development Agreement between Registrant and CCMRED 40, LLC, dated February 11, 2005.
10.30	(7)	Second Amendment to Net Lease Agreement between Registrant and CCMRED 40, LLC, dated July 14, 2005.
10.31	(16)	Third Amendment to Net Lease Agreement between Registrant and Millbrae Square Company, effective as of January 1, 2010.
10.32+	(9)	Third Amended and Restated Credit and Security Agreement between Registrant, Diamond Animal Health, Inc. and Wells Fargo Business Credit, Inc., dated December 30, 2005.
10.33+	(10)	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.
10.34+	(10)	Second Amendment to Third Amended and Restated Credit and Security Agreement between Registrant, Diamond Animal Health, Inc. and Wells Fargo Bank, National Association, dated July 20, 2007.
10.35	(10)	Third Amendment to Third Amended and Restated Credit and Security Agreement between Registrant, Diamond Animal Health, Inc. and Wells Fargo Bank, National Association, dated December 21, 2007.
10.36+	(11)	Fourth and Fifth Amendments to Third Amended and Restated Credit and Security Agreement between Registrant, Diamond Animal Health, Inc. and Wells Fargo Bank, National Association, dated October 16, 2008.
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- (22) Filed with the Registrant's Form 8-K on February 26, 2013.

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 31, 2014.

HESKA CORPORATION

By: /s/ ROBERT B. GRIEVE

Robert B. Grieve, Ph.D.

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, Ph.D., Jason A. Napolitano and Nancy Wisnewski, Ph.D., 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	
<u>/s/ ROBERT B. GRIEVE</u> Robert B. Grieve, Ph.D.	Chairman of the Board and Chief Executive Officer (Principal Executive Officer) and Director	March 31, 2014
<u>/s/ JASON A. NAPOLITANO</u> Jason A. Napolitano	Executive Vice President, Chief Financial Officer and Secretary (Principal Financial Officer and Principal Accounting Officer)	March 31, 2014
<u>/s/ WILLIAM A. AYLESWORTH</u> William A. Aylesworth	Lead Director	March 31, 2014
<u>/s/ G. IRWIN GORDON</u> G. Irwin Gordon	Director	March 31, 2014
<u>/s/ SHARON L. RILEY</u> Sharon L. Riley	Director	March 31, 2014
<u>/s/ DAVID E. SVEEN</u> David E. Sveen, Ph.D.	Director	March 31, 2014
<u>/s/ CAROL A. WRENN</u> Carol A. Wrenn	Director	March 31, 2014

**Exhibit Index**

<b>Exhibit Number</b>	<b>Notes</b>	<b>Description of Document</b>
2.1	(22)	Unit Purchase Agreement among the Registrant, Cuattro Veterinary USA, LLC, Kevin S. Wilson and Continuing Members of Cuattro Veterinary USA, LLC named on the signature page thereto, dated February 22, 2013.
3(i)	(17)	Restated Certificate of Incorporation of the Registrant.
3(ii)	(17)	Certificate of Amendment to Restated Certificate of Incorporation of Registrant.
3(iii)	(17)	Certificate of Amendment to the Restated Certificate of Incorporation, as amended, of Registrant.
3(iv)		Amended and Restated Bylaws of the Registrant, as amended.
3(v)	(17)	Amended and Restated Operating Agreement of Heska Imaging US, LLC.
10.1*		1997 Stock Incentive Plan of Registrant, as amended and restated.
10.2*	(9)	1997 Stock Incentive Plan Employees and Consultants Option Agreement.
10.3*	(9)	1997 Stock Incentive Plan Outside Directors Option Agreement.
10.4*	(12)	2003 Equity Incentive Plan, as amended and restated.
10.5*	(12)	2003 Equity Incentive Plan Employees and Consultants Option Agreement.
10.6*		2003 Equity Incentive Plan Outside Directors Option Agreement.
10.7*	(18)	1997 Employee Stock Purchase Plan of Registrant, as amended and restated.
10.8*	(8)	Management Incentive Plan Master Document.
10.9*		2013 Management Incentive Plan Document.
10.10*		2014 Management Incentive Plan Document.
10.11*	(17)	Director Compensation Policy.
10.12*	(10)	Form of Indemnification Agreement entered into between Registrant and its directors and certain officers.
10.13*		Employment Agreement (Executive Chair) with Robert B. Grieve, effective as of March 26, 2014.
10.14*		Restricted Stock Grant Agreements between Registrant and Robert B. Grieve, effective as of March 26, 2014.
10.15*		Consulting Agreement (Founder Emeritus) with Robert B. Grieve, dated March 26, 2014.
10.16*		Employment Agreement between Registrant and Kevin S. Wilson, effective as of March 26, 2014.
10.17*		Restricted Stock Grant Agreement between Registrant and Kevin S. Wilson, effective as of March 26, 2014.
10.18*	(4)	Employment Agreement between Registrant and Jason A. Napolitano, effective as of May 6, 2002.
10.19*	(10)	Amendment to Employment Agreement between Registrant and Jason A. Napolitano, effective as of January 1, 2008.
10.20*	(9)	Employment Agreement between Diamond Animal Health, Inc. and Michael J. McGinley, effective as of May 1, 2000.
10.21*	(10)	Amendment to Employment Agreement between Diamond Animal Health, Inc. and Michael J. McGinley, effective as of January 1, 2008.
10.22*	(14)	Assignment and Second Amendment to Employment Agreement between Registrant and Michael J. McGinley, effective as of August 4, 2011.
10.23*		Employment Agreement between Registrant and Steven M. Eyl, effective as of May 15, 2013.

10.24*	(9)	Employment Agreement between Registrant and Nancy Wisnewski, effective as of April 15, 2002.
10.25*	(10)	Amendment to Employment Agreement between Registrant and Nancy Wisnewski, effective as of January 1, 2008.
10.26*	(17)	Employment Agreement between Registrant and Steven M. Asakowicz, effective as of February 22, 2013.
10.27*	(17)	Employment Agreement between Registrant and Rodney A. Lippincott, effective as of February 22, 2013.
10.28	(6)	Net Lease Agreement between Registrant and CCMRED 40, LLC, effective as of May 24, 2004.
10.29	(7)	First Amendment to Net Lease Agreement and Development Agreement between Registrant and CCMRED 40, LLC, dated February 11, 2005.
10.30	(7)	Second Amendment to Net Lease Agreement between Registrant and CCMRED 40, LLC, dated July 14, 2005.
10.31	(16)	Third Amendment to Net Lease Agreement between Registrant and Millbrae Square Company, effective as of January 1, 2010.
10.32+	(9)	Third Amended and Restated Credit and Security Agreement between Registrant, Diamond Animal Health, Inc. and Wells Fargo Business Credit, Inc., dated December 30, 2005.
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**Amended and Restated Bylaws as approved on May 16, 2002, as further amended  
on May 4, 2010 and February 19, 2014**

**B Y L A W S**

**OF**

**HESKA CORPORATION**

**(a Delaware corporation)**

## ARTICLE 1

### Offices

1.1 Principal Office. The registered office of the corporation shall be 1209 Orange Street, Wilmington, Delaware.

1.2 Additional Offices. The corporation may also have offices at such other places, either within or without the State of Delaware, as the Board of Directors (the "Board") may from time to time designate or the business of the corporation may require.

## ARTICLE 2

### Meeting of Stockholders

2.1 Place of Meeting. Meetings of stockholders may be held at such place, either within or without the State of Delaware, as may be designated by or in the manner provided in these Bylaws, or, if not so designated, as determined by the Board.

2.2 Annual Meeting. Annual meetings of stockholders shall be held each year at such date and time as shall be designated from time to time by the Board and stated in the notice of the meeting. At such annual meetings, the stockholders shall elect by a plurality vote the number of directors equal to the number of directors of the class whose term expires at such meetings (or, if fewer, the number of directors properly nominated and qualified for election) to hold office until the third succeeding annual meeting of stockholders after their election. The stockholders shall also transact such other business as may properly be brought before the meetings.

To be properly brought before the annual meeting, business must be either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board or the Chief Executive Officer, (b) otherwise properly brought before the meeting by or at the direction of the Board or the Chief Executive Officer, or (c) otherwise properly brought before the meeting by a stockholder of record. In addition to any other applicable requirements, for business to be properly brought before the annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a stockholder's notice must be delivered personally or deposited in the United States mail, or delivered to a common carrier for transmission to the recipient or actually transmitted by the person giving the notice by electronic means to the recipient or sent by other means of written communication, postage or delivery charges prepaid in all such cases, and received at the principal executive offices of the corporation, addressed to the attention of the Secretary of the corporation, not less than 60 days nor more than 90 days prior to the first anniversary of the date on which notice of the prior year's annual meeting was mailed to stockholders. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the stockholder proposing such business, (iii) the class,

series and number of shares of the corporation that are owned beneficially by the stockholder, and (iv) any material interest of the stockholder in such business. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in this Section; provided, however, that nothing in this Section shall be deemed to preclude discussion by any stockholder of any business properly brought before the annual meeting.

The Chair of the Board of the corporation (or such other person presiding at the meeting in accordance with these Bylaws) shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section, and if he or she should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

2.3 Special Meetings. Special meetings of the stockholders may be called for any purpose or purposes, unless otherwise prescribed by statute or by the Restated Certificate of Incorporation, only at the request of the Chair of the Board, by the Chief Executive Officer of the corporation or by a resolution duly adopted by the affirmative vote of a majority of the Board. Such request shall state the purpose or purposes of the proposed meeting. Business transacted at any special meeting shall be limited to matters relating to the purpose or purposes stated in the notice of meeting.

2.4 Action Without a Meeting. Any action which may be taken at any annual or special meeting of the stockholders of this corporation may be taken without a meeting, without prior notice, and without a vote, if a consent or consents in writing or electronic transmission, setting forth the action or actions so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Written consent or consents and, unless the Board otherwise provides, reproduction in paper form of electronic consent or consents, shall be delivered to the corporation by hand or certified mail, return receipt requested, to its principal executive office, or to an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded.

2.5 Notice of Meetings. Except as otherwise required by law, written notice of stockholders' meetings, stating the place, if any, date and time of the meeting, the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present and vote at such meeting, and, in the case of a special meeting, the purpose or purposes for which such special meeting is called, shall be given to each stockholder entitled to vote at such meeting not less than ten (10) nor more than sixty (60) days prior to the meeting.

When a meeting is adjourned to another place, date or time, written notice need not be given of the adjourned meeting if the place, if any, date and time thereof and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting, are announced at the meeting at which the adjournment is taken; provided, however, that if the date of any adjourned meeting is more than thirty (30) days after the date for which the meeting was originally noticed, or if a new record date is fixed for the

adjourned meeting, written notice of the place, if any, date and time of the adjourned meeting shall be given in conformity herewith. At any adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

Whenever, under the provisions of Delaware law or of the Restated Certificate of Incorporation or of these Bylaws, notice is required to be given to any stockholder it shall not be construed to mean personal notice, but such notice (a) may be given in writing, by mail, addressed to such stockholder, at his or her address as it appears on the records of the corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail or (b) may be given by a form of electronic transmission consented to by the stockholder to whom the notice is given.

Whenever any notice is required to be given under the provisions of Delaware law or of the Restated Certificate of Incorporation or of these Bylaws, a waiver thereof in writing, signed by the person or persons entitled to said notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

2.6 Business Matter of a Special Meeting. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice, except to the extent such notice is waived or is not required.

2.7 List of Stockholders. The officer in charge of the stock ledger of the corporation or the transfer agent shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting for a period of at least ten (10) days prior to the meeting: (a) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (b) during ordinary business hours, at the principal place of business of the corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present in person thereat. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

2.8 Organization and Conduct of Business. The Chair of the Board or, in his or her absence, the Lead Director, or in their absence, the Chief Executive Officer of the corporation or, in their absence, such person as the Board may have designated or, in the absence of such a person, such person as may be chosen by the holders of a majority of the shares entitled to vote who are present, in person or by proxy, shall call to order any meeting of the stockholders and act as Chair of the meeting. In the absence of the Secretary of the corporation, the Secretary of the meeting shall be such person as the Chair appoints.

The Chairman of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of discussion as seems to him or her in order.

2.9 Quorum and Adjournments. Except where otherwise provided by law, the Restated Certificate of Incorporation, or these Bylaws, the holders of a majority of the stock issued and outstanding and entitled to vote, present in person or represented in proxy, shall constitute a quorum at all meetings of the stockholders. The stockholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough stockholders to have less than a quorum if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum. At any adjourned meeting at which a quorum is present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. If, however, a quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat who are present in person or represented by proxy shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented.

2.10 Voting Rights. Unless otherwise provided in the Restated Certificate of Incorporation, each stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such stockholder.

2.11 Majority Vote. When a quorum is present at any meeting, the vote of the holders of a majority of the stock present in person or represented by proxy and entitled to vote on the subject matters shall decide any matter brought before such meeting, unless the matter is one upon which by express provision of law or of the Restated Certificate of Incorporation or of these Bylaws, a different vote is required, in which case such express provision shall govern and control the decision of such matter. For purposes of determining whether shares are present and entitled to vote with respect to any particular subject matter, abstentions and non-votes with respect to such subject matter shall be treated as not present or entitled to vote on such subject matter, but shall be treated as present and entitled to vote for all other purposes.

2.12 Record Date for Stockholder Notice and Voting

(i) For purposes of determining the stockholders entitled to notice of any meeting or to vote, or entitled to receive payment of any dividend or other distribution, or entitled to exercise any right in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days before the date of any such meeting nor more than sixty (60) days before any other action. If the Board does not so fix a record date, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held.

(ii) For purposes of determining the stockholders entitled to consent to corporate action in writing without a meeting, the Board may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which date shall not be more than ten (10) days after the date upon which the resolution fixing such record date is adopted by the Board. If no record date has been fixed by the Board, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board is required under Delaware law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation by hand or certified mail, return receipt requested, to its principal executive office, or to an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. If no record date has been fixed by the Board and prior action by the Board is required under Delaware law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be the close of business on the day on which the Board adopts the resolution taking such prior action.

2.13 Proxies. To the extent permitted by law, any stockholder of record may appoint a person or persons to act as the stockholder's proxy or proxies at any stockholder meeting for the purpose of representing and voting the stockholders' shares. The stockholder may make this appointment by any means the General Corporation Law of the State of Delaware specifically authorizes, and by any other means the Secretary of the corporation may permit. A validly executed proxy which does not state that it is irrevocable shall continue in full force and effect unless (i) revoked by the person executing it, before the vote pursuant to that proxy, by a writing delivered to the corporation stating that the proxy is revoked or by a subsequent proxy executed by, or attendance at the meeting and voting in person by, the person executing the proxy; or (ii) written notice of the death or incapacity of the maker of that proxy is received by the corporation before the vote pursuant to that proxy is counted; provided, however, that no proxy shall be valid after the expiration of three years from the date of the proxy, unless otherwise provided in the proxy.

2.14 Inspectors of Election. The corporation shall, in advance of any meeting of stockholders, appoint one or more inspectors of election to act at the meeting and make a written report thereof. The corporation may designate one or more persons to act as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability.

### ARTICLE 3

#### Directors

3.1 Number, Election, Tenure and Qualifications. The Board of the corporation shall consist of not less than five (5) members nor more than nine (9) members and shall be divided into three classes, designated as Class I, Class II and Class III, as nearly equal in number as possible, and

the exact number of members of any future Board, and the exact number of directors in each Class, shall be determined from time to time by resolution of the Board. The Board currently consists of eight (8) members, with Class I consisting of two (2) directors, Class II consisting of three (3) directors and Class III consisting of three (3) directors.

Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nominations of persons for election to the Board at the annual meeting, by or at the direction of the Board, may be made by any nominating committee or person appointed by the Board; nominations may also be made by any stockholder of record of the corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section. Such nominations, other than those made by or at the direction of the Board, shall be made pursuant to timely notice in writing to the Secretary of the corporation. To be timely, a stockholder's notice shall be delivered personally or deposited in the United States mail, or delivered to a common carrier for transmission to the recipient or actually transmitted by the person giving the notice by electronic means to the recipient or sent by other means of written communication, postage or delivery charges prepaid in all such cases, and received at the principal executive offices of the corporation addressed to the attention of the Secretary of the corporation not less than 60 days nor more than 90 days prior to the first anniversary of the date on which notice of the prior year's annual meeting was mailed to stockholders. Such stockholder's notice to the Secretary shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class, series and number of shares of capital stock of the corporation that are owned beneficially by the person, (iv) a statement as to the person's citizenship, and (v) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder; and (b) as to the stockholder giving the notice, (i) the name and record address of the stockholder and (ii) the class, series and number of shares of capital stock of the corporation that are owned beneficially by the stockholder. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as director of the corporation. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth herein.

In connection with any annual meeting, the Chair of the Board (or such other person presiding at such meeting in accordance with these Bylaws) shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he or she should so determine, he or she shall so declare to the meeting and the defective nomination shall be disregarded.

Directors shall serve as provided in the Restated Certificate of Incorporation of the corporation. Directors need not be stockholders.

3.2 Vacancies. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the next annual election at which the term of the class to which they have been elected expires and until their successors are duly elected and shall qualify, unless sooner displaced. If there are no directors in office, then an election of directors may be held in the manner provided by law. In the event of a vacancy in the Board, the remaining directors, except as otherwise provided by law or these bylaws, may exercise the powers of the full Board until the vacancy is filled.

3.3 Resignation and Removal. Any director may resign at any time upon written notice or by electronic transmission to the corporation at its principal place of business or to the Chief Executive Officer or the Secretary. Such resignation shall be effective upon receipt of such notice unless the notice specifies such resignation to be effective at some other time or upon the happening of some other event. Any director or the entire Board may be removed, but only for cause, by the holders of a majority of the shares then entitled to vote at an election of directors, unless otherwise specified by law or the Restated Certificate of Incorporation.

3.4 Powers. The business of the corporation shall be managed by or under the direction of the Board which may exercise all such powers of the corporation and do all such lawful acts and things which are not by statute or by the Restated Certificate of Incorporation or by these Bylaws directed or required to be exercised or done by the stockholders.

3.5 Place of Meetings. The Board may hold meetings, both regular and special, either within or without the State of Delaware.

3.6 Annual Meetings. The annual meetings of the Board shall be held in the four month period either immediately preceding or immediately following the annual meeting of stockholders, and no notice of such meeting shall be necessary to the Board, provided a quorum shall be present. The annual meetings shall be for the purposes of organization, and an election of officers and the transaction of other business.

3.7 Regular Meetings. Regular meetings of the Board may be held without notice at such time and place as may be determined from time to time by the Board.

3.8 Special Meetings. Special meetings of the Board may be called by the Chair of the Board, the Lead Director, the Chief Executive Officer or by a majority of the Board upon one (1) day's notice to each director and can be delivered either personally, or by telephone, express delivery service (so that the scheduled delivery date of the notice is at least one (1) day in advance of the meeting), telegram, facsimile transmission or electronic transmission, and on five (5) day's notice, by mail. The notice need not describe the purpose of the special meeting.

3.9 Quorum and Adjournments. At all meetings of the Board, a majority of the directors then in office shall constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board, except as may otherwise be specifically provided by law or the Restated Certificate of Incorporation. If a

quorum is not present at any meeting of the Board, the directors present may adjourn the meeting from time to time, without notice other than announcement at the meeting at which the adjournment is taken, until a quorum shall be present. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved of by at least a majority of the required quorum for that meeting.

3.10 Action Without Meeting. Unless otherwise restricted by law, the Restated Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting, if all members of the Board or committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

3.11 Telephone Meetings. Unless otherwise restricted by law, the Restated Certificate of Incorporation or these Bylaws, any member of the Board or any committee may participate in a meeting by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.12 Waiver of Notice. Notice of a meeting need not be given to any director who signs a waiver of notice or a consent to holding the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such director. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

3.13 Fees and Compensation of Directors. Unless otherwise restricted by law, the Restated Certificate of Incorporation or these Bylaws, the Board shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the Board and may be paid a fixed sum for attendance at each meeting of the Board or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

3.14 Rights of Inspection. Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders and its other books and records for a purpose reasonably related to his or her position as a director.

3.15 The Chair of the Board. The Board shall choose a Chair of the Board from among its members with the powers, duties and responsibilities outlined in these Bylaws, among other powers, duties and responsibilities as the Board may provide. The Chair of the Board shall serve in this capacity at the pleasure of the Board.

3.16 The Lead Director. If the Chair of the Board is an officer or employee of the Corporation or is otherwise not independent (an "Inside Chair"), the Board may choose a Lead Director from among its other members. The Lead Director shall serve in this capacity at the pleasure of the Board. The Lead Director must be independent and must not be an officer or employee of the Corporation. The Lead Director is expected to chair sessions involving only the independent Directors, among other responsibilities as the Board may provide.

#### ARTICLE 4

##### Committees of Directors

4.1 Selection. The Board may, by resolution passed by a majority of the entire Board, designate one or more committees, each committee to consist of one or more of the directors of the corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee.

In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or she or they constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member.

4.2 Power. Any such committee, to the extent provided by law and to the extent provided in the resolution of the Board, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it.

4.3 Committee Minutes. Each committee shall keep regular minutes of its meetings and report the same to the Board when required.

#### ARTICLE 5

##### Officers

5.1 Officers Designated. The officers of the corporation shall be chosen by the Board and shall be a Chief Executive Officer, a President, a Secretary and a Chief Financial Officer. The Board may also choose one or more Executive Vice Presidents, one or more Vice Presidents, and one or more assistant Secretaries. Any number of offices may be held by the same person, unless the Restated Certificate of Incorporation or these Bylaws otherwise provide.

5.2 Appointment of Officers. The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 5.3 or 5.5 of this Article 5, shall be chosen in such manner and shall hold their offices for such terms as are prescribed by these Bylaws or determined by the Board. Each officer shall hold his or her office until his or her successor is elected and qualified or until his or her earlier resignation or removal. This section does not create

any rights of employment or continued employment. The corporation may secure the fidelity of any or all of its officers or agents by bond or otherwise.

5.3 Subordinate Officers. The Board may appoint, and may empower the Chief Executive Officer to appoint, such other officers and agents as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the Bylaws or as the Board may from time to time determine.

5.4 Removal and Resignation of Officers. Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by an affirmative vote of the majority of the Board, at any regular or special meeting of the Board, or if such officer has not been chosen or approved by the Board, by the Chief Executive Officer.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

5.5 Vacancies in Offices. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these Bylaws for regular appointment to that office.

5.6 Compensation. The salaries of all officers of the corporation shall be fixed from time to time by the Board and no officer shall be prevented from receiving a salary because he or she is also a director of the corporation.

5.7 The Executive Chair of the Board. The Board may designate the Chair of the Board as an officer known as the Executive Chair of the Board. The Executive Chair of the Board shall, if present, perform such other powers and duties as may be assigned to him or her from time to time by the Board. If there is no elected Chief Executive Officer, the Executive Chair of the Board shall also be the Chief Executive Officer of the Corporation and shall have the powers and duties prescribed in Section 5.8 of this Article 5.

5.8 The Chief Executive Officer. Subject to such supervisory powers, if any, as may be given by the Board to the Executive Chair of the Board, if there be such an officer, the Chief Executive Officer of the Corporation, shall preside at all meetings of the stockholders in the absence of the Chair of the Board and the Lead Director, shall preside at all meetings of the Board, in the absence of the Chair of the Board and the Lead Director, shall have all lawful powers necessary to conduct the general and active management of the business of the Corporation and shall see that all orders and resolutions of the Board are carried into effect. He or she shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board to some other officer or agent of the Corporation.

5.9 The President. The President, shall in the absence of the Chief Executive Officer or in the event of his or her disability or refusal to act, perform the duties of the Chief Executive Officer, and when so acting, shall have the powers of and subject to all the restrictions upon the Chief Executive Officer. The President shall perform such other duties and have such other powers as may from time to time be prescribed for them by the Board, the Chief Executive Officer, the Executive Chair of the Board or these Bylaws.

5.10 The Executive Vice President. The Executive Vice President (or in the event there be more than one, the Executive Vice Presidents in the order designated by the directors, or in the absence of any designation, in the order of their election), shall, in the absence of the President or in the event of his or her disability or refusal to act, perform the duties of the President, and when so acting, shall have the powers of and subject to all the restrictions upon the President. The Executive Vice President(s) shall perform such other duties and have such other powers as may from time to time be prescribed for them by the Board, the Chief Executive Officer, the Executive Chair of the Board or these Bylaws.

5.11 The Vice President. The Vice President (or in the event there be more than one, the Vice Presidents in the order designated by the directors, or in the absence of any designation, in the order of their election), shall, in the absence of the President and any Executive Vice President or in the event of their disability or refusal to act, perform the duties of the President, and when so acting, shall have the powers of and subject to all the restrictions upon the President. The Vice President(s) shall perform such other duties and have such other powers as may from time to time be prescribed for them by the Board, the Chief Executive Officer, the Executive Chair of the Board or these Bylaws.

5.12 The Secretary. The Secretary shall attend all meetings of the Board and the stockholders and record all votes and the proceedings of the meetings in a book to be kept for that purpose and shall perform like duties for the standing committees, when required. The Secretary shall give, or cause to be given, notice of all meetings of stockholders and special meetings of the Board, and shall perform such other duties as may from time to time be prescribed by the Board, the Executive Chair of the Board or the Chief Executive Officer, under whose supervision he or she shall act. The Secretary shall have custody of the seal of the corporation, and the Secretary, or an Assistant Secretary, shall have authority to affix the same to any instrument requiring it, and, when

so affixed, the seal may be attested by his or her signature or by the signature of such Assistant Secretary. The Board may give general authority to any other officer to affix the seal of the corporation and to attest the affixing thereof by his or her signature. The Secretary shall keep, or cause to be kept, at the principal executive office or at the office of the corporation's transfer agent or registrar, as determined by resolution of the Board, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same and the number and date of cancellation of every certificate surrendered for cancellation.

5.13 The Assistant Secretary. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order designated by the Board (or in the absence of any designation, in the order of their election) shall, in the absence of the Secretary or in the event of his or her inability or refusal to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as may from time to time be prescribed by the Board.

5.14 The Chief Financial Officer. The Chief Financial Officer shall have the custody of the Corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation. The Chief Financial Officer shall have all lawful powers necessary to open and close accounts with banks and other financial institutions for the deposit of moneys and other valuable effects in the name and to the credit of the corporation. In conjunction with the Chief Executive Officer, the Chief Financial Officer shall have all lawful powers necessary to borrow money and obtain other credit accommodations including, but not limited to, the authority to mortgage or pledge as collateral the corporation's assets. The Chief Financial Officer shall disburse the funds of the corporation as may be ordered by the Board, taking proper vouchers for such disbursements, and shall render to the Chief Executive Officer and the Board, at its regular meetings, or when the Board so requires, an account of all his or her transactions as Chief Financial Officer and of the financial condition of the corporation.

## ARTICLE 6

### Stock Certificates

6.1 Certificates for Shares. The shares of the corporation shall be represented by certificates or shall be uncertificated. Certificates shall be signed by, or in the name of the corporation by, the Executive Chair of the Board, the Chief Executive Officer, the President, an Executive Vice President or a Vice President and by the Chief Financial Officer, the Secretary or an Assistant Secretary of the corporation.

Within a reasonable time after the issuance or transfer of uncertificated stock, the corporation shall send to the registered owner thereof a written notice containing the information required by the General Corporation Law of the State of Delaware or a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

6.2 Signatures on Certificates. Any or all of the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he or she were such officer, transfer agent or registrar at the date of issue.

6.3 Transfer of Stock. Upon surrender to the corporation or the transfer agent of the corporation of a certificate of shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Upon receipt of proper transfer instructions from the registered owner of uncertificated share, such uncertificated shares shall be canceled and issuance of new equivalent uncertificated shares or certificated shares shall be made to the person entitled thereto and the transaction shall be recorded upon the books of the corporation.

6.4 Registered Stockholders. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a percent registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

6.5 Lost, Stolen or Destroyed Certificates. The Board may direct that a new certificate or certificates be issued to replace any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing the issue of a new certificate or certificates, the Board may, in its discretion and as a condition precedent to the issuance thereof, require the owner of the lost, stolen or destroyed certificate or certificates, or his or her legal representative, to advertise the same in such manner as it shall require, and/or to give the corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

## ARTICLE 7

### General Provisions

7.1 Dividends. Dividends upon the capital stock of the corporation, subject to any restrictions contained in the General Corporation Law of the State of Delaware or the provisions of the Restated Certificate of Incorporation, if any, may be declared by the Board at any regular or special meeting. Dividends may be paid in cash, in property or in shares of the capital stock, subject to the provisions of the Restated Certificate of Incorporation.

7.2 Dividend Reserve. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for

equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors shall think conducive to the interest of the corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

7.3 Checks. All checks or demands for money and notes of the corporation shall be signed by such officer or officers or such other person or persons as the Board may from time to time designate.

7.4 Corporate Seal. The Board may provide a suitable seal, containing the name of the corporation, which seal shall be in charge of the Secretary. If and when so directed by the Board or a committee thereof, duplicates of the seal may be kept and used by the Chief Financial Officer or by any Assistant Secretary.

7.5 Execution of Corporate Contracts and Instruments. The Board, except as otherwise provided in these Bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the Board or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

7.6 Representation of Shares of Other Corporations. The Executive Chair of the Board, Chief Executive Officer, President, any Executive Vice President or any Vice President or the Chief Financial Officer, the Secretary or any Assistant Secretary of this corporation is authorized to vote, represent and exercise on behalf of this corporation all rights incident to any and all shares of any corporation or corporations standing in the name of this corporation. The authority herein granted to said officers to vote or represent on behalf of this corporation any and all shares held by this corporation in any other corporation or corporations may be exercised either by such officers in person or by any other person authorized so to do by proxy or power of attorney duly executed by said officers. The Board, in its discretion, may appoint specific officers the authority to vote, represent or exercise shares in certain other corporations, although other officers may exercise such authority in the event of the incapacitation or death of such specific officers.

## ARTICLE 8

### Miscellaneous

8.1 Stock Options and Toxic Securities. Unless approved by the holders of a majority of the shares entitled to vote at a duly convened meeting of stockholders, the corporation shall not:

- (i) grant any stock option, including stock appreciation right, with an exercise price that is less than 100% of the fair market value of the underlying stock on the date of grant;
- (ii) reduce the exercise price of any stock option, including stock appreciation right, outstanding or to be granted in the future; cancel and re-grant options at a lower exercise price

(including entering into any "6 month and 1 day" cancellation and re-grant scheme), whether or not the cancelled options are put back into the available pool for grant; replace underwater options with restricted stock in an exchange, buy-back or other scheme; or replace any options with new options having a lower exercise price or accelerated vesting schedule in an exchange, buy-back or other scheme;

(iii) sell or issue any security of the corporation convertible, exercisable or exchangeable into shares of common stock, having a conversion, exercise or exchange price per share which is subject to downward adjustment based on the market price of the common stock at the time of conversion, exercise or exchange of such security into common stock (except for appropriate adjustments made to give effect to any stock splits or stock dividends); or

(iv) enter into (a) any equity line or similar agreement or arrangement; or (b) any agreement to sell common stock (or any security convertible, exercisable or exchangeable into shares of common stock ("Common Stock Equivalent")) at a per share price (or, with respect to a Common Stock Equivalent, at a conversion, exercise or exchange price, as the case may be ("Equivalent Price")) that is fixed after the execution date of the agreement, whether or not based on any predetermined price-setting formula or calculation method. Notwithstanding the foregoing, however, a price protection clause shall be permitted in an agreement for sale of common stock or Common Stock Equivalent, if such clause provides for an adjustment to the price per share of common stock or, with respect to a Common Stock Equivalent, to the Equivalent Price (provided that such price or Equivalent Price is fixed on or before the execution date of the agreement) (the "Fixed Price") in the event that the corporation, during the period beginning on the date of the agreement and ending no later than ninety (90) days after the closing date of the transaction, sells shares of common stock or Common Stock Equivalent to another investor at a price or Equivalent Price, as the case may be, below the Fixed Price.

8.2 Amendments. The Board of Directors is expressly empowered to adopt, amend or repeal these Bylaws, provided, however, that any adoption, amendment or repeal of these Bylaws by the Board of Directors shall require the approval of at least sixty-six and two-thirds percent (66-2/3%) of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any resolution providing for adoption, amendment or repeal is presented to the board). The stockholders shall also have power to adopt, amend or repeal these Bylaws, provided, however, that in addition to any vote of the holders of any class or series of stock of this corporation required by law or by the Restated Certificate of Incorporation of this corporation, the affirmative vote of the holders of more than fifty percent (50%) of the voting power of all of the then outstanding shares of the stock of the corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required for such adoption, amendment or repeal by the stockholders of any provisions of these Bylaws. Notwithstanding the foregoing sentence, the affirmative vote of the holders of at least sixty-six and two-thirds percent (66-2/3%) of the voting power of all of the then outstanding shares of the stock of the corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required for the amendment or repeal of Article 3.1 of these Bylaws.

Notwithstanding the foregoing paragraph or any provision of the Restated Certificate of Incorporation, Section 8.1 of these Bylaws may only be amended or repealed by the affirmative vote of the holders of a majority of the shares of the stock of the corporation entitled to vote at a duly convened meeting of stockholders.



**HESKA CORPORATION**  
**1997 STOCK INCENTIVE PLAN**  
(AS AMENDED MARCH 6, 2007 AND MAY 5, 2009,  
AMENDED AND RESTATED ON FEBRUARY 22, 2012  
AND FURTHER AMENDED ON MARCH 25, 2014)

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**HESKA CORPORATION**

**1997 STOCK INCENTIVE PLAN**

**ARTICLE 1. INTRODUCTION.**

The Plan was adopted by the Board effective March 15, 1997, and was subsequently amended on each of March 6, 2007 and May 5, 2009. In connection with completion of the Company's 1-for-10 Reverse Stock Split on December 30, 2010, pursuant to Article 9 the Compensation Committee of the Board approved adjustments to the Plan to reduce by a factor of ten the number of Options and Restricted Shares, and related underlying Common Shares, available for issuance under the Plan. On February 22, 2012, the Board approved, subject to stockholder approval, further amendments to the Plan to increase the aggregate number of Common Shares available for issuance under the Plan.

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 its 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. Prior to December 30, 2010, the effective date of the Reverse Stock Split, the aggregate number of Options and Restricted Shares awarded under the Plan were not to 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(a) and 3.3; less (d) 250,000. From and after the effective date of the Reverse Stock Split, the aggregate number of Options and Restricted Shares available for award under the Plan were reduced (pursuant to Article 9) by a factor of ten as follows: (a) 135,000; plus (b) 10% of the aggregate number of Common Shares that remained available for grants under the Predecessor Plans on March 15, 1997; plus (c) the additional Common Shares described in Sections 3.2(b) and 3.3 plus 10% of the additional Common Shares described in Section 3.2(a); less (d) 25,000. Subject to stockholder approval, from and after the effective date of this amended and restated Plan, the aggregate number of Options and Restricted Shares that may be awarded under the Plan shall be increased by 250,000. No additional grants have been or are permitted to be made under the Predecessor Plans after March 15, 1997. The limitation of this Section 3.1 shall be further subject to adjustment pursuant to Article 9.

### 3.2 Annual Increase in Shares.

(a) 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 (i) 5% of the total number of Common Shares outstanding as of the next preceding December 31 or (ii) 1,500,000. After the annual increase on January 1, 2007, there shall be no further annual increases under the Plan pursuant to this Section 3.2(a) unless and until stockholder approval of such increase has been obtained.

(b) Subject to stockholder approval, as of the Company's Annual meeting of stockholders of each given year, commencing with the Company's Annual meeting of stockholders in 2012 and continuing through the Company's Annual meeting of stockholders in 2016, 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) 45,000 and (B) the product of 5,000 multiplied by the number of non-employee directors serving on the Board as of the Company's Annual meeting of stockholders in the particular year of determination. After the annual increase as of the Company's Annual meeting of stockholders in 2016, there shall be no further annual increases under the Plan pursuant to this Section 3.2(b) 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 ISO 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 ISO 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 50,000 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 100,000 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 ISO 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 ISO 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 ISO 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, cash equivalents or any other form of legal consideration acceptable to the Company, including but not limited to future services, 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 bylaws 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 May 8, 2022.

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, 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, as may be applicable, one share of Common Stock, par value \$0.01 per share, of the Company to the extent any remains outstanding at the time of determination, or one share of Public Common Stock, par value \$0.01 per share, of the Company, to the extent any remains outstanding at the time of determination.

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 ISO 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 **“Reverse Stock Split”** means the Company’s 1-for-10 reverse stock split of its then outstanding Common Shares, which was approved by the Company’s stockholders and consummated and made effective December 30, 2010.
- 14.25 **“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.
- 14.26 **“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.
- 14.27 **“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: /s/ Jason A. Napolitano  
Executive Vice President and  
Chief Financial Officer



## HESKA CORPORATION 2003 EQUITY INCENTIVE PLAN

NON-QUALIFIED STOCK OPTION AGREEMENT  
(OUTSIDE DIRECTORS)

<b>Tax Treatment</b>	This option is intended to be a Non-qualified Stock Option and not an Incentive Stock Option under section 422 of the Internal Revenue Code.
<b>Vesting/ Exercisability</b>	<p>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 a Director terminates because of your death, this option shall become fully vested and exercisable as to the total number of shares subject thereto immediately upon the date of your death.</p> <p>Except as otherwise provided below following a Change in Control, 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.</p>
<b>Term</b>	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 or as provided in this Agreement or the Plan.
<b>Regular Termination</b>	In the event of your Termination of Service for any reason other than 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.
<b>Death</b>	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.
<b>Disability</b>	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.
<b>Leaves of Absence</b>	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.

**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. This option shall vest and become exercisable in full if (i) the Company is subject to a Change in Control and (ii) within twelve months thereafter you are removed as a Director.

"Cause" shall mean (i) your failure to perform your assigned duties or responsibilities as a Director (other than a failure resulting from death or Disability) after notice thereof from the surviving corporation or its parent 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 regulation applicable to the Company's business; of (v) your being convicted of, or entering a plea of nolo contendere to, any crime.

**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. No shares shall be issued pursuant to this option unless and until any then applicable requirements of state or federal laws and regulatory agencies have been fully complied with to the satisfaction of the Company and its 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 of Exercise 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 Delaware (without giving effect to its conflict of laws provisions).

**The Plan and Other Agreements**

The Amended and Restated 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 Amended and Restated 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.

**Acceptance**

You hereby acknowledge receipt of a copy of the Plan and this Agreement. You have read and understand the terms and provisions thereof, and accept this option subject to all the terms and conditions of the Plan and this Agreement. You acknowledge that there may be adverse tax consequences upon exercise of this option or disposition of the underlying shares and that you should consult a tax advisor prior to such exercise or disposition.

**BY SIGNING THE NOTICE OF STOCK OPTION GRANT, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED ABOVE AND IN THE PLAN.**



**Heska Corporation**  
**2013 Management Incentive Plan**

1. The Category Percentages for the 2013 MIP are as follows:

<u>Title</u>	<u>Heska MIP</u>
Chief Executive Officer	50.0% of base pay
President	35.0% of base pay
Chief Financial Officer	35.0% of base pay
Executive Vice Presidents	35.0% of base pay
Vice Presidents	35.0% of base pay
Managing Directors	25.0% of base pay
Directors	25.0% of base pay

2. The Plan Allocation for the 2013 MIP is as follows:

75% on overall achievement of the Financial Performance Metric ("FPM") and  
 25% on achievement of Strategic Growth Initiatives ("SGI")

3. The Key Parameters for the 2013 MIP are as follows:

- Pre-MIP Operating Income – 75%
- Strategic Growth Initiative Milestone Achievement – 25%, as defined in the minutes for the May 2013 meeting of the Compensation Committee of the Board of Directors of Heska Corporation, with the following affiliated weightings:
  - Growth Initiative A
    - o Succeed in Growth Initiative A for 50% weighting of SGI
    - o Otherwise, 0% weighting of SGI
  - Growth Initiative B
    - o Succeed in Growth Initiative B for 30% weighting of SGI
    - o Otherwise, 0% weighting of SGI
  - Growth Initiative C
    - o Succeed in Growth Initiative C for 20% weighting of SGI
    - o Otherwise, 0% weighting of SGI

4. The Payout Structure for the 2013 MIP is as follows:

- All FPM MIP Payouts will be "self-funded" by a percentage of Pre-FPM MIP Operating Income (adjusted for minority interest) (PMOI) in excess of \$2,000,000
- PMOI in excess of \$2,000,000 will be split 50%/50% between FPM MIP and the Company
- For FPM of Pre-FPM MIP Operating Income see the table below
- For SGI achievement of milestones, each milestone is a weighted percentage to equal 100% for SGI (3 total initiatives)
- Payouts for each parameter will be calculated independent of the success or failure of the other parameter

- Maximum MIP Payout for Proposed 2013 MIP for the financial metric parameter is paid at \$4,738,250 of MPOI at 150% and achievement of the three milestones for SGI at 100%
- In another example, achievement of 50% weighting of the SGI milestones and \$2,912,750 of PMOI would pay MIP of \$152,125 for SGI and \$456,375 for FPM
- Any MIP payment in excess of the Maximum MIP Payout shall be at the sole and absolute discretion of the Compensation Committee

**Heska Corporation**  
**2013 MIP Payout Table (\$ unless otherwise noted)**

<b>Operating Income Pre-FPM MIP</b>	<b>Operating Income Post-FPM MIP</b>	<b>FPM MIP Payout %</b>	<b>FPM MIP Amount</b>	<b>SGI Payout Amount*</b>	<b>Total Payout Amount</b>
2,000,000	2,000,000	0%	0	304,250	304,250
2,182,550	2,091,275	10%	91,275	304,250	395,525
2,365,100	2,182,500	20%	182,550	304,250	486,800
2,547,650	2,273,825	30%	273,825	304,250	578,075
2,730,200	2,365,100	40%	365,100	304,250	669,350
2,912,750	2,456,375	50%	456,375	304,250	760,625
3,095,300	2,547,650	60%	547,650	304,250	851,900
3,277,850	2,638,925	70%	638,925	304,250	943,175
3,460,400	2,730,200	80%	730,200	304,250	1,034,450
3,642,950	2,821,475	90%	821,475	304,250	1,125,725
3,825,500	2,912,750	100%	912,750	304,250	1,217,000
4,008,050	3,004,025	110%	1,004,025	304,250	1,308,275
4,190,600	3,095,300	120%	1,095,300	304,250	1,399,550
4,373,150	3,186,575	130%	1,186,575	304,250	1,490,825
4,555,700	3,277,850	140%	1,277,850	304,250	1,582,100
4,738,250	3,369,125	150%	1,369,125	304,250	1,673,375
4,738,250+	3,369,125+	Capped			

\*Assumes 100% achievement of milestones.



**Heska Corporation**  
**2014 Management Incentive Plan**

1. The Category Percentages for the 2014 MIP are as follows:

<u>Title</u>	<u>Heska MIP</u>
Executive Vice President-level	35.0% of base pay
Vice Presidents	35.0% of base pay
Managing Director(s)	25.0% of base pay
Directors	25.0% of base pay

Note: Due to role transitions, Category Percentages for Robert B. Grieve, Ph.D. and Kevin S. Wilson will be as provided in their respective employment agreements.

2. The Plan Allocation for the 2014 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 2014 MIP are as follows:

1) Pre-MIP Operating Income and 2) Revenue

4. The Payout Structure for the 2014 MIP is as follows:

50% of Pre-MIP Operating Income in excess of \$2,000,000, subject to an MIP Payout maximum contribution of \$1,350,000

Plus

If Pre-MIP Operating Income is \$3,250,000 or more, 2.50% of Revenue in excess of \$85,000,000, subject to an MIP Payout maximum contribution of \$450,000

The combined maximum payouts based on Pre-MIP Operating Income (\$1,350,000) and Revenue (\$450,000), total \$1,800,000 and shall be known as the "Maximum MIP Payout". Any MIP payment in excess of the Maximum MIP Payout shall be at the sole and absolute discretion of the Compensation Committee.



**EMPLOYMENT AGREEMENT**  
**(Executive Chair)**

This Employment Agreement (the "**Agreement**"), is made effective at the Effective Date set forth below, between Heska Corporation, a Delaware corporation ("**Heska**" or the "**Company**") and Robert B. Grieve, Ph.D. ("**Executive**").

**RECITALS**

Executive is currently the Chair ("**Chair**") of Heska Board of Directors (the "**Board**"), and Chief Executive Officer ("**CEO**") of Heska. Executive and Heska entered into an employment agreement dated March 29, 2006 and amended January 1, 2008 (the "**Prior Agreement**").

In furtherance of the Board's succession planning for Heska's executive team, the Board desires to separate the positions of Chair and CEO, appoint a new CEO and continue the employment of Executive in a new role ("**Executive Chair**"), on the terms and conditions set forth below and with specific title to be determined by the Board as appropriate from time to time.

The Board has determined to nominate Executive for election to a three-year term as a Board member at the Company's upcoming Annual Meeting of Stockholders in May 2014 (the "**2014 Election**"). If Executive is not elected to the Board at the 2014 Election or if Executive's term on the Board ends prior to the Termination Date, as defined below, Executive will perform his duties hereunder as an executive officer and employee of the Company on the terms and conditions of this Agreement. Executive will continue to serve as Chair of the Board of the Company upon execution and delivery of this Agreement, subject to the discretion of the Corporate Governance Committee of the Board and the Board.

Executive and Heska now wish to replace the Prior Agreement and enter into this Agreement regarding the terms of Executive's employment, which shall become effective upon execution and delivery of this Agreement (the "**Effective Date**").

**AGREEMENT**

In consideration of the promises, covenants and agreements set forth below, it is mutually agreed:

**1. Duties and Scope of Employment.**

(a) **Position and Duties.** Executive shall continue to serve as CEO until immediately following the filing of Heska's Form 10-K for the fiscal year ended December 31, 2013 with the Securities and Exchange Commission, after which time Executive will serve as Executive Chair of Heska; provided, that if Executive is not serving as a member of the Board at any time during the Term of Agreement (defined below), Executive will perform his duties hereunder in the capacity of an executive officer and employee with such appropriate title as the Board shall designate for him. The period of Executive's employment under this Agreement is referred to herein as the "**Term of Agreement**." Initially, Executive will have primary executive

responsibility for corporate governance and investor relations; provided, that if Executive is not serving as a member of the Board, Executive's primary executive responsibility will be investor relations and board service on Company majority- or wholly-owned subsidiaries. In consultation with the Board, Executive will actively transition certain responsibilities to the CEO over the Term of Agreement. The Board may, in its discretion and in consultation with Executive, further change or reduce Executive's duties during the Term of Agreement to facilitate the transition of responsibilities to the CEO; provided, that the Board may not assign additional duties, or non-executive duties, to Executive without his written consent. Throughout the Term of Agreement, Executive will report to the Board and not to any other executive officer.

**(b) Board Membership.** The Board has agreed to nominate Executive for election to a three-year term as a Board member of the Company at the 2014 Election. Executive's service as a member of the Board will be subject to any required stockholder approval. Executive's continuing service as Chair will be subject to the discretion of the Corporate Governance Committee and the Board, and any decision of the Board to consolidate the positions of CEO and Chair in another individual or change Executive's title will not affect or trigger any other provision of this Agreement. Executive is being compensated for Board service under this Agreement, whether as Chair or not and regardless of any other responsibilities under this Agreement, and shall not be entitled to any additional compensation beyond that provided in this Agreement for Board service through the Termination Date.

**(c) Obligations.** During the Term of Agreement, Executive will devote such of Executive's business efforts and time to Heska as Executive shall reasonably determine are required to carry out his duties, it being understood that the role of Executive Chair is not intended to be full time. For the duration of the Term of Agreement, Executive agrees not to actively engage in any other employment, occupation or consulting activity for any direct or indirect remuneration without the prior approval of the Board or the Corporate Governance Committee of the Board (which approval will not be unreasonably withheld); provided, however, that Executive may, without the approval of the Board or the Corporate Governance Committee, (i) serve for remuneration as an outside director or advisor to other companies not engaged in Competition (as defined in Section 9) with Heska and (ii) serve in any capacity with any civic, educational or charitable organization; provided in the case of (i) and (ii) that such services do not interfere with Executive's obligations to Heska.

**(d) At-Will Employment.** Subject to the provisions of Sections 3, 4, 7, 8, and 9 below, Executive and Heska agree that Executive's employment constitutes "at-will" employment. Executive and Heska acknowledge that this employment relationship may be terminated at any time, upon written notice to the other party (which in the case of Heska will mean the Board), with or without good cause or for any or no cause, at the option either of Heska or Executive. However, as described in this Agreement, Executive may be entitled to severance benefits depending upon the circumstances of Executive's termination of employment. In the event Heska terminates Executive's employment for "**Cause**" as defined in Section 9(b) below, such written notice shall detail the reasons for termination. Upon the termination of Executive's employment for any reason, and without diminution, Executive will be entitled to payment of all accrued but unpaid compensation, expense reimbursements, and other benefits due to Executive through Executive's last date of employment with the Company under any Company-provided or paid plans, policies, and arrangements. Executive agrees to resign from all positions that he holds

with Heska, including, without limitation, his position as a member of the Board, immediately following the termination of his employment if the Board so requests.

2. **Term of Agreement.** Subject to the provisions for earlier termination in Sections 1(d), 7, 8, and 9 of this Agreement, this Agreement will have a term commencing on the Effective Date and ending on April 30, 2017 (the "**Termination Date**").

3. **Exchange of Contract Rights; Compensation.**

(a) The Parties acknowledge that pursuant to the Prior Agreement, the diminishment of Executive's duties as CEO contemplated by this Agreement entitles Executive to terminate his employment for "Good Reason" (as defined therein) and receive certain severance payments, benefits and accelerated vesting of equity awards as set forth therein (collectively, the "**CEO Transition Benefits**"). To induce Executive to exchange the CEO Transition Benefits for the good and valuable consideration set forth in this Agreement (including but not limited to the covenants set forth in Sections 8(b) and (c) of this Agreement), Heska hereby agrees to compensate Executive as follows (the "**Exchange Compensation**"):

(i) Heska shall pay Executive a one-time payment of (\$475,000) in cash, subject to required withholding, on the Termination Date (the "**Termination Payment**"); and

(ii) Upon execution and delivery of this Agreement, Heska shall grant to Executive that number of shares (the "**Transition Award**") of the Company's Common Stock determined by dividing \$350,000 by the closing price per share of the Company's Common Stock reported by Nasdaq Capital Market on the trading day immediately prior to the Effective Date or, if no closing price is so reported for that date, the closing price on the next preceding date for which a closing price was reported (the "**Closing Price**"), which shall be issued as shares of Restricted Stock in accordance with 2003 Equity Incentive Plan and the 1997 Stock Incentive Plan, respectively (together, the "**Plan**") and pursuant to the terms and conditions of the form of Restricted Stock Award Agreement attached hereto as Exhibit A (the "**Award Agreement**"), which shall provide that the Transition Award will vest in full on the Termination Date.

(b) In consideration of the Exchange Compensation and this Agreement, Executive hereby agrees that the Prior Agreement is superseded in its entirety by this Agreement, and all obligations of Heska under the Prior Agreement, including but not limited to the CEO Transition Benefits, are hereby deemed satisfied in their entirety, and Executive shall no longer have any rights to, or interest in, the CEO Transition Benefits.

4. **Cash Compensation; Equity.**

(a) **Base Salary.** During the Term of Agreement, Heska will pay Executive a monthly salary as compensation for his services (the "**Base Salary**") as follows:

(i) Effective Date through April 30, 2014: \$39,655

(ii) May 1, 2014 through April 30, 2015: \$27,750

(iii) May 1, 2015 through April 30, 2016: \$24,500

(iv) May 1, 2016 through the Termination Date: \$21,000

The Base Salary will be paid periodically in accordance with Heska's normal payroll practices and be subject to the usual, required withholding. Executive's salary will be subject to review, and adjustments may be made by the Compensation Committee of the Board (the "**Committee**") in its discretion; provided, that the Base Salary shall not be reduced without Executive's written consent.

**(b) Bonus Plan Provisions.** From the Effective Date through December 31, 2014, Executive will be eligible to participate in the Management Incentive Plan (the "**Bonus Plan**"), or such other bonus programs as established by the Committee, at a target percentage that is no less than the following percentages of Executive's annual base salary then in effect (the "**2014 Bonus**"):

(i) January 1, 2014 through April 30, 2014: 50%

(ii) May 1, 2014 through December 31, 2014: 35%

The actual bonus paid may be higher or lower than the target 2014 Bonus for over or under-achievement of Executive's performance goals, as determined by the Committee. The 2014 Bonus, if any, will accrue and become payable in accordance with the Committee's standard practices for paying executive incentive compensation, provided however that any bonus payable under this Section 4(b) will be payable within two-and-one-half months after the end of the taxable year to which it relates or such longer period as may be permitted by Treasury regulations in order to avoid application of Section 409A of the Code to such bonuses. Executive shall not be eligible to participate in the Bonus Plan after December 31, 2014 and in lieu thereof, upon execution and delivery of this Agreement, Heska shall:

(i) in lieu of eligibility for a bonus under the Bonus Plan in 2015, grant to Executive that number of shares of the Company's Common Stock determined by dividing \$50,000 by the Closing Price (the "**First In-Lieu Award**"), which shall be issued as shares of Restricted Stock in accordance with the Plan and pursuant to the terms and conditions of the Award Agreement, which shall provide that the First In-Lieu Award will vest in full on the Termination Date; and

(ii) in lieu of eligibility for a bonus under the Bonus Plan in 2016 and 2017, grant to Executive that number of shares of the Company's Common Stock determined by dividing \$25,000 by the Closing Price (the "**Second In-Lieu Award**"), which shall be issued as shares of Restricted Stock in accordance with the Plan and pursuant to the terms and conditions of the Award Agreement, which shall provide that the Second In-Lieu Award will vest in full on the Termination Date.

**(c) Eligibility for Equity Grants.** During the Term of Agreement, Executive will not be eligible to receive periodic equity grants normally made to executives of the Company in the discretion of the Committee from time to time ("**Periodic Equity Grants**");

provided, that the Committee will have the authority, but not an obligation, to consider equity grants to Executive in special circumstances. In lieu of eligibility for Periodic Equity Grants, upon execution and delivery of this Agreement, Heska shall grant to Executive 15,000 shares of the Company's Common Stock (the "**Third In-Lieu Award**"), which shall be issued as shares of Restricted Stock in accordance with the Plan and pursuant to the terms and conditions of the Award Agreement, which shall provide that the Third In-Lieu Award will vest in full on the Termination Date.

5. **Expenses.** In addition to the foregoing, Heska will reimburse Executive for his reasonable out-of-pocket travel, entertainment, and other expenses, in accordance with Heska's expense reimbursement policies as in effect from time to time.

6. **Employee Benefits.** During the Term of Agreement, Executive will be eligible to participate in accordance with the terms of all Heska health and other employee benefit plans, policies, and arrangements that are applicable to other senior executives of Heska, as such plans, policies, and arrangements may exist from time to time. Upon termination of this Agreement, the Company will transfer to Executive any life insurance or disability insurance policies on Executive then maintained by the Company, subject to the consent of the issuers of such policies; and provided, that all costs of such transfers and post-termination premiums shall be paid by Executive.

7. **Severance.**

(a) **Termination without Cause or for Good Reason.** If Executive's employment is terminated by Heska (or by Heska's successor following a Change of Control) without Cause, or by Executive for Good Reason, or is terminated due to the death or Disability (as defined in Section 9(e) below) of Executive, Executive will receive, subject to Section 8 and required withholding:

(i) Accelerated payment of the Termination Payment within ten (10) days after his separation date (the "**Separation Date**");

(ii) Continued monthly payments of amounts equal to installments of Base Salary otherwise payable if such termination had not occurred, for a period ending on the earlier of (A) April 30, 2017, or (B) 24 months after the Separation Date.

(iii) Company-paid coverage for Executive and Executive's eligible dependents under Heska's Benefit Plans (as defined below) for the balance of the Term of Agreement, or if earlier, until Executive becomes employed by another employer who provides comparable benefits;

(iv) If the Separation Date occurs before December 31, 2014, a bonus, if any, that would have been received under the terms of Section 4(b) above, but pro-rated for the period beginning on January 1, 2014 and ending on the Separation Date, to be paid to Executive in the next fiscal year on the earlier of (A) March 15 or (B) such earlier date on which payments are made to other participants in the Bonus Plan; and

(v) Accelerated vesting of equity awards held by Executive on the Separation Date only as follows:

- (A) The Transition Award shall vest in full on the Separation Date.
- (B) If the Separation Date occurs after April 30, 2015, the First In-Lieu Award shall vest in full on the Separation Date.
- (C) If the Separation Date occurs after April 30, 2016, the Second In-Lieu Award shall vest in full on the Separation Date.
- (D) The Third In-Lieu Award shall vest as follows:
- (1) 5,000 shares shall vest on the Separation Date;
  - (2) 5,000 additional shares shall vest if the Separation Date occurs after April 30, 2015;
  - (3) 5,000 additional shares shall vest if the Separation Date occurs after April 30, 2016.

(b) **Voluntary Termination without Good Reason; Termination for Cause.** If Executive's employment with Heska terminates voluntarily by Executive without Good Reason or is terminated for Cause by Heska, then (i) all further vesting of Executive's outstanding equity awards will terminate immediately, (ii) all payments of compensation by Heska to Executive hereunder will terminate immediately (except as to amounts already earned), and (iii) Executive will not be entitled to any severance but Executive will be paid all expense reimbursements and other benefits due to Executive through his last date of employment with the Company under any Company-provided or paid plans, policies, and arrangements.

(c) **409A Limitations.** If Executive is a "specified employee" within the meaning of Section 1.409A-1(i) of the Treasury regulations as of the date of termination, then payments to Executive under this Section 7 shall not be made before the date that is six months after the date of termination (or if earlier, the date of death of Executive); provided, however, that during such six-month period, Heska shall make any and all payments contemplated hereunder to the extent such payments do not exceed two times the lesser of (i) Executive's annualized compensation, based upon the annual rate of compensation for the calendar year preceding the year in which the date of termination occurs, or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the year in which the date of termination occurs; and provided further that any amounts deferred hereunder shall be paid in a lump-sum amount at the expiration of such six-month period. It is the parties' intent that no payment made or to be made hereunder shall be subject to the provisions of Section 409A(a)(1)(B) of the Internal Revenue Code of 1986, as amended (the "**Code**"). Accordingly, notwithstanding any payment date or schedule specified above, the parties agree to work expeditiously to amend this Agreement to conform to their intent as set forth in this Section 7(c).

(d) **Excise Tax.** In the event that any payments or benefits payable to Executive pursuant to this Agreement ("**Termination Benefits**") (i) constitute "parachute payments" within the meaning of Section 280G of the Code, or any comparable successor provisions, and (ii) but for this Section 7(d) would be subject to the excise tax imposed by

Section 4999 of the Code, or any comparable successor provisions (the "**Excise Tax**"), then Executive's Termination Benefits hereunder shall be either (a) provided to Executive in full, or (b) provided to Executive as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the foregoing amounts, when taking into account applicable federal, state, local and foreign income and employment taxes, the Excise Tax, and any other applicable taxes, results in the receipt by Executive, on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under the Excise Tax. Unless the Company and Executive otherwise agree in writing, any determination required under this Section 7(d) shall be made in writing in good faith by the Company's independent accountants. In the event of a reduction of benefits hereunder, Executive shall be given the choice of which benefits to reduce. If Executive does not provide written identification to the Company of which benefits he chooses to reduce within ten (10) days after written notice of the accountants' determination, and Executive has not disputed the accountants' determination, then the Company shall select the benefits to be reduced. For purposes of making the calculations required by this Section 7(d), the accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of the Code, and other applicable legal authority. The Company and Executive shall furnish to the accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section 7(d). The Company shall bear all costs the accountants may reasonably incur in connection with any calculations contemplated by this Section 7(d).

**8. Conditions to Receipt of Severance; Covenants; No Duty to Mitigate.**

(a) **Separation Agreement and Release of Claims.** The receipt of any payments or benefits pursuant to Section 7 will be subject to Executive signing and not revoking a separation agreement and release of claims in the form attached hereto as Exhibit B. No such payments or benefits will be paid or provided until the separation agreement and release agreement becomes effective which shall be prepared and presented to Executive before Executive's last date of employment with the Company. If Executive's date of termination and the last day of any applicable statutory revocation period could fall in two separate taxable years, regardless of when Executive actually executes and delivers the release, payments will not commence until the later taxable year.

(b) **Non-Competition.** Executive agrees not to engage in Competition (as defined below), during the Term of Agreement and for 12 months following Executive's last date of employment with the Company, anywhere in the United States of America. If Executive engages in Competition within such period in such geographic scope, all continuing payments and benefits to which Executive otherwise may be entitled pursuant to Section 7 will cease immediately. In addition to the remedy specified in the preceding sentence, the Company will have against Executive in the event of his breach of this Section 8(b) any and all remedies available to it in law or in equity, including without limitation the right to seek recovery of any amounts paid under Section 7 of this Agreement.

(c) **Nonsolicitation.** Executive agrees that, during the Term of Agreement and for 24 months following Executive's last date of employment with the Company, Executive, directly or indirectly, whether as employee, owner, sole proprietor, partner, director, member, consultant, agent, founder, co-venturer or otherwise, will not (i) solicit, induce, or influence any

person to modify his or her employment or consulting relationship with the Company (the "**No-Inducement**"), or (ii) anywhere in the United States of America, intentionally divert business away from the Company by soliciting business from any of the Company's substantial customers and users who would otherwise have placed the solicited order with the Company (the "**No Solicit**"). If Executive breaches the No-Inducement or No Solicit, all continuing payments and benefits to which Executive otherwise may be entitled pursuant to Section 7 will cease immediately. In addition to the remedy specified in the preceding sentence, the Company will have against Executive in the event of his breach of this Section 8(c) any and all remedies available to it in law or in equity, including without limitation the right to seek recovery of any amounts paid under Section 7 of this Agreement.

(d) **No Duty to Mitigate.** Executive is under no duty or requirement to mitigate the amount of any payment contemplated by this Agreement, nor will any earnings that Executive may receive from any other source reduce any such payment, except as expressly set forth in Section 7(a) (iii).

## 9. **Definitions.**

(a) **Benefit Plans.** For purposes of this Agreement, "**Benefit Plans**" means plans, policies, or arrangements that Heska sponsors (or participates in) and that immediately prior to Executive's termination of employment provide Executive and Executive's eligible dependents with medical, dental, or vision benefits. Benefit Plans do not include any other type of benefit (including, but not by way of limitation, financial counseling, or retirement benefits). A requirement that Heska provide Executive and Executive's eligible dependents with coverage under the Benefit Plans will not be satisfied unless the coverage is no less favorable than that provided to Executive and Executive's eligible dependents immediately prior to Executive's termination of employment. Subject to the immediately preceding sentence, Heska, or its successor, may, at its option, satisfy any requirement that Heska provide coverage under any Benefit Plan by instead providing coverage under a separate plan or plans providing coverage that is no less favorable or by paying Executive a lump-sum payment which is, on an after-tax basis, sufficient to provide Executive and Executive's eligible dependents with equivalent coverage under a third party plan that is reasonably available to Executive and Executive's eligible dependents.

(b) **Cause.** For purposes of this Agreement, "**Cause**" shall mean the occurrence of one or more of the following: (i) conviction of, or entry of a plea of *nolo contendere* to, any crime (including one involving moral turpitude but excluding traffic violations), or a commission of any crime, whether a felony or misdemeanor, which reflects so negatively on Heska to be detrimental to Heska's image or interests, or any act of fraud or dishonesty that has such negative reflection upon Heska; (ii) the repeated commitment of insubordination or refusal to comply with any reasonable request of the Board related to the scope or performance of Executive's duties; (iii) possession of any illegal drug on Heska premises or being under the influence of illegal drugs or abusing prescription drugs or alcohol while on Heska business, attending Heska-sponsored functions or on Heska premises; (iv) the gross misconduct or gross negligence in the performance of Executive's responsibilities which, based upon good faith and reasonable factual investigation of the Board, demonstrates Executive's unfitness to serve; (v) material breach or violation of Executive's obligations under this Agreement; or (vi) material breach of any fiduciary duty of Executive to Heska which results

in material damage to Heska or its business; provided that if any of the foregoing events is capable of being cured, Heska will provide notice to Executive describing the nature of such event and Executive will thereafter have 30 days to cure such event. On the last day of such 30-day period, Heska will provide notice to Executive either: (i) that Heska considers the event cured or (ii) that Heska does not consider the event cured and the Agreement is terminated.

(c) **Change of Control.** For purposes of this Agreement, "**Change of Control**" means (i) a sale of all or substantially all of Heska's assets, (ii) any merger, consolidation or other business combination transaction of Heska with or into another corporation, entity or person, other than a transaction in which the holders of at least a majority of the shares of voting capital stock of Heska outstanding immediately prior to such transaction continue to hold (either by such shares remaining outstanding or by their being converted into shares of voting capital stock of the surviving entity) a majority of the total voting power represented by the shares of voting capital stock of Heska (or the surviving entity) outstanding immediately after such transaction, (iii) the direct or indirect acquisition (including by way of a tender or exchange offer) by any person, or persons acting as a group, of beneficial ownership or a right to acquire beneficial ownership of shares representing a majority of the voting power of the then outstanding shares of capital stock of Heska, (iv) a contested election of Directors, as a result of which or in connection with which the persons who were Directors before such election or their nominees cease to constitute a majority of the Board, or (v) a dissolution or liquidation of Heska.

(d) **Competition.** For purposes of this Agreement, Executive will be deemed to have engaged in "**Competition**" if he, without the consent of the Board or an authorized officer of any successor company to Heska, directly or indirectly provides services relating to the companion animal health industry (whether as an employee, consultant, agent, corporate officer, director, or otherwise) to, or participates in the financing, operation, management, or control of a "**Restricted Company**," which for purposes of this Agreement shall mean IDEXX Laboratories, Inc., Abaxis, Inc., VCA/Antech, scil animal health company, and the Synbiotics subsidiary of Zoetis (excluding any other operations of Zoetis), or any successor thereto. Notwithstanding the foregoing, nothing contained in this Section 9(d) or in Section 8(b) above shall prohibit Executive, following the Term of Agreement, from being employed or engaged in a corporate function or senior management position (and holding commensurate equity interests) with a Restricted Company that is engaged in multiple lines of business, one of which includes the companion animal health industry, so long as Executive does not provide to such line(s) of business services of a sort that differ significantly from the services he provides to the other divisions, units or affiliates for which he has responsibility within the overall organization of the Restricted Company.

(e) **Disability.** For purposes of this Agreement, Disability shall mean that Executive is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident or health plan covering Heska's senior executive officers.

(f) **Good Reason.** For purposes of this Agreement, "**Good Reason**" means the occurrence of any of the following without Executive's express written consent:

(i) a material change in the geographic location of Executive's principal place of employment such that the new location results in a commute for Executive that is both (A) longer than his commute prior to the relocation and (B) greater than fifty (50) road miles each way from his home in the Severance, Colorado area;

(ii) any material breach by Heska (or by Heska's successor following a Change of Control) of any provision of this Agreement; and

(iii) any successor to Heska following a Change a Change of Control fails or refuses to assume or be bound by the terms and conditions of this Agreement;

provided, however, that prior to any such event constituting Good Reason, Executive shall give Heska written notice of the existence of the condition which Executive believes constitutes Good Reason (which notice must be given within ninety (90) days of the initial existence of the condition) and such condition shall remain uncured for a period of thirty (30) days after the date of such notice. An event of Good Reason shall occur automatically at the expiration of such 30-day period if the relevant condition remains uncured at such time.

**10. Indemnification and Insurance.** Executive will be covered under Heska's insurance policies and, subject to applicable law, will be provided indemnification to the maximum extent permitted by Heska's bylaws and Certificate of Incorporation. The Company will provide Executive with Director and Officer error and omissions insurance and ERISA fiduciary insurance in accordance with Heska's insurance practices for executive officers during the Term of Agreement, and shall also purchase and maintain "tail coverage" for at least two years post termination for any actions taken by Executive in good faith during the Term of Agreement.

**11. Confidential Information.** Executive acknowledges that he has executed Heska's standard employee Confidential Information and Invention Agreement (the "**Confidentiality Agreement**").

**12. Notices.** All notices, requests, demands, and other communications called for hereunder will be in writing and will be deemed given (a) on the date of delivery if delivered personally, (b) one day after being delivered to a nationally recognized overnight courier service or (c) five (5) business days after the date of mailing if sent certified or registered mail. Notice to Heska shall be sent to its principal place of business with a copy provided by facsimile to the Chair of the Committee, and notice to Executive will be delivered personally or sent to Executive's last known address provided to Heska.

**13. Successors and Assigns.** This Agreement will be binding upon and inure to the benefit of (a) the heirs, executors, and legal representatives of Executive upon Executive's death and (b) any successor of Heska. Any such successor of Heska will be deemed substituted for Heska under the terms of this Agreement for all purposes. For this purpose, "successor" means any person, firm, corporation, or other business entity which at any time, whether by purchase, merger, or otherwise, directly or indirectly acquires all or substantially all of the assets or business of Heska. None of the rights of Executive to receive any form of compensation payable pursuant to this Agreement may be assigned or transferred except by will or the laws of descent

and distribution. Any other attempted assignment, transfer, conveyance, or other disposition of Executive's right to compensation or other benefits will be null and void.

**14. Integration.** This Agreement, together with that certain Consulting Agreement entered between Heska and Executive contemporaneously with this Agreement, the Confidentiality Agreement, Heska's stock plans, and Executive's stock option and restricted stock agreements, represents the entire agreement and understanding between the parties as to the subject matter herein and supersedes all prior or contemporaneous agreements whether written or oral, including the Prior Agreement. No waiver, alteration, or modification of any of the provisions of this Agreement will be binding unless in a writing that specifically references this Section and is signed by duly authorized representatives of the parties hereto.

**15. Interpretation.** Section titles and headings contained herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

**16. Expenses.** The Company will reimburse Executive, up to \$7,500, for reasonable legal and tax advice expenses incurred by him in connection with the negotiation and execution of this Agreement.

**17. Waivers.** Any term or provision of this Agreement may be waived, or the time for its performance may be extended, by the party or parties entitled to the benefit thereof. Any such waiver shall be validly and sufficiently authorized for the purposes of this Agreement if, as to any party, it is authorized in writing by an authorized representative of such party. The failure of any party hereto to enforce at any time any provision of this Agreement shall not be construed to be a waiver of such provision, nor in any way to affect the validity of this Agreement or any part hereof or the right of any party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to constitute a waiver of any other or subsequent breach.

**18. Partial Invalidity.** Wherever possible, each provision hereof shall be interpreted in such manner as to be effective and valid under applicable law, but in case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such provision shall be ineffective to the extent, but only to the extent, of such invalidity, illegality or unenforceability without invalidating the remainder of such invalid, illegal or unenforceable provision or provisions or any other provisions hereof, unless such a construction would be unreasonable. The parties agree that an arbitrator or court of competent jurisdiction shall reform any invalid, illegal, or unenforceable provisions to ensure such provisions are effective and valid under applicable law.

**19. Tax Matters.**

(a) Except as provided in paragraph 7(d) above, Executive agrees that he is responsible for any applicable taxes of any nature (including any penalties or interest that may apply to such taxes) that are reasonably determined to apply to any payment made to Executive hereunder (or any arrangement contemplated hereunder), that Executive's receipt of any benefit hereunder is conditioned on his satisfaction of any applicable withholding or similar obligations that apply to such benefit, and that any cash payment owed to Executive hereunder will be

reduced to satisfy any such withholding or similar obligations that may apply thereto. Executive and Heska agree to cooperate to make such amendments to the terms of this Agreement as may be necessary to avoid the imposition of penalties and additional taxes under Section 409A of the Code; provided, however, that no such amendment shall materially increase the cost to, or impose any liability on, Heska with respect to any benefits contemplated or provided hereunder. To the extent that any right to reimbursement of expenses or payment of any benefit in-kind under this Agreement constitutes nonqualified deferred compensation (within the meaning of Section 409A of the Code), (i) any such expense reimbursement shall be made by Heska no later than the last day of the taxable year following the taxable year in which such expense was incurred by Executive, (ii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (iii) the amount of expenses eligible for reimbursement or in-kind benefits provided during any taxable year shall not affect the expenses eligible for reimbursement or in-kind benefits to be provided in any other taxable year; provided that the foregoing clause shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Code solely because such expenses are subject to a limit related to the period the arrangement is in effect.

(b) Executive acknowledges that under Section 83 of the Code, as the shares of Restricted Stock granted under this Agreement (the "**Shares**") vest, the fair value of such Shares will be reportable as ordinary income at that time. Executive further understands that instead of being taxed when and as the Shares vest, Executive may elect to be taxed as of the date the Shares are granted to Executive, with respect to the fair value of all Shares on such date. Such election may only be made under Section 83(b) of the Code within thirty (30) days after such date of grant. Executive acknowledges that failure to make this filing within the thirty (30) day period will result in the recognition of ordinary income as the Shares vest. EXECUTIVE ACKNOWLEDGES THAT IT IS EXECUTIVE'S SOLE RESPONSIBILITY, AND NOT THE COMPANY'S, TO FILE A TIMELY ELECTION UNDER SECTION 83(b), EVEN IF EXECUTIVE REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON EXECUTIVE'S BEHALF. EXECUTIVE IS RELYING SOLELY ON HIS OWN ADVISORS WITH RESPECT TO THE DECISION AS TO WHETHER OR NOT TO FILE AN 83(b) ELECTION.

(c) Executive acknowledges that no representative or agent of Heska has provided him with any tax advice of any nature, and Executive has consulted with his own legal, tax and financial advisor(s) as to tax and related matters concerning the compensation to be received under this Agreement.

**20. Governing Law; Waiver of Jury Trial.** THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF COLORADO WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES. THE PARTIES HERETO EACH WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY AND ALL SUCH CLAIMS AND CAUSES OF ACTION.

**21. Injunctive Relief; Arbitration; Attorneys' Fees.**

(a) The parties acknowledge and agree that a breach of Sections 8, 9, or 11 of this Agreement by Executive would result in immediate and irreparable harm to the Company. Therefore, in the event of Executive's breach of Sections 8, 9, or 11, the Company shall have any

and all remedies available to it in law or in equity, including without limitation the right to seek recovery of any amounts paid under this Agreement and injunctive relief, specific performance, or any other equitable relief to prevent a breach and to secure the enforcement of this Section. Injunctive relief may be granted immediately upon the commencement of any such action.

(b) Subject to the provisions in Section 21(a) above, 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, either party may elect to have the dispute resolved through arbitration. The arbitration shall be binding and conducted pursuant to the rules of the American Arbitration Association under its National Rules for the Resolution of Employment Disputes and the arbitrator shall allocate the fees and expenses of such arbitration. 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 and conditions of this Agreement, 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 of this Agreement. 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.

22. **Survival.** Notwithstanding any other provisions in this Agreement to the contrary, Sections 3, 7-15, and 17-23 shall survive the expiration or termination of this Agreement.

23. **Counterparts.** This Agreement may be executed in counterparts, and each counterpart will have the same force and effect as an original and will constitute an effective, binding agreement on the part of each of the undersigned.

*[Signature Page Follows]*

**IN WITNESS WHEREOF**, Heska has caused this Employment Agreement to be duly executed by a representative thereunto duly authorized, and Executive has hereunto set his hand, all as of the Effective Date.

**HESKA CORPORATION**

/s/ William A. Aylesworth  
William A. Aylesworth, Lead Director,  
Acting with Authority of the Board in its Entirety

Dated: March 26, 2014

**EXECUTIVE:**

/s/ Robert B. Grieve  
Robert B. Grieve, Ph.D.

Dated: March 26, 2014

**EXHIBIT A**

**Form of Restricted Stock Award Agreement**

**HESKA CORPORATION**  
**2003 EQUITY INCENTIVE PLAN**  
**RESTRICTED STOCK GRANT AGREEMENT**

THIS AGREEMENT is made as of the \_\_\_\_\_ day of \_\_\_\_\_, 2014 by and between Heska Corporation (the "Company"), and Robert B. Grieve (the "Executive"), in connection with the execution of an Employment Agreement dated on or about the same date between the Company and Executive (the "Employment Agreement").

In consideration of the mutual covenants and representations herein set forth, the Company and Executive agree as follows:

**SECTION 1. GRANT OF STOCK.**

1.1 Precedence of Plan. This Agreement is subject to and shall be construed in accordance with the terms and conditions of the Heska Corporation 2003 Equity Incentive Plan (the "Plan"), as now or hereinafter in effect. Any capitalized terms that are used in this Agreement without being defined and that are defined in the Plan shall have the meaning specified in the Plan.

1.2 Grant of Stock. The Company hereby grants to Executive an aggregate of \_\_\_\_\_ shares of Restricted Stock (the "Shares"), subject to vesting as provided in Section 2.

**SECTION 2. UNVESTED SHARES SUBJECT TO FORFEITURE.**

2.1 Shares Subject to Forfeiture. In the event that Executive's employment with the Company is terminated before April 30, 2017, Executive will forfeit all right to the Shares. Notwithstanding the previous sentence, if Executive's employment is terminated before that date for a Triggering Event (as defined below), all of the Shares will become immediately vested and nonforfeitable.

2.2 Restriction on Transfer. Until the Shares are vested, the Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated.

2.3 Triggering Event. For purposes of this Agreement, "Triggering Event" means any of the following circumstances, where the capitalized terms have the meanings given in the Employment Agreement:

- a. Termination of employment by the Company (or by the Company's successor following a Change of Control) without Cause,
- b. Termination of employment by the Executive for Good Reason,
- c. Termination of employment due to Executive's death or Disability,

### **SECTION 3. STOCKHOLDER RIGHTS**

3.1 Stock Register and Certificates. The Shares will be recorded in the stock register of the Company in the name of Executive. If applicable, a stock certificate or certificates representing the Shares will be registered in the name of Executive, but such certificates shall remain in the custody of the Company. Executive shall deposit with the Company a Stock Assignment Separate from Certificate in the form attached below as Attachment 1, endorsed in blank, so as to permit retransfer to the Company of all or a portion of the Shares that are forfeited or otherwise do not become vested in accordance with the Plan and this Agreement.

3.2 Exercise of Stockholder Rights. Executive shall have the right to vote the Shares (to the extent of the voting rights of said Shares, if any), to receive and retain all regular cash dividends and such other distributions, as the Board of Directors of the Company may, in its discretion, designate, pay or distribute on such Shares, and to exercise all other rights, powers and privileges of a holder of Common Stock with respect to such Shares, except as set forth in this Agreement and the Plan.

3.3 Legends. Certificates, if any, representing the Shares will contain the following or other legends in the Company's discretion:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON AND OBLIGATIONS WITH RESPECT TO TRANSFER AND RIGHTS OF REPURCHASE AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL REGISTERED HOLDER, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

### **SECTION 4. RESPONSIBILITY FOR TAXES.**

4.1 Section 83(b) Election. Executive may complete and file with the Internal Revenue Service an election pursuant to Section 83(b) of the Internal Revenue Code to be taxed currently on the fair market value of the Shares without regard to the vesting restrictions set forth in this Agreement. Executive shall be responsible for all taxes associated with the acceptance of the transfer of the Shares, including any tax liability associated with the representation of fair market value if the election is made pursuant to Code Section 83(b).

4.2 Withholding. In accordance with Section 11 of the Plan, Executive agrees to remit to the Company an amount sufficient to satisfy federal, state and local taxes (including the Executive's FICA obligation) required to be withheld with respect to the vesting of the Shares, or otherwise to satisfy such obligation as permitted under the Plan. The Company has the right to deduct from any salary or other payments to be made to Executive any federal, state or local taxes required by law to be so withheld.

### **SECTION 5. MISCELLANEOUS.**

5.1 Not an Employment Contract. This Agreement is not an employment contract and nothing in this Agreement shall be deemed to create in any way whatsoever any obligation

on the part of Executive to remain in the service of the Company in any capacity, or of the Company to continue Executive's service in any capacity.

5.2 Effect on Employee Benefits. Executive agrees that the Award will constitute special incentive compensation that will not be taken into account as "salary" or "compensation" or "bonus" in determining the amount of any payment under any pension, retirement, profit sharing or other remuneration plan of the Company unless so provided in such plan.

5.3 Further Assurances. The parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

5.4 Entire Agreement. This Agreement, including any exhibits, is the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior oral and written understandings of the parties.

5.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware as applied to contracts between Delaware residents to be wholly performed within the State of Colorado.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**HESKA CORPORATION**  
**EXECUTIVE**

a Delaware corporation

\_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**ASSIGNMENT SEPARATE FROM CERTIFICATE**

FOR VALUE RECEIVED, I, \_\_\_\_\_, hereby sell, assign and transfer unto \_\_\_\_\_ (\_\_\_\_\_) shares of the Common Stock of Heska Corporation, standing in my name on the books of said corporation represented by Certificate No. \_\_\_\_\_ herewith and do hereby irrevocably constitute and appoint \_\_\_\_\_ to transfer said stock on the books of the within-named corporation with full power of substitution in the premises.

Dated: \_\_\_\_\_, 20\_\_.

Signature:

This Assignment Separate from Certificate was executed in conjunction with the terms of a Restricted Stock Grant Agreement between the above assignor and Heska Corporation, dated \_\_\_\_\_, 2014.

**Instruction:**            **Please do not fill in any blanks other than the signature line.**

**HESKA CORPORATION**  
**1997 STOCK INCENTIVE PLAN**  
**RESTRICTED STOCK GRANT AGREEMENT**

THIS AGREEMENT is made as of the \_\_\_\_\_ day of \_\_\_\_\_, 2014 by and between Heska Corporation (the "Company"), and Robert B. Grieve (the "Executive"), in connection with the execution of an Employment Agreement dated on or about the same date between the Company and Executive (the "Employment Agreement").

In consideration of the mutual covenants and representations herein set forth, the Company and Executive agree as follows:

**SECTION 1.        GRANT OF STOCK.**

1.1        Precedence of Plan. This Agreement is subject to and shall be construed in accordance with the terms and conditions of the Heska Corporation 1997 Stock Incentive Plan (the "Plan"), as now or hereinafter in effect. Any capitalized terms that are used in this Agreement without being defined and that are defined in the Plan shall have the meaning specified in the Plan.

1.2        Grant of Stock. The Company hereby grants to Executive an aggregate of \_\_\_\_\_ shares of Restricted Stock (the "Shares"), subject to vesting as provided in Section 2.

**SECTION 2.        UNVESTED SHARES SUBJECT TO FORFEITURE.**

2.1        Shares Subject to Forfeiture. In the event that Executive's employment with the Company is terminated before April 30, 2017, Executive will forfeit all right to the Shares. Notwithstanding the previous sentence, if Executive's employment is terminated before that date for a Triggering Event (as defined below), all of the Shares will become immediately vested and nonforfeitable.

2.2        Restriction on Transfer. Until the Shares are vested, the Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated.

2.3        Triggering Event. For purposes of this Agreement, "Triggering Event" means any of the following circumstances, where the capitalized terms have the meanings given in the Employment Agreement:

- a.        Termination of employment by the Company (or by the Company's successor following a Change of Control) without Cause,
- b.        Termination of employment by the Executive for Good Reason,
- c.        Termination of employment due to Executive's death or Disability,

**SECTION 3. STOCKHOLDER RIGHTS**

3.1 Stock Register and Certificates. The Shares will be recorded in the stock register of the Company in the name of Executive. If applicable, a stock certificate or certificates representing the Shares will be registered in the name of Executive, but such certificates shall remain in the custody of the Company. Executive shall deposit with the Company a Stock Assignment Separate from Certificate in the form attached below as Attachment 1, endorsed in blank, so as to permit retransfer to the Company of all or a portion of the Shares that are forfeited or otherwise do not become vested in accordance with the Plan and this Agreement.

3.2 Exercise of Stockholder Rights. Executive shall have the right to vote the Shares (to the extent of the voting rights of said Shares, if any), to receive and retain all regular cash dividends and such other distributions, as the Board of Directors of the Company may, in its discretion, designate, pay or distribute on such Shares, and to exercise all other rights, powers and privileges of a holder of Common Stock with respect to such Shares, except as set forth in this Agreement and the Plan.

3.3 Legends. Certificates, if any, representing the Shares will contain the following or other legends in the Company's discretion:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON AND OBLIGATIONS WITH RESPECT TO TRANSFER AND RIGHTS OF REPURCHASE AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL REGISTERED HOLDER, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

**SECTION 4. RESPONSIBILITY FOR TAXES.**

4.1 Section 83(b) Election. Executive may complete and file with the Internal Revenue Service an election pursuant to Section 83(b) of the Internal Revenue Code to be taxed currently on the fair market value of the Shares without regard to the vesting restrictions set forth in this Agreement. Executive shall be responsible for all taxes associated with the acceptance of the transfer of the Shares, including any tax liability associated with the representation of fair market value if the election is made pursuant to Code Section 83(b).

4.2 Withholding. In accordance with Section 12 of the Plan, Executive agrees to make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan under applicable federal, state, local or foreign law. The Company in its discretion may permit Executive to satisfy all or part of his withholding or income tax obligations by having the Company withhold all or a portion of the Shares that otherwise would be issued to him on vesting.

**SECTION 5. MISCELLANEOUS.**

5.1 Not an Employment Contract. This Agreement is not an employment contract and nothing in this Agreement shall be deemed to create in any way whatsoever any obligation

on the part of Executive to remain in the service of the Company in any capacity, or of the Company to continue Executive's service in any capacity.

5.2 Effect on Employee Benefits. Executive agrees that the Award will constitute special incentive compensation that will not be taken into account as "salary" or "compensation" or "bonus" in determining the amount of any payment under any pension, retirement, profit sharing or other remuneration plan of the Company unless so provided in such plan.

5.3 Further Assurances. The parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

5.4 Entire Agreement. This Agreement, including any exhibits, is the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior oral and written understandings of the parties.

5.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware as applied to contracts between Delaware residents to be wholly performed within the State of Colorado.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**HESKA CORPORATION  
EXECUTIVE**

a Delaware corporation

\_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**ASSIGNMENT SEPARATE FROM CERTIFICATE**

FOR VALUE RECEIVED, I, \_\_\_\_\_, hereby sell, assign and transfer unto \_\_\_\_\_ (\_\_\_\_\_) shares of the Common Stock of Heska Corporation, standing in my name on the books of said corporation represented by Certificate No. \_\_\_\_\_ herewith and do hereby irrevocably constitute and appoint \_\_\_\_\_ to transfer said stock on the books of the within-named corporation with full power of substitution in the premises.

Dated: \_\_\_\_\_, 20\_\_.

Signature:

This Assignment Separate from Certificate was executed in conjunction with the terms of a Restricted Stock Grant Agreement between the above assignor and Heska Corporation, dated \_\_\_\_\_, 2014.

**Instruction:**        **Please do not fill in any blanks other than the signature line.**

**HESKA CORPORATION**  
**1997 STOCK INCENTIVE PLAN**  
**RESTRICTED STOCK GRANT AGREEMENT**

THIS AGREEMENT is made as of the \_\_\_\_\_ day of \_\_\_\_\_, 2014 by and between Heska Corporation (the "Company"), and Robert B. Grieve (the "Executive"), in connection with the execution of an Employment Agreement dated on or about the same date between the Company and Executive (the "Employment Agreement").

In consideration of the mutual covenants and representations herein set forth, the Company and Executive agree as follows:

**SECTION 1.        GRANT OF STOCK.**

1.1        Precedence of Plan. This Agreement is subject to and shall be construed in accordance with the terms and conditions of the Heska Corporation 1997 Stock Incentive Plan (the "Plan"), as now or hereinafter in effect. Any capitalized terms that are used in this Agreement without being defined and that are defined in the Plan shall have the meaning specified in the Plan.

1.2        Grant of Stock. The Company hereby grants to Executive an aggregate of \_\_\_\_\_ shares of Restricted Stock (the "Shares"), subject to vesting as provided in Section 2.

**SECTION 2.        UNVESTED SHARES SUBJECT TO FORFEITURE.**

2.1        Shares Subject to Forfeiture. In the event that Executive's employment with the Company is terminated before April 30, 2017, Executive will forfeit all right to the Shares. Notwithstanding the previous sentence, if Executive's employment is terminated before that date and after April 30, 2015 for a Triggering Event (as defined below), all of the Shares will become immediately vested and nonforfeitable.

2.2        Restriction on Transfer. Until the Shares are vested, the Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated.

2.3        Triggering Event. For purposes of this Agreement, "Triggering Event" means any of the following circumstances, where the capitalized terms have the meanings given in the Employment Agreement:

- a.        Termination of employment by the Company (or by the Company's successor following a Change of Control) without Cause,
- b.        Termination of employment by the Executive for Good Reason,
- c.        Termination of employment due to Executive's death or Disability,

**SECTION 3. STOCKHOLDER RIGHTS**

3.1 Stock Register and Certificates. The Shares will be recorded in the stock register of the Company in the name of Executive. If applicable, a stock certificate or certificates representing the Shares will be registered in the name of Executive, but such certificates shall remain in the custody of the Company. Executive shall deposit with the Company a Stock Assignment Separate from Certificate in the form attached below as Attachment 1, endorsed in blank, so as to permit retransfer to the Company of all or a portion of the Shares that are forfeited or otherwise do not become vested in accordance with the Plan and this Agreement.

3.2 Exercise of Stockholder Rights. Executive shall have the right to vote the Shares (to the extent of the voting rights of said Shares, if any), to receive and retain all regular cash dividends and such other distributions, as the Board of Directors of the Company may, in its discretion, designate, pay or distribute on such Shares, and to exercise all other rights, powers and privileges of a holder of Common Stock with respect to such Shares, except as set forth in this Agreement and the Plan.

3.3 Legends. Certificates, if any, representing the Shares will contain the following or other legends in the Company's discretion:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON AND OBLIGATIONS WITH RESPECT TO TRANSFER AND RIGHTS OF REPURCHASE AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL REGISTERED HOLDER, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

**SECTION 4. RESPONSIBILITY FOR TAXES.**

4.1 Section 83(b) Election. Executive may complete and file with the Internal Revenue Service an election pursuant to Section 83(b) of the Internal Revenue Code to be taxed currently on the fair market value of the Shares without regard to the vesting restrictions set forth in this Agreement. Executive shall be responsible for all taxes associated with the acceptance of the transfer of the Shares, including any tax liability associated with the representation of fair market value if the election is made pursuant to Code Section 83(b).

4.2 Withholding. In accordance with Section 12 of the Plan, Executive agrees to make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan under applicable federal, state, local or foreign law. The Company in its discretion may permit Executive to satisfy all or part of his withholding or income tax obligations by having the Company withhold all or a portion of the Shares that otherwise would be issued to him on vesting.

**SECTION 5. MISCELLANEOUS.**

5.1 Not an Employment Contract. This Agreement is not an employment contract and nothing in this Agreement shall be deemed to create in any way whatsoever any obligation

on the part of Executive to remain in the service of the Company in any capacity, or of the Company to continue Executive's service in any capacity.

5.2 Effect on Employee Benefits. Executive agrees that the Award will constitute special incentive compensation that will not be taken into account as "salary" or "compensation" or "bonus" in determining the amount of any payment under any pension, retirement, profit sharing or other remuneration plan of the Company unless so provided in such plan.

5.3 Further Assurances. The parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

5.4 Entire Agreement. This Agreement, including any exhibits, is the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior oral and written understandings of the parties.

5.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware as applied to contracts between Delaware residents to be wholly performed within the State of Colorado.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**HESKA CORPORATION  
EXECUTIVE**

a Delaware corporation

\_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**ASSIGNMENT SEPARATE FROM CERTIFICATE**

FOR VALUE RECEIVED, I, \_\_\_\_\_, hereby sell, assign and transfer unto \_\_\_\_\_ (\_\_\_\_\_) shares of the Common Stock of Heska Corporation, standing in my name on the books of said corporation represented by Certificate No. \_\_\_\_\_ herewith and do hereby irrevocably constitute and appoint \_\_\_\_\_ to transfer said stock on the books of the within-named corporation with full power of substitution in the premises.

Dated: \_\_\_\_\_, 20\_\_.

Signature:

This Assignment Separate from Certificate was executed in conjunction with the terms of a Restricted Stock Grant Agreement between the above assignor and Heska Corporation, dated \_\_\_\_\_, 2014.

**Instruction:**            **Please do not fill in any blanks other than the signature line.**

**HESKA CORPORATION**  
**1997 STOCK INCENTIVE PLAN**  
**RESTRICTED STOCK GRANT AGREEMENT**

THIS AGREEMENT is made as of the \_\_\_\_\_ day of \_\_\_\_\_, 2014 by and between Heska Corporation (the "Company"), and Robert B. Grieve (the "Executive"), in connection with the execution of an Employment Agreement dated on or about the same date between the Company and Executive (the "Employment Agreement").

In consideration of the mutual covenants and representations herein set forth, the Company and Executive agree as follows:

**SECTION 1. GRANT OF STOCK.**

1.1 Precedence of Plan. This Agreement is subject to and shall be construed in accordance with the terms and conditions of the Heska Corporation 1997 Stock Incentive Plan (the "Plan"), as now or hereinafter in effect. Any capitalized terms that are used in this Agreement without being defined and that are defined in the Plan shall have the meaning specified in the Plan.

1.2 Grant of Stock. The Company hereby grants to Executive an aggregate of \_\_\_\_\_ shares of Restricted Stock (the "Shares"), subject to vesting as provided in Section 2.

**SECTION 2. UNVESTED SHARES SUBJECT TO FORFEITURE.**

2.1 Shares Subject to Forfeiture. In the event that Executive's employment with the Company is terminated before April 30, 2017, Executive will forfeit all right to the Shares. Notwithstanding the previous sentence, if Executive's employment is terminated before that date and after April 30, 2016 for a Triggering Event (as defined below), all of the Shares will become immediately vested and nonforfeitable.

2.2 Restriction on Transfer. Until the Shares are vested, the Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated.

2.3 Triggering Event. For purposes of this Agreement, "Triggering Event" means any of the following circumstances, where the capitalized terms have the meanings given in the Employment Agreement:

- a. Termination of employment by the Company (or by the Company's successor following a Change of Control) without Cause,
- b. Termination of employment by the Executive for Good Reason,
- c. Termination of employment due to Executive's death or Disability,

### **SECTION 3. STOCKHOLDER RIGHTS**

3.1 Stock Register and Certificates. The Shares will be recorded in the stock register of the Company in the name of Executive. If applicable, a stock certificate or certificates representing the Shares will be registered in the name of Executive, but such certificates shall remain in the custody of the Company. Executive shall deposit with the Company a Stock Assignment Separate from Certificate in the form attached below as Attachment 1, endorsed in blank, so as to permit retransfer to the Company of all or a portion of the Shares that are forfeited or otherwise do not become vested in accordance with the Plan and this Agreement.

3.2 Exercise of Stockholder Rights. Executive shall have the right to vote the Shares (to the extent of the voting rights of said Shares, if any), to receive and retain all regular cash dividends and such other distributions, as the Board of Directors of the Company may, in its discretion, designate, pay or distribute on such Shares, and to exercise all other rights, powers and privileges of a holder of Common Stock with respect to such Shares, except as set forth in this Agreement and the Plan.

3.3 Legends. Certificates, if any, representing the Shares will contain the following or other legends in the Company's discretion:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON AND OBLIGATIONS WITH RESPECT TO TRANSFER AND RIGHTS OF REPURCHASE AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL REGISTERED HOLDER, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

### **SECTION 4. RESPONSIBILITY FOR TAXES.**

4.1 Section 83(b) Election. Executive may complete and file with the Internal Revenue Service an election pursuant to Section 83(b) of the Internal Revenue Code to be taxed currently on the fair market value of the Shares without regard to the vesting restrictions set forth in this Agreement. Executive shall be responsible for all taxes associated with the acceptance of the transfer of the Shares, including any tax liability associated with the representation of fair market value if the election is made pursuant to Code Section 83(b).

4.2 Withholding. In accordance with Section 12 of the Plan, Executive agrees to make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan under applicable federal, state, local or foreign law. The Company in its discretion may permit Executive to satisfy all or part of his withholding or income tax obligations by having the Company withhold all or a portion of the Shares that otherwise would be issued to him on vesting.

### **SECTION 5. MISCELLANEOUS.**

5.1 Not an Employment Contract. This Agreement is not an employment contract and nothing in this Agreement shall be deemed to create in any way whatsoever any obligation

on the part of Executive to remain in the service of the Company in any capacity, or of the Company to continue Executive's service in any capacity.

5.2 Effect on Employee Benefits. Executive agrees that the Award will constitute special incentive compensation that will not be taken into account as "salary" or "compensation" or "bonus" in determining the amount of any payment under any pension, retirement, profit sharing or other remuneration plan of the Company unless so provided in such plan.

5.3 Further Assurances. The parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

5.4 Entire Agreement. This Agreement, including any exhibits, is the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior oral and written understandings of the parties.

5.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware as applied to contracts between Delaware residents to be wholly performed within the State of Colorado.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**HESKA CORPORATION**  
**EXECUTIVE**

a Delaware corporation

\_\_\_\_\_

By: \_\_\_\_\_

Address \_\_\_\_\_

Title: \_\_\_\_\_

\_\_\_\_\_

**ASSIGNMENT SEPARATE FROM CERTIFICATE**

FOR VALUE RECEIVED, I, \_\_\_\_\_, hereby sell, assign and transfer unto \_\_\_\_\_  
(\_\_\_\_\_) shares of the Common Stock of Heska Corporation, standing in my name on the books of said corporation represented by Certificate No.  
\_\_\_\_\_ herewith and do hereby irrevocably constitute and appoint \_\_\_\_\_ to transfer said stock on the books of the within-named corporation with  
full power of substitution in the premises.

Dated: \_\_\_\_\_, 20\_\_.

Signature:

This Assignment Separate from Certificate was executed in conjunction with the terms of a Restricted Stock Grant Agreement between the above  
assignor and Heska Corporation, dated \_\_\_\_\_, 2014.

**Instruction:**            **Please do not fill in any blanks other than the signature line.**

**HESKA CORPORATION**  
**1997 STOCK INCENTIVE PLAN**  
**RESTRICTED STOCK GRANT AGREEMENT**

THIS AGREEMENT is made as of the \_\_\_\_\_ day of \_\_\_\_\_, 2014 by and between Heska Corporation (the "Company"), and Robert B. Grieve (the "Executive"), in connection with the execution of an Employment Agreement dated on or about the same date between the Company and Executive (the "Employment Agreement").

In consideration of the mutual covenants and representations herein set forth, the Company and Executive agree as follows:

**SECTION 1.        GRANT OF STOCK.**

1.1        Precedence of Plan. This Agreement is subject to and shall be construed in accordance with the terms and conditions of the Heska Corporation 1997 Stock Incentive Plan (the "Plan"), as now or hereinafter in effect. Any capitalized terms that are used in this Agreement without being defined and that are defined in the Plan shall have the meaning specified in the Plan.

1.2        Grant of Stock. The Company hereby grants to Executive an aggregate of 15,000 shares of Restricted Stock (the "Shares"), subject to vesting as provided in Section 2.

**SECTION 2.        UNVESTED SHARES SUBJECT TO FORFEITURE.**

2.1        Shares Subject to Forfeiture. In the event that Executive's employment with the Company is terminated before April 30, 2017, Executive will forfeit all right to the Shares. Notwithstanding the previous sentence, if Executive's employment is terminated before that date for a Triggering Event (as defined below), 5,000 of the Shares will become immediately vested and nonforfeitable. In addition:

- a.        If the Triggering Event occurs after April 30, 2015, an additional 5,000 Shares will become immediately vested and nonforfeitable; and
- b.        If the Triggering Event occurs after April 30, 2016, the remaining 5,000 Shares will become immediately vested and nonforfeitable.

2.2        Restriction on Transfer. Until the Shares are vested, the Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated.

2.3        Triggering Event. For purposes of this Agreement, "Triggering Event" means any of the following circumstances, where the capitalized terms have the meanings given in the Employment Agreement:

- a.        Termination of employment by the Company (or by the Company's successor following a Change of Control) without Cause,
- b.        Termination of employment by the Executive for Good Reason,

- c. Termination of employment due to Executive's death or Disability,

### **SECTION 3. STOCKHOLDER RIGHTS**

3.1 Stock Register and Certificates. The Shares will be recorded in the stock register of the Company in the name of Executive. If applicable, a stock certificate or certificates representing the Shares will be registered in the name of Executive, but such certificates shall remain in the custody of the Company. Executive shall deposit with the Company a Stock Assignment Separate from Certificate in the form attached below as Attachment 1, endorsed in blank, so as to permit retransfer to the Company of all or a portion of the Shares that are forfeited or otherwise do not become vested in accordance with the Plan and this Agreement.

3.2 Exercise of Stockholder Rights. Executive shall have the right to vote the Shares (to the extent of the voting rights of said Shares, if any), to receive and retain all regular cash dividends and such other distributions, as the Board of Directors of the Company may, in its discretion, designate, pay or distribute on such Shares, and to exercise all other rights, powers and privileges of a holder of Common Stock with respect to such Shares, except as set forth in this Agreement and the Plan.

3.3 Legends. Certificates, if any, representing the Shares will contain the following or other legends in the Company's discretion:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON AND OBLIGATIONS WITH RESPECT TO TRANSFER AND RIGHTS OF REPURCHASE AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL REGISTERED HOLDER, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

### **SECTION 4. RESPONSIBILITY FOR TAXES.**

4.1 Section 83(b) Election. Executive may complete and file with the Internal Revenue Service an election pursuant to Section 83(b) of the Internal Revenue Code to be taxed currently on the fair market value of the Shares without regard to the vesting restrictions set forth in this Agreement. Executive shall be responsible for all taxes associated with the acceptance of the transfer of the Shares, including any tax liability associated with the representation of fair market value if the election is made pursuant to Code Section 83(b).

4.2 Withholding. In accordance with Section 12 of the Plan, Executive agrees to make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan under applicable federal, state, local or foreign law. The Company in its discretion may permit Executive to satisfy all or part of his withholding or income tax obligations by having the Company withhold all or a portion of the Shares that otherwise would be issued to him on vesting.

**SECTION 5. MISCELLANEOUS.**

5.1 Not an Employment Contract. This Agreement is not an employment contract and nothing in this Agreement shall be deemed to create in any way whatsoever any obligation on the part of Executive to remain in the service of the Company in any capacity, or of the Company to continue Executive's service in any capacity.

5.2 Effect on Employee Benefits. Executive agrees that the Award will constitute special incentive compensation that will not be taken into account as "salary" or "compensation" or "bonus" in determining the amount of any payment under any pension, retirement, profit sharing or other remuneration plan of the Company unless so provided in such plan.

5.3 Further Assurances. The parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

5.4 Entire Agreement. This Agreement, including any exhibits, is the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior oral and written understandings of the parties.

5.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware as applied to contracts between Delaware residents to be wholly performed within the State of Colorado.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**HESKA CORPORATION  
EXECUTIVE**

a Delaware corporation

\_\_\_\_\_

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

**ASSIGNMENT SEPARATE FROM CERTIFICATE**

FOR VALUE RECEIVED, I, \_\_\_\_\_, hereby sell, assign and transfer unto \_\_\_\_\_ (\_\_\_\_\_) shares of the Common Stock of Heska Corporation, standing in my name on the books of said corporation represented by Certificate No. \_\_\_\_\_ herewith and do hereby irrevocably constitute and appoint \_\_\_\_\_ to transfer said stock on the books of the within-named corporation with full power of substitution in the premises.

Dated: \_\_\_\_\_, 20\_\_.

Signature:

This Assignment Separate from Certificate was executed in conjunction with the terms of a Restricted Stock Grant Agreement between the above assignor and Heska Corporation, dated \_\_\_\_\_, 2014.

**Instruction:**        **Please do not fill in any blanks other than the signature line.**

**EXHIBIT B**

**Form of Separation Agreement and Release**

## SEPARATION AND RELEASE AGREEMENT

This Separation and Release Agreement (the "Agreement") is made between (i) ("Employee") and (ii) Heska Corporation (the "Company"). Employee and the Company are referred to collectively as the "Parties" and individually as a "Party."

### RECITALS

WHEREAS, Employee was employed at the Company's Loveland facility;

WHEREAS, Employee's employment with the Company terminated effective \_\_\_\_\_ (the "Termination Date");

WHEREAS, the Parties wish to resolve fully and finally any potential disputes regarding Employee's employment with the Company and any other potential disputes between the Parties; and

WHEREAS, in order to accomplish this end, the Parties are willing to enter into this Agreement.

NOW THEREFORE, in consideration of the mutual promises and undertakings contained herein, the sufficiency of which is acknowledged by the Parties, the Parties to this Agreement agree as follows:

### TERMS

1. Effective Date. This Agreement shall become effective (the "Effective Date") on the day of Employee's execution of this Agreement, provided that Employee has not revoked Employee's acceptance pursuant to Paragraph 8.f. below. Employee's Termination Date will not change regardless of whether this Agreement becomes effective on the "Effective Date."
2. Consideration.
  - a. Payment. Commencing after the expiration of the Effective Date, and on the express condition that Employee has not revoked this Agreement, the Company will provide the severance payments and benefits on the terms and conditions contemplated by the Employment Agreement between the Company and Executive dated \_\_\_\_\_, 20\_\_.
  - b. Reporting and Withholding. Reporting of and withholding on any payment under this Paragraph for tax purposes shall be at the discretion of the Company in conformance with applicable tax laws.
3. General Release.

- a. Employee, for Employee, and for Employee's affiliates, successors, heirs, subrogees, assigns, principals, agents, partners, employees, associates, attorneys, and representatives, voluntarily, knowingly, unequivocally, unconditionally and intentionally releases, discharges and covenants not to sue or assert against Company any and all causes of action, whether at law or in equity (i) the Company and its predecessors, successors, parents, subsidiaries, affiliates, and assigns, and (ii) 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 Effective Date (the "Released Claims").
- b. The Released Claims include, but are not limited to, those which arise out of, relate to, or are based upon: (i) 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) any stock or stock option grant, agreement, or plan; (v) all federal, state, and municipal statutes, ordinances, and regulations, including, but not limited to, claims of discrimination based on race, color, national origin, age, sex, sexual orientation, religion, disability, veteran status, whistleblower status, public policy, or any other characteristic of Employee under the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the Americans with Disabilities 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, Family and Medical Leave Act, the Worker Adjustment and Retraining Notification Act, Colorado Anti-Discrimination in Employment Act, seq, or any other federal, state, or municipal law prohibiting discrimination or termination for any reason; (vi) state and federal common law; (vii) the failure of this Agreement, or of any other employment, severance, profit sharing, bonus, equity incentive or other compensatory plan to which Employee and the Company are or were parties, to comply with, or to be operated in compliance with, Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"), or any similar provision of state or local income tax law; and (viii) any claim which was or could have been raised by Employee.
- c. The Agreement does not affect Employee's right to file a charge with or participate before the Equal Employment Opportunity Commission. However, Employee agrees that in the event Employee brings a claim covered by the foregoing General Release in which Employee seeks damages or other remedies against the Company, or in the event Employee seeks to recover against the Company in any claim brought by a government agency on Employee's behalf, this Agreement shall serve as a complete defense to such claims, and that

Employee is expressly waiving the right to recover damages and attorney's fees from any such proceeding.

4. Return of Company Property. Employee represents and warrants that Employee returned all Company property to the designated Company representative on or before Employee's Termination Date, unless otherwise agreed upon. This property includes, but is not limited to, Company documents and files (in any recorded media, such as papers, computer disks, copies, transparencies, and microfiche), materials, keys, credit cards, laptops, computer disks, and badges. Employee agrees that, unless otherwise agreed upon in writing, to the extent that Employee possesses any files, data, or information relating in any way to the Company or the Company's business on any personal computer, Employee will delete the data, files, or information (and will retain no copies in any form).
5. Unknown Facts. The releases in this Agreement include, but are not limited to, claims of every nature and kind, known or unknown, suspected or unsuspected. Employee hereby acknowledges that Employee may hereafter discover facts different from, or in addition to, those which Employee now knows to be or believes to be true with respect to this Agreement, and Employee 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. Confidentiality of Agreement. Except as herein provided, all discussions regarding this Agreement, including, but not limited to, the amount of consideration, offers, counteroffers, or other terms or conditions of the negotiations or the agreement reached shall be kept confidential by Employee from all persons and entities other than the Parties to this Agreement. Employee may disclose such information only if necessary (a) for the limited purpose of making disclosures required by law to agents of the local, state, or federal governments; (b) for the purpose of enforcing any term of this Agreement; (c) for the purpose of obtaining legal or tax advice about the Agreement; or (d) in response to compulsory process, and only then after giving the Company immediate notice of the compulsion and affording the Company the opportunity to obtain any necessary or appropriate protective orders. Otherwise, in response to inquiries about Employee's employment and this matter, Employee shall state, "My employment with the Company has ended" and nothing more.
7. 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.
8. Representations and Warranties. Employee represents and warrants as follows:
  - a. Employee has read this Agreement and agrees to the conditions and obligations set forth in it;

- b. Employee voluntarily executes this Agreement (i) after having been advised to consult with legal counsel, (ii) after having had opportunity to consult with legal counsel, and (iii) without being pressured or influenced by any statement or representation (other than those made herein) or omission of any person acting on behalf of the Company including, without limitation, the officers, directors, board members, committee members, employees, agents, and attorneys for the Company;
- c. Employee 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, 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, Employee immediately will take all actions available to Employee necessary to withdraw or terminate that lawsuit, charge, or proceeding;
- d. Employee has not previously disclosed any information which would be a violation of the Employee Confidential Information and Inventions Agreement between the Company and Employee dated April 17, 2012;
- e. Employee has had at least twenty-one (21) days in which to consider the terms of this Agreement. In the event that Employee executes this Agreement in less time, it is with the full understanding that Employee had the full twenty-one (21) days if Employee so desired and that Employee was not pressured by the Company or any of its representatives or agents to take less time to consider the Agreement. In such event, Employee expressly intends such execution to be a waiver of any right Employee had to review the Agreement for a full twenty-one (21) days;
- f. Employee has been informed and understands that (i) to the extent that this Agreement waives or releases any claims Employee might have under the Age Discrimination in Employment Act, Employee may rescind Employee's waiver and release within seven (7) calendar days of Employee's execution of this Agreement, and (ii) any such rescission must be in writing and hand delivered to the Company addressed as follows:

Heska Corporation  
Attn: Jessica Gard  
Vice President, Human Resources  
3760 Rocky Mountain Avenue  
Loveland, CO 80538

- g. Employee has full and complete legal capacity to enter into this Agreement; and
- h. Employee admits, acknowledges, and agrees that Employee is not otherwise entitled to the amounts and other consideration set forth in Paragraph 2, which are

good and valuable consideration for this Agreement. Employee further admits, acknowledges, and agrees that Employee has been fully and finally paid all wages, compensation, vacation, bonuses, stock, stock options, or other benefits from the Company which are or could be due to Employee under the terms of Employee's employment with the Company or otherwise.

9. Non-Disparagement. Employee agrees not to make to any person any statement that disparages the Company, including, without limitation, disparaging statements regarding the Company's financial condition, business practices, employment practices, or its predecessors, successors, parents, subsidiaries, officers, directors, employees, or affiliates.
10. Cooperation. Employee agrees to cooperate with and assist the Company with any investigation, lawsuit, arbitration, or other proceeding to which the Company is subjected. Employee will make Employee available for preparation for, and attendance of, hearings, proceedings, or trial, including pretrial discovery and trial preparation. Employee further agrees to perform all acts and execute any documents that may be necessary to carry out the provisions of this Paragraph.
11. Section 409A.
  - a. This Agreement is intended to comply with Section 409A of the Internal Revenue Code and shall be construed accordingly. It is the intention of the Parties that payments or benefits payable under this Agreement not be subject to the additional tax or interest imposed pursuant to Section 409A. To the extent such potential payments or benefits are or could become subject to Section 409A, the Parties shall cooperate to amend this Agreement with the goal of giving Employee the economic benefits described herein in a manner that does not result in such tax or interest being imposed. Employee shall, at the request of the Company, take any reasonable action (or refrain from taking any action), required to comply with any correction procedure promulgated pursuant to Section 409A.
  - b. If a payment that could be made under this Agreement would be subject to additional taxes and interest under Section 409A, the Company in its sole discretion may accelerate some or all of a payment otherwise payable under the Agreement to the time at which such amount is includible in the income of Employee provided that such acceleration shall only be permitted to the extent permitted under Treasury Regulation § 1.409A-3(j)(4)(vii) and the amount of such acceleration does not exceed the amount permitted under Treasury Regulation § 1.409A-3(j)(vii).
  - c. No payment to be made under this Agreement shall be made at a time earlier than that provided for in this Agreement unless such payment is (i) an acceleration of payment permitted to be made under Treasury Regulation § 1.409A-3(j)(4) or (ii) a payment that would otherwise not be subject to additional taxes and interest under Section 409A.

12. 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 affect the intent of the parties to the fullest extent permitted by applicable law.
13. 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.
14. Entire Agreement. This Agreement and the Confidentiality Agreement dated \_\_\_\_ (the "Confidentiality Agreement") constitutes the entire agreement between the Parties. This Agreement supersedes and modifies any and all prior agreements, except for the Confidentiality Agreement, which will continue in full force and effect. This Agreement cannot be modified except in writing signed by all Parties. This Agreement constitutes the entire agreement between the Parties.
15. Venue, Applicable Law, and Submission to Jurisdiction. This Agreement shall be interpreted and construed in accordance with the laws of the State of Colorado, without regard to its conflicts of law provisions. Venue and jurisdiction will be in the Colorado state or federal courts.
16. Interpretation. The determination of the terms of, and the drafting of, this Agreement has been by mutual agreement after negotiation, with consideration by and participation of all Parties. Accordingly, the Parties agree that rules relating to the interpretation of contracts against the drafter of any particular clause shall not apply in the case of this Agreement. The term "Paragraph" shall refer to the enumerated paragraphs of this Agreement. The headings contained in this Agreement are for convenience of reference only and are not intended to limit the scope or affect the interpretation of any provision of this Agreement.
17. Assignment. The Company may assign its rights under this Agreement. Employee cannot assign Employee's rights under this Agreement without the written consent of the Company. No other assignment is permitted except by written permission of the Parties.
18. Counterparts. This Agreement may be executed in counterparts.

IN WITNESS WHEREOF, the Parties have executed this Separation and Release Agreement on the dates written below.

EMPLOYEE

HESKA CORPORATION

\_\_\_\_\_

\_\_\_\_\_

Title:

By:

Date

Date

\_\_\_\_\_

\_\_\_\_\_



**HESKA CORPORATION**  
**2003 EQUITY INCENTIVE PLAN**  
**RESTRICTED STOCK GRANT AGREEMENT**

THIS AGREEMENT is made as of the 26th day of March, 2014 by and between Heska Corporation (the "Company"), and Robert B. Grieve (the "Executive"), in connection with the execution of an Employment Agreement dated on or about the same date between the Company and Executive (the "Employment Agreement").

In consideration of the mutual covenants and representations herein set forth, the Company and Executive agree as follows:

**SECTION 1. GRANT OF STOCK.**

1.1 Precedence of Plan. This Agreement is subject to and shall be construed in accordance with the terms and conditions of the Heska Corporation 2003 Equity Incentive Plan (the "Plan"), as now or hereinafter in effect. Any capitalized terms that are used in this Agreement without being defined and that are defined in the Plan shall have the meaning specified in the Plan.

1.2 Grant of Stock. The Company hereby grants to Executive an aggregate of 24,355 shares of Restricted Stock (the "Shares"), subject to vesting as provided in Section 2.

**SECTION 2. UNVESTED SHARES SUBJECT TO FORFEITURE.**

2.1 Shares Subject to Forfeiture. In the event that Executive's employment with the Company is terminated before April 30, 2017, Executive will forfeit all right to the Shares. Notwithstanding the previous sentence, if Executive's employment is terminated before that date for a Triggering Event (as defined below), all of the Shares will become immediately vested and nonforfeitable.

2.2 Restriction on Transfer. Until the Shares are vested, the Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated.

2.3 Triggering Event. For purposes of this Agreement, "Triggering Event" means any of the following circumstances, where the capitalized terms have the meanings given in the Employment Agreement:

- a. Termination of employment by the Company (or by the Company's successor following a Change of Control) without Cause,
- b. Termination of employment by the Executive for Good Reason,
- c. Termination of employment due to Executive's death or Disability,

**SECTION 3. STOCKHOLDER RIGHTS**

3.1 Stock Register and Certificates. The Shares will be recorded in the stock register of the Company in the name of Executive. If applicable, a stock certificate or certificates representing the Shares will be registered in the name of Executive, but such certificates shall remain in the custody of the Company. Executive shall deposit with the Company a Stock Assignment Separate from Certificate in the form attached below as Attachment 1, endorsed in blank, so as to permit retransfer to the Company of all or a portion of the Shares that are forfeited or otherwise do not become vested in accordance with the Plan and this Agreement.

3.2 Exercise of Stockholder Rights. Executive shall have the right to vote the Shares (to the extent of the voting rights of said Shares, if any), to receive and retain all regular cash dividends and such other distributions, as the Board of Directors of the Company may, in its discretion, designate, pay or distribute on such Shares, and to exercise all other rights, powers and privileges of a holder of Common Stock with respect to such Shares, except as set forth in this Agreement and the Plan.

3.3 Legends. Certificates, if any, representing the Shares will contain the following or other legends in the Company's discretion:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON AND OBLIGATIONS WITH RESPECT TO TRANSFER AND RIGHTS OF REPURCHASE AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL REGISTERED HOLDER, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

**SECTION 4. RESPONSIBILITY FOR TAXES.**

4.1 Section 83(b) Election. Executive may complete and file with the Internal Revenue Service an election pursuant to Section 83(b) of the Internal Revenue Code to be taxed currently on the fair market value of the Shares without regard to the vesting restrictions set forth in this Agreement. Executive shall be responsible for all taxes associated with the acceptance of the transfer of the Shares, including any tax liability associated with the representation of fair market value if the election is made pursuant to Code Section 83(b).

4.2 Withholding. In accordance with Section 11 of the Plan, Executive agrees to remit to the Company an amount sufficient to satisfy federal, state and local taxes (including the Executive's FICA obligation) required to be withheld with respect to the vesting of the Shares, or otherwise to satisfy such obligation as permitted under the Plan. The Company has the right to deduct from any salary or other payments to be made to Executive any federal, state or local taxes required by law to be so withheld.

**SECTION 5. MISCELLANEOUS.**

5.1 Not an Employment Contract. This Agreement is not an employment contract and nothing in this Agreement shall be deemed to create in any way whatsoever any obligation

on the part of Executive to remain in the service of the Company in any capacity, or of the Company to continue Executive's service in any capacity.

5.2 Effect on Employee Benefits. Executive agrees that the Award will constitute special incentive compensation that will not be taken into account as "salary" or "compensation" or "bonus" in determining the amount of any payment under any pension, retirement, profit sharing or other remuneration plan of the Company unless so provided in such plan.

5.3 Further Assurances. The parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

5.4 Entire Agreement. This Agreement, including any exhibits, is the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior oral and written understandings of the parties.

5.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware as applied to contracts between Delaware residents to be wholly performed within the State of Colorado.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**HESKA CORPORATION**  
**EXECUTIVE**

a Delaware corporation

/s/ Robert B. Grieve

By: /s/ Jason Napolitano

Title: Chief Financial Officer

Address 38501 WCR 21  
Ft. Collins, CO 80524

**ASSIGNMENT SEPARATE FROM CERTIFICATE**

FOR VALUE RECEIVED, I, \_\_\_\_\_, hereby sell, assign and transfer unto \_\_\_\_\_ (\_\_\_\_\_) shares of the Common Stock of Heska Corporation, standing in my name on the books of said corporation represented by Certificate No. \_\_\_\_\_ herewith and do hereby irrevocably constitute and appoint \_\_\_\_\_ to transfer said stock on the books of the within-named corporation with full power of substitution in the premises.

Dated: \_\_\_\_\_, 20\_\_.

Signature: /s/ Robert B. Grieve

This Assignment Separate from Certificate was executed in conjunction with the terms of a Restricted Stock Grant Agreement between the above assignor and Heska Corporation, dated \_\_\_\_\_, 2014.

**Instruction:**            **Please do not fill in any blanks other than the signature line.**

**HESKA CORPORATION**  
**1997 STOCK INCENTIVE PLAN**  
**RESTRICTED STOCK GRANT AGREEMENT**

THIS AGREEMENT is made as of the 26th day of March, 2014 by and between Heska Corporation (the "Company"), and Robert B. Grieve (the "Executive"), in connection with the execution of an Employment Agreement dated on or about the same date between the Company and Executive (the "Employment Agreement").

In consideration of the mutual covenants and representations herein set forth, the Company and Executive agree as follows:

**SECTION 1.        GRANT OF STOCK.**

1.1        Precedence of Plan. This Agreement is subject to and shall be construed in accordance with the terms and conditions of the Heska Corporation 1997 Stock Incentive Plan (the "Plan"), as now or hereinafter in effect. Any capitalized terms that are used in this Agreement without being defined and that are defined in the Plan shall have the meaning specified in the Plan.

1.2        Grant of Stock. The Company hereby grants to Executive an aggregate of 15,645 shares of Restricted Stock (the "Shares"), subject to vesting as provided in Section 2.

**SECTION 2.        UNVESTED SHARES SUBJECT TO FORFEITURE.**

2.1        Shares Subject to Forfeiture. In the event that Executive's employment with the Company is terminated before April 30, 2017, Executive will forfeit all right to the Shares. Notwithstanding the previous sentence, if Executive's employment is terminated before that date for a Triggering Event (as defined below), all of the Shares will become immediately vested and nonforfeitable.

2.2        Restriction on Transfer. Until the Shares are vested, the Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated.

2.3        Triggering Event. For purposes of this Agreement, "Triggering Event" means any of the following circumstances, where the capitalized terms have the meanings given in the Employment Agreement:

- a.        Termination of employment by the Company (or by the Company's successor following a Change of Control) without Cause,
- b.        Termination of employment by the Executive for Good Reason,
- c.        Termination of employment due to Executive's death or Disability,

**SECTION 3. STOCKHOLDER RIGHTS**

3.1 Stock Register and Certificates. The Shares will be recorded in the stock register of the Company in the name of Executive. If applicable, a stock certificate or certificates representing the Shares will be registered in the name of Executive, but such certificates shall remain in the custody of the Company. Executive shall deposit with the Company a Stock Assignment Separate from Certificate in the form attached below as Attachment 1, endorsed in blank, so as to permit retransfer to the Company of all or a portion of the Shares that are forfeited or otherwise do not become vested in accordance with the Plan and this Agreement.

3.2 Exercise of Stockholder Rights. Executive shall have the right to vote the Shares (to the extent of the voting rights of said Shares, if any), to receive and retain all regular cash dividends and such other distributions, as the Board of Directors of the Company may, in its discretion, designate, pay or distribute on such Shares, and to exercise all other rights, powers and privileges of a holder of Common Stock with respect to such Shares, except as set forth in this Agreement and the Plan.

3.3 Legends. Certificates, if any, representing the Shares will contain the following or other legends in the Company's discretion:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON AND OBLIGATIONS WITH RESPECT TO TRANSFER AND RIGHTS OF REPURCHASE AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL REGISTERED HOLDER, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

**SECTION 4. RESPONSIBILITY FOR TAXES.**

4.1 Section 83(b) Election. Executive may complete and file with the Internal Revenue Service an election pursuant to Section 83(b) of the Internal Revenue Code to be taxed currently on the fair market value of the Shares without regard to the vesting restrictions set forth in this Agreement. Executive shall be responsible for all taxes associated with the acceptance of the transfer of the Shares, including any tax liability associated with the representation of fair market value if the election is made pursuant to Code Section 83(b).

4.2 Withholding. In accordance with Section 12 of the Plan, Executive agrees to make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan under applicable federal, state, local or foreign law. The Company in its discretion may permit Executive to satisfy all or part of his withholding or income tax obligations by having the Company withhold all or a portion of the Shares that otherwise would be issued to him on vesting.

**SECTION 5. MISCELLANEOUS.**

5.1 Not an Employment Contract. This Agreement is not an employment contract and nothing in this Agreement shall be deemed to create in any way whatsoever any obligation

on the part of Executive to remain in the service of the Company in any capacity, or of the Company to continue Executive's service in any capacity.

5.2 Effect on Employee Benefits. Executive agrees that the Award will constitute special incentive compensation that will not be taken into account as "salary" or "compensation" or "bonus" in determining the amount of any payment under any pension, retirement, profit sharing or other remuneration plan of the Company unless so provided in such plan.

5.3 Further Assurances. The parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

5.4 Entire Agreement. This Agreement, including any exhibits, is the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior oral and written understandings of the parties.

5.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware as applied to contracts between Delaware residents to be wholly performed within the State of Colorado.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**HESKA CORPORATION**  
**EXECUTIVE**

a Delaware corporation

/s/ Robert B. Grieve

By: /s/ Jason Napolitano  
Title: Chief Financial Officer

Address 38501 WCR 21  
Ft. Collins, CO 80524

**ASSIGNMENT SEPARATE FROM CERTIFICATE**

FOR VALUE RECEIVED, I, \_\_\_\_\_, hereby sell, assign and transfer unto \_\_\_\_\_ (\_\_\_\_\_) shares of the Common Stock of Heska Corporation, standing in my name on the books of said corporation represented by Certificate No. \_\_\_\_\_ herewith and do hereby irrevocably constitute and appoint \_\_\_\_\_ to transfer said stock on the books of the within-named corporation with full power of substitution in the premises.

Dated: \_\_\_\_\_, 20\_\_.

Signature: /s/ Robert B. Grieve

This Assignment Separate from Certificate was executed in conjunction with the terms of a Restricted Stock Grant Agreement between the above assignor and Heska Corporation, dated \_\_\_\_\_, 2014.

**Instruction:**        **Please do not fill in any blanks other than the signature line.**

**HESKA CORPORATION**  
**1997 STOCK INCENTIVE PLAN**  
**RESTRICTED STOCK GRANT AGREEMENT**

THIS AGREEMENT is made as of the 26th day of March, 2014 by and between Heska Corporation (the "Company"), and Robert B. Grieve (the "Executive"), in connection with the execution of an Employment Agreement dated on or about the same date between the Company and Executive (the "Employment Agreement").

In consideration of the mutual covenants and representations herein set forth, the Company and Executive agree as follows:

**SECTION 1.        GRANT OF STOCK.**

1.1        Precedence of Plan. This Agreement is subject to and shall be construed in accordance with the terms and conditions of the Heska Corporation 1997 Stock Incentive Plan (the "Plan"), as now or hereinafter in effect. Any capitalized terms that are used in this Agreement without being defined and that are defined in the Plan shall have the meaning specified in the Plan.

1.2        Grant of Stock. The Company hereby grants to Executive an aggregate of 5,715 shares of Restricted Stock (the "Shares"), subject to vesting as provided in Section 2.

**SECTION 2.        UNVESTED SHARES SUBJECT TO FORFEITURE.**

2.1        Shares Subject to Forfeiture. In the event that Executive's employment with the Company is terminated before April 30, 2017, Executive will forfeit all right to the Shares. Notwithstanding the previous sentence, if Executive's employment is terminated before that date and after April 30, 2015 for a Triggering Event (as defined below), all of the Shares will become immediately vested and nonforfeitable.

2.2        Restriction on Transfer. Until the Shares are vested, the Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated.

2.3        Triggering Event. For purposes of this Agreement, "Triggering Event" means any of the following circumstances, where the capitalized terms have the meanings given in the Employment Agreement:

- a.        Termination of employment by the Company (or by the Company's successor following a Change of Control) without Cause,
- b.        Termination of employment by the Executive for Good Reason,
- c.        Termination of employment due to Executive's death or Disability,

**SECTION 3. STOCKHOLDER RIGHTS**

3.1 Stock Register and Certificates. The Shares will be recorded in the stock register of the Company in the name of Executive. If applicable, a stock certificate or certificates representing the Shares will be registered in the name of Executive, but such certificates shall remain in the custody of the Company. Executive shall deposit with the Company a Stock Assignment Separate from Certificate in the form attached below as Attachment 1, endorsed in blank, so as to permit retransfer to the Company of all or a portion of the Shares that are forfeited or otherwise do not become vested in accordance with the Plan and this Agreement.

3.2 Exercise of Stockholder Rights. Executive shall have the right to vote the Shares (to the extent of the voting rights of said Shares, if any), to receive and retain all regular cash dividends and such other distributions, as the Board of Directors of the Company may, in its discretion, designate, pay or distribute on such Shares, and to exercise all other rights, powers and privileges of a holder of Common Stock with respect to such Shares, except as set forth in this Agreement and the Plan.

3.3 Legends. Certificates, if any, representing the Shares will contain the following or other legends in the Company's discretion:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON AND OBLIGATIONS WITH RESPECT TO TRANSFER AND RIGHTS OF REPURCHASE AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL REGISTERED HOLDER, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

**SECTION 4. RESPONSIBILITY FOR TAXES.**

4.1 Section 83(b) Election. Executive may complete and file with the Internal Revenue Service an election pursuant to Section 83(b) of the Internal Revenue Code to be taxed currently on the fair market value of the Shares without regard to the vesting restrictions set forth in this Agreement. Executive shall be responsible for all taxes associated with the acceptance of the transfer of the Shares, including any tax liability associated with the representation of fair market value if the election is made pursuant to Code Section 83(b).

4.2 Withholding. In accordance with Section 12 of the Plan, Executive agrees to make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan under applicable federal, state, local or foreign law. The Company in its discretion may permit Executive to satisfy all or part of his withholding or income tax obligations by having the Company withhold all or a portion of the Shares that otherwise would be issued to him on vesting.

**SECTION 5. MISCELLANEOUS.**

5.1 Not an Employment Contract. This Agreement is not an employment contract and nothing in this Agreement shall be deemed to create in any way whatsoever any obligation

on the part of Executive to remain in the service of the Company in any capacity, or of the Company to continue Executive's service in any capacity.

5.2 Effect on Employee Benefits. Executive agrees that the Award will constitute special incentive compensation that will not be taken into account as "salary" or "compensation" or "bonus" in determining the amount of any payment under any pension, retirement, profit sharing or other remuneration plan of the Company unless so provided in such plan.

5.3 Further Assurances. The parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

5.4 Entire Agreement. This Agreement, including any exhibits, is the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior oral and written understandings of the parties.

5.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware as applied to contracts between Delaware residents to be wholly performed within the State of Colorado.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**HESKA CORPORATION**  
**EXECUTIVE**

a Delaware corporation

/s/ Robert B. Grieve

By: /s/ Jason Napolitano

Title: Chief Financial Officer

Address 38501 WCR 21  
Ft. Collins, CO 80524

**ASSIGNMENT SEPARATE FROM CERTIFICATE**

FOR VALUE RECEIVED, I, \_\_\_\_\_, hereby sell, assign and transfer unto \_\_\_\_\_ (\_\_\_\_\_) shares of the Common Stock of Heska Corporation, standing in my name on the books of said corporation represented by Certificate No. \_\_\_\_\_ herewith and do hereby irrevocably constitute and appoint \_\_\_\_\_ to transfer said stock on the books of the within-named corporation with full power of substitution in the premises.

Dated: \_\_\_\_\_, 20\_\_.

Signature: /s/ Robert B. Grieve

This Assignment Separate from Certificate was executed in conjunction with the terms of a Restricted Stock Grant Agreement between the above assignor and Heska Corporation, dated \_\_\_\_\_, 2014.

**Instruction:**        **Please do not fill in any blanks other than the signature line.**

**HESKA CORPORATION**  
**1997 STOCK INCENTIVE PLAN**  
**RESTRICTED STOCK GRANT AGREEMENT**

THIS AGREEMENT is made as of the 26th day of March, 2014 by and between Heska Corporation (the "Company"), and Robert B. Grieve (the "Executive"), in connection with the execution of an Employment Agreement dated on or about the same date between the Company and Executive (the "Employment Agreement").

In consideration of the mutual covenants and representations herein set forth, the Company and Executive agree as follows:

**SECTION 1. GRANT OF STOCK.**

1.1 Precedence of Plan. This Agreement is subject to and shall be construed in accordance with the terms and conditions of the Heska Corporation 1997 Stock Incentive Plan (the "Plan"), as now or hereinafter in effect. Any capitalized terms that are used in this Agreement without being defined and that are defined in the Plan shall have the meaning specified in the Plan.

1.2 Grant of Stock. The Company hereby grants to Executive an aggregate of 2,857 shares of Restricted Stock (the "Shares"), subject to vesting as provided in Section 2.

**SECTION 2. UNVESTED SHARES SUBJECT TO FORFEITURE.**

2.1 Shares Subject to Forfeiture. In the event that Executive's employment with the Company is terminated before April 30, 2017, Executive will forfeit all right to the Shares. Notwithstanding the previous sentence, if Executive's employment is terminated before that date and after April 30, 2016 for a Triggering Event (as defined below), all of the Shares will become immediately vested and nonforfeitable.

2.2 Restriction on Transfer. Until the Shares are vested, the Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated.

2.3 Triggering Event. For purposes of this Agreement, "Triggering Event" means any of the following circumstances, where the capitalized terms have the meanings given in the Employment Agreement:

- a. Termination of employment by the Company (or by the Company's successor following a Change of Control) without Cause,
- b. Termination of employment by the Executive for Good Reason,
- c. Termination of employment due to Executive's death or Disability,

### **SECTION 3. STOCKHOLDER RIGHTS**

3.1 Stock Register and Certificates. The Shares will be recorded in the stock register of the Company in the name of Executive. If applicable, a stock certificate or certificates representing the Shares will be registered in the name of Executive, but such certificates shall remain in the custody of the Company. Executive shall deposit with the Company a Stock Assignment Separate from Certificate in the form attached below as Attachment 1, endorsed in blank, so as to permit retransfer to the Company of all or a portion of the Shares that are forfeited or otherwise do not become vested in accordance with the Plan and this Agreement.

3.2 Exercise of Stockholder Rights. Executive shall have the right to vote the Shares (to the extent of the voting rights of said Shares, if any), to receive and retain all regular cash dividends and such other distributions, as the Board of Directors of the Company may, in its discretion, designate, pay or distribute on such Shares, and to exercise all other rights, powers and privileges of a holder of Common Stock with respect to such Shares, except as set forth in this Agreement and the Plan.

3.3 Legends. Certificates, if any, representing the Shares will contain the following or other legends in the Company's discretion:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON AND OBLIGATIONS WITH RESPECT TO TRANSFER AND RIGHTS OF REPURCHASE AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL REGISTERED HOLDER, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

### **SECTION 4. RESPONSIBILITY FOR TAXES.**

4.1 Section 83(b) Election. Executive may complete and file with the Internal Revenue Service an election pursuant to Section 83(b) of the Internal Revenue Code to be taxed currently on the fair market value of the Shares without regard to the vesting restrictions set forth in this Agreement. Executive shall be responsible for all taxes associated with the acceptance of the transfer of the Shares, including any tax liability associated with the representation of fair market value if the election is made pursuant to Code Section 83(b).

4.2 Withholding. In accordance with Section 12 of the Plan, Executive agrees to make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan under applicable federal, state, local or foreign law. The Company in its discretion may permit Executive to satisfy all or part of his withholding or income tax obligations by having the Company withhold all or a portion of the Shares that otherwise would be issued to him on vesting.

### **SECTION 5. MISCELLANEOUS.**

5.1 Not an Employment Contract. This Agreement is not an employment contract and nothing in this Agreement shall be deemed to create in any way whatsoever any obligation

on the part of Executive to remain in the service of the Company in any capacity, or of the Company to continue Executive's service in any capacity.

5.2 Effect on Employee Benefits. Executive agrees that the Award will constitute special incentive compensation that will not be taken into account as "salary" or "compensation" or "bonus" in determining the amount of any payment under any pension, retirement, profit sharing or other remuneration plan of the Company unless so provided in such plan.

5.3 Further Assurances. The parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

5.4 Entire Agreement. This Agreement, including any exhibits, is the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior oral and written understandings of the parties.

5.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware as applied to contracts between Delaware residents to be wholly performed within the State of Colorado.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**HESKA CORPORATION**  
**EXECUTIVE**

a Delaware corporation

/s/ Robert G. Grieve

By: /s/ Jason Napolitano

Title: Chief Financial Officer

Address 38501 WCR 21

Ft. Collins, CO 80524

**ASSIGNMENT SEPARATE FROM CERTIFICATE**

FOR VALUE RECEIVED, I, \_\_\_\_\_, hereby sell, assign and transfer unto \_\_\_\_\_  
(\_\_\_\_\_) shares of the Common Stock of Heska Corporation, standing in my name on the books of said corporation represented by Certificate No.  
\_\_\_\_\_ herewith and do hereby irrevocably constitute and appoint \_\_\_\_\_ to transfer said stock on the books of the within-named corporation with  
full power of substitution in the premises.

Dated: \_\_\_\_\_, 20\_\_.

Signature: /s/ Robert B. Grieve

This Assignment Separate from Certificate was executed in conjunction with the terms of a Restricted Stock Grant Agreement between the above  
assignor and Heska Corporation, dated \_\_\_\_\_, 2014.

**Instruction:**            **Please do not fill in any blanks other than the signature line.**

**HESKA CORPORATION**  
**1997 STOCK INCENTIVE PLAN**  
**RESTRICTED STOCK GRANT AGREEMENT**

THIS AGREEMENT is made as of the 26th day of March, 2014 by and between Heska Corporation (the "Company"), and Robert B. Grieve (the "Executive"), in connection with the execution of an Employment Agreement dated on or about the same date between the Company and Executive (the "Employment Agreement").

In consideration of the mutual covenants and representations herein set forth, the Company and Executive agree as follows:

**SECTION 1.        GRANT OF STOCK.**

1.1        Precedence of Plan. This Agreement is subject to and shall be construed in accordance with the terms and conditions of the Heska Corporation 1997 Stock Incentive Plan (the "Plan"), as now or hereinafter in effect. Any capitalized terms that are used in this Agreement without being defined and that are defined in the Plan shall have the meaning specified in the Plan.

1.2        Grant of Stock. The Company hereby grants to Executive an aggregate of 15,000 shares of Restricted Stock (the "Shares"), subject to vesting as provided in Section 2.

**SECTION 2.        UNVESTED SHARES SUBJECT TO FORFEITURE.**

2.1        Shares Subject to Forfeiture. In the event that Executive's employment with the Company is terminated before April 30, 2017, Executive will forfeit all right to the Shares. Notwithstanding the previous sentence, if Executive's employment is terminated before that date for a Triggering Event (as defined below), 5,000 of the Shares will become immediately vested and nonforfeitable. In addition:

- a.        If the Triggering Event occurs after April 30, 2015, an additional 5,000 Shares will become immediately vested and nonforfeitable; and
- b.        If the Triggering Event occurs after April 30, 2016, the remaining 5,000 Shares will become immediately vested and nonforfeitable.

2.2        Restriction on Transfer. Until the Shares are vested, the Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated.

2.3        Triggering Event. For purposes of this Agreement, "Triggering Event" means any of the following circumstances, where the capitalized terms have the meanings given in the Employment Agreement:

- a.        Termination of employment by the Company (or by the Company's successor following a Change of Control) without Cause,
- b.        Termination of employment by the Executive for Good Reason,

- c. Termination of employment due to Executive's death or Disability,

### **SECTION 3. STOCKHOLDER RIGHTS**

3.1 Stock Register and Certificates. The Shares will be recorded in the stock register of the Company in the name of Executive. If applicable, a stock certificate or certificates representing the Shares will be registered in the name of Executive, but such certificates shall remain in the custody of the Company. Executive shall deposit with the Company a Stock Assignment Separate from Certificate in the form attached below as Attachment 1, endorsed in blank, so as to permit retransfer to the Company of all or a portion of the Shares that are forfeited or otherwise do not become vested in accordance with the Plan and this Agreement.

3.2 Exercise of Stockholder Rights. Executive shall have the right to vote the Shares (to the extent of the voting rights of said Shares, if any), to receive and retain all regular cash dividends and such other distributions, as the Board of Directors of the Company may, in its discretion, designate, pay or distribute on such Shares, and to exercise all other rights, powers and privileges of a holder of Common Stock with respect to such Shares, except as set forth in this Agreement and the Plan.

3.3 Legends. Certificates, if any, representing the Shares will contain the following or other legends in the Company's discretion:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON AND OBLIGATIONS WITH RESPECT TO TRANSFER AND RIGHTS OF REPURCHASE AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL REGISTERED HOLDER, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

### **SECTION 4. RESPONSIBILITY FOR TAXES.**

4.1 Section 83(b) Election. Executive may complete and file with the Internal Revenue Service an election pursuant to Section 83(b) of the Internal Revenue Code to be taxed currently on the fair market value of the Shares without regard to the vesting restrictions set forth in this Agreement. Executive shall be responsible for all taxes associated with the acceptance of the transfer of the Shares, including any tax liability associated with the representation of fair market value if the election is made pursuant to Code Section 83(b).

4.2 Withholding. In accordance with Section 12 of the Plan, Executive agrees to make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan under applicable federal, state, local or foreign law. The Company in its discretion may permit Executive to satisfy all or part of his withholding or income tax obligations by having the Company withhold all or a portion of the Shares that otherwise would be issued to him on vesting.

**SECTION 5. MISCELLANEOUS.**

5.1 Not an Employment Contract. This Agreement is not an employment contract and nothing in this Agreement shall be deemed to create in any way whatsoever any obligation on the part of Executive to remain in the service of the Company in any capacity, or of the Company to continue Executive's service in any capacity.

5.2 Effect on Employee Benefits. Executive agrees that the Award will constitute special incentive compensation that will not be taken into account as "salary" or "compensation" or "bonus" in determining the amount of any payment under any pension, retirement, profit sharing or other remuneration plan of the Company unless so provided in such plan.

5.3 Further Assurances. The parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

5.4 Entire Agreement. This Agreement, including any exhibits, is the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior oral and written understandings of the parties.

5.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware as applied to contracts between Delaware residents to be wholly performed within the State of Colorado.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**HESKA CORPORATION**  
**EXECUTIVE**

a Delaware corporation

/s/ Robert B. Grieve

By: /s/ Jason Napolitano  
Title: Chief Financial Officer

Address 38501 WCR 21  
Ft. Collins, CO 80524

**ASSIGNMENT SEPARATE FROM CERTIFICATE**

FOR VALUE RECEIVED, I, \_\_\_\_\_, hereby sell, assign and transfer unto \_\_\_\_\_ (\_\_\_\_\_) shares of the Common Stock of Heska Corporation, standing in my name on the books of said corporation represented by Certificate No. \_\_\_\_\_ herewith and do hereby irrevocably constitute and appoint \_\_\_\_\_ to transfer said stock on the books of the within-named corporation with full power of substitution in the premises.

Dated: \_\_\_\_\_, 20\_\_.

Signature: /s/ Robert B. Grieve

This Assignment Separate from Certificate was executed in conjunction with the terms of a Restricted Stock Grant Agreement between the above assignor and Heska Corporation, dated \_\_\_\_\_, 2014.

**Instruction:**        **Please do not fill in any blanks other than the signature line.**



**CONSULTING AGREEMENT  
(Founder Emeritus)**

This Consulting Agreement (the "**Agreement**") is made and entered into as of the date last set forth below, to be effective as of the Commencement Date (defined below), by and between **Heska Corporation**, a Delaware corporation ("**Heska**" or the "**Company**"), and **Robert B. Grieve, Ph.D.** (the "**Founder**") or Founder's assignee as set forth below.

**RECITALS**

Founder is a founder of the Company and has served as its long-time Chair ("**Chair**") of the Board of Directors (the "**Board**"), and Chief Executive Officer ("**CEO**").

In furtherance of the Board's succession planning for Heska's executive team, the Board desires to separate the positions of Chair and CEO, appoint a new CEO and continue the employment of Founder as Executive Chair on the terms and conditions set forth in a new Employment Agreement (the "**Employment Agreement**"), which shall become effective immediately prior to public announcement of the Company's earnings for the fiscal year ended December 31, 2013.

The Board further desires to enter into this Agreement in conjunction with the Employment Agreement, to continue to make available to Heska the benefits of Founder's industry experience, institutional knowledge, consulting services and intellectual property contributions following expiration or termination of the Employment Agreement, on the terms and conditions set forth below.

**AGREEMENT**

In consideration of the mutual covenants and undertakings set forth below, the parties agree as follows:

1. **Commencement Date; Engagement; Scope.** Heska hereby engages Founder as an independent contractor consultant to the Chair of the Board of Heska, subject to the provisions for earlier termination in Section 12, commencing on the Commencement Date and continuing for a period of five (5) years thereafter (the "**Term**"). The "**Commencement Date**" shall be the date that the Employment Agreement expires or is terminated for any reason.

2. **Compensation; Expense Reimbursement; Support.**

(a) In consideration for Founder's consulting services and the covenants set forth in this Agreement, Heska shall pay to Founder an annual consulting fee (the "**Fee**") of One Hundred Thousand Dollars (\$100,000.00) during the Term, payable in equal monthly installments on the last day of each month to Founder, or to a trade name or business name provided by Founder.

(b) In addition to the foregoing, Heska will reimburse Founder for his reasonable out-of-pocket travel, entertainment, and other expenses, in accordance with Heska's expense reimbursement policies as in effect from time to time.

(c) During the Term, Heska will provide Founder administrative staff support commensurate with the consulting services requested of him hereunder from time to time, and IT support, cell phone and computer equipment and upgrades generally provided to senior executives of Heska.

(d) During the Term, any equity awards held by Founder subject to vesting upon termination of the Employment Agreement (including but not limited to any such awards that are not accelerated upon termination of the Employment Agreement) shall continue to vest in accordance with their terms and the applicable plans and policies of Heska.

3. **Fringe Benefits.** During the Term, Founder and his dependents will be eligible to participate in all Heska health insurance benefits and executive health programs that are applicable to senior executives of Heska, and to the extent that Founder is not eligible to participate in accordance with the terms of such programs or benefits, the Company will provide substantially comparable substitute benefits to Founder and his dependents. Because Founder is engaged as an independent contractor, Founder is not eligible for, nor entitled to, and shall not participate in, any of the Company's other benefit plans, any fringe benefits, workers' compensation insurance allowances, programs, reimbursements, or the like, which the Company makes available to its employees.

4. **Reporting; Consulting Duties.** Founder will consult to the Chair of the Company's Board of Directors and at the Chair's request, the Company's Chief Executive Officer, with respect to services performed under this Agreement. Founder will provide consulting services regarding Heska business, strategy, personnel and other matters reasonably requested by the Chair from time to time at times to be mutually agreed. Founder shall not be required to maintain office hours, or to provide services in excess of ten (10) hours per month.

5. **Outside Activities.** Heska acknowledges that Founder will devote substantial time in connection with endeavors outside of the scope of this Agreement. Notwithstanding the foregoing, (a) such outside endeavors shall not prevent Founder from timely completing the services for Heska pursuant to this Agreement, and (b) without the prior written consent of Heska, Founder shall not, during the course of performing services under this Agreement, engage in activity that would constitute Competition (as defined in the Employment Agreement), without the prior written consent of Heska. Founder represents and warrants to Heska that performance by Founder of his duties under this Agreement will not violate any agreement, duty or obligation of Founder to any third party.

6. **Confidentiality; Proprietary Rights and Information.**

(a) **Definitions.**

(i) "**Confidential Information**" means information (including information created by Founder) which is not generally known about the Company or its business,

including without limitation about its Creations, products, projects, designs, developmental or experimental work, computer programs, software, data bases, know-how, processes, formulas, customers, business partners, suppliers, business plans, marketing plans and strategies, finances, employee compensation, or personnel, and information obtained from third parties under confidentiality agreements. The term "software" includes software in various stages of development or any product thereof and includes without limitation the literal elements of a program (source code, object code or otherwise), its audiovisual components (menus, screens, structure, and organization), any human or machine readable form of the program, and any writing or medium in which the program or the information therein is sorted, written or described, including without limitation diagrams, flow charts, designs, drawings, specifications, models, date and customer information.

(ii) "**Creation**" means any invention, discovery, idea, concept, design, program, process, method, work of authorship, development or improvement, modification or addition thereto (whether or not subject to copyright or patent protection and whether or not reduced to practice by Founder): (i) relating to any past, present or reasonably anticipated business of the Company and which is or was created or otherwise developed during the Term; (ii) which is or was created or otherwise developed while performing work for the Company; or (iii) which is or was created or otherwise developed at any time using equipment, supplies, facilities, information or proprietary rights or other property of the Company.

(b) **Ownership of Confidential Information.** All Confidential Information which is created by Founder on behalf of Company or otherwise developed or which comes into Founder's possession or that previously came into Founder's possession on behalf of the Company shall be and remain the exclusive property of the Company. Founder will promptly disclose to the Company all Confidential Information developed by Founder. Founder will abide by any policies and procedures adopted from time to time by the Company and communicated to Founder in writing which are calculated to facilitate such disclosures.

(c) **Assignment of Creations.** Founder hereby agrees to hold in trust for the sole right and benefit of the Company and assign to the Company all of Founder's right, title and interest in and to any and all Creations created or otherwise developed, alone or in conjunction with others. Founder further agrees to assign to any third party, including the United States government, all of Founder's right, title and interest in and to any and all Creations whenever such assignment is requested by a contract between the Company and such third party.

(d) **Intellectual Property Rights in Works of Authorship.** Founder acknowledges and agrees that any intellectual property rights in Creations which are works of authorship belong to the Company and are "works made for hire" within the definition of section 101 of the United States Copyright Acts of 1976, Title 17, United States Code. The Company or any of its direct or indirect licensees shall not be obligated to designate Founder as author of any design, software, firmware, related documentation, or any other work of authorship when distributed publicly or otherwise, nor to make any distribution to Founder resulting from the same.

(e) **No Disclosure or Use of Confidential Information.** Unless authorized in writing by the Company, Founder will maintain all Confidential Information in confidence and, except as necessary in conjunction with the performance of services pursuant to this Agreement, will

not copy or make notes of, divulge to anyone outside the Company or use any of the Confidential Information for Founder's own or another's benefit, either during or after the term of this Agreement.

**(f) Returning the Company Documents and Tangible Property.** Upon request of the Company and, in any event, upon termination of this Agreement, Founder will promptly surrender and deliver to the Company (and will not keep in Founder's possession or deliver to anyone else), and agrees not to use, any Confidential Information of the Company.

**(g) Confidential Information of Third Parties.** During the Term, Founder may receive, under non-disclosure agreements agreed to by authorized representatives of the Company, information claimed by third parties to be their confidential information. Founder agrees that he will respect such agreements and will not disclose such information to any person or organization, except as is necessary in carrying out his duties under this Agreement for the Company consistent with the Company's agreement with such third parties. At the request of the Company and, in any event, upon the termination of this Agreement, Founder will promptly surrender to the Company any such information.

**(h) Non-Use of Property of Third Parties.** During the Term, Founder will not improperly use or disclose any confidential or proprietary information or property of any third party (including any former employer).

## 7. Covenants.

**(a) Non-Competition.** Founder agrees not to engage in Competition (as defined below), during the Term and for 12 months following expiration or termination of this Agreement, anywhere in the United States of America. If Founder engages in Competition (as defined below) within such period in such geographic location, all continuing payments and benefits to which Founder otherwise may be entitled pursuant to this Agreement will cease immediately. In addition to the remedy specified in the preceding sentence, the Company will have against Founder in the event of his breach of this Section 7(a) any and all remedies available to it in law or in equity, including without limitation the right to seek recovery of any amounts paid under this Agreement.

**(b) Nonsolicitation.** Founder agrees that, during the Term and for 24 months following the expiration or termination of this Agreement, Founder, directly or indirectly, whether as employee, owner, sole proprietor, partner, director, member, consultant, agent, founder, co-venturer or otherwise, will not (i) solicit, induce, or influence any person to modify his or her employment or consulting relationship with the Company (the "**No-Inducement**"), or (ii) anywhere in the United States of America, intentionally divert business away from the Company by soliciting business from any of the Company's substantial customers and users who would otherwise have placed the solicited order with the Company (the "**No Solicit**"). If Founder breaches the No-Inducement or No Solicit, all continuing payments and benefits to which Founder otherwise may be entitled pursuant to this Agreement will cease immediately. In addition to the remedy specified in the preceding sentence, the Company will have against Founder in the event of his breach of this Section 7(b) any and all remedies available to it in law or in equity, including without limitation the right to seek recovery of any amounts paid under this Agreement.

8. **No Authority to Bind.** Founder has no authority to enter into contracts or agreements on behalf of the Company.

9. **Status.** In performing services as contemplated under this Agreement, the parties acknowledge and agree that Founder is an independent contractor, not an agent or employee of the Company. This Agreement shall not be construed to create a partnership, joint venture, or agency relationship between the Company and Founder. The parties further acknowledge and agree as follows: (a) the Company only retains the right to direct the results achieved by Founder and not the manner and means by which these results are to be accomplished; (b) the Company will not establish a quality standard for Founder; (c) Founder shall determine when and how he is to perform services under this Agreement; (d) the Company will neither provide nor require training for Founder; (e) Founder's services shall not be integrated into the Company's general business operations; (f) Founder is not required to work full time for the Company and may perform services for other companies subject to the provisions in this Agreement; (g) Founder shall not be required to submit regular written reports to the Company; (h) Founder shall not be paid on salary or hourly basis but instead will be paid a contract rate as set forth in this Agreement, and (i) Founder shall provide his own tools and equipment other than as set forth in this Agreement.

10. **Tax Reporting and Withholding.** Founder is not an employee of the Company and the Company will not withhold any income tax, FICA, Medicare, worker's compensation, or other employment taxes from payments made to Founder pursuant to this Agreement. Founder is responsible for federal, state, and local income tax withholding, FICA, Medicare, and other withholding or employment taxes, if any, as required with respect to payments made to Founder under this Agreement. The Company will comply with all tax reporting requirements relating to payments made to an independent contractor. In the event any person or governmental entity attempts to hold the Company liable or responsible for income tax, FICA, Medicare, worker's compensation, or other employment taxes related to payments the Company makes to Founder under this Agreement, Founder shall indemnify and hold the Company, and its directors, officers, shareholders, employees, and agents, harmless from and against any loss or liability, including attorneys' fees, penalties, and interest. Notwithstanding any provision of this Agreement to the contrary, Founder agrees that if the Company determines, in good faith, that withholding of taxes or other governmental charges from payments otherwise due to Founder hereunder is necessary or advisable, the Company may withhold such amounts and duly remit and report them to the appropriate governmental authority, which shall be deemed to satisfy the Company's payment obligations therefor to Founder under this Agreement. Founder and the Company agree to cooperate to make such amendments to the terms of this Agreement as may be necessary to avoid the imposition of penalties and additional taxes under Section 409A of the Internal Revenue Code (Section 409A); provided, however, that no such amendment shall materially increase the cost to, or impose any liability on, the Company with respect to any benefits contemplated or provided hereunder. To the extent that any right to reimbursement of expenses or payment of any benefit in-kind under this Agreement constitutes nonqualified deferred compensation (within the meaning of Section 409A), (i) any such expense reimbursement shall be made by the Company no later than the last day of the taxable year following the taxable year in which such expense was incurred by Founder, (ii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, and (iii) the amount of expenses eligible for reimbursement or in-kind benefits provided during any taxable year shall not affect the expenses eligible for reimbursement or

in-kind benefits to be provided in any other taxable year; provided that the foregoing clause shall not be violated with regard to expenses reimbursed under any arrangement covered by Section 105(b) of the Internal Revenue Code solely because such expenses are subject to a limit related to the period the arrangement is in effect.

11. **Workers' Compensation and Unemployment Compensation Insurance.** Except as otherwise expressly set forth in this Agreement, Founder shall be solely responsible for all of his own insurance. By way of example and not limitation, the Company will not obtain workers' compensation insurance or unemployment compensation insurance on behalf of Founder. Founder shall be solely responsible for obtaining unemployment compensation insurance and workers' compensation insurance for Founder or Founder's assignee, and Founder shall be solely responsible for complying with all applicable workers' compensation and unemployment compensation laws.

12. **Termination.**

(a) Either party may terminate this Agreement in its sole discretion upon ten (10) days prior written notice; provided that the Company may terminate this Agreement immediately upon written notice for Cause (as defined below).

(b) If this Agreement is terminated by Heska without Cause (as defined below), or by Founder for Good Reason (as defined below) or due to the death or Disability of Founder (including death or Disability that results in a termination of the Employment Agreement), Heska will (i) pay the Fee for the balance of the unexpired Term in equal monthly installments on the last day of each month, (ii) accelerate the vesting of any equity awards held by Founder subject to vesting that would have vested during remainder of the Term, and (iii) provide the benefits contemplated by Section 3 for the balance of the unexpired Term. Upon termination for any other reason, Founder shall have no further right to compensation under this Agreement other than any amounts that have accrued prior to, but have not been paid as of, the date of termination.

13. **Definitions.**

(a) **Cause.** For purposes of this Agreement, "**Cause**" shall mean the occurrence, during the term of the Employment Agreement or during the Term, of one or more of the following: (i) conviction of, or entry of a plea of *nolo contendere* to, any crime (including one involving moral turpitude but excluding traffic violations), or a commission of any crime, whether a felony or misdemeanor, which reflects so negatively on Heska to be detrimental to Heska's image or interests, or any act of fraud or dishonesty that has such negative reflection upon Heska; (ii) the repeated commitment of insubordination or refusal to comply with any reasonable request of the Chair related to the scope or performance of Founder's duties; (iii) possession of any illegal drug on Heska premises or being under the influence of illegal drugs or abusing prescription drugs or alcohol while on Heska business, attending Heska-sponsored functions or on Heska premises; (iv) the gross misconduct or gross negligence in the performance of Founder's responsibilities which, based upon good faith and reasonable factual investigation of the Board, demonstrates Founder's unfitness to serve; or (v) material breach or violation of Founder's obligations under this Agreement; provided that if any of the foregoing events is capable of being cured, Heska will provide notice to Founder describing the nature of such event and Founder will thereafter have 30 days to cure such event. On

the last day of such 30-day period, Heska will provide notice to Founder either: (i) that Heska considers the event cured or (ii) that Heska does not consider the event cured and the Agreement is terminated.

**(b) Competition.** For purposes of this Agreement, Founder will be deemed to have engaged in "**Competition**" if he, without the consent of the Board or an authorized officer of any successor company to Heska, directly or indirectly provides services relating to the companion animal health industry (whether as an employee, consultant, agent, corporate officer, director, or otherwise) to, or participates in the financing, operation, management, or control of, a "**Restricted Company**," which for purposes of this Agreement shall mean IDEXX Laboratories, Inc., Abaxis, Inc., VCA/Antech, scil animal health company, and the Synbiotics subsidiary of Zoetis (excluding any other operations of Zoetis), or any successor thereto. Notwithstanding the foregoing, nothing contained in this Agreement shall prohibit Founder from being employed or engaged in a corporate function or senior management position (and holding commensurate equity interests) with a Restricted Company that is engaged in multiple lines of business, one of which includes the companion animal health industry, so long as Founder does not provide to such line(s) of business services of a sort that differ significantly from the services he provides to the other divisions, units or affiliates for which he has responsibility within the overall organization of the Restricted Company.

**(c) Disability.** For purposes of this Agreement, Disability shall have the same defined meaning as in Heska's long-term disability plan applicable to senior executive officers.

**(d) Good Reason.** For purposes of this Agreement, "**Good Reason**" means the occurrence of any of the following without Founder's express written consent:

(i) any material breach by Heska of any provision of this Agreement; and

(ii) any successor to Heska following a Change of Control (as defined in the Employment Agreement) fails to assume or be bound by the terms and conditions of this Agreement;

provided, however, that prior to any such event constituting Good Reason, Founder shall give Heska written notice of the existence of the condition which Founder believes constitutes Good Reason (which notice must be given within ninety (90) days of the initial existence of the condition) and such condition shall remain uncured for a period of thirty (30) days after the date of such notice. An event of Good Reason shall occur automatically at the expiration of such 30-day period if the relevant condition remains uncured at such time.

#### 14. **General.**

**(a) Notices.** All notices, requests, demands, and other communications called for hereunder will be in writing and will be deemed given (a) on the date of delivery if delivered personally, (b) one day after being delivered to a nationally recognized overnight courier service or (c) five (5) business days after the date of mailing if sent certified or registered mail. Notice to Heska shall be sent to its principal place of business with a copy provided by facsimile to the Chair of the

Compensation Committee of the Board, and notice to Founder will be delivered personally or sent to Founder's last known address provided to Heska.

**(b) Successors and Assigns.** This Agreement will be binding upon and inure to the benefit of (a) the heirs, executors, and legal representatives of Founder upon Founder's death and (b) any successor of Heska. Any such successor of Heska will be deemed substituted for Heska under the terms of this Agreement for all purposes. For this purpose, "successor" means any person, firm, corporation, or other business entity which at any time, whether by purchase, merger, or otherwise, directly or indirectly acquires all or substantially all of the assets or business of Heska. None of the rights of Founder to receive any form of compensation payable pursuant to this Agreement may be assigned or transferred except by will or the laws of descent and distribution; provided, however, that Founder may transfer Founder's rights under this Agreement to a limited liability company or other corporation organized by Founder so long as Founder personally provides all services under this Agreement. Any other attempted assignment, transfer, conveyance, or other disposition of Founder's right to compensation or other benefits will be null and void.

**(c) Integration.** This Agreement, together with the Confidentiality Agreement (as defined in the Employment Agreement), Heska's stock plans, Founder's stock option and restricted stock agreements, represents the entire agreement and understanding between the parties as to the subject matter herein and supersedes all prior or contemporaneous agreements whether written or oral, including the Employment Agreement (except for the provisions thereof that expressly survive by their terms). No waiver, alteration, or modification of any of the provisions of this Agreement will be binding unless in a writing that specifically references this Section and is signed by duly authorized representatives of the parties hereto.

**(d) Interpretation.** Section titles and headings contained herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement.

**(e) Waivers.** Any term or provision of this Agreement may be waived, or the time for its performance may be extended, by the party or parties entitled to the benefit thereof. Any such waiver shall be validly and sufficiently authorized for the purposes of this Agreement if, as to any party, it is authorized in writing by an authorized representative of such party. The failure of any party hereto to enforce at any time any provision of this Agreement shall not be construed to be a waiver of such provision, nor in any way to affect the validity of this Agreement or any part hereof or the right of any party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to constitute a waiver of any other or subsequent breach.

**(f) Partial Invalidity.** Wherever possible, each provision hereof shall be interpreted in such manner as to be effective and valid under applicable law, but in case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such provision shall be ineffective to the extent, but only to the extent, of such invalidity, illegality or unenforceability without invalidating the remainder of such invalid, illegal or unenforceable provision or provisions or any other provisions hereof, unless such a construction would be unreasonable. The parties agree that an arbitrator or court of competent

jurisdiction shall reform any invalid, illegal, or unenforceable provisions to ensure such provisions are effective and valid under applicable law.

**(g) Governing Law; Waiver of Jury Trial.** THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF COLORADO WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES. THE PARTIES HERETO EACH WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY AND ALL SUCH CLAIMS AND CAUSES OF ACTION.

**(h) Injunctive Relief; Arbitration; Attorneys' Fees.**

(i) The parties acknowledge and agree that a breach of Sections 6, 7, or 13 of this Agreement by Founder would result in immediate and irreparable harm to the Company. Therefore, in the event of Founder's breach of Sections 6, 7, or 13, the Company shall have any and all remedies available to it in law or in equity, including without limitation the right to seek recovery of any amounts paid under this Agreement and injunctive relief, specific performance, or any other equitable relief to prevent a breach and to secure the enforcement of this Section. Injunctive relief may be granted immediately upon the commencement of any such action.

(ii) Subject to the provisions in subsection 14(h)(i) above, 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, either party may elect to have the dispute resolved through arbitration. The arbitration shall be binding and conducted pursuant to the rules of the American Arbitration Association and the arbitrator shall allocate the fees and expenses of such arbitration. 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 and conditions of this Agreement, 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 of this Agreement. 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.

**(i) Survival.** Notwithstanding any other provisions in this Agreement to the contrary, Sections 6, 7, 10, 13, and 14 shall survive the expiration or termination of this Agreement.

**(j) Counterparts.** This Agreement may be executed in counterparts, and each counterpart will have the same force and effect as an original and will constitute an effective, binding agreement on the part of each of the undersigned.

*[Signature Page Follows]*

**IN WITNESS WHEREOF**, Heska has caused this Agreement to be duly executed by an authorized representative thereunto duly authorized, and Founder has hereunto set his hand, all as of the day and year last written below.

**HESKA CORPORATION:**

By: /s/ William A. Aylesworth  
Name: William A. Aylesworth  
Title: Lead Director, Acting with Authority of the Board in its Entirety

Subscribed and sworn to before me this 3/26 day of 2014 by William A. Aylesworth.

Witness my hand and official seal: /s/ Kimberley A. Barnett  
Notary Public  
My commission expires:  
October 26, 2015

KIMBERLEY A. BARNETT  
MY COMMISSION EXPIRES  
October 26, 2015

**FOUNDER:**

By: /s/ Robert B. Grieve  
Name: Robert B. Grieve, Ph.D.  
Title: Consultant

Subscribed and sworn to before me this 26th day of 2014 by Robert B. Grieve, Ph.D.

Witness my hand and official seal:  
/s/ Laney Keefe  
Notary Public  
My commission expires:

LANEY KEEFE  
NOTARY PUBLIC  
STATE OF COLORADO  
NOTARY ID # 19984000180  
MY COMMISSION EXPIRES JANUARY 09, 2018



**EMPLOYMENT AGREEMENT**

This Employment Agreement (the "**Agreement**") is made effective at the Effective Date set forth below between Heska Corporation, a Delaware corporation ("**Heska**" or the "**Company**"), and Kevin S. Wilson ("**Executive**"). Heska and Executive collectively are referred to as the "**Parties**" and individually as a "**Party**."

**RECITALS**

Executive is currently the President and Chief Operating Officer of Heska. Executive and Heska are parties to an employment agreement dated February 22, 2013 (the "**Prior Agreement**").

The Board of Directors of Heska (the "**Board**") desires to appoint Executive to become Chief Executive Officer and President of Heska on the terms and conditions set forth below.

Executive and Heska now wish to enter into this Agreement regarding the terms of Executive's employment, which shall become effective upon execution and delivery of this Agreement (the "**Effective Date**") and supersede the Prior Agreement.

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises, covenants, and agreements contained herein, the legal sufficiency of which is acknowledged by the Parties, and intending to be legally bound, the Parties agree as follows:

**TERMS****1. Duties and Scope of Employment.**

**a. Position and Duties.** Executive shall continue to serve as President and Chief Operating Officer until immediately following the filing of Heska's Form 10-K for the fiscal year ended December 31, 2013 with the Securities and Exchange Commission, after which time Executive will serve as President and Chief Executive Officer of Heska. Executive will render such business and professional services in the performance of Executive's duties, consistent with Executive's position within Heska, as will reasonably be assigned to Executive by the Board.

**b. Board Membership.** The Board has determined to nominate Executive for election to a 3-year term as a Board member at the Company's Annual Meeting of Stockholders in 2014 (the "**Annual Meeting**"). At each meeting of Heska's stockholders when Executive is up for Board election, Heska will nominate Executive to serve as a member of the Board. Executive's service as a member of the Board will be subject to any required stockholder approval. If elected, Executive will serve on the Board without any additional compensation.

**c. Obligations.** During the Term of Agreement (as defined below), Executive will devote all of his business efforts and time (excluding vacation, absence due to illness and similar time off) as well as other such attention, skills, time and business efforts as are necessary to responsibly act as Chief Executive Officer and President of Heska; provided, however, that Executive may continue to perform part-time management activities for Cuattro, LLC, Cuattro

Software, LLC, Cuattro Medical, LLC, and Cuattro Veterinary, LLC; provided, further, that such services do not adversely affect Executive's obligations to Heska. For the duration of the Term of Agreement, Executive agrees not to actively engage in any other employment, occupation, or consulting activity, for any direct or indirect remuneration, without the prior approval of the Board or the Corporate Governance Committee of the Board; provided, however, that Executive may, without the approval of the Board or the Corporate Governance Committee of the Board, serve in any capacity with any civic, educational, or charitable organization, provided, that such services do not interfere with Executive's obligations to Heska.

## 2. Term of Agreement.

a. The period of Executive's employment under this Agreement is referred to herein as the "**Term of Agreement.**" Subject to the provisions for earlier termination of employment in Section 6 below, this Agreement will have a term of forty-eight (48) months commencing on the Effective Date; provided, however, that either Heska or Executive may terminate Executive's employment immediately at any time subject to the provisions in Section 6 below.

b. Executive may be entitled to severance benefits pursuant to Section 6 below, depending upon the circumstances of Executive's termination of employment. Executive will not be entitled to severance benefits if this Agreement expires after the forty-eight-month term contemplated in Section 2(a) above, regardless of the reason. Upon the termination of Executive's employment for any reason, Executive will be entitled to payment of all accrued but unpaid compensation, expense reimbursements, and other benefits due to Executive through Executive's termination date under any Heska-provided or paid plans, policies, and arrangements. Executive agrees to resign from all positions that Executive holds with Heska, including, without limitation, his position as a member of the Board, excluding any position(s) in Heska Imaging US, LLC to which Executive is otherwise entitled pursuant to the Operating Agreement of Heska Imaging US, LLC, immediately following the termination of Executive's employment if the Board so requests.

## 3. Compensation.

a. **Base Salary.** During the Term of Agreement, Heska will pay Executive an annual salary of \$275,000 as compensation for Executive's services (the "**Base Salary**"). The Base Salary will be paid periodically in accordance with Heska's normal payroll practices and will be subject to the usual, required withholdings and deductions. Except as set forth in Section 3(d)(ii), if applicable, Executive's Base Salary shall not be subject to change during the Term of Agreement; provided, however, that the Compensation Committee of the Board (the "**Committee**") will have the authority, but not an obligation, to consider Base Salary increases for Executive in special circumstances.

### b. Annual Bonus.

i. From January 1, 2014 through the Effective Date, pursuant to the Prior Agreement, Executive participated in the Management Incentive Plan (the "**Bonus Plan**") established by the Committee (as defined herein), at a target percentage that was 35% of Executive's Base Salary then in effect (the "**Target Bonus**"). The actual bonus paid may be higher or lower than the Target Bonus for over or under-achievement of Executive's performance goals, as determined by the Committee in its sole discretion. Executive's eligibility for such

bonus through the Effective Date will not be superseded by this Agreement and such bonus, if any, will accrue through the Effective Date and become payable in accordance with the Committee's standard practices for paying executive incentive compensation, provided, however, that any bonus payable under this Section 3(b)(i) will be payable within two-and-one-half (2-1/2) months after the end of the taxable year to which it relates or such longer period as may be permitted by Treasury regulations in order to avoid application of Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**") to such bonus. Any bonus paid pursuant to this Section will be subject to applicable withholdings and deductions.

ii. Except as set forth in Section 3(d)(iii), if applicable, Executive shall not be eligible to participate in the Bonus Plan with respect to periods after the Effective Date.

c. **Equity Grants.**

i. Except as set forth in Section 3(d)(iii), if applicable, during the Term of Agreement, Executive will not be eligible to receive periodic equity grants normally made to executives of the Company in the discretion of the Committee from time to time; provided, however, that the Committee will have the authority, but not an obligation, to consider equity grants to Executive in special circumstances.

ii. In lieu of such participation in the Bonus Plan and normal equity programs of the Company:

A. **Initial Grant.** On the Effective Date, Heska shall grant to Executive 110,000 shares of Heska Common Stock (the "**Initial Grant**"), which shall be issued as shares of Restricted Stock ("**Shares**") in accordance with the Company's 1997 Stock Incentive Plan, as amended, (the "**Plan**") and pursuant to the terms and conditions of the form of Award Agreement attached hereto as Exhibit A (the "**Award Agreement**") which shall provide that such shares (the "**Time-Vesting Shares**") will vest, subject to the terms and conditions of the Award Agreement, as follows: (i) 27,500 Shares shall vest on the six-month anniversary of the Effective Date; and (ii) 27,500 additional Shares shall vest on each succeeding one year anniversary of the Effective Date (each such date, a "**Time-Vesting Date**"), until the Initial Grant is fully vested.

B. **Conditional Grant.** At the Annual Meeting, Heska shall propose for approval by its stockholders an additional 130,000 shares of Heska Common Stock to be authorized for issuance under the Plan (the "**Share Increase Proposal**"). If the Share Increase Proposal is approved by the stockholders at the Annual Meeting, Heska shall grant to Executive, promptly after the Annual Meeting, 130,000 Shares, which shall be issued as shares of Restricted Stock in accordance with the Plan and pursuant to the terms and conditions of the Award Agreement (the "**Conditional Grant**"), which shall provide that said Shares will vest, as follows:

(1) **Market Price Vesting.** Subject to the terms and conditions of the Award Agreement, 13,000 shares shall vest on each date that the 90-Day Price first equals or exceeds each of the following thresholds (the "**Market-Vesting Thresholds**"): (i) \$12.60, (ii) \$16.38, (iii) \$21.24, (iv) \$26.55 and (v) \$31.95 (collectively, the "**Market-Vesting Shares**"). For purposes of this Agreement, the "**90-Day Price**" shall mean, with respect to any date, the average of the closing prices per share of the Company's Common Stock for the 90 trading days ending on such date (inclusive) on the NASDAQ Stock Market, or if the Shares are not traded on

the NASDAQ Stock Market, the average of the high bid and low asked prices on such trading days quoted on the NASDAQ OTC Bulletin Board or by the National Quotation Bureau, Inc., or a comparable service as determined in the discretion of the Committee. In the event of a stock split, stock dividend or reverse stock split affecting the Common Stock, the Committee shall adjust the Market-Vesting Thresholds to appropriately reflect such event. Each Market-Vesting Threshold is a distinct vesting trigger and multiple Market-Vesting Threshold events may be achieved simultaneously; for the avoidance of doubt and by way of illustration, if the 90-Day Price equals or exceeds \$16.38, then 26,000 shares would vest.

(2) EBITDA Vesting. Subject to the terms and conditions of the Award Agreement, 13,000 shares shall vest on each Reporting Date that the Company's Adjusted EBITDA for the preceding fiscal year first equals or exceeds each of the following thresholds (the "**EBITDA-Vesting Thresholds**"): (i) \$2,460,000, (ii) \$3,200,000, (iii) \$4,150,000, (iv) \$5,180,000 and (v) \$6,240,000 (collectively, the "**EBITDA-Vesting Shares**"). Each EBITDA-Vesting Threshold is a distinct vesting trigger and multiple EBITDA-Vesting Threshold events may be achieved simultaneously; for the avoidance of doubt and by way of illustration, if on Reporting Date for Fiscal Year 2014 the Adjusted EBITDA is \$3,400,000, then 26,000 shares would vest. For purposes of this Agreement, "**Reporting Date**" means the date in each fiscal year that the Company's independent public accountants issue their audit report on the Company's financial statements for the preceding fiscal year (each, an "**Audit Report**"). For purposes of this Agreement, "**Adjusted EBITDA**" means for any fiscal year, the following, determined on a consolidated basis in accordance with generally-accepted accounting principles for the Company and its subsidiaries, based on the Audit Report for such year: (x) consolidated net income plus (y) the sum of the following, without duplication, to the extent deducted in determining such consolidated net income: (1) income and franchise tax expense, (2) interest and other expense (net), (3) amortization and depreciation and (4) compensation expense paid to the Company's Executive Chair, if any.

(3) Financial Statement Restatement. Notwithstanding any provision of this Agreement to the contrary, the Conditional Grant shall be subject to the terms and conditions of this Section 3(c)(ii)(B)(3) in the event that the Company issues a restatement of its audited financial statements (a "**Restatement**") after any portion of the Conditional Grant has vested. If (i) any portion of the Conditional Grant vests based on achievement of an EBITDA-Vesting Threshold and within 4 years thereafter the Company subsequently issues a Restatement affecting Adjusted EBITDA for the corresponding fiscal year such that the EBITDA-Vesting Threshold would not have been met, then such portion of the Conditional Grant shall be deemed not to have vested, and (ii) if any portion of the Conditional Grant vests based on achievement of a Market-Vesting Threshold, and within 2 years thereafter the Company issues a Restatement affecting Adjusted EBITDA for the corresponding fiscal year such that the Adjusted EBITDA set forth in the Restatement is less than the Adjusted EBITDA target corresponding to such Market-Vesting Threshold as set forth on Exhibit B attached hereto, then such portion of the Conditional Grant shall be deemed not to have vested. If any portion of the Conditional Grant is deemed not to have vested pursuant to the foregoing sentence (an "**Unearned Grant**"), then Executive shall either (x) promptly return the Shares comprising the Unearned Grant to the Company or (y) if Executive has sold such Shares, pay to the Company within one (1) year from the date of the corresponding Restatement an amount equal to the proceeds Executive received from any sale of such Shares not returned by Executive pursuant to the foregoing clause (x). In addition to the foregoing, Executive's compensation and equity awards shall remain subject to any applicable law (including without limitation Section 302 of

the Sarbanes Oxley Act and Section 954 of the Dodd Frank Act) or regulation in effect from time to time.

**d. Non-Approval of Share Increase Proposal at Annual Meeting.** If the Heska stockholders do not approve the Share Increase Proposal at the Annual Meeting, the following provisions shall apply:

i. Heska shall have no obligation to make the Conditional Grant to Executive and Section 3(c)(ii)(B) shall be of no force or effect;

ii. Executive's employment shall continue on the terms and conditions of this Agreement, which shall continue in full force and effect according to its terms, except that Executive's Base Salary shall be \$400,000, to be paid periodically in accordance with Heska's normal payroll practices, subject to the usual, required withholdings and deductions. Executive's salary will be subject to review, and adjustments will be made at the sole discretion of the Committee and based upon Heska's standard practices;

iii. Executive shall participate in the Bonus Plan, or such other bonus programs as established by the Committee, at a target percentage that is no less than 50% of Executive's Base Salary then in effect (hereinafter, the "**Target Bonus**"). The actual bonus paid may be higher or lower than the Target Bonus for over or under-achievement of Executive's performance goals, as determined by the Committee in its sole discretion. Bonuses, if any, will accrue and become payable in accordance with the Committee's standard practices for paying executive incentive compensation, provided, however, that any bonus payable under this Section (3)(d)(iii) will be payable within two-and-one-half (2-1/2) months after the end of the taxable year to which it relates or such longer period as may be permitted by Treasury regulations in order to avoid application of Section 409A of the Code to such bonus. Any bonus paid pursuant to this Section will be subject to applicable withholdings and deductions. Further, Executive shall participate in the normal equity programs of the Company and any other benefits offered to senior executives of Heska, including any Company sponsored 401(k) or retirement plan, in accordance with (and subject to the legal limitations on) benefit plans, policies, and arrangements that may exist from time to time; and

iv. The Initial Grant shall remain outstanding subject to vesting according to its terms.

4. **Expenses.** In addition to the foregoing, Heska will reimburse Executive for Executive's reasonable out-of-pocket travel, entertainment, and other expenses, in accordance with Heska's expense reimbursement policies and practices in effect at the time of the reimbursement request. Executive shall submit such requests not later than forty-five (45) days after incurring such expenses.

5. **Employee Benefits.** Except as set forth in Section 3(d)(iii), if applicable, during the Term of Agreement, Executive will not be eligible to participate in the Bonus Plan and normal equity programs of the Company; provided, that Executive will be eligible to participate in other benefits offered to other senior executives of Heska, including any Company sponsored 401(k) or retirement plan, in accordance with (and subject to the legal limitations on) benefit plans, policies, and arrangements that may exist from time to time.

6. **Termination and Severance.**

a. **Termination without Cause or for Good Reason other than In Connection with a Change of Control.** If, at any time, Executive's employment is terminated by Heska without Cause (as defined below), by Executive for Good Reason (as defined below), or due to Executive's death or Disability (as defined below), and the termination is not In Connection with a Change of Control (as defined below), Executive will receive the following, subject to conditions and limitations set forth in Section 7:

i. A payment of an amount equal to six (6) months of Executive's Base Salary, payable in accordance with Heska's standard payroll practices over the shorter of the following periods (A) in equal installments over the period beginning on the date of such termination and ending on the six-month anniversary thereof, or (B) in equal installments on a monthly basis corresponding to the amount Executive would normally receive as salary each month if Executive were still employed with Heska, with a lump sum of any remaining balance of the amount specified above on March 15 of the year following the year of termination.

ii. Provided that Executive timely elects continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**"), Heska shall pay the COBRA premium for coverage for Executive and Executive's eligible dependents under Heska's Benefit Plans (as defined below) for six (6) months, or if earlier, until Executive becomes employed by another employer and eligible for coverage under such other employer's welfare benefit plans (*e.g.*, payments for medical COBRA premiums will cease when Executive becomes eligible for another employer's medical plan). For the balance of the period during which Executive and Executive's eligible dependents are entitled to coverage under COBRA, Executive shall be entitled to maintain coverage for Executive and Executive's eligible dependents at Executive's sole expense. Executive shall notify Heska immediately upon Executive's acceptance of employment with another employer.

iii. Subject to Section 3(d)(i), if applicable, if, within one hundred eighty (180) days after any such termination without Cause by Heska, (A) the Company achieves one or more Market-Vesting Thresholds or (B) a Reporting Date occurs on which the Company achieves one or more EBITDA-Vesting Thresholds, then any Shares that would otherwise have then vested if such termination had not occurred shall be deemed to vest.

b. **Termination without Cause or for Good Reason In Connection with a Change of Control.** If, at any time, Executive's employment is terminated by Heska without Cause or by Executive for Good Reason, and the termination is In Connection with a Change of Control (as defined below), then, subject to the limitations set forth in this Section 7, Executive will receive:

i. A payment of an amount equal to twelve (12) months of Executive's Base Salary, payable in equal installments in accordance with the standard payroll schedule over the shorter of the following periods (A) the period beginning on the date of such termination and ending on the one-year anniversary thereof, or (B) the period beginning on the date of such termination and ending on March 15 of the year following the year of termination.

ii. Provided that Executive timely elects continuation coverage under COBRA, Heska shall pay the COBRA premium for coverage for Executive and Executive's

eligible dependents under Heska's Benefit Plans (as defined below) for twelve (12) months, or if earlier, until Executive becomes employed by another employer and eligible for coverage under such other employer's welfare benefit plans (e.g., payments for medical COBRA premiums will cease when Executive becomes eligible for another employer's medical plan). For the balance of the period during which Executive and Executive's eligible dependents are entitled to coverage under COBRA, Executive shall be entitled to maintain coverage for Executive and Executive's eligible dependents at Executive's sole expense. Executive shall notify Heska immediately upon Executive's acceptance of employment with another employer.

iii. Accelerated vesting of Shares as follows:

A. A portion of any Time-Vesting Shares that would otherwise have vested on the first Time-Vesting Date following such termination if such termination had not occurred shall vest as follows: 27,500 Shares, multiplied by a fraction, the numerator of which is the number of days elapsed prior to such termination in the vesting period ending on such Time-Vesting Date, and the denominator of which is the total number of days in such vesting period.

B. Subject to Section 3(d)(i), if applicable, Market-Vesting Shares that would otherwise vest if the 90-Day Price were to equal the Change of Control Price shall be deemed to vest. For purposes of this Agreement, the "**Change of Control Price**" means the net price per share of Heska Common Stock, determined by the Committee in good faith, based on the fair market value of the total consideration received by Heska and its stockholders in connection with the transaction resulting in the Change of Control, net of fees, expenses and commissions incurred by Heska in connection with such transaction and any compensation or other payments made by Heska or its successor to Heska employees as a result of such Change of Control.

C. Subject to Section 3(d)(i), if applicable, EBITDA-Vesting Shares that would otherwise vest if the Adjusted EBITDA calculated pursuant to this Section 6(b)(iii)(C) were the Adjusted EBITDA on a Reporting Date shall be deemed to vest. For purposes of this Section 6(b)(iii)(C), the Adjusted EBITDA shall be calculated in good faith by the Committee for the twelve-month period ending on the last day of the month immediately preceding the Change of Control, shall not be audited, and shall be adjusted to take into account normal, recurring year end adjustments.

c. **Termination without Good Reason; Termination for Cause.** If, at any time, Executive's employment with Heska terminates voluntarily by Executive without Good Reason or is terminated for Cause by Heska, then (i) all further vesting of Executive's outstanding equity awards will terminate immediately, (ii) all payments of compensation by Heska to Executive hereunder will terminate immediately (except as to amounts already earned), but Executive will be paid all accrued but unpaid expense reimbursements, and other benefits due to Executive through Executive's termination date under any Company-provided or paid plans, policies, and arrangements, and (iii) Executive will not be entitled to any severance.

d. **Excise Tax.** In the event that any benefits payable to Executive pursuant to Section 6 of this Agreement ("**Termination Benefits**") (i) constitute "parachute payments" within the meaning of Section 280G of the Code, or any comparable successor provisions, and (ii) but for this Section 6(d), would be subject to the excise tax imposed by Section 4999 of the Code, or any comparable successor provisions (the "**Excise Tax**"), then Executive's Termination

Benefits hereunder shall be either (A) provided to Executive in full, or (B) provided to Executive as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the foregoing amounts, when taking into account applicable federal, state, local, and foreign income and employment taxes, the Excise Tax, and any other applicable taxes, results in the receipt by Executive, on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under the Excise Tax. Unless Heska and Executive otherwise agree in writing, any determination required under this Section 6(d) shall be made in writing in good faith by Heska's independent accountants. In the event of a reduction of benefits hereunder, Executive shall be given the choice of which benefits to reduce. If Executive does not provide written identification to Heska of which benefits Executive chooses to reduce within ten (10) days after written notice of the accountants' determination, and Executive has not disputed the accountants' determination, then Heska shall select the benefits to be reduced. For purposes of making the calculations required by this Section 6(d), the accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of the Code and other applicable legal authority. Heska and Executive shall furnish to the accountants such information and documents as the accountants may reasonably request in order to make a determination under this Section 6(d). Heska shall bear all costs the accountants may reasonably incur in connection with any calculations contemplated by this Section 6(d).

7. **Conditions to Receipt of Severance; Covenants; No Duty to Mitigate.**

a. **Separation Agreement and Release of Claims.** The receipt of any severance pursuant to Section 6 will be subject to Executive signing and not revoking a confidential separation agreement and release of claims in a form reasonably acceptable to Heska. Such agreement will provide (among other things) that Executive will not disparage Heska, its affiliates, parents, subsidiaries, directors, executive officers, employees, agents, or representatives. No severance will be paid or provided until the confidential separation agreement and release agreement becomes effective. No severance will be paid or provided if the Executive's confidential separation agreement and release agreement is not signed and irrevocable within forty-five (45) days after the Executive's termination date. If Executive's date of termination and the last day of any applicable statutory revocation period could fall in two separate taxable years, regardless of when Executive actually executes and delivers the release, payments will not commence until the later taxable year.

b. **Non-Competition.** Executive agrees not to engage in Competition (as defined below) during the Term of Agreement and for twelve (12) months following the termination or expiration date. The geographic scope of this Section 7(b) is the United States of America. If Executive engages in Competition within such period and within such geographic scope, all continuing payments and benefits to which Executive otherwise may be entitled pursuant to Section 6 will cease immediately.

c. **Non-Solicitation.** Executive agrees that, during the Term of Agreement and for twenty-four (24) months following the termination or expiration date, Executive, directly or indirectly, whether as employee, owner, sole proprietor, partner, director, member, consultant, agent, founder, co-venturer, or otherwise, (i) will not solicit, induce, or influence any person to modify his or her employment or consulting relationship with Heska (the "**No-Inducement**"), and (ii) will not intentionally divert business away from Heska by soliciting business from any of Heska's customers and users who would otherwise have placed the solicited order with Heska

(the "**No Solicit**"). The geographic scope of this Section 7(c) is the United States of America. If Executive breaches the No-Inducement or No Solicit within such period and within such geographic scope, all continuing payments and benefits to which Executive otherwise may be entitled pursuant to Section 6 will cease immediately.

**d. Remedies.** In the event of Executive's breach of Sections 7(b) or 7(c), Heska shall have any and all remedies available to it in law or in equity, including without limitation the right to seek recovery of any amounts paid or Shares granted under Section 6 of this Agreement and injunctive relief, specific performance, or any other equitable relief to prevent a breach and to secure the enforcement of this Section. Injunctive relief may be granted immediately upon the commencement of any such action, and Heska need not post a bond to obtain temporary or permanent injunctive relief.

**e. No Duty to Mitigate.** Executive is under no duty or requirement to mitigate the amount of any payment contemplated by this Agreement, nor will any earnings that Executive may receive from any other source reduce any such payment.

**8. Definitions.**

**a. Benefit Plans.** For purposes of this Agreement, "**Benefit Plans**" means plans, policies, or arrangements that Heska sponsors (or participates in) and that immediately prior to Executive's termination of employment provide Executive and Executive's eligible dependents with medical, dental, or vision benefits. Benefit Plans do not include any other type of benefit (including, but not limited to, financial counseling, disability, life insurance, or retirement benefits). A requirement that Heska provide Executive and Executive's eligible dependents with coverage under the Benefit Plans will not be satisfied unless the coverage is no less favorable than that provided to Executive and Executive's eligible dependents immediately prior to Executive's termination of employment.

**b. Cause.** For purposes of this Agreement, "**Cause**" shall mean the occurrence of one or more of the following: (i) conviction of, or entry of a plea of *nolo contendere* to, any felony crime (including one involving moral turpitude), or any crime which reflects so negatively on Heska to be detrimental to Heska's image or interests, or any act of fraud or dishonesty that has such negative reflection upon Heska; (ii) the repeated commitment of insubordination or refusal to comply with any reasonable request of the Board related to the scope or performance of Executive's duties; (iii) possession of any illegal drug on Heska premises or being under the influence of illegal drugs or abusing prescription drugs or alcohol while on Heska business, attending Heska-sponsored functions, or on Heska premises; (iv) the gross misconduct or gross negligence in the performance of Executive's responsibilities which, based upon good faith and reasonable factual investigation of the Board, demonstrates Executive's unfitness to serve; (v) material breach of Executive's obligations under this Agreement; or (vi) material breach of any fiduciary duty of Executive to Heska, which results in material damage to Heska or its business; provided, however, that if any occurrence under subsections (ii), (iv), (v), and (vi) may be cured, Heska will provide notice to Executive describing the nature of such event and Executive will thereafter have thirty (30) days to cure such event, and if such event is cured with that 30-day period, then grounds will no longer exist for terminating Executive's employment for Cause.

c. **Change of Control.** For purposes of this Agreement, "**Change of Control**" means (i) a sale of all or substantially all of Heska's assets, (ii) any merger, consolidation, or other business combination transaction of Heska with or into another corporation, entity, or person, other than a transaction in which the holders of at least a majority of the shares of voting capital stock of Heska outstanding immediately prior to such transaction continue to hold (either by such shares remaining outstanding or by their being converted into shares of voting capital stock of the surviving entity) a majority of the total voting power represented by the shares of voting capital stock of Heska (or the surviving entity) outstanding immediately after such transaction, (iii) the direct or indirect acquisition (including by way of a tender or exchange offer) by any person, or persons acting as a group, of beneficial ownership or a right to acquire beneficial ownership of shares representing a majority of the voting power of the then outstanding shares of capital stock of Heska, (iv) a contested election of Directors, as a result of which or in connection with which the persons who were Directors before such election or their nominees cease to constitute a majority of the Board, or (v) a dissolution or liquidation of Heska.

d. **Competition.** For purposes of this Agreement, Executive will be deemed to have engaged in "**Competition**" if Executive, without the written consent of the Board or an authorized officer of any successor company to Heska, directly or indirectly (1) provides services or assistance in any form to any individual, entity, or company providing veterinary products for the companion animal health industry or imaging products or services for the veterinary market in the United States (a "**Restricted Company**"), whether such services or assistance is provided as an employee, consultant, agent, corporate officer, director, or otherwise or (2) participates in the financing, operation, management, or control of, a Restricted Company. A Restricted Company includes, Abaxis, Inc., IDEXX Laboratories, Inc., scil animal health company GmbH, VCA Antech, Inc., Sound Technologies, Inc. (currently a wholly owned subsidiary of VCA Antech, Inc.), and the Synbiotics subsidiary of Zoetis (excluding the other operations of Zoetis), or any successor thereto. Notwithstanding the foregoing, nothing contained in this Section 8(d) or in Section 7(b) above shall prohibit Executive from being employed or engaged following the Term of Agreement in a corporate function or senior management position (and holding commensurate equity interests) in a division of a Restricted Company, so long as such division is not in any way engaged in providing veterinary products for the companion animal health industry or imaging products or services for the veterinary market in the United States and Executive does not directly or indirectly provide services or assistance to any division that does provide veterinary products for the companion animal health industry or imaging products or services for the veterinary market in the United States.

e. **Disability.** For purposes of this Agreement, "**Disability**" shall mean that, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, the Executive either (i) is unable to perform the business and professional services in the performance of Executive's duties, consistent with Executive's position within Heska, as prior reasonably assigned to Executive by the Board, or (ii) is receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering Heska employees.

f. **Good Reason.**

i. For purposes of this Agreement, "**Good Reason**" means the occurrence of any of the following without Executive's express written consent:

A. Executive's authority with Heska is, or Executive's duties or responsibilities as President and Chief Executive Officer are, materially diminished relative to Executive's authority, duties, and responsibilities as in effect immediately prior to such change;

B. a material diminution in Executive's Base Salary as in effect immediately prior to such diminution; provided, that an across-the-board reduction in the base compensation and benefits of all other executive officers of Heska by the same percentage amount (or under the same terms and conditions) as part of a general base compensation reduction and/or benefit reduction shall not constitute such a qualifying material diminution;

C. a material change in the geographic location of Executive's principal place of employment such that the new location results in a commute for Executive that is both (A) longer than Executive's commute prior to the relocation and (B) greater than fifty (50) road miles each way from Executive's home in the Beaver Creek, Colorado area;

D. any material breach by Heska of any provision of this Agreement; and

E. any acquiring company fails to assume or be bound by the terms of this Agreement In Connection with a Change of Control.

ii. The aforementioned occurrences shall not be deemed Good Reason unless Executive gives Heska written notice of the existence of the condition which Executive believes constitutes Good Reason (which notice must be given within ninety (90) days of the initial existence of the condition) and such condition remains uncured for a period of thirty (30) days after the date of such notice. An event of Good Reason shall occur automatically at the expiration of such 30-day period if the relevant condition remains uncured at such time.

iii. Failure of the Heska stockholders to approve the Share Increase Proposal at the Annual Meeting shall not be deemed a breach of this Agreement by Heska and shall not constitute Good Reason.

g. **In Connection with a Change of Control.** For purposes of this Agreement, a termination of Executive's employment with Heska is "**In Connection with a Change of Control**" if Executive's employment is terminated without Cause or for Good Reason during the period beginning three (3) months prior to a Change of Control and ending eighteen (18) months following a Change of Control.

9. **Confidential Information.** Executive acknowledges that Executive has executed Heska's standard employee Confidential Information and Invention Agreement (the "**Confidentiality Agreement**"). During the Term of Agreement, Executive agrees, if requested by Heska, to execute any updated versions of Heska's form of employee confidential information agreement as may be required of substantially all of Heska's executive officers.

10. **Executive's Representations and Warranties.** Executive represents and warrants that Executive is not a party to any other employment, non-competition, or other agreement or restriction which could interfere with the Executive's employment with Heska or Executive's or Heska's rights and obligations hereunder and that Executive's acceptance of employment with Heska and the performance of Executive's duties hereunder will not breach the provisions of any

contract, agreement, or understanding to which the Executive is party or any duty owed by the Executive to any other person.

11. **Notices.** All notices, requests, demands, and other communications called for hereunder will be in writing and will be deemed given (a) on the date of delivery if delivered personally, (b) one (1) day after being delivered through a nationally recognized overnight courier service, or (c) five (5) business days after the date of mailing if sent certified or registered mail. Notice to Heska shall be sent to its principal place of business with a copy provided by facsimile to the Chair of the Committee, and notice to Executive will be delivered personally or sent to Executive's last known address provided to Heska.

12. **Successors and Assigns.** This Agreement will be binding upon and inure to the benefit of (a) the heirs, executors, and legal representatives of Executive upon Executive's death and (b) any Successor of Heska. Any such Successor (as defined below) of Heska will be deemed substituted for Heska under the terms of this Agreement for all purposes. For purposes of this Section, "**Successor**" means any person, firm, corporation, or other business entity which at any time, whether by purchase, merger, or otherwise, directly or indirectly, acquires all or substantially all of the assets or business of Heska. None of the rights of Executive to receive any form of compensation payable pursuant to this Agreement may be assigned or transferred except by will or the laws of descent and distribution. Any other attempted assignment, transfer, conveyance, or other disposition of Executive's right to compensation or other benefits will be null and void.

13. **Integration.** This Agreement, together with the Confidentiality Agreement, Heska's stock plans, and Executive's restricted stock agreements, represents the entire agreement and understanding between the Parties as to the subject matter herein and supersedes all prior or contemporaneous agreements whether written or oral, including the Prior Agreement. No waiver, alteration, or modification of any of the provisions of this Agreement will be binding unless in a writing that specifically references this Section and is signed by duly authorized representatives of the Parties hereto.

14. **Interpretation.** Section titles and headings contained herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement. The determination of the terms of, and the drafting of, this Agreement has been by mutual agreement after negotiation, with consideration by and participation of all Parties. Accordingly, the Parties agree that rules relating to the interpretation of contracts against the drafter of any particular clause shall not apply in the case of this Agreement.

15. **Waivers.** Any term or provision of this Agreement may be waived, or the time for its performance may be extended, by the Party or Parties entitled to the benefit thereof. Any such waiver shall be validly and sufficiently authorized for the purposes of this Agreement if, as to any Party, it is authorized in writing by an authorized representative of such Party. The failure of any Party hereto to enforce at any time any provision of this Agreement shall not be construed to be a waiver of such provision, nor in any way to affect the validity of this Agreement or any part hereof or the right of any Party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to constitute a waiver of any other or subsequent breach.

16. **Partial Invalidity.** Wherever possible, each provision hereof shall be interpreted in such manner as to be effective and valid under applicable law, but in case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such provision shall be ineffective to the extent, but only to the extent, of such invalidity, illegality or unenforceability without invalidating the remainder of such invalid, illegal or unenforceable provision or provisions or any other provisions hereof, unless such a construction would be unreasonable. The parties agree that an arbitrator or court of competent jurisdiction shall reform any invalid, illegal, or unenforceable provisions to ensure such provisions are effective and valid under applicable law.

17. **Tax Matters.**

a. Except as provided in Section 6(d) above, Executive agrees that Executive is responsible for any applicable taxes of any nature (including any penalties or interest that may apply to such taxes) that are reasonably determined to apply to any payment made to Executive hereunder (or any arrangement contemplated hereunder), that Executive's receipt of any benefit hereunder is conditioned on Executive's satisfaction of any applicable withholding or similar obligations that apply to such benefit, and that any cash payment owed to Executive hereunder will be reduced to satisfy any such withholding or similar obligations that may apply thereto.

b. Executive acknowledges that no representative or agent of Heska has provided Executive with any tax advice of any nature, and Executive has consulted with Executive's own legal, tax, and financial advisor(s) as to tax and related matters concerning the compensation to be received under this Agreement.

c. Executive acknowledges that under Section 83 of the Code, as the shares of Restricted Stock granted under this Agreement (the "**Shares**") vest, the fair value of such Shares will be reportable as ordinary income at that time. Executive further understands that instead of being taxed when and as the Shares vest, Executive may elect to be taxed as of the date the Shares are granted to Executive, with respect to the fair value of all Shares on such date. Such election may only be made under Section 83(b) of the Code within thirty (30) days after such date of grant. Executive acknowledges that failure to make this filing within the (30) day period will result in the recognition of ordinary income as the Shares vest. EXECUTIVE ACKNOWLEDGES THAT IT IS EXECUTIVE'S SOLE RESPONSIBILITY, AND NOT THE COMPANY'S, TO FILE A TIMELY ELECTION UNDER SECTION 83(b), EVEN IF EXECUTIVE REQUESTS THE COMPANY OR ITS REPRESENTATIVES TO MAKE THIS FILING ON EXECUTIVE'S BEHALF. EXECUTIVE IS RELYING SOLELY ON HIS OWN ADVISORS WITH RESPECT TO THE DECISION AS TO WHETHER OR NOT TO FILE AN 83(b) ELECTION.

18. **Section 409A.**

a. This Agreement is intended to comply with Section 409A of the Code, as amended ("**Section 409A**") and shall be construed accordingly. It is the intention of the Parties that payments or benefits payable under this Agreement not be subject to the additional tax or interest imposed pursuant to Section 409A. To the extent such potential payments or benefits are or could become subject to Section 409A, the Parties shall cooperate to amend this Agreement with the goal of giving Executive the economic benefits described herein in a manner that does not result in such tax or interest being imposed; provided, however, that no such amendment

shall materially increase the cost to, or impose any liability on Heska with respect to any benefits contemplated or provided hereunder. Executive shall, at the request of Heska, take any reasonable action (or refrain from taking any action), required to comply with any correction procedure promulgated pursuant to Section 409A.

b. If a payment that could be made under this Agreement would be subject to additional taxes and interest under Section 409A, Heska in its sole discretion may accelerate some or all of a payment otherwise payable under the Agreement to the time at which such amount is includible in the income of Executive, provided that such acceleration shall only be permitted to the extent permitted under Treasury Regulation § 1.409A-3(j)(4)(vii) and the amount of such acceleration does not exceed the amount permitted under Treasury Regulation § 1.409A-3(j)(vii).

c. No payment to be made under this Agreement shall be made at a time earlier than that provided for in this Agreement unless such payment is (i) an acceleration of payment permitted to be made under Treasury Regulation § 1.409A-3(j)(4) or (ii) a payment that would otherwise not be subject to additional taxes and interest under Section 409A.

d. The right to each payment described in this Agreement shall be treated as a right to a series of separate payments and a separately identifiable payment for purposes of Section 409A.

e. For purposes of Section 6 of this Agreement, "**termination**" (or any similar term) when used in reference to Executive's employment shall mean "separation from service" with Heska within the meaning of Section 409A(a)(2)(A)(i) of the Code and applicable administrative guidance issued thereunder, and Executive shall be considered to have terminated employment with Heska when, and only when, Executive incurs a "separation from service" with Heska within the meaning of Section 409A(a)(2)(A)(i) of the Code and applicable administrative guidance issued thereunder.

f. If Executive qualifies as a "specified employee" within the meaning of Section 409A(a)(2)(B)(i) of the Code and would receive any payment sooner than six (6) months after Executive's separation from service that, absent the application of this Section 18(f), would be subject to additional tax imposed pursuant to Section 409A as a result of such status as a specified employee, then such payment shall instead be payable on the date that is the earliest of (i) six (6) months after Executive's separation from service, (ii) Executive's death, or (iii) such other date as will not result in such payment being subject to such additional tax.

19. **Governing Law; Waiver of Jury Trial.** This Agreement shall be governed by and construed in accordance with the internal laws of the State of Colorado without regard to conflict of law principles. The Parties hereto each waive their respective rights to a jury trial of any and all such claims and causes of action.

20. **Counterparts.** This Agreement may be executed in counterparts, and each counterpart will have the same force and effect as an original and will constitute an effective, binding agreement on the part of each of the undersigned.

21. **Arbitration; Attorney's Fees.** Subject to Section 7(d) above, 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, either Party may elect to have the dispute resolved through arbitration. The arbitration shall be binding and conducted pursuant to the rules of the American Arbitration Association under its National Rules for the Resolution of Employment Disputes and the arbitrator shall allocate the fees and expenses of such arbitration. 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 and 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.

22. **Survival.** Notwithstanding any provision of this Agreement to the contrary, Sections 3(c)(ii)(B)(3) and 6 through 22 shall survive the expiration or termination of this Agreement.

**IN WITNESS WHEREOF**, Heska has caused this Employment Agreement to be duly executed by a representative thereunto duly authorized, and Executive has hereunto set Executive's hand, all as of the day and year first above written.

**HESKA CORPORATION**

/s/ William A. Aylesworth

William A. Aylesworth, Lead Director  
Acting with Authority of the Board in its Entirety  
Date: March 26, 2014

**EXECUTIVE:**

/s/ Kevin S. Wilson

Kevin S. Wilson

Date: March 26, 2014

EXHIBIT A

Form of Restricted Stock Agreement

**HESKA CORPORATION**  
**1997 STOCK INCENTIVE PLAN**  
**RESTRICTED STOCK GRANT AGREEMENT**

THIS AGREEMENT is made as of the \_\_\_\_\_ day of \_\_\_\_\_, 2014 (the "Grant Date") by and between Heska Corporation (the "Company"), and Kevin S. Wilson (the "Executive"), in connection with the execution of an Employment Agreement dated on or about the same date between the Company and Executive (the "Employment Agreement").

In consideration of the mutual covenants and representations herein set forth, the Company and Executive agree as follows:

**SECTION 1.        GRANT OF STOCK.**

1.1        Precedence of Plan. This Agreement is subject to and shall be construed in accordance with the terms and conditions of the Heska Corporation 1997 Stock Incentive Plan (the "Plan"), as now or hereinafter in effect. Any capitalized terms that are used in this Agreement without being defined and that are defined in the Plan shall have the meaning specified in the Plan.

1.2        Grant of Stock. The Company hereby grants to Executive an aggregate of 110,000 shares of Restricted Stock (the "Shares"), subject to vesting as provided in Section 2.

**SECTION 2.        UNVESTED SHARES SUBJECT TO FORFEITURE.**

2.1        Shares Subject to Forfeiture. The Shares are subject to time-based vesting requirements.

a.        The Shares will vest as follows: (a) 27,500 Shares will vest on the six-month anniversary of the Grant Date; and (b) 27,500 additional Shares will vest on each succeeding anniversary of the Grant Date, up to and including the third anniversary of the grant date.

b.        In the event that Executive's employment with the Company is terminated prior to vesting, Executive will forfeit all right to Shares that have not yet vested.

c.        Notwithstanding the previous paragraph (b), if Executive is terminated by the Company without Cause or voluntarily with Good Reason, and such termination is In Connection with a Change of Control, a portion of any Shares that would otherwise have vested on the vesting date next following such termination if such termination had not occurred will vest as follows: 27,500 Shares, multiplied by a fraction, the numerator of which is the number of days elapsed prior to such termination in the vesting period ending on such vesting date, and the denominator of which is the total number of days in such vesting period.

d.        For purposes of this Agreement, the following definitions will apply:

i.        "Cause" means the occurrence of one or more of the following: (i) conviction of, or entry of a plea of nolo contendere to, any felony crime (including one involving

moral turpitude), or any crime which reflects so negatively on the Company to be detrimental to the Company's image or interests, or any act of fraud or dishonesty that has such negative reflection upon the Company; (ii) the repeated commitment of insubordination or refusal to comply with any reasonable request of the Board related to the scope or performance of Executive's duties; (iii) possession of any illegal drug on Company premises or being under the influence of illegal drugs or abusing prescription drugs or alcohol while on Company business, attending Company-sponsored functions, or on the Company premises; (iv) the gross misconduct or gross negligence in the performance of Executive's responsibilities which, based upon good faith and reasonable factual investigation of the Board, demonstrates Executive's unfitness to serve; (v) material breach of Executive's obligations under this Agreement; or (vi) material breach of any fiduciary duty of Executive to the Company, which results in material damage to the Company or its business; provided, however, that if any occurrence under subsections (ii), (iv), (v), and (vi) may be cured, the Company will provide notice to Executive describing the nature of such event and Executive will thereafter have thirty (30) days to cure such event, and if such event is cured with that 30-day period, then grounds will no longer exist for terminating Executive's employment for Cause.

ii. "Change of Control" means (i) a sale of all or substantially all of the Company's assets, (ii) any merger, consolidation, or other business combination transaction of the Company with or into another corporation, entity, or person, other than a transaction in which the holders of at least a majority of the shares of voting capital stock of the Company outstanding immediately prior to such transaction continue to hold (either by such shares remaining outstanding or by their being converted into shares of voting capital stock of the surviving entity) a majority of the total voting power represented by the shares of voting capital stock of the Company (or the surviving entity) outstanding immediately after such transaction, (iii) the direct or indirect acquisition (including by way of a tender or exchange offer) by any person, or persons acting as a group, of beneficial ownership or a right to acquire beneficial ownership of shares representing a majority of the voting power of the then outstanding shares of capital stock of the Company, (iv) a contested election of Directors, as a result of which or in connection with which the persons who were Directors before such election or their nominees cease to constitute a majority of the Board, or (v) a dissolution or liquidation of the Company.

iii. "Good Reason" means the occurrence of any of the following without Executive's express written consent:

(1) Executive's authority with the Company is, or Executive's duties or responsibilities as Chief Executive Officer and President are, materially diminished relative to Executive's authority, duties, and responsibilities as in effect immediately prior to such change;

(2) a material diminution in Executive's Base Salary as in effect immediately prior to such diminution; provided, that an across-the-board reduction in the base compensation and benefits of all other executive officers of the Company by the same percentage amount (or under the same terms and conditions) as part of a general base compensation reduction and/or benefit reduction shall not constitute such a qualifying material diminution;

(3) a material change in the geographic location of Executive's principal place of employment such that the new location results in a commute for Executive that is both (A) longer than Executive's commute prior to the relocation and (B) greater than fifty (50) road miles each way from Executive's home in the Beaver Creek, Colorado area;

(4) any material breach by the Company of any provision of the Employment Agreement; and

(5) any acquiring company fails to assume or be bound by the terms of the Employment Agreement In Connection with a Change of Control.

The aforementioned occurrences shall not be deemed Good Reason unless Executive gives the Company written notice of the existence of the condition which Executive believes constitutes Good Reason (which notice must be given within ninety (90) days of the initial existence of the condition) and such condition remains uncured for a period of thirty (30) days after the date of such notice. An event of Good Reason shall occur automatically at the expiration of such 30-day period if the relevant condition remains uncured at such time.

Failure of the Company's stockholders to approve the issuance of the stock described as the "Conditional Grant" in the Employment Agreement shall not be deemed to constitute termination for Good Reason.

iv. "In Connection with a Change of Control" means that Executive's employment is terminated without Cause or for Good Reason during the period beginning three months prior to a Change of Control and ending eighteen months following a Change of Control.

2.2 Restriction on Transfer. Until the Shares are vested, the Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated.

### **SECTION 3. STOCKHOLDER RIGHTS**

3.1 Stock Register and Certificates. The Shares will be recorded in the stock register of the Company in the name of Executive. If applicable, a stock certificate or certificates representing the Shares will be registered in the name of Executive, but such certificates shall remain in the custody of the Company. Executive shall deposit with the Company a Stock Assignment Separate from Certificate in the form attached below as Attachment 1, endorsed in blank, so as to permit retransfer to the Company of all or a portion of the Shares that are forfeited or otherwise do not become vested in accordance with the Plan and this Agreement.

3.2 Exercise of Stockholder Rights. Executive shall have the right to vote the Shares (to the extent of the voting rights of said Shares, if any), to receive and retain all regular cash dividends and such other distributions, as the Board of Directors of the Company may, in its discretion, designate, pay or distribute on such Shares, and to exercise all other rights, powers and privileges of a holder of Common Stock with respect to such Shares, except as set forth in this Agreement and the Plan.

3.3 Legends. Certificates, if any, representing the Shares will contain the following or other legends in the Company's discretion:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON AND OBLIGATIONS WITH RESPECT TO TRANSFER AND RIGHTS OF REPURCHASE AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL REGISTERED HOLDER, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

**SECTION 4.        RESPONSIBILITY FOR TAXES.**

4.1        Section 83(b) Election. Executive may complete and file with the Internal Revenue Service an election pursuant to Section 83(b) of the Internal Revenue Code to be taxed currently on the fair market value of the Shares without regard to the vesting restrictions set forth in this Agreement. Executive shall be responsible for all taxes associated with the acceptance of the transfer of the Shares, including any tax liability associated with the representation of fair market value if the election is made pursuant to Code Section 83(b).

4.2        Withholding. In accordance with Section 12 of the Plan, Executive agrees to make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan under applicable federal, state, local or foreign law. The Company in its discretion may permit Executive to satisfy all or part of his withholding or income tax obligations by having the Company withhold all or a portion of the Shares that otherwise would be issued to him on vesting.

**SECTION 5.        MISCELLANEOUS.**

5.1        Not an Employment Contract. This Agreement is not an employment contract and nothing in this Agreement shall be deemed to create in any way whatsoever any obligation on the part of Executive to remain in the service of the Company in any capacity, or of the Company to continue Executive's service in any capacity.

5.2        Effect on Employee Benefits. Executive agrees that the Award will constitute special incentive compensation that will not be taken into account as "salary" or "compensation" or "bonus" in determining the amount of any payment under any pension, retirement, profit sharing or other remuneration plan of the Company unless so provided in such plan.

5.3        Further Assurances. The parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

5.4        Entire Agreement. This Agreement, including any exhibits, is the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior oral and written understandings of the parties.

5.5        Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware as applied to contracts between Delaware residents to be wholly performed within the State of Colorado.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

By: \_\_\_\_\_

\_\_\_\_\_  
Title: \_\_\_\_\_

Address \_\_\_\_\_

\_\_\_\_\_

**ASSIGNMENT SEPARATE FROM CERTIFICATE**

FOR VALUE RECEIVED, I, \_\_\_\_\_, hereby sell, assign and transfer unto  
\_\_\_\_\_( \_\_\_\_\_ ) shares of the Common Stock of Heska Corporation, standing in my name on the books  
of said corporation represented by Certificate No. \_\_\_\_\_ herewith and do hereby irrevocably constitute and appoint \_\_\_\_\_ to transfer said stock  
on the books of the within-named corporation with full power of substitution in the premises.

Dated: \_\_\_\_\_ 20\_\_.

Signature:

This Assignment Separate from Certificate was executed in conjunction with the terms of a Restricted Stock Grant Agreement between the above  
assignor and Heska Corporation, dated \_\_\_\_\_, 2014.

**Instruction:**            **Please do not fill in any blanks other than the signature line.**

**HESKA CORPORATION**  
**1997 STOCK INCENTIVE PLAN**  
**RESTRICTED STOCK GRANT AGREEMENT**

THIS AGREEMENT is made as of the \_\_\_\_\_ day of \_\_\_\_\_, 2014 (the "Grant Date") by and between Heska Corporation (the "Company"), and Kevin S. Wilson (the "Executive"), in connection with the execution of an Employment Agreement dated on or about the same date between the Company and Executive (the "Employment Agreement").

In consideration of the mutual covenants and representations herein set forth, the Company and Executive agree as follows:

**SECTION 1.        GRANT OF STOCK.**

1.1        Precedence of Plan. This Agreement is subject to and shall be construed in accordance with the terms and conditions of the Heska Corporation 1997 Stock Incentive Plan (the "Plan"), as now or hereinafter in effect. Any capitalized terms that are used in this Agreement without being defined and that are defined in the Plan shall have the meaning specified in the Plan.

1.2        Grant of Stock. The Company hereby grants to Executive an aggregate of 130,000 shares of Restricted Stock (the "Shares"), subject to vesting as provided in Section 2.

**SECTION 2.        UNVESTED SHARES SUBJECT TO FORFEITURE.**

2.1        Shares Subject to Forfeiture.

a.        Vesting Conditions. The Shares will vest as follows:

i.        Market Price Vesting. 13,000 shares will vest on each date that the 90-Day Price first equals or exceeds each of the following thresholds (the "Market-Vesting Thresholds"): (i) \$12.60, (ii) \$16.38, (iii) \$21.24, (iv) \$26.55 and (v) \$31.95 (collectively, the "Market-Vesting Shares"). In the event of a stock split, stock dividend or reverse stock split affecting the Common Stock, the Committee will adjust the Market-Vesting Thresholds to appropriately reflect such event. Each Market-Vesting Threshold is a distinct vesting trigger and multiple Market-Vesting Threshold events may be achieved simultaneously; for the avoidance of doubt and by way of illustration, if the 90-Day Price equals or exceeds \$16.38, then 26,000 shares would vest.

ii.       EBITDA Vesting. 13,000 shares will vest on each Reporting Date that the Company's Adjusted EBITDA for the preceding fiscal year first equals or exceeds each of the following thresholds (the "EBITDA-Vesting Thresholds"): (i) \$2,460,000, (ii) \$3,200,000, (iii) \$4,150,000, (iv) \$5,180,000 and (v) \$6,240,000 (collectively, the "EBITDA-Vesting Shares"). Each EBITDA-Vesting Threshold is a distinct vesting trigger and multiple EBITDA-Vesting Threshold events may be achieved simultaneously; for the avoidance of doubt and by way of illustration, if on the Reporting Date for Fiscal Year 2014 the Adjusted EBITDA is \$3,400,000, then 26,000 shares would vest. For purposes of this Agreement, "Reporting Date" means the date in each fiscal year that the Company's independent public accountants issue their

audit report on the Company's financial statements for the preceding fiscal year (each, an "Audit Report"). For purposes of this Agreement, "Adjusted EBITDA" means for any fiscal year, the following, determined on a consolidated basis in accordance with generally-accepted accounting principles for the Company and its subsidiaries, based on the Audit Report for such year: (x) consolidated net income plus (y) the sum of the following, without duplication, to the extent deducted in determining such consolidated net income: (1) income and franchise tax expense, (2) interest and other expense (net), (3) amortization and depreciation and (4) compensation expense paid to the Company's Executive Chair, if any.

b. Financial Statement Restatement. Notwithstanding any provision of this Agreement to the contrary, in the event that the Company issues a restatement of its audited financial statements (a "Restatement") after any portion of the Shares have vested:

i. If any portion of the Shares have vested based on achievement of an EBITDA-Vesting Threshold and within 4 years thereafter the Company subsequently issues a Restatement affecting Adjusted EBITDA for the corresponding fiscal year such that the EBITDA-Vesting Threshold would not have been met, such portion of the Shares will be deemed not to have vested, and

ii. If any portion of the Shares have vested based on achievement of a Market-Vesting Threshold, and within 2 years thereafter the Company issues a Restatement affecting the Adjusted EBITDA for the corresponding fiscal year such that the Adjusted EBITDA set forth in the Restatement is less than the Adjusted EBITDA target corresponding to such Market-Vesting Threshold in the following table, then such portion of the Shares will be deemed not to have vested:

	Market-Vesting Threshold	Target Adjusted EBITDA
Level 1	\$12.60	\$2,460,000
Level 2	\$16.38	\$3,200,000
Level 3	\$21.24	\$4,150,000
Level 4	\$26.55	\$5,180,000
Level 5	\$31.95	\$6,240,000

iii. If any portion of the Shares is deemed not to have vested pursuant to the foregoing paragraphs (i) or (ii) (an "Unearned Grant"), then Executive shall either (x) promptly return the Shares comprising the Unearned Grant to the Company or (y) if Executive has sold such Shares, pay to the Company within one year from the date of the corresponding Restatement an amount equal to the proceeds Executive received from any sale of such Shares not returned by Executive pursuant to the foregoing clause (x). In addition to the foregoing, Executive's compensation and equity awards shall remain subject to any applicable law (including without limitation Section 302 of the Sarbanes Oxley Act and Section 954 of the Dodd Frank Act) or regulation in effect from time to time.

c. In the event that Executive's employment with the Company is terminated prior to vesting, Executive will forfeit all right to Shares that have not yet vested.

d. Notwithstanding the previous paragraph (c):

i. If Executive is terminated by the Company without Cause (other than in connection with a Change in Control) and within 180 days after such termination either (A) the Company achieves one or more Market-Vesting Thresholds or (B) a Reporting Date occurs on which the Company achieves one or more EBITDA-Vesting Thresholds, then any Shares that would have otherwise vested if such termination had not occurred will be deemed to vest.

ii. If Executive is terminated by the Company without Cause or voluntarily with Good Reason, and such termination is In Connection with a Change of Control, (y) Shares that would otherwise vest in accordance with the Market-Vesting Threshold if the 90-Day Price were to equal the Change of Control Price will be deemed to vest, and (z) Shares that would otherwise vest in accordance with the EBITDA-Vesting Threshold will vest if the Committee estimates that, as of the last day of the month immediately preceding the Change of Control, if such date were a Reporting Date and taking into account the twelve-month period ending on such date, the EBITDA-Vesting Threshold would be met.

e. Definitions. For purposes of this Agreement, the following definitions will apply:

i. "90-Day Price" means, with respect to any date, the average of the closing prices per share of the Company's Common Stock for the 90 trading days ending on such date (inclusive) on the NASDAQ Stock Market, or if the Shares are not traded on the NASDAQ Stock Market, the average of the high bid and low asked prices on such trading days quoted on the NASDAQ OTC Bulletin Board or by the National Quotation Bureau, Inc., or a comparable service as determined in the discretion of the Committee.

ii. "Cause" means the occurrence of one or more of the following: (i) conviction of, or entry of a plea of nolo contendere to, any felony crime (including one involving moral turpitude), or any crime which reflects so negatively on the Company to be detrimental to the Company's image or interests, or any act of fraud or dishonesty that has such negative reflection upon the Company; (ii) the repeated commitment of insubordination or refusal to comply with any reasonable request of the Board related to the scope or performance of Executive's duties; (iii) possession of any illegal drug on Company premises or being under the influence of illegal drugs or abusing prescription drugs or alcohol while on Company business, attending Company - sponsored functions, or on the Company premises; (iv) the gross misconduct or gross negligence in the performance of Executive's responsibilities which, based upon good faith and reasonable factual investigation of the Board, demonstrates Executive's unfitness to serve; (v) material breach of Executive's obligations under this Agreement; or (vi) material breach of any fiduciary duty of Executive to the Company, which results in material damage to the Company or its business; provided, however, that if any occurrence under subsections (ii), (iv), (v), and (vi) may be cured, the Company will provide notice to Executive describing the nature of such event and Executive will thereafter have thirty (30) days to cure such event, and if such event is cured with that 30-day period, then grounds will no longer exist for terminating Executive's employment for Cause.

iii. "Change of Control" means (i) a sale of all or substantially all of the Company's assets, (ii) any merger, consolidation, or other business combination transaction of the Company with or into another corporation, entity, or person, other than a transaction in which the holders of at least a majority of the shares of voting capital stock of the Company outstanding immediately prior to such transaction continue to hold (either by such shares remaining outstanding or by their being converted into shares of voting capital stock of the surviving entity) a majority of the total voting power represented by the shares of voting capital stock of the Company (or the surviving entity) outstanding immediately after such transaction, (iii) the direct or indirect acquisition (including by way of a tender or exchange offer) by any person, or persons acting as a group, of beneficial ownership or a right to acquire beneficial ownership of shares representing a majority of the voting power of the then outstanding shares of capital stock of the Company, (iv) a contested election of Directors, as a result of which or in connection with which the persons who were Directors before such election or their nominees cease to constitute a majority of the Board, or (v) a dissolution or liquidation of the Company.

iv. "Change of Control Price" means the net price per share of Company Common Stock, determined by the Committee in good faith, based on the fair market value of the total consideration received by the Company and its stockholders in connection with the transaction resulting in the Change of Control, net of fees, expenses and commissions incurred by the Company in connection with such transaction and any compensation or other payments made by the Company or its successor to Company employees as a result of such Change of Control.

v. "Committee" means the Compensation Committee of the Board.

vi. "Good Reason" means the occurrence of any of the following without Executive's express written consent:

(1) Executive's authority with the Company is, or Executive's duties or responsibilities as President and Chief Executive Officer are, materially diminished relative to Executive's authority, duties, and responsibilities as in effect immediately prior to such change;

(2) a material diminution in Executive's Base Salary as in effect immediately prior to such diminution; provided, that an across-the-board reduction in the base compensation and benefits of all other executive officers of the Company by the same percentage amount (or under the same terms and conditions) as part of a general base compensation reduction and/or benefit reduction shall not constitute such a qualifying material diminution;

(3) a material change in the geographic location of Executive's principal place of employment such that the new location results in a commute for Executive that is both (A) longer than Executive's commute prior to the relocation and (B) greater than fifty (50) road miles each way from Executive's home in the Beaver Creek, Colorado area;

(4) any material breach by the Company of any provision of the Employment Agreement; and

(5) any acquiring company fails to assume or be bound by the terms of the Employment Agreement In Connection with a Change of Control.

The aforementioned occurrences shall not be deemed Good Reason unless Executive gives the Company written notice of the existence of the condition which Executive believes constitutes Good Reason (which notice must be given within ninety (90) days of the initial existence of the condition) and such condition remains uncured for a period of thirty (30) days after the date of such notice. An event of Good Reason shall occur automatically at the expiration of such 30-day period if the relevant condition remains uncured at such time.

vii. "In Connection with a Change of Control" means that Executive's employment is terminated without Cause or for Good Reason during the period beginning three months prior to a Change of Control and ending eighteen months following a Change of Control.

2.2 Restriction on Transfer. Until the Shares are vested, the Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated.

### **SECTION 3. STOCKHOLDER RIGHTS**

3.1 Stock Register and Certificates. The Shares will be recorded in the stock register of the Company in the name of Executive. If applicable, a stock certificate or certificates representing the Shares will be registered in the name of Executive, but such certificates shall remain in the custody of the Company. Executive shall deposit with the Company a Stock Assignment Separate from Certificate in the form attached below as Attachment 1, endorsed in blank, so as to permit retransfer to the Company of all or a portion of the Shares that are forfeited or otherwise do not become vested in accordance with the Plan and this Agreement.

3.2 Exercise of Stockholder Rights. Executive shall have the right to vote the Shares (to the extent of the voting rights of said Shares, if any), to receive and retain all regular cash dividends and such other distributions, as the Board of Directors of the Company may, in its discretion, designate, pay or distribute on such Shares, and to exercise all other rights, powers and privileges of a holder of Common Stock with respect to such Shares, except as set forth in this Agreement and the Plan.

3.3 Legends. Certificates, if any, representing the Shares will contain the following or other legends in the Company's discretion:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON AND OBLIGATIONS WITH RESPECT TO TRANSFER AND RIGHTS OF REPURCHASE AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL REGISTERED HOLDER, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

### **SECTION 4. RESPONSIBILITY FOR TAXES.**

4.1 Section 83(b) Election. Executive may complete and file with the Internal Revenue Service an election pursuant to Section 83(b) of the Internal Revenue Code to be taxed

currently on the fair market value of the Shares without regard to the vesting restrictions set forth in this Agreement. Executive shall be responsible for all taxes associated with the acceptance of the transfer of the Shares, including any tax liability associated with the representation of fair market value if the election is made pursuant to Code Section 83(b).

4.2 Withholding. In accordance with Section 12 of the Plan, Executive agrees to make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan under applicable federal, state, local or foreign law. The Company in its discretion may permit Executive to satisfy all or part of his withholding or income tax obligations by having the Company withhold all or a portion of the Shares that otherwise would be issued to him on vesting.

**SECTION 5. MISCELLANEOUS.**

5.1 Not an Employment Contract. This Agreement is not an employment contract and nothing in this Agreement shall be deemed to create in any way whatsoever any obligation on the part of Executive to remain in the service of the Company in any capacity, or of the Company to continue Executive's service in any capacity.

5.2 Effect on Employee Benefits. Executive agrees that the Award will constitute special incentive compensation that will not be taken into account as "salary" or "compensation" or "bonus" in determining the amount of any payment under any pension, retirement, profit sharing or other remuneration plan of the Company unless so provided in such plan.

5.3 Further Assurances. The parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

5.4 Entire Agreement. This Agreement, including any exhibits, is the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior oral and written understandings of the parties.

5.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware as applied to contracts between Delaware residents to be wholly performed within the State of Colorado.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**HESKA CORPORATION**  
**EXECUTIVE**

a Delaware corporation

\_\_\_\_\_  
By: \_\_\_\_\_  
Title: \_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_

**ASSIGNMENT SEPARATE FROM CERTIFICATE**

FOR VALUE RECEIVED, I, \_\_\_\_\_, hereby sell, assign and transfer unto  
\_\_\_\_\_( \_\_\_\_\_ ) shares of the Common Stock of Heska Corporation, standing in my name on the books of said  
corporation represented by Certificate No. \_\_\_\_\_ herewith and do hereby irrevocably constitute and appoint  
\_\_\_\_\_ to transfer said stock on the books of the within-named corporation with full power of substitution in the premises.

Dated: \_\_\_\_\_, 20\_\_

Signature:

This Assignment Separate from Certificate was executed in conjunction with the terms of a Restricted Stock Grant Agreement between the above  
assignor and Heska Corporation, dated \_\_\_\_\_, 2014.

**Instruction:**            **Please do not fill in any blanks other than the signature line.**

EXHIBIT B

	Market-Vesting Threshold	Target Adjusted EBITDA
	\$12.60	\$2,460,000
	\$16.38	\$3,200,000
	\$21.24	\$4,150,000
	\$26.55	\$5,180,000
	\$31.95	\$6,240,000



**HESKA CORPORATION**  
**1997 STOCK INCENTIVE PLAN**  
**RESTRICTED STOCK GRANT AGREEMENT**

THIS AGREEMENT is made as of the 26th day of March, 2014 (the "Grant Date") by and between Heska Corporation (the "Company"), and Kevin S. Wilson (the "Executive"), in connection with the execution of an Employment Agreement dated on or about the same date between the Company and Executive (the "Employment Agreement").

In consideration of the mutual covenants and representations herein set forth, the Company and Executive agree as follows:

**SECTION 1.        GRANT OF STOCK.**

1.1        Precedence of Plan. This Agreement is subject to and shall be construed in accordance with the terms and conditions of the Heska Corporation 1997 Stock Incentive Plan (the "Plan"), as now or hereinafter in effect. Any capitalized terms that are used in this Agreement without being defined and that are defined in the Plan shall have the meaning specified in the Plan.

1.2        Grant of Stock. The Company hereby grants to Executive an aggregate of 110,000 shares of Restricted Stock (the "Shares"), subject to vesting as provided in Section 2.

**SECTION 2.        UNVESTED SHARES SUBJECT TO FORFEITURE.**

2.1        Shares Subject to Forfeiture. The Shares are subject to time-based vesting requirements.

a.        The Shares will vest as follows: (a) 27,500 Shares will vest on the six-month anniversary of the Grant Date; and (b) 27,500 additional Shares will vest on each succeeding anniversary of the Grant Date, up to and including the third anniversary of the grant date.

b.        In the event that Executive's employment with the Company is terminated prior to vesting, Executive will forfeit all right to Shares that have not yet vested.

c.        Notwithstanding the previous paragraph (b), if Executive is terminated by the Company without Cause or voluntarily with Good Reason, and such termination is In Connection with a Change of Control, a portion of any Shares that would otherwise have vested on the vesting date next following such termination if such termination had not occurred will vest as follows: 27,500 Shares, multiplied by a fraction, the numerator of which is the number of days elapsed prior to such termination in the vesting period ending on such vesting date, and the denominator of which is the total number of days in such vesting period.

d.        For purposes of this Agreement, the following definitions will apply:

i.        "Cause" means the occurrence of one or more of the following: (i) conviction of, or entry of a plea of nolo contendere to, any felony crime (including one involving

moral turpitude), or any crime which reflects so negatively on the Company to be detrimental to the Company's image or interests, or any act of fraud or dishonesty that has such negative reflection upon the Company; (ii) the repeated commitment of insubordination or refusal to comply with any reasonable request of the Board related to the scope or performance of Executive's duties; (iii) possession of any illegal drug on Company premises or being under the influence of illegal drugs or abusing prescription drugs or alcohol while on Company business, attending Company-sponsored functions, or on the Company premises; (iv) the gross misconduct or gross negligence in the performance of Executive's responsibilities which, based upon good faith and reasonable factual investigation of the Board, demonstrates Executive's unfitness to serve; (v) material breach of Executive's obligations under this Agreement; or (vi) material breach of any fiduciary duty of Executive to the Company, which results in material damage to the Company or its business; provided, however, that if any occurrence under subsections (ii), (iv), (v), and (vi) may be cured, the Company will provide notice to Executive describing the nature of such event and Executive will thereafter have thirty (30) days to cure such event, and if such event is cured with that 30-day period, then grounds will no longer exist for terminating Executive's employment for Cause.

ii. "Change of Control" means (i) a sale of all or substantially all of the Company's assets, (ii) any merger, consolidation, or other business combination transaction of the Company with or into another corporation, entity, or person, other than a transaction in which the holders of at least a majority of the shares of voting capital stock of the Company outstanding immediately prior to such transaction continue to hold (either by such shares remaining outstanding or by their being converted into shares of voting capital stock of the surviving entity) a majority of the total voting power represented by the shares of voting capital stock of the Company (or the surviving entity) outstanding immediately after such transaction, (iii) the direct or indirect acquisition (including by way of a tender or exchange offer) by any person, or persons acting as a group, of beneficial ownership or a right to acquire beneficial ownership of shares representing a majority of the voting power of the then outstanding shares of capital stock of the Company, (iv) a contested election of Directors, as a result of which or in connection with which the persons who were Directors before such election or their nominees cease to constitute a majority of the Board, or (v) a dissolution or liquidation of the Company.

iii. "Good Reason" means the occurrence of any of the following without Executive's express written consent:

(1) Executive's authority with the Company is, or Executive's duties or responsibilities as Chief Executive Officer and President are, materially diminished relative to Executive's authority, duties, and responsibilities as in effect immediately prior to such change;

(2) a material diminution in Executive's Base Salary as in effect immediately prior to such diminution; provided, that an across-the-board reduction in the base compensation and benefits of all other executive officers of the Company by the same percentage amount (or under the same terms and conditions) as part of a general base compensation reduction and/or benefit reduction shall not constitute such a qualifying material diminution;

(3) a material change in the geographic location of Executive's principal place of employment such that the new location results in a commute for Executive that is both (A) longer than Executive's commute prior to the relocation and (B) greater than fifty (50) road miles each way from Executive's home in the Beaver Creek, Colorado area;

(4) any material breach by the Company of any provision of the Employment Agreement; and

(5) any acquiring company fails to assume or be bound by the terms of the Employment Agreement In Connection with a Change of Control.

The aforementioned occurrences shall not be deemed Good Reason unless Executive gives the Company written notice of the existence of the condition which Executive believes constitutes Good Reason (which notice must be given within ninety (90) days of the initial existence of the condition) and such condition remains uncured for a period of thirty (30) days after the date of such notice. An event of Good Reason shall occur automatically at the expiration of such 30-day period if the relevant condition remains uncured at such time.

Failure of the Company's stockholders to approve the issuance of the stock described as the "Conditional Grant" in the Employment Agreement shall not be deemed to constitute termination for Good Reason.

iv. "In Connection with a Change of Control" means that Executive's employment is terminated without Cause or for Good Reason during the period beginning three months prior to a Change of Control and ending eighteen months following a Change of Control.

2.2 Restriction on Transfer. Until the Shares are vested, the Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated.

### **SECTION 3. STOCKHOLDER RIGHTS**

3.1 Stock Register and Certificates. The Shares will be recorded in the stock register of the Company in the name of Executive. If applicable, a stock certificate or certificates representing the Shares will be registered in the name of Executive, but such certificates shall remain in the custody of the Company. Executive shall deposit with the Company a Stock Assignment Separate from Certificate in the form attached below as Attachment 1, endorsed in blank, so as to permit retransfer to the Company of all or a portion of the Shares that are forfeited or otherwise do not become vested in accordance with the Plan and this Agreement.

3.2 Exercise of Stockholder Rights. Executive shall have the right to vote the Shares (to the extent of the voting rights of said Shares, if any), to receive and retain all regular cash dividends and such other distributions, as the Board of Directors of the Company may, in its discretion, designate, pay or distribute on such Shares, and to exercise all other rights, powers and privileges of a holder of Common Stock with respect to such Shares, except as set forth in this Agreement and the Plan.

3.3 Legends. Certificates, if any, representing the Shares will contain the following or other legends in the Company's discretion:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS UPON AND OBLIGATIONS WITH RESPECT TO TRANSFER AND RIGHTS OF REPURCHASE AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL REGISTERED HOLDER, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

**SECTION 4.        RESPONSIBILITY FOR TAXES.**

4.1        Section 83(b) Election. Executive may complete and file with the Internal Revenue Service an election pursuant to Section 83(b) of the Internal Revenue Code to be taxed currently on the fair market value of the Shares without regard to the vesting restrictions set forth in this Agreement. Executive shall be responsible for all taxes associated with the acceptance of the transfer of the Shares, including any tax liability associated with the representation of fair market value if the election is made pursuant to Code Section 83(b).

4.2        Withholding. In accordance with Section 12 of the Plan, Executive agrees to make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise in connection with the Plan under applicable federal, state, local or foreign law. The Company in its discretion may permit Executive to satisfy all or part of his withholding or income tax obligations by having the Company withhold all or a portion of the Shares that otherwise would be issued to him on vesting.

**SECTION 5.        MISCELLANEOUS.**

5.1        Not an Employment Contract. This Agreement is not an employment contract and nothing in this Agreement shall be deemed to create in any way whatsoever any obligation on the part of Executive to remain in the service of the Company in any capacity, or of the Company to continue Executive's service in any capacity.

5.2        Effect on Employee Benefits. Executive agrees that the Award will constitute special incentive compensation that will not be taken into account as "salary" or "compensation" or "bonus" in determining the amount of any payment under any pension, retirement, profit sharing or other remuneration plan of the Company unless so provided in such plan.

5.3        Further Assurances. The parties agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement.

5.4        Entire Agreement. This Agreement, including any exhibits, is the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior oral and written understandings of the parties.

5.5        Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware as applied to contracts between Delaware residents to be wholly performed within the State of Colorado.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**HESKA CORPORATION**  
**EXECUTIVE**

a Delaware corporation

/s/ Kevin S. Wilson

By: /s/ Jason Napolitano  
Title: Chief Financial Officer

Address Box 4605  
Edward, CO 81632

**ASSIGNMENT SEPARATE FROM CERTIFICATE**

FOR VALUE RECEIVED, I, \_\_\_\_\_, hereby sell, assign and transfer unto \_\_\_\_\_ (\_\_\_\_\_) shares of the Common Stock of Heska Corporation, standing in my name on the books of said corporation represented by Certificate No. \_\_\_\_\_ herewith and do hereby irrevocably constitute and appoint \_\_\_\_\_ to transfer said stock on the books of the within-named corporation with full power of substitution in the premises.

Dated: \_\_\_\_\_ 20\_\_.

Signature: /s/ Kevin S Wilson

This Assignment Separate from Certificate was executed in conjunction with the terms of a Restricted Stock Grant Agreement between the above assignor and Heska Corporation, dated \_\_\_\_\_, 2014.

**Instruction:**            **Please do not fill in any blanks other than the signature line.**

**EMPLOYMENT AGREEMENT**

This Employment Agreement (the “**Agreement**”) is made effective on May 15, 2013 (the “**Effective Date**”) between Heska Corporation, a Delaware corporation (“**Heska**”), and Steven M. Eyl (“**Executive**”). Heska and Executive collectively are referred to as the “**Parties**” and individually as a “**Party**.”

**RECITALS**

WHEREFORE, Executive is currently the Executive Vice President, Commercial Operations of Heska.

WHEREFORE, Executive and Heska now wish to enter into this Agreement regarding the terms of Executive’s employment, which shall become effective upon execution.

NOW, THEREFORE, in consideration of the foregoing and of the mutual promises, covenants, and agreements contained herein, the legal sufficiency of which is acknowledged by the Parties, and intending to be legally bound, the Parties agree as follows:

**TERMS****1. Duties and Scope of Employment.**

a. **Position and Duties.** As of the Effective Date, Executive will serve as Executive Vice President, Commercial Operations of Heska. Executive will render such business and professional services in the performance of Executive’s duties, consistent with Executive’s position within Heska, as will reasonably be assigned to Executive by Heska’s Board of Directors, Chief Executive Officer, President or their supervisor. Executive’s duties will be subject to review and adjustments will be made at the discretion of the Executive’s supervisor and superiors.

b. **Obligations.** During the Term of Agreement (as defined below), Executive will devote Executive’s full attention, skills, time and business efforts to Heska. For the duration of the Term of Agreement, Executive agrees not to actively engage in any other employment, occupation, or consulting activity, for any direct or indirect remuneration, without the prior approval of the Board or the Corporate Governance Committee of the Board (which approval will not be unreasonably withheld); provided, however, that Executive may, without the approval of the Board or the Corporate Governance Committee of the Board, serve in any capacity with any civic, educational, or charitable organization, provided such services do not interfere with Executive’s obligations to Heska.

**2. Term of Agreement.**

a. The period of Executive’s employment under this Agreement is referred to herein as the “**Term of Agreement.**” Subject to the provisions for earlier termination of employment in Section 6 below, this Agreement will have an initial term of thirty-six (36) months commencing

on the Effective Date. On the 3<sup>rd</sup> anniversary of the Effective Date, and on each annual anniversary of the Effective Date thereafter, this Agreement automatically will renew for an additional twelve-month term unless Heska provides Executive with notice of non-renewal at least 120 days prior to the date of automatic renewal; provided, however, that either Heska or Executive may terminate Executive's employment immediately at any time subject to the provisions in Section 6 below.

b. Executive may be entitled to severance benefits pursuant to Section 6 below, depending upon the circumstances of Executive's termination of employment. Executive will not be entitled to severance benefits if Heska provides Executive with notice of non-renewal pursuant to Section 2(a) above, regardless of the reason. Upon the termination of Executive's employment for any reason, Executive will be entitled to payment of all accrued but unpaid compensation, vacation, expense reimbursements, and other benefits due to Executive through Executive's termination date under any Heska-provided or paid plans, policies, and arrangements. Executive agrees to resign from all positions that Executive holds with Heska, without limitation, immediately following the termination of Executive's employment if the Board so requests.

3. **Compensation.**

a. **Base Salary.** Heska will pay Executive an annual salary of \$250,000 as compensation for Executive's services (the "**Base Salary**"). The Base Salary will be paid periodically in accordance with Heska's normal payroll practices and will be subject to the usual, required withholdings and deductions. Executive's salary will be subject to review, and adjustments will be made at the sole discretion of the Compensation Committee of the Board (the "**Committee**") and based upon Heska's standard practices.

b. **Annual Bonus.** During the Term of Agreement, Executive will be eligible to participate in the Management Incentive Plan (the "**Bonus Plan**"), or such other bonus programs as established by the Committee, at a target percentage that is no less than 35% of Executive's Base Salary then in effect (the "**Target Bonus**"). The actual bonus paid may be higher or lower than the Target Bonus for over or under-achievement of Executive's performance goals, as determined by the Committee in its sole discretion. Bonuses, if any, will accrue and become payable in accordance with the Committee's standard practices for paying executive incentive compensation, provided, however, that any bonus payable under this subsection will be payable within two-and-one-half (2-1/2) months after the end of the taxable year to which it relates or such longer period as may be permitted by Treasury regulations in order to avoid application of Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**") to such bonuses. Any bonuses paid pursuant to this Section will be subject to applicable withholdings and deductions.

4. **Expenses.** In addition to the foregoing, Heska will reimburse Executive for Executive's reasonable out-of-pocket travel, entertainment, and other expenses, in accordance with Heska's expense reimbursement policies and practices in effect at the time of the reimbursement request. Executive shall submit such requests within forty-five (45) days of incurring such expenses.

5. **Employee Benefits.** During the Term of Agreement, Executive will be eligible to

participate in the benefits offered to other senior executives of Heska, in accordance with benefit plans, policies, and arrangements that may exist from time to time.

**6. Termination and Severance.**

**a. Termination without Cause or for Good Reason other than In Connection with a Change of Control.** If, at any time, Executive's employment is terminated by Heska without Cause (as defined below), by Executive for Good Reason (as defined below), or due to Executive's death or Disability (as defined below), and the termination is not In Connection with a Change of Control (as defined below), Executive will receive the following, subject to conditions and limitations set forth in Section 7:

i. A payment of an amount equal to six (6) months of Executive's Base Salary, payable in accordance with Heska's standard payroll practices over the shorter of the following periods (A) in equal installments over the period beginning on the date of such termination and ending on the six-month anniversary thereof, or (B) in equal installments on a monthly basis corresponding to the amount Executive would normally receive as salary each month if Executive were still employed with Heska, with a lump sum of any remaining balance of the amount specified above on March 15 of the year following the year of termination.

ii. Provided that Executive timely elects continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("**COBRA**"), Heska shall pay the COBRA premium for coverage for Executive and Executive's eligible dependents under Heska's Benefit Plans (as defined below) for six (6) months, or if earlier, until Executive becomes employed by another employer and eligible for coverage under such other employer's welfare benefit plans (*e.g.*, payments for medical COBRA premiums will cease when Executive becomes eligible for another employer's medical plan.) For the balance of the period during which Executive and Executive's eligible dependents are entitled to coverage under COBRA, Executive shall be entitled to maintain coverage for Executive and Executive's eligible dependents at Executive's sole expense. Executive shall notify Heska immediately upon Executive's acceptance of employment with another employer.

**b. Termination without Cause or for Good Reason In Connection with a Change of Control.** If, at any time, Executive's employment is terminated by Heska without Cause or by Executive for Good Reason, and the termination is In Connection with a Change of Control (as defined below), then, subject to the limitations set forth in this Section 7, Executive will receive:

i. A payment of an amount equal to twelve (12) months of Executive's Base Salary, payable in equal installments in accordance with the standard payroll schedule over the shorter of the following periods (A) the period beginning on the date of such termination and ending on the one-year anniversary thereof, or (B) the period beginning on the date of such termination and ending on March 15 of the year following the year of termination.

ii. Provided that Executive timely elects continuation coverage under COBRA, Heska shall pay the COBRA premium for coverage for Executive and Executive's eligible dependents under Heska's Benefit Plans (as defined below) for twelve (12) months, or if

earlier, until Executive becomes employed by another employer and eligible for coverage under such other employer's welfare benefit plans (e.g., payments for medical COBRA premiums will cease when Executive becomes eligible for another employer's medical plan). For the balance of the period during which Executive and Executive's eligible dependents are entitled to coverage under COBRA, Executive shall be entitled to maintain coverage for Executive and Executive's eligible dependents at Executive's sole expense. Executive shall notify Heska immediately upon Executive's acceptance of employment with another employer.

c. **Termination without Good Reason; Termination for Cause.** If, at any time, Executive's employment with Heska terminates voluntarily by Executive without Good Reason or is terminated for Cause by Heska, then (i) all further vesting of Executive's outstanding equity awards will terminate immediately, (ii) all payments of compensation by Heska to Executive hereunder will terminate immediately (except as to amounts already earned), but Executive will be paid all accrued but unpaid vacation, expense reimbursements, and other benefits due to Executive through Executive's termination date under any Company-provided or paid plans, policies, and arrangements, and (iii) Executive will not be entitled to any severance.

d. **Excise Tax.** In the event that any benefits payable to Executive pursuant to Section 6 of this Agreement ("**Termination Benefits**") (i) constitute "parachute payments" within the meaning of Section 280G of the Code, or any comparable successor provisions, and (ii) but for this Section 6(d), would be subject to the excise tax imposed by Section 4999 of the Code, or any comparable successor provisions (the "**Excise Tax**"), then Executive's Termination Benefits hereunder shall be either (A) provided to Executive in full, or (B) provided to Executive as to such lesser extent which would result in no portion of such benefits being subject to the Excise Tax, whichever of the foregoing amounts, when taking into account applicable federal, state, local, and foreign income and employment taxes, the Excise Tax, and any other applicable taxes, results in the receipt by Executive, on an after-tax basis, of the greatest amount of benefits, notwithstanding that all or some portion of such benefits may be taxable under the Excise Tax. Unless Heska and Executive otherwise agree in writing, any determination required under this Section 6(d) shall be made in writing in good faith by Heska's independent accountants. In the event of a reduction of benefits hereunder, Executive shall be given the choice of which benefits to reduce. If Executive does not provide written identification to Heska of which benefits Executive chooses to reduce within ten (10) days after written notice of the accountants' determination, and Executive has not disputed the accountants' determination, then Heska shall select the benefits to be reduced. For purposes of making the calculations required by this Section 6(d), the accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of the Code and other applicable legal authority. Heska and Executive shall furnish to the accountants such information and documents as the accountants may reasonably request in order to make a determination under this Section 6(d). Heska shall bear all costs the accountants may reasonably incur in connection with any calculations contemplated by this Section 6(d).

7. **Conditions to Receipt of Severance; No Duty to Mitigate.**

a. **Separation Agreement and Release of Claims.** The receipt of any severance pursuant to Section 6 will be subject to Executive signing and not revoking a confidential separation agreement and release of claims in a form reasonably acceptable to Heska. Such

agreement will provide (among other things) that Executive will not disparage Heska, its affiliates, parents, subsidiaries, directors, executive officers, employees, agents, or representatives. No severance will be paid or provided until the confidential separation agreement and release agreement becomes effective. No severance will be paid or provided if the Executive's confidential separation agreement and release agreement is not signed and irrevocable within forty-five (45) days after the Executive's termination date.

**b. Non-Competition.** In the event of a termination of Executive's employment that would entitle Executive to the receipt of severance pursuant to Sections 6(a) or 6(b), Executive agrees not to engage in Competition (as defined below) for twelve (12) months following the termination date. The geographic scope of this Section 7(b) is the United States of America. If Executive engages in Competition within such period, all continuing payments and benefits to which Executive otherwise may be entitled pursuant to Section 6 will cease immediately.

**c. Non-Solicitation.** In the event of a termination of Executive's employment that would entitle Executive to the receipt of severance pursuant to Sections 6(a) or 6(b), Executive agrees that, for twenty-four (24) months following the termination date, Executive, directly or indirectly, whether as employee, owner, sole proprietor, partner, director, member, consultant, agent, founder, co-venturer, or otherwise, (i) will not solicit, induce, or influence any person to modify his or her employment or consulting relationship with Heska (the "**No-Inducement**"), and (ii) not intentionally divert business away from Heska by soliciting business from any of Heska's customers and users who would otherwise have placed the solicited order with Heska (the "**No Solicit**"). The geographic scope of this Section 7(c) is the United States of America. If Executive breaches the No-Inducement or No Solicit, all continuing payments and benefits to which Executive otherwise may be entitled pursuant to Section 6 will cease immediately.

**d. Remedies.** In the event of Executive's breach of Sections 7(b) or 7(c), Heska shall have any and all remedies available to it in law or in equity, including without limitation the right to seek recovery of any amounts paid under Section 6 of this Agreement and injunctive relief, specific performance, or any other equitable relief to prevent a breach and to secure the enforcement of this Section. Injunctive relief may be granted immediately upon the commencement of any such action, and Heska need not post a bond to obtain temporary or permanent injunctive relief.

## **8. Definitions.**

**a. Benefit Plans.** For purposes of this Agreement, "**Benefit Plans**" means plans, policies, or arrangements that Heska sponsors (or participates in) and that immediately prior to Executive's termination of employment provide Executive and Executive's eligible dependents with medical, dental, or vision benefits. Benefit Plans do not include any other type of benefit (including, but not limited to, financial counseling, disability, life insurance, or retirement benefits). A requirement that Heska provide Executive and Executive's eligible dependents with coverage under the Benefit Plans will not be satisfied unless the coverage is no less favorable than that provided to Executive and Executive's eligible dependents immediately prior to Executive's termination of employment.

b. **Cause.** For purposes of this Agreement, “Cause” shall mean the occurrence of one or more of the following: (i) conviction of, or an entry of a plea of *nolo contendere* to, any crime (including one involving moral turpitude), whether a felony or misdemeanor, or any crime which reflects so negatively on Heska to be detrimental to Heska’s image or interests, or any act of fraud or dishonesty that has such negative reflection upon Heska; (ii) the repeated commitment of insubordination or refusal to comply with any reasonable request of the Board of Directors or other superior related to the scope or performance of Executive’s duties; (iii) possession of any illegal drug on Heska premises or being under the influence of illegal drugs or abusing prescription drugs or alcohol while on Heska business, attending Heska-sponsored functions, or on Heska premises; (iv) the gross misconduct or gross negligence in the performance of Executive’s responsibilities which, based upon good faith and reasonable factual investigation of the Board, demonstrates Executive’s unfitness to serve; (v) material breach of Executive’s obligations under this Agreement; or (vi) material breach of any fiduciary duty of Executive to Heska, which results in material damage to Heska or its business; provided, however, that if any occurrence under subsections (ii), (iv), (v), and (vi) may be cured, Heska will provide notice to Executive describing the nature of such event and Executive will thereafter have thirty (30) days to cure such event, and if such event is cured with that 30-day period, then grounds will no longer exist for terminating Executive’s employment for Cause.

c. **Change of Control.** For purposes of this Agreement, “Change of Control” means (i) a sale of all or substantially all of Heska’s assets, (ii) any merger, consolidation, or other business combination transaction of Heska with or into another corporation, entity, or person, other than a transaction in which the holders of at least a majority of the shares of voting capital stock of Heska outstanding immediately prior to such transaction continue to hold (either by such shares remaining outstanding or by their being converted into shares of voting capital stock of the surviving entity) a majority of the total voting power represented by the shares of voting capital stock of Heska (or the surviving entity) outstanding immediately after such transaction, (iii) the direct or indirect acquisition (including by way of a tender or exchange offer) by any person, or persons acting as a group, of beneficial ownership or a right to acquire beneficial ownership of shares representing a majority of the voting power of the then outstanding shares of capital stock of Heska, (iv) a contested election of Directors, as a result of which or in connection with which the persons who were Directors before such election or their nominees cease to constitute a majority of the Board, or (v) a dissolution or liquidation of Heska.

d. **Competition.** For purposes of this Agreement, Executive will be deemed to have engaged in “Competition” if Executive, without the written consent of the Board or an authorized officer of any successor company to Heska, directly or indirectly (1) provides services or assistance in any form to any individual, entity, or company providing veterinary products for the companion animal health industry or imaging products or services for the veterinary market (a “Restricted Company”), whether such services or assistance is provided as an employee, consultant, agent, corporate officer, director, or otherwise or (2) participates in the financing, operation, management, or control of, a Restricted Company. A Restricted Company includes, without limitation, Abaxis, Inc., IDEXX Laboratories, Inc., scil animal health company GmbH, Sound Technologies, Inc. (currently a wholly-owned subsidiary of VCA Antech, Inc.), and Synbiotics Corporation (currently a wholly owned subsidiary of Pfizer). Notwithstanding the foregoing, nothing contained in this Section 8(d) or in Section 7(b) above shall prohibit

Executive from being employed or engaged in a corporate function or senior management position (and holding commensurate equity interests) in a division of a Restricted Company, so long as such division is not in any way engaged in providing veterinary products for the companion animal health industry or imaging products or services for the veterinary market and Executive does not directly or indirectly provide services or assistance to any division that does provide veterinary products for the companion animal health industry or imaging products or services for the veterinary market.

e. **Disability.** For purposes of this Agreement, “**Disability**” shall mean that, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, the Executive either (i) is unable to engage in any gainful activity, or (ii) is receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering Heska employees.

f. **Good Reason.**

i. For purposes of this Agreement, “**Good Reason**” means the occurrence of any of the following without Executive’s express written consent:

A. Executive’s authority with Heska is, or Executive’s duties or responsibilities as Executive Vice President, Commercial Operations are, materially diminished relative to Executive’s authority, duties, and responsibilities as in effect immediately prior to such change;

B. a material diminution in Executive’s Base Salary as in effect immediately prior to such diminution; provided, that an across-the-board reduction in the base compensation and benefits of all other executive officers of Heska by the same percentage amount (or under the same terms and conditions) as part of a general base compensation reduction and/or benefit reduction shall not constitute such a qualifying material diminution;

C. a material change in the geographic location of Executive’s principal place of employment such that the new location results in a commute for Executive that is both (A) longer than Executive’s commute prior to the relocation and (B) greater than fifty (50) road miles each way from Executive’s home in the Front Range area of Colorado;

D. any material breach by Heska of any provision of this Agreement;

and

E. any acquiring company fails to assume or be bound by the terms of this Agreement In Connection with a Change of Control;

ii. The aforementioned occurrences shall not be deemed Good Reason unless Executive gives Heska written notice of the existence of the condition which Executive believes constitutes Good Reason (which notice must be given within ninety (90) days of the initial existence of the condition) and such condition remains uncured for a period of thirty (30) days after the date of such notice. An event of Good Reason shall occur automatically at the

expiration of such 30-day period if the relevant condition remains uncured at such time.

g. **In Connection with a Change of Control.** For purposes of this Agreement, a termination of Executive's employment with Heska is "**In Connection with a Change of Control**" if Executive's employment is terminated without Cause or for Good Reason during the period beginning three (3) months prior to a Change of Control and ending eighteen (18) months following a Change of Control.

9. **Confidential Information.** Executive acknowledges that Executive has executed Heska's standard employee Confidential Information and Invention Agreement (the "**Confidentiality Agreement**"). During the Term of Agreement, and for twenty-four (24) months after termination of Executive's employment, Executive agrees, if requested by Heska, to execute any updated versions of Heska's form of employee confidential information agreement as may be required of substantially all of Heska's executive officers.

10. **Executive's Representations and Warranties.** Executive represents and warrants that Executive is not a party to any other employment, non-competition, or other agreement or restriction which could interfere with the Executive's employment with Heska or Executive's or Heska's rights and obligations hereunder and that Executive's acceptance of employment with Heska and the performance of Executive's duties hereunder will not breach the provisions of any contract, agreement, or understanding to which the Executive is party or any duty owed by the Executive to any other person.

11. **Notices.** All notices, requests, demands, and other communications called for hereunder will be in writing and will be deemed given (a) on the date of delivery if delivered personally, (b) one (1) day after being delivered through a nationally recognized overnight courier service, or (c) five (5) business days after the date of mailing if sent certified or registered mail. Notice to Heska shall be sent to its principal place of business with a copy provided by facsimile to the Chair of the Committee, and notice to Executive will be delivered personally or sent to Executive's last known address provided to Heska.

12. **Successors and Assigns.** This Agreement will be binding upon and inure to the benefit of (a) the heirs, executors, and legal representatives of Executive upon Executive's death and (b) any successor of Heska. Any such Successor (as defined below) of Heska will be deemed substituted for Heska under the terms of this Agreement for all purposes. For purposes of this Section, "**Successor**" means any person, firm, corporation, or other business entity which at any time, whether by purchase, merger, or otherwise, directly or indirectly, acquires all or substantially all of the assets or business of Heska. None of the rights of Executive to receive any form of compensation payable pursuant to this Agreement may be assigned or transferred except by will or the laws of descent and distribution. Any other attempted assignment, transfer, conveyance, or other disposition of Executive's right to compensation or other benefits will be null and void.

13. **Integration.** This Agreement, together with the Confidentiality Agreement, Heska's stock plans, and Executive's stock option and restricted stock agreements, represents the entire agreement and understanding between the Parties as to the subject matter herein and supersedes all prior or contemporaneous agreements whether written or oral, including the Prior Agreement.

No waiver, alteration, or modification of any of the provisions of this Agreement will be binding unless in writing that specifically references this Section and is signed by duly authorized representatives of the Parties hereto.

**14. Interpretation.** Article titles and section headings contained herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Agreement. The determination of the terms of, and the drafting of, this Agreement has been by mutual agreement after negotiation, with consideration by and participation of all Parties. Accordingly, the Parties agree that rules relating to the interpretation of contracts against the drafter of any particular clause shall not apply in the case of this Agreement.

**15. Waivers.** Any term or provision of this Agreement may be waived, or the time for its performance may be extended, by the Party or Parties entitled to the benefit thereof. Any such waiver shall be validly and sufficiently authorized for the purposes of this Agreement if, as to any Party, it is authorized in writing by an authorized representative of such Party. The failure of any Party hereto to enforce at any time any provision of this Agreement shall not be construed to be a waiver of such provision, nor in any way to affect the validity of this Agreement or any part hereof or the right of any Party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to constitute a waiver of any other or subsequent breach.

**16. 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 give effect to the intent of the Parties to the fullest extent permitted by applicable law. Any claim by Executive against Heska shall not constitute a defense to enforcement by Heska.

**17. Tax Matters.**

a. Except as provided in Section 6(d) above, Executive agrees that Executive is responsible for any applicable taxes of any nature (including any penalties or interest that may apply to such taxes) that are reasonably determined to apply to any payment made to Executive hereunder (or any arrangement contemplated hereunder), that Executive's receipt of any benefit hereunder is conditioned on Executive's satisfaction of any applicable withholding or similar obligations that apply to such benefit, and that any cash payment owed to Executive hereunder will be reduced to satisfy any such withholding or similar obligations that may apply thereto.

b. Executive acknowledges that no representative or agent of Heska has provided Executive with any tax advice of any nature, and Executive has consulted with Executive's own legal, tax, and financial advisor(s) as to tax and related matters concerning the compensation to be received under this Agreement.

**18. Section 409A.**

a. This Agreement is intended to comply with Section 409A of the Code, as amended ("**Section 409A**") and shall be construed accordingly. It is the intention of the parties

that payments or benefits payable under this Agreement not be subject to the additional tax or interest imposed pursuant to Section 409A. To the extent such potential payments or benefits are or could become subject to Section 409A, the parties shall cooperate to amend this Agreement with the goal of giving Executive the economic benefits described herein in a manner that does not result in such tax or interest being imposed; provided, however, that no such amendment shall materially increase the cost to, or impose any liability on Heska with respect to any benefits contemplated or provided hereunder. Executive shall, at the request of Heska, take any reasonable action (or refrain from taking any action), required to comply with any correction procedure promulgated pursuant to Section 409A.

b. If a payment that could be made under this Agreement would be subject to additional taxes and interest under Section 409A, Heska in its sole discretion may accelerate some or all of a payment otherwise payable under the Agreement to the time at which such amount is includible in the income of Executive, provided that such acceleration shall only be permitted to the extent permitted under Treasury Regulation § 1.409A-3(j)(4)(vii) and the amount of such acceleration does not exceed the amount permitted under Treasury Regulation § 1.409A-3(j)(vii).

c. No payment to be made under this Agreement shall be made at a time earlier than that provided for in this Agreement unless such payment is (i) an acceleration of payment permitted to be made under Treasury Regulation § 1.409A-3(j)(4) or (ii) a payment that would otherwise not be subject to additional taxes and interest under Section 409A.

d. The right to each payment described in this Agreement shall be treated as a right to a series of separate payments and a separately identifiable payment for purposes of Section 409A.

e. For purposes of Section 6 of this Agreement, "termination" (or any similar term) when used in reference to Executive's employment shall mean "separation from service" with Heska within the meaning of Section 409A(a)(2)(A)(i) of the Code and applicable administrative guidance issued thereunder, and Executive shall be considered to have terminated employment with Heska when, and only when, Executive incurs a "separation from service" with Heska within the meaning of Section 409A(a)(2)(A)(i) of the Code and applicable administrative guidance issued thereunder.

f. If Executive qualifies as a "specified employee" within the meaning of Section 409A(a)(2)(B)(i) of the Code and would receive any payment sooner than six (6) months after Executive's separation from service that, absent the application of this Section 19(f), would be subject to additional tax imposed pursuant to Section 409A as a result of such status as a specified employee, then such payment shall instead be payable on the date that is the earliest of (i) six (6) months after Executive's separation from service, (ii) Executive's death, or (iii) such other date as will not result in such payment being subject to such additional tax.

**19. Governing Law; Waiver of Jury Trial.** This Agreement shall be governed by and construed in accordance with the internal laws of the State of Colorado without regard to conflict of law principles. The Parties hereto each waive their respective rights to a jury trial of any and all such claims and causes of action.

20. **Counterparts.** This Agreement may be executed in counterparts, and each counterpart will have the same force and effect as an original and will constitute an effective, binding agreement on the part of each of the undersigned.

*[signature page follows]*

IN WITNESS WHEREOF, Heska has caused this Employment Agreement to be duly executed by an officer thereunto duly authorized, and Executive has hereunto set Executive's hand, all as of the day and year first above written.

**HESKA CORPORATION**

/s/ Robert B. Grieve  
Robert B. Grieve, Ph.D.  
Chairman of the Board and Chief Executive Officer

**EXECUTIVE:**

/s/ Steven M. Eyl  
Steven M. Eyl  
Executive Vice President, Commercial Operations



## ASSIGNMENT AND ASSUMPTION AGREEMENT

THIS ASSIGNMENT AND ASSUMPTION AGREEMENT (this “**Agreement**”) is made and entered as of November 7, 2013 (the “**Effective Date**”), by and between Agri-Laboratories, Ltd., a Delaware corporation with offices at 20927 State Route K, St. Joseph, Missouri 64505 (“**Assignor**”), Eli Lilly and Company, acting through its Elanco Animal Health division, with offices at 2500 Innovative Way, Greenfield, Indiana 46140 (“**Assignee**”), and Diamond Animal Health, Inc. an Iowa corporation with offices at 2538 S.E. 43<sup>rd</sup> Street, Des Moines, Iowa 50317 (“**Diamond**”).

WHEREAS, Assignor and Diamond are parties to that certain Bovine Vaccine Distribution Agreement dated February 13, 1998, and all amendments thereto (the “**Distribution Agreement**”);

WHEREAS, pursuant to that certain Asset Purchase Agreement entered into by Assignor and Assignee dated November 7, 2013 (the “**Purchase Agreement**”), Assignee shall purchase certain assets of Assignor, including all of Assignor’s right, title, benefit, privileges and interest in and to the Distribution Agreement;

WHEREAS, concurrently with the closing of the Purchase Agreement, Assignor wishes to assign its rights and obligations under the Distribution Agreement to Assignee, and Assignee has agreed to assume such rights and obligations, as set forth in the Distribution Agreement; and

WHEREAS, Section 12.08 of the Distribution Agreement requires Diamond’s prior written consent before Assignor may assign its rights or duties, in whole or in part, under the Distribution Agreement and Diamond is willing to consent to such assignment and assumption of the Distribution Agreement.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants contained herein, and for other good and valuable consideration, the receipt, adequacy and legal sufficiency of which are hereby acknowledged, the parties do hereby agree as follows:

1. Assignment and Assumption. Effective as of the Effective Date, Assignor hereby assigns, sells, transfers and sets over to Assignee all of Assignor’s right, title, benefit, privileges and interest in and to the Distribution Agreement, and all of Assignor’s burdens and obligations in connection with the Distribution Agreement (collectively the “**Assignment**”). Assignee hereby accepts the Assignment and assumes and agrees for the benefit of Assignor and Diamond to be bound by, observe, perform, pay and discharge all of Assignor’s duties, liabilities, obligations, terms, provisions and covenants solely to the extent they are to be observed, performed, paid or discharged on and after the Effective Date, in connection with the Distribution Agreement (collectively the “**Assumption**”).

2. Consent and Agreement of Diamond. In accordance with Section 12.08 of the Distribution Agreement, Diamond hereby consents to the assignment by Assignor to Assignee of all of Assignor’s right, title and interest in and to the Distribution Agreement, and releases Assignor from any and all obligations under the Distribution Agreement solely to the extent that they arise on or after the Effective Date of the Assignment. Diamond further acknowledges and agrees that all of Diamond’s obligations under the Distribution Agreement shall survive the

assignment of the Distribution Agreement in accordance with the terms and conditions thereof. This Assignment shall not relieve Assignor of responsibility for the performance of any accrued obligation which it has as of the Effective Date of this Agreement.

3. Remaining Terms. All parties acknowledge that a true, correct and complete copy of the Distribution Agreement, together with all amendments thereto, is attached hereto as Exhibit A. Except as specifically modified pursuant to this Assignment, all terms and provisions of the Distribution Agreement shall remain in full force and effect as set forth therein. Nothing in this Agreement shall constitute or be construed to be a termination of the Distribution Agreement.

4. Further Actions. Each of the Parties hereto covenants and agrees, at its own expense, to execute and deliver, at the request of the other Parties hereto, such further instruments of transfer and assignment and to take such other action as such other Parties may reasonably request to more effectively consummate the Assignment and Assumption contemplated by this Assignment.

5. Amendment and Waiver. No provision of this Assignment may be amended, modified, supplemented or waived except by an instrument in writing executed by all of the Parties hereto or, in the case of an asserted waiver, executed by the party against which enforcement of the waiver is sought. The rights and remedies of the Parties to this Assignment are cumulative and not alternative.

6. Assignment. Neither this Assignment nor any right created hereby is assignable by any of the Parties hereto without the prior written consent of the other Parties; provided, that the Distribution Agreement, as amended hereby, shall continue to be assignable on the terms and conditions set forth in Section 12.08 thereof.

7. Governing Law. This Assignment will be governed by, and construed in accordance with, the laws of the State of Iowa without reference or regard to the conflicts of law rules thereof.

8. Counterparts. This Assignment may be executed in any number of counterparts and by facsimile, each of which will be deemed an original, and all of which together will constitute one and the same instrument.

*[Signature Page Follows]*

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

**ASSIGNOR:**

**Agri-Laboratories, Ltd.**

By: /s/ Steve Schram

Name: Steve Schram

Title: CEO

**ASSIGNEE:**

**Eli Lilly and Company, acting through its Elanco Animal Health division**

By: /s/ Jeffrey N. Simmons

Name: Jeffrey N. Simmons

Title: President

**Diamond Animal Health, Inc.**

By: /s/ Robert B. Grieve

Name: Robert B. Grieve

Chairman, CEO and President

Date:



*Portions of this Exhibit have been redacted pursuant to a request for confidential treatment under Rule 24b-2 of the General Rules and Regulations under the Securities Exchange Act. Omitted information, marked "[\*\*\*]" in this exhibit, has been filed with the Securities and Exchange Commission together with such request for confidential treatment.*

**AMENDMENT NO. 4**

**TO THE**

**SUPPLY AND LICENSE AGREEMENT**

**BY AND BETWEEN**

**HESKA CORPORATION**

**AND**

**INTERVET INC., d/b/a MERCK ANIMAL HEALTH**

This AMENDMENT NO. 4, dated as of this 9<sup>th</sup> day of December, 2013 ("Amendment No. 4"), to the Supply and License Agreement, dated as of August 1, 2003, as amended by that certain Amendment No.1, dated as of August 31, 2005, that certain Amendment No. 2, dated as of December 7, 2011 and that certain Amendment No. 3, dated as of July 30, 2013 ("Amendment No. 3") (collectively, the "Agreement"), is made by and between INTERVET INC., d/b/a MERCK ANIMAL HEALTH ("MAH"), and HESKA CORPORATION ("Heska").

RECITALS:

WHEREAS, MAH (formerly called Schering-Plough Animal Health Corporation) and Heska entered into the Agreement to, among other things, provide for the supply by Heska to MAH of certain veterinary products; and

WHEREAS, MAH and Heska desire to amend the Agreement to, among other things, modify certain provisions of the Agreement and change the term of the Agreement.

NOW, THEREFORE, MAH and Heska hereby agree to amend the Agreement as follows:

1. Unless otherwise defined herein, each of the capitalized terms used in this Amendment shall have the meaning ascribed to it in the Agreement. Any references to "Schering" in the Agreement and in the amended language of the Agreement contained in this Amendment No. 4 shall be deemed to refer to MAH.

2. Section 1.15 of the Agreement is hereby deleted in its entirety and replaced with the following:

"Territory" shall mean (a) the United States, (b) Canada and (c) their respective territories, commonwealths and possessions."

3. The first sentence of Section 2.7 of the Agreement is hereby deleted in its entirety and replaced with the following:

"During the term of this Agreement, Schering agrees to purchase the minimum dollar amounts of Product identified as the Annual Minimum Purchase Requirement in Appendix A for each Calendar Year."

*Portions of this Exhibit have been redacted pursuant to a request for confidential treatment under Rule 24b-2 of the General Rules and Regulations under the Securities Exchange Act. Omitted information, marked “[\*\*\*]” in this exhibit, has been filed with the Securities and Exchange Commission together with such request for confidential treatment.*

4. The last sentence of Section 2.7 of the Agreement is hereby deleted in its entirety and replaced with the following:

“If Schering fails to purchase enough Product in a Calendar Year to satisfy the Annual Minimum Purchase Requirement for that Calendar Year, then Schering may pay to Heska the amount of the shortfall, in which case this Agreement will continue as if Schering had met the Annual Minimum Purchase Requirement. If Schering fails to purchase enough Product in a Calendar Year to satisfy the Annual Minimum Purchase Requirement for that Calendar Year, the Parties shall meet within thirty (30) days after the end of such Calendar Year to discuss in good faith the reasons behind the shortfall and possible adjustments to the Annual Minimum Purchase Requirements, which Heska may accept or reject in its sole discretion. Following such discussions, if Heska has not agreed, in its sole discretion, to change the Annual Minimum Purchase Requirement for the Calendar Year in question, and Schering fails to make the necessary shortfall payment within sixty (60) days following the end of such Calendar Year, then Heska has the right upon written notice to Schering, and as its sole and exclusive remedy, to convert this Agreement into a non-exclusive Agreement. [\*\*\*]”

5. Section 7.1 of the Agreement is hereby deleted in its entirety and replaced with the following”

“Unless terminated earlier as provided herein, this Agreement shall become effective as of the Effective Date and shall continue thereafter until December 31, 2023 (“Initial Term”). Following the Initial Term this Agreement shall automatically renew for additional terms of one (1) year each (each a “Renewal Term”) unless either party gives written notice of its intent not to renew not less than twelve (12) months prior to the end of the Initial Term or any Renewal Term.

6. Amendment No. 3 is hereby terminated, and the amendments to the Agreement contained in such Amendment No. 3 are of no further force and effect.

7. Effective upon January 1, 2014, Appendix A to the Agreement is hereby deleted in its entirety and replaced with Appendix A-1 attached hereto.

8. Sections A.7, B.7 and C.7 of Appendix B are hereby each amended by deleting such sections in their entirety and replacing such sections with the following: “7. Expiration date to be twenty-four (24) months from date of manufacture; Heska shall use its best efforts to extend the expiration date to thirty (30) or more months, as determined by stability studies.”

9. Section 5.1(c) of the Agreement is hereby amended to delete the following sentence in its entirety:

“Heska shall use best efforts to extent the expiration date to a total stated shelf life of HEARTGARD® Plus for drugs manufactured by Merial Limited, as determined by

Portions of this Exhibit have been redacted pursuant to a request for confidential treatment under Rule 24b-2 of the General Rules and Regulations under the Securities Exchange Act. Omitted information, marked “[\*\*\*]” in this exhibit, has been filed with the Securities and Exchange Commission together with such request for confidential treatment.

stability studies, such studies to begin with the first three (3) lots of Product produced under this Agreement.”

10. In consideration for the modifications of the Agreement described in this Amendment No. 4, and upon completion of the milestones set forth below (“Milestones”), MAH shall make milestone payments to Heska as follows:

Milestone Due Date	Milestone Description	Milestone Payment
Execution Date of Amendment No. 4	Reimbursement for prior Research and Development Expenses under the Agreement	[***]
Execution Date of Amendment No. 4	Consideration for Amendment No. 4	[***]
Thirty (30) month Product Dating	Achievement <sup>(1)</sup> of thirty (30) month expiration dating for the Product based on full shelf-life data on production batches obtained under a protocol approved in the application pursuant to 21 CFR 514.8(b)(4)(ii)(F)	[***]

MAH shall pay Heska such milestone payments within forty-five (45) days following achievement of the related Milestone. Heska shall provide to MAH documentation reasonably acceptable to MAH that the milestone has been achieved.

<sup>(1)</sup> Achievement of the Thirty (30) month Product Dating milestone shall be deemed to have occurred ten (10) business days after MAH’s receipt from Heska of documentation supporting such product dating change. During such ten (10) business day period, MAH may review, discuss, comment, and dialog with Heska regarding such documentation.

11. The following shall be added as new Section 2.18:

“2.18 Supply Following Transfer of ANADA. Notwithstanding anything to the contrary contained elsewhere in this Agreement, Heska agrees that if (i) the exclusive rights granted to Schering under Section 2.1 of this Agreement shall become non-exclusive for any reason, and (ii) Heska sells, assigns or otherwise transfers the ANADA covering the Product to any third-party, Heska will nonetheless continue to honor its obligation to supply (or cause to be supplied) Product to Schering on the terms and conditions hereof for the remainder of the Term.”

12. Except as expressly modified by this Amendment, all other terms and conditions of the Agreement shall remain in full force and effect.

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IN WITNESS WHEREOF, each of MAH and Heska has caused this Amendment to be executed by its respective duly authorized officer as of the date first above written.

HESKA CORPORATION

By: /s/ Michael J. McGinley  
 Name: Michael J. McGinley  
 Title: President, Biologicals, Pharmaceuticals

INTERVET INC.

By: [\*\*\*]  
 Name: [\*\*\*]  
 Title: [\*\*\*]

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MAH Legal Department  
 [\*\*\*]  
 9DECEMBER2013

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*Portions of this Exhibit have been redacted pursuant to a request for confidential treatment under Rule 24b-2 of the General Rules and Regulations under the Securities Exchange Act. Omitted information, marked "[\*\*\*]" in this exhibit, has been filed with the Securities and Exchange Commission together with such request for confidential treatment.*

**EXHIBIT A-1**

**PRICE, MINIMUM PURCHASE SIZE AND ANNUAL MINIMUM PURCHASE REQUIREMENT**

1. Pricing. The initial Product transfer price for all orders placed by MAH and delivered by Heska during a Calendar Year shall be volumetiered as set forth below and based on MAH's good faith forecast of projected purchases of Product for such Calendar Year provided to Heska pursuant to Section 2.2. [\*\*\*]

Product Transfer Price:

	[***]	[***]	[***]	[***]
<b>Small Tablets</b>	[***]	[***]	[***]	[***]
	[***]	[***]	[***]	[***]
<b>Medium Tablets</b>	[***]	[***]	[***]	[***]
	[***]	[***]	[***]	[***]
<b>Large Tablets</b>	[***]	[***]	[***]	[***]

Prices and volumes are per Product packet, each packet consisting of six (6) tablets. MAH may order, and Heska will deliver, single-blister Small Tablets to be used as samples by MAH. The Product Transfer Price for such samples will be [\*\*\*] per single tablet. Sample purchases will be included in the calculation of MAH's Annual Minimum Purchase Requirements set forth in Section 3 of this Exhibit A-1.

Prices are for the packaging format currently in effect as of the effective date of this Amendment No. 4. Packaging format changes required by the FDA or other regulatory authorities shall be paid for by Heska. Packaging formats not required by the FDA or

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other regulatory authorities and requested by MAH shall be the responsibility of MAH, and MAH shall reimburse Heska for its documented costs related to such changes in packaging format.

2. Minimum Purchase Size:

- a. Small Tablets: [\*\*\*] packets
- b. Medium Tablets: [\*\*\*] packets
- c. Large Tablets: [\*\*\*] packets

3. Annual Minimum Purchase Requirement Per Calendar Year:

- a. 2014: [\*\*\*]
- b. 2015: [\*\*\*]
- c. 2016: [\*\*\*]
- d. 2017: [\*\*\*]
- e. 2018: [\*\*\*]
- f. 2019+: The annual minimum purchase requirement for each year going forward will [\*\*\*]



**SUBSIDIARIES OF COMPANY**

Diamond Animal Health, Inc., an Iowa corporation

Heska Imaging US, LLC, a Delaware Limited Liability Company (54.6% owned)

Heska AG, a corporation incorporated under the laws of Switzerland

Sensor Devices, Inc., a Wisconsin Corporation (inactive)

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of Heska Corporation and subsidiaries (the "Company") as of December 31, 2012 and 2013, and the related consolidated statements of operations, stockholders' equity, comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2013. Our audits also included the financial statement schedule appearing under Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the 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. 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2012 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

March 31, 2014  
Boulder, Colorado

EKS&H LLLP

## 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)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c. 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
  - d. 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 31, 2014

/s/ Robert B.  
Grieve

ROBERT B. GRIEVE  
Chairman of the Board and Chief Executive Officer  
(Principal Executive Officer)

## 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)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles; and
  - c. 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
  - d. 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 31, 2014

/s/ Jason A. Napolitano

JASON A. NAPOLITANO

Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

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, 2013 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.

Date: March 31, 2014

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, 2013 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.

Date: March 31, 2014

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.