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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2021

OR

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

For the transition period from _____ to _____

Commission file number: 000-22427

HESKA CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock, $0.01 par value	HSKA	The Nasdaq Stock Market LLC

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 ☒ No ☐

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

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company,"

and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller Reporting Company ☐
	Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C.7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of voting common stock held by non-affiliates of the Registrant was approximately $2,244,791,831 as of June 30, 2021 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.

10,812,985 shares of the Registrant's Public Common Stock, $.01 par value, were outstanding at February 24, 2021.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12, 13 and 14 of Part III incorporate by reference information from the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with the solicitation of proxies for the Registrant's 2022 Annual Meeting of Stockholders to be held on or about May 4, 2022.

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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 (the "Securities Act"), 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 "scheduled," "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. Such factors are 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 and include, among others, risks and uncertainties related to:

- the impact of the COVID-19 pandemic on our business, results of operations and financial condition;
- the success of third parties in marketing our products;
- our reliance on third party suppliers and collaborative partners;
- our dependence on key personnel;
- our dependence upon a number of significant customers;
- competitive conditions in our industry;
- our dependence on third parties to successfully develop new products;
- our ability to market and sell our products successfully;
- expansion of our international operations;
- the impact of regulation on our business;
- the success of our acquisitions and other strategic development opportunities;
- our ability to develop, commercialize and gain market acceptance of our products;
- cybersecurity incidents and related disruptions and our ability to protect our stakeholders’ privacy;
- product returns or liabilities;
- volatility of our stock price;
- our ability to service our convertible notes and comply with their terms.

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 the passage of time, any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based, except as otherwise required by applicable securities laws. These forward-looking statements apply only as of the date of this Form 10-K or for statements incorporated by reference from our 2022 proxy statement on Schedule 14A, as of the date of the Schedule 14A.

PART I

Item 1. Business

Unless we state otherwise or the context otherwise requires, the terms "Heska," "we," "our," "us" and the "Company" refer to Heska Corporation and its consolidated subsidiaries.

Our Certificate of Incorporation, as amended (the "Charter"), authorizes three classes of stock: Original Common Stock, Public Common Stock, and Preferred Stock. Pursuant to an NOL Protective Amendment to the Charter adopted in 2010, all shares of Original Common Stock then outstanding were automatically reclassified into shares of Public Common Stock. Our Public Common Stock trades on the Nasdaq Stock Market LLC. In this Annual Report on Form 10-K, references to "Public Common Stock" and "common stock" are references to our Public Common Stock, unless the context otherwise requires.

Overview

We sell veterinary and animal health diagnostic and specialty products. Our offerings include Point of Care diagnostic laboratory instruments and consumables; Point of Care digital imaging diagnostic products; reference laboratory testing; digital cytology services; vaccines; local and cloud-based data services; allergy testing and immunotherapy; single-use offerings such as in-clinic diagnostic tests and heartworm preventive products; and practice information management software and related software. Our core focus is on supporting veterinarians in the canine and feline healthcare space.

On February 22, 2019, the Company acquired 70% of the equity of Optomed. Optomed designs, develops, manufactures and distributes veterinary imaging solutions, with a primary focus and expertise in endoscopy technologies and has a direct sales presence in France. On November 4, 2019 the Company acquired A. DUCHENE IMMO ("SCI Duchene"). SCI Duchene owns real estate in which Optomed operates.

On December 5, 2019, the Company acquired CVM Diagnostico Veterinario, S.L. and CVM Ecografia, jointly known as the CVM Companies ("CVM"). CVM is a Spanish company that primarily sells and performs marketing of medical equipment to veterinary clinics. In 2021, CVM was merged into scil animal care company SL.

On April 1, 2020, the Company completed the acquisition of scil animal care company GmbH ("scil") from Covetrus, Inc. scil represents a key milestone in the Company's long-term strategic plan creating a global veterinary diagnostics company with leadership positions in key geographic markets. Scil has operations in Germany, France, Italy, Spain, Canada, and Malaysia.

On October 5, 2020 the Company acquired the remaining 30% minority interest in Optomed. The Company had previously acquired 70% of the equity of Optomed in February 2019. The purchase allowed the Company to assume full control of the business operations. In March 2021, the interest in Optomed was sold to scil, and Optomed was immediately merged into scil animal care company sarl.

On February 1, 2021 the Company acquired Lacuna Diagnostics, Inc. ("Lacuna"). Lacuna is a United States based company that specializes in digital cytology services. The purchase allows the Company to broaden our Point of Care diagnostics offering. The Lacuna entity was immediately dissolved on February 1, 2021.

On July 1, 2021, the Company acquired BiEsse A-Laboratorio die Analisi Veterinarie S.r.l. ("BSA"). BSA is based in Milan, Italy and allows the Company to enter into the central reference laboratory market in Europe. In January, 2022, BSA was merged into scil animal care company SRI.

On September 1, 2021, the Company acquired 65% of the equity of Biotech Laboratories U.S.A. LLC ("Biotech"). Biotech is a developer of rapid assay diagnostic testing.

On January 3, 2022, the Company acquired VetZ GmbH (“VetZ”). VetZ is a European leader in veterinary practice information management software solutions (“PIMS”).

Products and Services

Our business is composed of two operating and reportable segments: North America and International. North America consists of the United States, Canada and Mexico. International consists of geographies outside of North America, primarily our operations in Australia, France, Germany, Italy, Malaysia, Spain and Switzerland. The Company's core strategic focus on Point of Care laboratory and imaging products is included in both segments. The North America segment also includes the contract manufacturing of vaccines and pharmaceutical products.

Our major product categories sold in both segments include: Point of Care laboratory instruments and consumables; digital imaging diagnostic instruments, software and services; digital cytology services; local and cloud-based data services; allergy testing and immunotherapy; and single use offerings such as in-clinic diagnostic tests and heartworm preventive products. The North America segment also includes private label vaccine and pharmaceutical production, which are sold by third parties under third party labels.

For the year ended December 31, 2021, our North America and International segments represent approximately 62.6% and 37.4% of our total revenue, respectively.

Point of Care Laboratory and Imaging Diagnostics

We offer a line of veterinary Point of Care (stationary and portable) laboratory diagnostic instruments for testing blood and other biological materials, for use in diagnostic imaging and for other uses, some of which are described below. We also market and sell consumable supplies and services for these instruments. Our line of veterinary instruments includes the following:

Blood Chemistry. Element DC® Veterinary Chemistry Analyzer (the "Element DC") is an easy-to-use, robust system that uses dry slide technology for blood chemistry and electrolyte analysis. The Element DC5x® Veterinary Chemistry Analyzer (the "Element DC5x"), launched during 2018, delivers faster run times, higher throughput, and allows simultaneous staging of five patient samples. The Element DCX™ Veterinary Chemistry Analyzer (the "Element DCX"), launched during 2021, is a new chemistry analyzer that is nestled between the economical Element DC and the ultra-high-capacity Element DC5x. The Element DC, Element DCX, and Element DC5x utilize the same test slides. We are supplied with the Element DC, Element DCX, and Element DC5x, as well as the affiliated test slides and supplies, under a contractual agreement with FUJIFILM Corporation for sale in the North America segment.

We also market and distribute the Element RC®, Element RCX™, and Element RC3X™, easy-to-use, compact chemistry systems that utilize load-and-go rotors for blood chemistry and electrolyte analysis. A small volume of whole blood can be loaded on the rotor, eliminating the need for external centrifugation. Rotors of various test menus are available, providing results in some cases for up to 21 measured tests, including additional calculated values. We also market and distribute the scil Element DC®, easy to use, compact chemistry systems that utilize load-and-go dry chemistry tests for blood chemistry. We are supplied with the Element RC, the Element RCX, the Element RC3X, and the scil Element DC under contractual agreements with various suppliers, which are sold and marketed in the International segment.

Hematology. The Element HT5® Hematology Analyzer (the "HT5") is a true 5-part hematology analyzer which measures key parameters such as white blood cell count, red blood cell count, platelet count and hemoglobin levels in animals. The HT5 can generate results in less than a minute with 15 µL of sample. We are supplied with the HT5 and affiliated reagents and supplies under a contractual agreement with Shenzen Mindray Bio-Medical Electronics Co., Ltd. ("Mindray"). We also market the scil Vet abc Plus +™, a 4-part hematology analyzer that provides results in less than a minute with 10 µL of sample.

Blood Gases and Electrolytes. The Element POC® Blood Gas & Electrolyte Analyzer (the "EPOC") is a handheld, wireless analyzer which delivers rapid blood gas, electrolyte, metabolite and basic blood chemistry testing. The 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.

Immunodiagnostics. The Element i® Immunodiagnostic Analyzer (the "Element i") utilizes fluorescence immunoassay technology to ensure sensitivity for accurate in-clinic detection of Total T4, TSH, Cortisol, Bile Acids, and Progesterone. The Element i is a benchtop technology with a test time of 10 minutes or less per analyte. Along with confidence in results, this measurement principle allows for simplified reagents and testing protocols. The Element i+® Immunodiagnostic Analyzer (the "Element i+"), launched during 2020, utilizes patented fluorescence waveguide immunoassay technology with laser evanescent illumination for accurate in-clinic detection of Total T4 and Cortisol. The Element i+ delivers results in as little as 5 minutes from a sample volume of 100ul, using microfluidic cartridges stored at room temperature. The Element i+ analyzer system has capability of high sensitivity and specificity multiplexed assays in a single microfluidic cartridge, offering future menu expansions in endocrine, inflammatory, infectious disease, and other diagnostic target areas. The Cube-Vet™ is a compact benchtop analyzer used for the determination of the parameters fibrinogen, cCRP, SAA, T4, fructosamine, pancreas-specific lipase (dog / cat), ammonia, GLDH, lactate, progesterone, bile acids, phenobarbital and SDMA.

Coagulation. The Element COAG® Veterinary Analyzer (the "Element COAG") is a compact benchtop, cartridge-based system used for coagulation and specialty testing. There are five test cartridges offered: the PT/aPTT Coag Combo, Equine Fibrinogen, Canine Fibrinogen, Canine DEA 1 Blood Typing and Feline A and B Blood Typing. Each of these cartridges perform accurate, automated analysis using less than 100 µL of sample in just minutes.

The Element COAG+™ Veterinary Analyzer (the "Element COAG+") is a lightweight, handheld, battery-powered, wifi-capable cartridge-based system used for coagulation testing. The combined PT/aPTT test strips are stored at room temperature and accurate analysis can be achieved in just minutes using only 10ul of fresh or citrated whole blood.

Urine and Fecal Diagnostics. The Element AIM® Veterinary Analyzer (the "Element AIM") is a first in class automated fecal and urine combination point of care laboratory analyzer. Utilizing a novel, proprietary dual-sample type-capable cartridge, on-board centrifugation, sophisticated three-plane precision motion system, superior optical subsystem components, and image capture and processing artificial intelligence, the Element AIM provides accurate automated urine sediment and fecal flotation results in minutes. State of the art quality images are presented for rapid viewing during the patient visit, eliminating manual sample processing and time-consuming microscopic slide review. Cloud image capture and continuous machine learning software capabilities will allow identification, classification, and quantitation improvements over time, as well as additional enhancements in identifying new target objects.

Digital Cytology. The HeskaView™ Telecytology service provides in-clinic automated microscopic slide scanning and computing equipment that is seamlessly integrated with an online, on-demand network of board-certified clinical pathologists available 24 hours a day, 7 days a week, 365 days a year. Patient samples scanned and submitted can be evaluated and a comprehensive pathology report returned to the veterinarian

typically within a couple of hours, often within minutes for urgent STAT needs, expediting patient diagnosis and treatment, elevating overall patient care.

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 for their patients.

Digital Radiography. We sell hardware, including digital radiography detectors, acquisition workstation equipment, positioning aides, viewing computers, radiographic generators, anti-scatter grids and other accessories for use in digital radiography imaging diagnostics. With this hardware, we also provide licensed embedded software, support, data hosting, warranty and other services. CloudDR™ solutions combine flat panel digital radiography detectors, acquisition workstations and acquisition software to produce, review, archive and share radiographic image studies, primarily in fixed location companion animal veterinary settings.

We also sell mobile digital radiography products, primarily for equine use, such as the Cuattro Uno, a full powered, portable digital radiography generator integrated with an embedded touchscreen acquisition and review function. In addition to Cuattro Uno, we sell the Cuattro Hub, a mobile digital radiography acquisition console that is capable of operating as a general full field wireless x-ray imager and as the control and display for DentiPod™, a large format equine intraoral dental sensor, and SonoPod ™, a wireless ultrasound.

Ultrasound Systems. We sell ultrasound products, including affiliated probes and peripherals, with varying features and corresponding price points from various suppliers.

Diagnostic Data and Support. Cloudbank™ is an automatic, secure, web-based image storage solution designed to interface with the imaging products we sell. HeskaView+™ is a Picture Archival and Communications Systems (PACS) for web or local viewing, reporting, planning and email sharing of studies on Internet devices, including personal computers, tablet 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 customers. Access and operation between our imaging devices, Cloudbank™ and SupportCloud™ is supported by the acquisition software used in the equipment we sell.

HeskaView and Heska's Data Capture Utility (DCU) are modern and intuitively operated practice information software applications for Point of Care devices. The HeskaView software can be used as independent practice information reporting software for Heska analyzers. HeskaView and the DCU can be used as a middleware to bi-directionally connect Heska's analyzers to a wide variety of Veterinary Practice Management Software platforms used throughout North America.

scil vIP® is a modern and intuitively operated practice information software for Point of Care devices. The software can be used as independent practice information software or as middleware to connect POC equipment throughout Europe. It further provides a web interface allowing the users to access the software even more easily.

Point of Care Rapid Assay Diagnostic Tests

We sell rapid point-of-care tests to detect antigens and antibodies associated with infectious and parasitic diseases of animals. The trūRapid™ line of lateral flow tests are fast, accurate, and convenient for veterinarians. There are over 20 different tests available to detect antigens and antibodies for a variety of infectious and parasitic diseases. Both individual and multiplex rapids are available to give clinics the ultimate flexibility in testing options. trūRapids™ can be used on a variety of samples, including feces, whole blood, serum, or plasma and are stored at room temperature providing convenience for any practice. With strong sensitivity and specificity, trūRapid™ tests afford clinics the confidence to make the correct clinical decisions to diagnose and treat pets.

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 U.S. 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. 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 symptoms of allergic disease is inherently limited by inaccuracies in the diagnostic process.

We believe that 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 U.S. We also sell products to screen for the presence of allergen-specific IgE to these customers. 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 or ALLERCEPT® Therapy Drops. 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 subcutaneous injections (Shots) or by daily sublingual (under the tongue) administration (Drops), with doses increasing over several months, to ameliorate the allergic condition of the animal. Immunotherapy is generally continued for an extended time. We offer canine, feline and equine subcutaneous and sublingual

immunotherapy treatment products. We believe our ALLERCEPT® Therapy Drops offer a convenient alternative to subcutaneous injection, thereby increasing the likelihood of pet owner compliance.

Other Vaccines and Pharmaceuticals ("OVP")

We developed a line of bovine vaccines that are licensed by the U.S. Department of Agriculture ("USDA"). In January 2015, we signed a long-term Master Supply Agreement related to these vaccines with 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, pigs, chickens, cats and dogs. 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 currently market our products to veterinarians through an outside field organization, a telephone sales force and independent third-party distributors, as well as through trade shows, print advertising and through other distribution relationships, such as Merck Animal Health in the case of our heartworm preventive. As of December 31, 2021, our customer facing sales, installed base support and utilization organization consisted of 144 and 125 individuals in various parts of our North America and International segments, respectively.

Veterinarians may obtain our products directly from us or indirectly through others. All of our products ultimately are sold primarily to or through veterinarians. The acceptance of our products by veterinarians is critical to our success. Internationally, we market our products to veterinarians primarily through our recent acquisitions of scil, Optomed and CVM, and through organic efforts in Australia we have begun to market directly. We also market internationally outside our key countries through third-party veterinary diagnostic laboratories and independent third party distributors.

We have a staff dedicated to customer and product support 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.

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.

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 products at this facility.

The OVP products for our North America segment are purchased 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 products at our Des Moines facility, our Loveland facility and our Fribourg facility. We believe the raw materials for most of the products we manufacture are readily available from more than one source.

Product Development

We are committed to providing innovative products to address the 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.

Internal research and development is managed on a case-by-case basis. We employ individuals with expertise in various applicable areas and will form multidisciplinary product-associated teams as appropriate.

Intellectual Property

We believe that patents, trademarks, copyrights and other proprietary rights represent opportunities to grow our business and maintain or enhance our competitive position. 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 products are primarily protected through trade secret protection of, for example, our manufacturing processes in this area.

We actively seek patent protection both in the U.S. and abroad. Our issued patent portfolios primarily relate to allergy, diagnostic and detection tests, and vaccine delivery technologies. As of December 31, 2021, we owned, co-owned or had rights to 2 issued U.S. patents expiring at various dates from May 2022 to April 2024 and had 1 pending U.S. patent application. Our corresponding foreign patent portfolio as of December 31, 2021 included 2 issued patents in various foreign countries expiring at various dates from March 2022 to August 2024 and no pending applications.

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

Seasonality

While we do not experience significant seasonal fluctuations in our sales throughout the year, we generally experience higher sales in the fourth quarter due to industry trade shows and other similar activities.

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 U.S., 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. 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. Under the Federal Food, Drug and Cosmetic Act, the same statutory standard for FDA approval applies to both human and animal drugs: demonstrated safety, efficacy and compliance with FDA manufacturing standards. 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. The time and cost for developing companion animal drugs may be significantly less than for drugs for livestock animals, which generally have enhanced standards designed to ensure safety in the food chain.

- *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 U.S.

We have pursued Conformité Européene (CE)Marking for imaging equipment and regulatory approval outside the U.S. based on market demographics of foreign countries. For marketing outside the U.S., 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 U.S. 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 from the Canadian Center for Veterinary Biologics, or CCVB (Canada); the Japanese Ministry of Agriculture, Forestry and Fisheries, or MAFF (Japan); the Australian Department of Agriculture, Fisheries and Forestry, or ADAFF (Australia); the Republic of South Africa Department of Agriculture, or RSADA (South Africa); the Agriculture, Fisheries and Conservation Department, or ADCD (Hong Kong); the Macau Animal Health Division of Animal Control and Inspection, or IACM (Macau); the Spanish Ministry for Agriculture, Fisheries and Food; and from the relevant regulatory authorities in certain other countries requiring such approval.

The heartworm and allergy products previously discussed which have received regulatory approval in the U.S. and/or elsewhere are summarized below:

Products	Country	Regulated	Agency	Status
ALLERCEPT Allergy Treatment Sets	U.S. Canada	Yes Yes	USDA CCVB	Licensed Licensed
SOLO STEP CH	U.S. EU Canada	Yes No-in most countries Yes	USDA CCVB	Licensed Licensed
SOLO STEP FH	U.S. Canada	Yes Yes	USDA CCVB	Licensed Licensed
TRI-HEART Plus Heartworm Preventive	U.S. Hong Kong Macau	Yes Yes Yes	FDA AFCD IACM	Licensed Licensed Licensed

Customer Concentration

The information concerning our significant customers included in our Risk Factors section of this Annual Report under the caption "***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***" is incorporated herein by reference thereto.

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") and Zoetis Inc. ("Zoetis"). Idexx has a larger veterinary product and service offering than we do and a large sales infrastructure network and a well-established brand name. Zoetis also has a large sales infrastructure network.

In our North America segment, the OVP products we manufacture 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 we do. Companies with a significant presence in the animal health market such as CEVA Santé Animale, Elanco, Merck, Sanofi, 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, 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.

Human Capital Resources

As of December 31, 2021, we employed approximately 655 persons, 396 of which resided in North America and 259 internationally. We employ temporary workers on a need only basis to maintain business flexibility and a dynamic workforce. We are committed to employee diversity and inclusion and the support of traditionally underrepresented groups in management. Our workforce is approximately 53% women and 47% men with 40% of our U.S. management team (defined as Director, Vice President, Senior Vice President and Executive Vice President) represented by women. In 2021, we experienced an employee turnover rate of approximately 15% globally.

We believe that the current and future success of our company’s ability to execute on its strategic initiatives is highly dependent upon our ability to recruit, retain and reward our employees. We engage in targeted recruitment strategies to fill highly skilled positions. Our employees enjoy competitive compensation plans including market rate targeted salaries, robust benefits including retirement plans and employee stock purchase plan opportunities, and the opportunity for participation in short- and long-term incentive programs. Our compensation philosophy is designed to provide an appealing, market-based and rewarding compensation program that encourages high personal and company performance, strong cultural and ethical behavior, and incentives aligned with shareholder interests. Our aim is to attract, engage and retain highly qualified, motivated, and creative people who will fulfill our mission to be the “voice of the pet,” while delivering on Heska goals in a healthy, honest, and sustainable manner.

We are committed to providing a workplace that protects the health and well-being of our employees. All employees are required to abide by our Code of Conduct and Ethics, company health and safety parameters and contribute to a positive and friendly company culture. Due to the COVID-19 pandemic and in consideration of our employees’ safety, in March 2020, we implemented work from home policies for all employees with the ability to work remotely, along with targeted on-site attendance for employees whose job requires their physical presence. At our Des Moines, Iowa manufacturing facility, we instituted staggered start

times, designated building entry/exit protocols and closed common areas to maximize “social distancing” guidelines. As of December 31, 2021, we continue to enforce these safety precautions and abide by Center for Disease Control (“CDC”) guidelines, while tentatively planning limited return to work procedures in the second half of 2022.

Our Chief Administrative Officer is responsible for developing and executing the Company’s human capital strategy and updates the Board on human capital matters.

Where You Can Find Additional Information

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. References to our website in this Annual Report on Form 10-K are inactive textual references only and the content of our website should not be deemed incorporated by reference for any purpose.

Because we believe it provides useful information in a cost-effective manner to interested investors, we make available free of charge, 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 as soon as reasonably practical after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (the "SEC").

In addition, you may also review and download a copy of this Annual Report on Form 10-K, including any exhibits and any schedules filed therewith, and our other periodic and current reports, proxy and information statements, and other information that we file with the SEC, without charge, by visiting the SEC's website (http://www.sec.gov).

Information About Our Executive Officers

Our executive officers and their ages as of February 28, 2022 are as follows:

Name	Age	Position
Kevin S. Wilson	49	Chief Executive Officer and President
Catherine Grassman	46	Executive Vice President, Chief Financial Officer
Nancy Wisnewski, Ph.D.	59	Executive Vice President, Chief Operating Officer
Steven M. Eyl	56	Executive Vice President, Chief Commercial Officer, and President, scil animal care company
Christopher Sveen	39	Executive Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary, Heska and President, Diamond Animal Health
Eleanor Baker	37	Executive Vice President, Managing Director and Chief Operating Officer scil animal care company

Kevin S. Wilson was appointed President and Chief Executive Officer effective March 31, 2014. He previously served as our President and Chief Operating Officer from February 2013. Mr. Wilson became a member of our Board of Directors in May 2014. Mr. Wilson is a founder, member and officer of Cuattro, LLC, an imaging and software company. 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.

Catherine Grassman, CPA, was appointed Executive Vice President, Chief Financial Officer on May 6, 2019. She previously served as Vice President and Chief Accounting Officer from December 2017 to May 2019 and as Corporate Controller from January 2017 to December 2017. Prior to joining Heska, Ms. Grassman was Corporate Controller of KeyPoint Government Solutions, a mid-sized private-equity backed, background investigation services company. She also spent more than 15 years with PricewaterhouseCoopers, LLP as a senior manager in the audit practice. She is licensed in Colorado as a Certified Public Accountant and possesses a Master of Accountancy and a Bachelor of Business Administration from Stetson University.

Nancy Wisnewski, Ph.D. was appointed Executive Vice President, Chief Operating Officer in August 2019. She previously served as Executive Vice President, Diagnostic Operations and Product Development from September 2016 to August 2019, as Executive Vice President, Product Development and Customer Service from April 2011 to September 2016 and 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 BS in Biology from Lafayette College.

Steven M. Eyl was appointed Executive Vice President, Global Sales and Marketing in September 2016. He previously served as our Executive Vice President, Commercial Operations from May 2013 to September 2016. 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.

Christopher Sveen, Esq. was appointed Executive Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary of Heska Corporation and President, Diamond Animal Health in April 2020, previously serving as Vice President, General Counsel from December 2018 to April 2020. Before joining Heska, Mr. Sveen served as a Private Banker at J.P. Morgan Private Bank in Chicago from August 2015 to May 2018 and prior to that as a civil litigation and trial attorney at a boutique litigation firm. Mr. Sveen received his Juris Doctor from Chicago-Kent College of Law in 2009 and his Master of Business Administration (MBA) from the Kelley School of Business at Indiana University in 2015. He is licensed to practice law in Illinois and Colorado.

Eleanor Baker, Esq. was appointed Executive Vice President, Managing Director of scil in April 2020, previously serving as Vice President, General Counsel since November 2017. Previously, Ms. Baker worked at KPMG, LLP as a technology and innovation solutions consultant from 2015 to November 2017. Ms. Baker received her Juris Doctor from Wake Forest School of Law, a Master of Laws from University of Houston and her undergraduate degree from Texas A&M University. She is licensed to practice law in Texas and Colorado.

Item 1A. Risk Factors

Risk Factors Summary

Pursuant to Item 105(b) of Regulation S-K, the following represents a summary of the principal factors that make an investment in our common stock speculative or risky. This summary does not address all of the risks that we face. Additional discussion of the risks summarized in this risk factor summary, and other risks that we face, can be found below under the heading “Risk Factors” and should be carefully considered, together

with other information in this Form 10-K and our other filings with the SEC, before making an investment decision regarding our common stock.

Risks related to our business and industry

- Uncertainty regarding the extent to which the COVID-19 pandemic will adversely impact our business, results of operations and financial condition.
- If third parties with substantial marketing rights for certain of our historical products, existing products, or future products under development are not successful in marketing those products, then our sales and financial position may suffer.
- We rely substantially on third party suppliers and rights under contracts with third parties. The loss of products, or rights under contracts, or delays in product availability from one or more third party suppliers could substantially harm 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.
- 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 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.
- 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 may be unable to market and sell our products successfully.
- We face risks associated with our international operations and our international expansion may not generate the results we anticipate.
- We may face costly legal disputes, including disputes related to our intellectual property or technology or that of our suppliers or collaborators.
- 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 are currently evaluating, and we intend to pursue, acquisitions, investments, licenses, joint ventures, and other strategic development opportunities, which may not have desired results and could be detrimental to our financial position.
- Obtaining and maintaining regulatory approvals in order to market our products may be costly and could 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.
- Our future revenues depend on successful product development, direct manufacturing, contract manufacturing, commercialization and/or market acceptance, any of which can be slower than we expect or may not occur.
- 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.
- Cyberattack related breaches of our information technology systems could have an adverse effect on our business.
- We may be unable to protect our stakeholders’ privacy or we may fail to comply with privacy laws.
- We may not be able to achieve sustained profitability or increase profitability on a quarterly or annual basis.
- 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.
- We may be held liable for the release of hazardous materials, which could result in extensive remediation costs or otherwise harm our business.

Risks related to our common stock

- 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. This volatility could affect the value of our common stock.
- Our NOL Protective Amendment could adversely impact the value and trading liquidity of our common stock.
- If securities analysts do not publish research or reports about our business, or if they downgrade our stock, the price of our stock could decline.
- We have not declared or paid any dividends on our common stock since 2012 and we do not anticipate paying any cash dividends in the foreseeable future.
- We have fewer than 300 holders of record, which could 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 common stock on The Nasdaq Capital Market. We may also be unable to otherwise maintain our listing on The Nasdaq Capital Market.
- Provisions in our Certificate of Incorporation and bylaws and under Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our common stock.

Risks related to the outstanding Notes

- Servicing our debt will require a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.
- We may not have the ability to raise the funds necessary to settle conversions of our convertible notes (the "Notes") in cash or to repurchase the Notes upon a fundamental change, and our future debt may contain, limitations on our ability to pay cash upon conversion or repurchase of the Notes.
- The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.

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 the material factors and the possible impact of these factors on future results of operations. If any of the following factors actually occur, our business, financial condition or results of operations could be harmed. In that case, the price of our Public Common Stock could decline and investors in our Public Common Stock could experience losses on their investment.

Risks related to our business and industry

The extent to which the COVID-19 pandemic will adversely affect our business, results of operations and financial condition is uncertain.

The global spread of the coronavirus and its variants (the "COVID-19 pandemic") has created significant uncertainty and economic disruption in the markets in which we operate, both near-term and potentially long-term. The extent to which the COVID-19 pandemic will affect our business, results of operation and financial condition is difficult to predict and depends on numerous rapidly evolving factors, such as the severity and transmission rate of the virus, the emergence and spread of variants, infection rates in areas where we operate, the extent and effectiveness of containment actions, including the continued availability and effectiveness of vaccines in the markets where we operate, the impact of actions taken by governmental authorities and other third parties in response to the pandemic, and the impact of these and other factors on our employees, customers, and suppliers. Although difficult to determine the full scope of the effects of the COVID-19 pandemic on our business, we have experienced and continue to experience supply chain disruptions, which may result in manufacturing delays and increased component costs. We also expect that we may incur increased compensation expenses and higher-than-normal employee turnover as we attempt to attract and retain skilled employees during a macro working environment where qualified labor is in short supply, job-mobility is high in part because of remote working arrangements, and the benefits of company culture and personal relationships are more difficult to realize outside of the traditional office setting. We are also monitoring the effects of the COVID-19 pandemic on the operation of veterinary clinics, consumer discretionary spending on their pets' health and wellbeing, research and development trends regarding animal health *vis a vis* human health, and the ability of our sales staff to travel and our manufacturing staff to operate in their normal capacities. However, the effect of the COVID-19 pandemic on the foregoing issues and numerous other potential issues is difficult to predict, both in the short-term and in the long-term, and any one of them could cause a material adverse effect on our business, results of operation and financial condition. The COVID-19 pandemic could also have the effect of heightening other risk factors described in this report.

If third parties with substantial marketing rights for certain historical products, existing products or future products under development are not successful in marketing those products, then our sales and financial position may suffer.

We are party to agreements with Merck Animal Health ("MAH") for our canine heartworm preventive product, TRI-HEART Plus Chewable Tablets, and Elanco for certain bovine vaccines, which have been sold primarily under the Titanium and MasterGuard brands. Either 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. For example, in 2019, MAH failed to market, sell and support our heartworm preventive product, which resulted in depressed PVD product annual revenue in our North America segment. Furthermore, there may be nothing to prevent these partners from pursuing alternative technologies, products or supply arrangements, including as part of mergers, acquisitions or divestitures. Third party marketing assistance may not be available in the future on reasonable terms, if at all. If the third parties with marketing rights for our products were to merge or go out of business, the sale and promotion of our products could be diminished.

We rely substantially on third party suppliers and rights under contracts with third parties. The loss of products, or rights under contracts, 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 Point of Care laboratory 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 that sell us proprietary products are FUJIFILM Corporation and Shenzen Mindray Bio-Medical Electronics Co., Ltd. We often purchase products from our suppliers under agreements that are of limited duration or potentially can be terminated on short notice subsequent to unfavorable legal action. In the case of our Point of Care laboratory instruments and our digital radiography solutions, post-termination, 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. 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 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 Point of Care laboratory 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.
- *Supply chain constraints in raw materials to suppliers*. Our suppliers rely on sourcing raw materials, instrument components and other items necessary to produce the supply of products we offer our customers. Supply chain constraints faced by our suppliers may delay a supplier’s ability to produce our products, which could create an interruption in our ability to fulfill orders.
- *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 Point of Care laboratory 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. If one of our suppliers is unable to provide a raw material or finished product due to regulatory issues, it could have a material adverse financial impact on our business and could expose us to legal action if we are unable to perform on contracts to our customers involving related 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 geographic rights*. We typically do not have global geographic rights to products supplied by third parties. If we were to determine a market opportunity in a geography where we did not have distribution

rights and were unable to obtain such rights from the supplier, it might hamper our ability to succeed in such geography and our sales and profits would be lower than they otherwise would have been.

- *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.
- *Changes to United States tariff and import/export regulations*. Changes to United States trade policies, treaties and tariffs could have a material adverse effect on global trade. These changes could result in increased costs of goods imported into the United States for the Company and our third party suppliers. Our third party suppliers may limit their trade with companies in the United States, including us.
- *Global human and animal health risk*. Several of our suppliers have operations in areas that may be susceptible to public health emergencies that could restrict global trade generally, and our access to consumables and product, specifically. The risk of infectious disease in humans and animals may limit trade and product access with third party suppliers with companies inside and outside the United States, including us. In particular, the use of animal bi-product may affect our consumable supply as a result of global animal health risks.

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, including our Chief Executive Officer (“CEO”) and President, Kevin Wilson. 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 employment agreements 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.

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 Covetrus, Inc., formerly known as Henry Schein Animal Health ("Covetrus"), represented approximately 8%, 6% and 14% of our consolidated revenue for the years ended December 31, 2021, 2020 and 2019, respectively. No other customer accounted for more than 10% of our consolidated revenue for the years ended December 31, 2021, 2020 or 2019. No customer accounted for more than 10% of our consolidated accounts receivable at December 31, 2021 or 2020. The loss of, or material reduction in business from, any of our significant customers could adversely affect our business and financial results.

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 that sell products under their own private labels. In the point-of-care diagnostic testing market, our major competitors include IDEXX Laboratories, Inc. and Zoetis Inc.. The OVP products manufactured by our North America 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 product customers. Competitors may have facilities with similar capabilities to our Des Moines, Iowa facility, which they may operate and sell at a lower unit price to customers than we sell our OVP products for, which could cause us to lose customers. Companies with a significant presence in the companion animal health market, such as CEVA Sante´ Animale, Elanco, Merck, Sanofi, Vétoquinol S.A. and Virbac S.A. 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. For example, if Zoetis devotes its significant commercial and financial resources to growing its market share in the veterinary allergy market, our allergy-related sales could suffer significantly. Our competitors may offer broader product lines and have greater name recognition than we do. 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.

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.

We benefit from relationships or collaboration with third parties, including but not limited to, companies, buying groups, veterinary hospital groups and reference laboratory entities that operate in our markets. Beneficial third party, semi-competitive, directly competitive and cooperative relationships that affect how we go to market, develop products, generate leads and other commercial efforts of Heska may be negatively affected as a result of consolidation, acquisition, merger, exclusive arrangement or other agreements or activities between and amongst those third parties and others.

We may 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 occasionally dependent on third parties and collaborative partners to perform research and development activities to successfully develop new products. We routinely discuss Heska marketing in the veterinary market instruments being developed by third parties 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 or 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 may be impacted negatively and our revenues may decline.

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, or at all. 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. The market for companion animal healthcare products is highly fragmented. Because our 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 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. 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 that rely less on individual consumers.

For our Point of Care laboratory blood diagnostics products, we primarily rely on contracts with our veterinary customers for their use of our owned equipment and our consumable supplies over a multiple year period. If veterinarians under these contracts experience a significant downturn in their business, they may not fulfill their use and financial obligations under these contracts. If veterinarians breach our contracts, and we are unable to collect on default payment provisions or otherwise enforce the terms of our contracts, our business will be adversely affected. If we have to litigate against customer(s) to enforce our contracts, our expenses may increase, our sales may decrease to those customers, and our reputation may suffer. If significant numbers of our customers under contracts for use of our equipment and consumable supplies do not renew their contracts, our business will be adversely affected.

We have entered into agreements with independent third party distributors who we anticipate will market and sell our products to a greater degree than in the recent past. Independent third party distributors may be effective in increasing sales of our products to veterinarians, although we would expect a corresponding lower gross margin as such distributors typically buy products from us at a discount to end user prices. It is possible new or existing independent third party distributors could cannibalize our direct sales efforts and lower our total gross margin. For us to be effective when working with an independent third party distributor, the distributor must agree to market and/or sell our products and we must provide proper economic incentives to the distributor as well as contend effectively for the time, energy and focus of the employees of such distributor given other products the distributor may be carrying, potentially including those of our

competitors. If we fail to be effective with new or existing independent third party distributors, our financial performance may suffer.

We face risks associated with our international operations and our international expansion may not generate the results we anticipate.

A core component of our future growth strategy is international expansion. As we continue to expand our international footprint, we will be increasingly susceptible to the risks associated with international operations including, but not limited to, the following:

- uncertain political and economic climates and fluctuations in exchange rates that may increase the volatility of foreign-based revenue and expense;
- burdens of complying with and unexpected changes in foreign laws, accounting and legal standards, regulatory requirements, taxes, tariffs and other barriers or trade restrictions;
- lack of experience in connection with the customs, cultures, languages and sales cycle;
- reduced or altered protection for intellectual property rights; and
- data privacy laws in foreign countries, which require that data storage and processing be subject to laws different than the United States.

As a result of these and other factors, international expansion may be more difficult and not generate the results we anticipate, which could negatively impact our business.

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

We have faced, and may face in the future, 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. Insurance coverage may not cover any costs required to litigate a legal dispute or an unfavorable ruling or settlement. A legal dispute leading to an unfavorable ruling or settlement, whether or not insurance coverage may be available for any portion thereof, could have material adverse consequences on our business. Moreover, we may have to use legal means and incur affiliated costs to secure the benefits to which we are entitled under third party agreements, such as to collect payment for goods shipped to third parties, which would reduce our income as compared to what it otherwise would have been.

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. We or our collaborators or suppliers may not, however, be able to obtain licenses for technology patented by others on commercially reasonable terms, or at all, or to develop alternative approaches to access or replace such technology if we or they are unable to obtain such licenses or if current and future licenses prove inadequate, any of which could substantially harm our business.

We may also need to pursue litigation to enforce any contractual rights or 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 our contractual rights or 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, or at all.

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.

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses due to our compliance with regulations and disclosure obligations applicable to us, including compliance with the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, as well as rules implemented by the SEC and the Nasdaq Stock Market. We prepare our financial statements in conformance with GAAP. These accounting principles are established by and are subject to interpretation by the SEC, the FASB and others which interpret and create accounting policies. These rules and regulations will continue to cause us to incur significant legal and financial compliance costs and will make some activities more time-consuming and costly. A change in those policies or how those policies are interpreted 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 require us to incur additional compliance costs, adversely affect our reported financial results and the way we conduct our business or have a negative impact on us if we fail to track such changes.

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, 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 $118.8 million at December 31, 2021 and $88.3 million at December 31, 2020. There can be no assurance that future goodwill impairments will not occur if projected financial results are not met, or otherwise.

We are currently evaluating, and we intend to pursue, acquisitions, investments, licenses, joint ventures, and other strategic development opportunities, which may not have desired results and could be detrimental to our financial position.

We continue to evaluate, and we intend to pursue, acquisitions and other strategic development opportunities, including minority investments where strategic, such as our acquisition of scil in 2020, our acquisitions of Lacuna, BiEsseA, and Biotech in 2021, and our acquisition of VetZ in 2022. The ultimate business and financial performance of these opportunities may not create, and may end up adversely affecting materially, the value we hope to enhance by pursuing them. Any acquisition may significantly underperform relative to our financial expectations and may serve to diminish rather than enhance shareholder value. We may also diminish our cash resources or dilute stockholders in order to finance any such acquisition or other strategic transaction.

The success of any acquisition will depend on, among other things, our ability to integrate assets and personnel acquired in these transactions and to apply our internal controls process to these acquired

businesses. The integration of acquisitions is likely to require significant attention from our management, and the diversion of management's attention and resources could have a material adverse effect on our ability to manage our business. Furthermore, we may not realize the degree or timing of benefits we anticipated when we first entered into the acquisition transaction. If actual integration costs are higher than amounts originally anticipated, if we are unable to integrate the assets and personnel acquired in an acquisition as anticipated, or if we are unable to fully benefit from anticipated synergies, our business, financial condition, results of operations and cash flows could be materially adversely affected. Furthermore, it is possible we will use management time and resources to pursue opportunities we ultimately are unable or decide not to consummate, in which case, we may not be able to utilize such management time and resources on what may have proved to be more productive matters in other areas of our business.

We make investments into licenses, third parties, and contracts with legal, development and commercial rights and obligations. These investments may not produce positive results, economic or strategic value, or any benefits and may decline in value or have no value.

Obtaining and maintaining regulatory approvals in order to market our products may be costly and could 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 may not be able to estimate the time to obtain required regulatory approvals accurately and such approvals may require significantly more time than we anticipate. 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. 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 analogous or additional 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. Furthermore, third parties may perceive procedures required to obtain regulatory approval objectionable and may attempt to disrupt or otherwise damage our business as a result. 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 combination with others, could significantly damage our business or results of operations.

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

The product development and regulatory approval and maintenance process for many of our current and 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, a product may not achieve the anticipated technical performance in field use 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 precedent for 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 any 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.

Even if we are successful in the development of a product or obtain rights to a product from a third party supplier, we may not be able to, ourselves or through a third party, manufacture such product or continue to manufacture such product on an ongoing basis necessary to realize economic value or service customers, or manufacture such product economically or to the standard necessary to realize economic value or service customers.

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 and components, including minimum purchase agreements, from third party suppliers or termination, cancellation 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 time. If any of the factors listed above cause our revenues to decline, our operating results could be substantially harmed.

Cyberattack related breaches of our information technology systems could have an adverse effect on our business.

Cyberattacks are increasing in their frequency, sophistication and intensity, and have become increasingly difficult to detect and defend against, notwithstanding our ongoing evaluation of and improvements to the preventive measures we take on to reduce the risks associated with these threats based on our own experience and those observed in the broader market. Cyberattacks, ranging from the use of malware, computer viruses, dedicated denial of services attacks, credential harvesting, social engineering and other means for obtaining unauthorized access to our Company's confidential information or assets or disrupting our Company’s ability to operate normally, could have a material adverse effect on our business. Cyberattacks may cause equipment failures, loss of information or assets, including sensitive personal information of third-party vendors, customers or employees, or valuable technical and marketing information, as well as disruptions to our or our vendor or customers’ operations. These attacks may be committed by company employees or external actors operating in any geography, including jurisdictions where law enforcement measures to address such attacks are unavailable or ineffective. Cyberattacks may occur alone or in conjunction with physical attacks, especially where disruption of service is an objective of the attacker. The preventive actions we take on an ongoing basis to reduce the risks and mitigate the potential damages associated with cyberattacks, including protection of our systems, networks and assets and the retention of cybersecurity insurance policies, may be insufficient to repel or mitigate entirely the effects of a cyberattack.

We devote significant resources to network security, data encryption and other security measures to protect our systems and data, but these security measures cannot provide absolute security. To the extent we were to experience a breach of our systems and were unable to protect sensitive data in the wake of the breach, such a breach could materially damage business partner and customer relationships and reduce or otherwise negatively impact access to online services. Moreover, if a computer security breach affects our systems or

results in the unauthorized release of Personally Identifiable Information ("PII"), our reputation and brand could be materially damaged; use of our products and services could decrease, we could suffer from reputational harm impacting sales revenue, and we could be faced with unforeseen regulatory investigation, remediation and litigation costs. Our cybersecurity insurance policies may not cover the full extent, or any, of the potential financial harm that could be caused by a breach of our systems, including in respect of theft or possible damages claims that may be brought against us by our business partners and customers in respect of any such breach.

The frequently changing attack techniques, along with the increased volume and sophistication of the attacks, create additional potential for us to be adversely impacted by this activity. This impact could result in reputational, competitive, operational or other business harm as well as management distraction, financial losses and costs, and regulatory action.

We may be unable to protect our stakeholders' privacy or we may fail to comply with privacy laws.

The protection of customer, employee, supplier and company data is critical and the regulatory environment surrounding information security, storage, use, processing, disclosure and privacy is demanding, with the frequent imposition of new and changing requirements. In addition, our customers, employees and suppliers expect that we will protect their personal information. Any actual or perceived significant breakdown, intrusion, interruption, cyberattack or corruption of customer, employee or supplier data or our failure to comply with federal, state, local and foreign privacy laws, including the European Union's General Data Protection Regulation ("GDPR") and the Health Insurance Portability and Accountability Act, could result in lost sales, remediation costs, and legal liability including severe penalties, regulatory action and reputational harm. GDPR became effective in 2018, for example, and requires companies to meet new and enhanced requirements regarding the handling of personal data, including its use, protection and the rights of data subjects to request correction or deletion of their personal data. Failure to meet GDPR requirements could result in penalties of up to 4% of worldwide revenue. Despite our efforts and investments in technology to secure our computer network, security could be compromised, confidential information could be misappropriated or system disruptions could occur. Failure to comply with the security requirements or rectify a security issue may result in fines and the imposition of restrictions on our ability to accept payment by credit or debit cards. In addition, the payment card industry ("PCI") is controlled by a limited number of vendors that have the ability to impose changes in PCI's fee structure and operational requirements on us without negotiation. Such changes in fees and operational requirements may result in our failure to comply with PCI security standards, as well as significant unanticipated expenses. Such failures could materially adversely affect our operating results and financial condition. Furthermore, we maintain cybersecurity insurance coverage at levels that we believe are appropriate for our business. The costs related to significant security breaches or disruptions, however, could be material and exceed the limits of the cybersecurity insurance we maintain against such risks. If the amounts of our insurance coverage are inadequate to satisfy any damages and losses in the event of a cybersecurity incident, we may have to expend significant resources to mitigate the impact of such an incident, and to develop and implement protections to prevent future incidents of this nature from occurring. Such financial exposure could have a material adverse effect on our business.

We may not be able 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, 2021, we had an accumulated deficit of $148.6 million. Relatively small differences in our performance metrics may cause us to generate an operating or net loss in future periods. Our ability to be profitable in future periods will depend, in part, on our ability to increase sales, 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 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 biohazardous materials, including chemicals and infectious disease agents. 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.

Risks related to our common stock

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. This volatility could affect the value of our common stock.

Should a relatively large stockholder 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.

The securities markets have experienced significant price and volume fluctuations and the market prices of securities of many small cap companies have in the past been, and can in the future be expected to be, especially volatile. During the year ended December 31, 2021, the closing stock price of our common stock has ranged from a low of $143.93 to a high of $274.20, and the closing sale price of our common stock on February 24, 2022 was $137.17 per share. Fluctuations in the trading price or liquidity of our common stock

may adversely affect our ability to raise capital through future equity financings. Factors that may have a significant impact on the market price and marketability of our common stock include:

- stock sales by large stockholders or by insiders;
- 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;
- issuances of equity or equity-linked securities by us; 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.

Our NOL Protective Amendment could adversely impact the value and trading liquidity of our common stock.

On May 4, 2010, our stockholders approved an amendment (the "NOL Protective Amendment") to our Certificate of Incorporation. The NOL Protective Amendment places restrictions on the transfer of our common stock that could adversely affect our ability to use our domestic Federal Net Operating Loss carryforward ("NOL"). In particular, the NOL Protective 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. Any transfer of shares in violation of the NOL Protective Amendment (a "Transfer Violation") shall be void ab initio under the our Certificate of Incorporation and our board of directors has procedures under our Certificate of Incorporation to remedy a Transfer Violation including requiring the shares causing such Transfer Violation to be sold and any profit resulting from such sale to be transferred to a charitable entity chosen by the Company's board of directors in specified circumstances. The NOL Protective Amendment could have an adverse impact on the value and trading liquidity of our stock if certain buyers who would otherwise have bid on or purchased our stock, including buyers who may not be comfortable owning stock with transfer restrictions, do not bid on or purchase our stock as a result of the NOL Protective 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 NOL Protective 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 NOL Protective Amendment not passed.

In February 2018, our board of directors granted a waiver to a non-affiliated stockholder to allow the purchase, subject to certain limitations, of up to 730,000 shares of our common stock without causing a Transfer Violation. This waiver can be withdrawn by our board of directors at any time, in which case the non-affiliated stockholder is to only sell our stock until the non-affiliated stockholder ceases to be a Five Percent Shareholder (as defined in our Certificate of Incorporation). On August 7, 2019, our board of directors determined to waive the application of any NOL transfer restrictions contained in our Certificate of Incorporation with respect to the issuance and transfer of our Notes, any issuance of shares of the Company's common stock upon conversion of any of the Notes, and any subsequent and further transfer of any such common stock, to the extent such restrictions would otherwise have been applicable thereto. In January 2020, our board of directors waived the application of any NOL transfer restrictions contained in our Certificate of Incorporation with respect to the issuance and sale of the shares of preferred stock and underlying common stock issued in connection with the financing of the scil acquisition. In February 2021, our board of directors waived the application of any NOL transfer restrictions contained in our Certificate of Incorporation with respect to the issuance and transfer of the shares of common stock in our March 2021 public offering, and any subsequent and further transfer of any such shares, to the extent such restrictions would otherwise have been applicable thereto.These waivers, and any similar waivers that our board of directors may grant in the future, may make it more likely that we have a "change of ownership" as defined under the provisions of Section 382 of the Internal Revenue Code of 1986, as amended, which could place a significant restriction on our ability to utilize our domestic Federal NOL in the future and materially adversely affect our results of operations. State net operating loss carryforwards may be similarly or more stringently limited. Any limitations on our ability to use our pre-change of ownership net operating losses to offset taxable income could potentially result in increased future tax liability to us.

If securities analysts do not publish research or reports about our business, or if they downgrade our stock, the price of our stock could decline.

The trading market for our common stock will likely be influenced by research and reports that securities or industry analysts publish about us or our business. In the event securities or industry analysts cover our company and one or more of these analysts downgrades our stock, lowers their price target, or publishes unfavorable or inaccurate research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

We have not declared or paid any dividends on our common stock since 2012 and we do not anticipate paying any cash dividends in the foreseeable future.

We have not declared or paid any dividends on our common stock since October 2012. We intend to retain any earnings to finance the operation and expansion of our business, and we do not anticipate paying any cash dividends in the future. As a result, investors in our common stock may only receive a return on their investment in our common stock if the market price of our common stock increases.

We have fewer than 300 holders of record, which could 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 common stock on The Nasdaq Capital Market. We may also be unable to otherwise maintain our listing on The Nasdaq Capital Market.

We have fewer than 300 holders of record as of our latest information, a fact which could 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 Capital Market, which we would expect to materially adversely affect the liquidity and market price for our common stock. The Nasdaq Capital Market has several additional quantitative and qualitative requirements companies must comply with to maintain this listing. 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, 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 were delisted from The Nasdaq Capital Market, our common stock may be considered a penny stock under the regulations of the SEC and would therefore be subject to rules that impose additional sales practice requirements on broker-dealers who sell our securities. The additional burdens imposed upon broker-dealers may discourage broker-dealers from effecting transactions in our common stock, which could severely limit market liquidity of the common stock and 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.

Provisions in our Certificate of Incorporation and bylaws and under Delaware law might discourage, delay or prevent a change of control of our company or changes in our management and, therefore, depress the trading price of our common stock.

Our Certificate of Incorporation and bylaws contain provisions that could depress the trading price of our common stock by acting to discourage, delay or prevent a change of control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions:

- place restrictions on the transfer of our common stock that could adversely affect our ability to use our domestic NOL, which can have an effect of preventing a takeover;
- provide that our board of directors may, without stockholder approval, issue shares of preferred stock with special voting or economic rights;
- prohibit stockholders from calling a special meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and
- establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Additionally, we are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested" stockholder for a period of three years following the date on which the stockholder became an "interested" stockholder and which may discourage, delay, or prevent a change of control of our company.
Any provision of our Certificate of Incorporation, bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also negatively affect the price that some investors are willing to pay for our common stock.

Risks related to the outstanding Notes

Servicing our debt will require a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the amounts payable under the Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

We may not have the ability to raise the funds necessary to settle conversions of the Notes in cash or to repurchase the Notes upon a fundamental change, and our future debt may contain, limitations on our ability to pay cash upon conversion or repurchase of the Notes.

Holders of the Notes will have the right to require us to repurchase their notes upon the occurrence of a fundamental change at a fundamental change repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion of the Notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Notes surrendered therefor or Notes being converted. In addition, our ability to repurchase the Notes or to pay cash upon conversions of the Notes may be limited by law, by regulatory authority or by agreements governing our existing and future indebtedness. Our failure to repurchase Notes at a time when the repurchase is required by the indenture or to pay any cash payable on future conversions of the Notes as required by the indenture would constitute a default under the indenture. If a fundamental change occurs, or if the Notes are accelerated due to an event of default under the indenture, such events may lead to a default under agreements governing our future indebtedness. Any future indebtedness of ours may contain restrictions on our ability to pay cash upon conversion or repurchase of the Notes. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or make cash payments upon conversions thereof.

The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the Notes is triggered, holders of Notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share) or by electing an exchange process for the Notes and a designated financial institution delivers the applicable conversion consideration, we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders of Notes do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal

of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal administrative and research and development activities are located in Loveland, Colorado. We lease approximately 60,000 square feet at a facility in Loveland, Colorado under an agreement that expires in 2023. Our principal production facility located in Des Moines, Iowa, consists of approximately 160,000 square feet of buildings on 34 acres of land, which we own. We also lease a building in Maryland that is used for research, development and manufacturing.

Our principal international administrative and research and development activities are located in Germany, France, Spain, Canada, Italy and Malaysia. In Germany, we own an office space that is approximately 45,000 square feet, and a warehouse that is approximately 15,000 square feet. In France, Spain and Malaysia, we lease office spaces and warehouses. In Canada, we lease an office space and in Italy, we own an office space, a warehouse, and a showroom.

Item 3. Legal Proceedings

From time to time, the Company may be involved in litigation relating to claims arising out of its operations. The Company records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred, and the amount can be reasonably estimated.

As of December 31, 2021, 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".

As of February 24, 2022, there were approximately 265 holders of record of our Public Common Stock, and approximately 4,400 beneficial stockholders. We do not anticipate any dividend payments in the foreseeable future.

Unregistered Issuances of Equity Securities

On January 3, 2022, we acquired 100% of the equity of VetZ GmbH (“VetZ”), a European leader in veterinary practice information management software solutions (“PIMS”). Pursuant to the VetZ acquisition agreement, the seller may earn an additional $15.5 million in Heska common stock (91,039 shares) as earn-out payments. The shares will be issued in tranches contingent upon achieving certain future financial and non-financial milestones. The actual number of shares of common stock to be issued as earn-out payments, if any, could vary materially depending on whether and to what extent the future milestones are achieved. As such, we may ultimately issue no or less than the total number of shares of our common stock set forth above. Any such shares will be issued in reliance on Section 4(a)(2) of the Securities Act of 1933, as amended, as a transaction not involving any public offering.

Issuer Purchases of Equity Securities

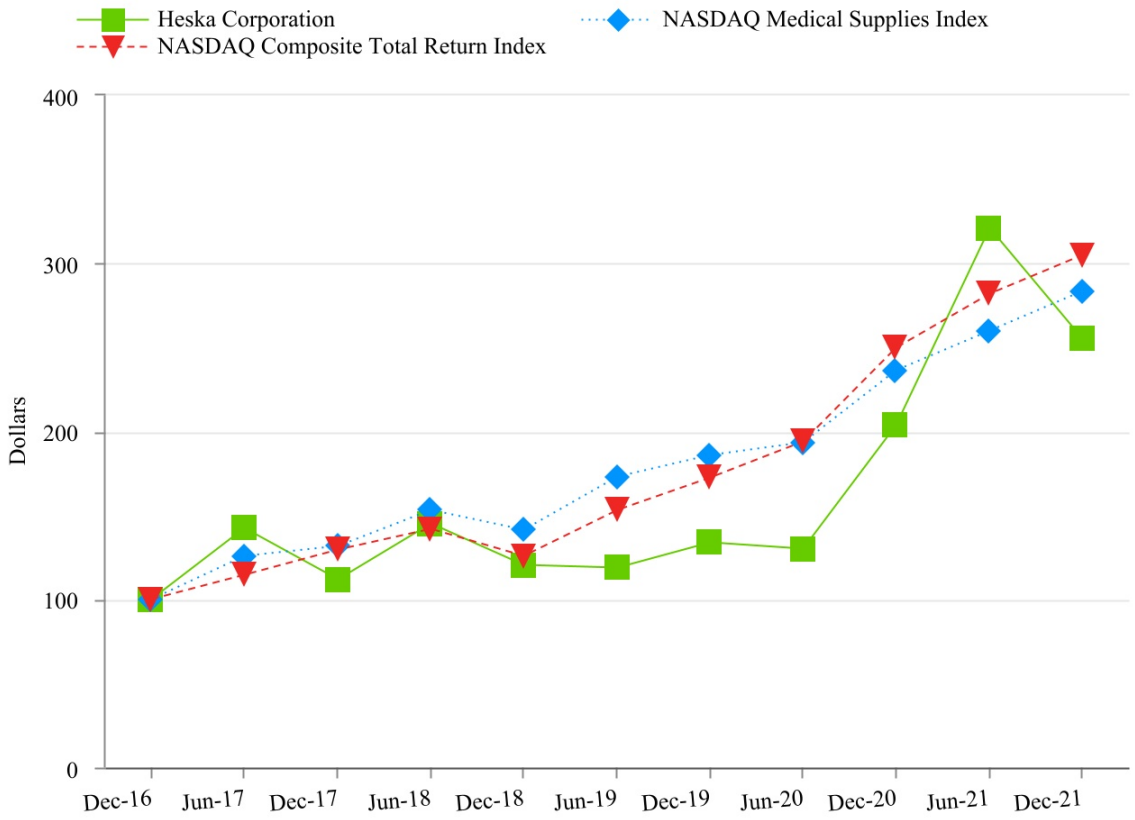
The following table sets forth information about the Company's purchases of our outstanding Public Common Stock during the quarter ended December 31, 2021:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under Plans or Programs
October 2021	—	$ —	—	$ —
November 2021	715	$ 176.25	—	$ —
December 2021	—	$ —	—	$ —
	715	$ 176.25	—	$ —

(1) Shares of Public Common Stock we purchased between October 1, 2021 and December 31, 2021 were solely for the cancellation of shares of stock withheld for related tax obligations.

STOCK PRICE PERFORMANCE GRAPH

The following graph provides a comparison over the five-year period ended December 31, 2021 of the cumulative total shareholder return from a $100 investment in the Company's common stock with the NASDAQ Medical Supplies Index and the NASDAQ Composite Total Return:



	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21
Heska Corporation	$ 100	$ 112	$ 120	$ 134	$ 203	$ 255
NASDAQ Medical Supplies Index	$ 100	$ 131	$ 141	$ 186	$ 236	$ 283
NASDAQ Composite Total Return Index	$ 100	$ 130	$ 126	$ 172	$ 250	$ 305

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 the Consolidated Financial Statements and related Notes included in Part II. Item 8 of this Form 10-K. This discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Rule 175 promulgated thereunder, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties, and can generally be identified by our use of the words "scheduled," "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," and variations of such words and similar expressions. Such statements, which include statements concerning future revenue sources and concentration, international market expansion, gross margin, selling and marketing expenses, remaining minimum performance obligations, research and development expenses, general and administrative expenses, capital resources, 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 February 25, 2022, and we undertake no duty and do not intend to update this information, except as required by applicable securities laws. If we updated one or more forward looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth above. See "Statement Regarding Forward Looking Statements."

On January 3, 2022, the Company acquired 100% of the equity of VetZ GmbH (“VetZ”), a European leader in veterinary practice information management software solutions (“PIMS”). Refer to Note 19 - Subsequent Events to the consolidated financial statements included in Part II. Item 8 of this Annual Report on Form 10-K.

A discussion of significant changes from the periods ending December 31, 2020 compared to December 31, 2019 can be found in Part II. Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2020.

Overview

We sell advanced veterinary diagnostic and specialty products. Our offerings include Point of Care laboratory instruments and consumables; Point of Care digital imaging diagnostic instruments; digital cytology services; vaccines; local and cloud-based data services; allergy testing and immunotherapy; and single-use offerings such as in-clinic diagnostic tests and heartworm preventive products. Our core focus is on supporting veterinarians in the canine and feline healthcare space.

Point of Care laboratory instruments and other sales include outright instrument sales, revenue recognized from sales-type lease treatment, and other revenue sources, such as charges for repairs and reference laboratory sales. Revenue from Point of Care laboratory consumables primarily involves placing an instrument under contract in the field and generating future revenue from testing consumables, such as cartridges and reagents, as that instrument is used. Instruments placed under subscription agreements are considered operating or sales-type leases, depending on the duration and other factors of the underlying agreement. A loss of, or disruption in, the supply of consumables we are selling to an installed base of instruments could substantially harm our business. All of our Point of Care laboratory and other non-imaging instruments and consumables 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 instruments for chemistry, hematology, blood gas and immunodiagnostic testing and their affiliated operating consumable.

Radiography is the largest product offering in Point of Care imaging, which includes digital and computed radiography and ultrasound instruments. Radiography solutions typically consist of a combination of hardware and software placed with a customer, often combined with an ongoing service and support contract. Our experience has been that most of the revenue is generated at the time of sale in this area, in contrast to the Point of Care diagnostic laboratory placements discussed above where ongoing consumable revenue is often a larger component of economic value as a given instrument is used.

Pharmaceuticals, Vaccines and Diagnostic ("PVD") revenue, includes single use diagnostic and other tests, pharmaceuticals and biologicals as well as research and development, licensing and royalty 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 and services in this area include heartworm diagnostic tests and preventatives, single-use rapid assay diagnostic tests, allergy test kits, allergy immunotherapy and testing, and other diagnostic rapid tests.

Other Vaccines and Pharmaceuticals ("OVP") revenue is generated in our USDA, FDA and DEA 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 of our U.S. inventory, excluding our imaging products, is stored at this facility and related fulfillment logistics are managed there. Our OVP revenue includes vaccines and pharmaceuticals produced for third parties. OVP is attributable only to the North America segment.

All of our products are ultimately sold primarily to or through veterinarians. In many cases, veterinarians will mark up their costs to their customers. The acceptance of our products by veterinarians is critical to our success. These products are sold directly to end users by us as well as through distribution relationships, such as the sale of kits to conduct blood testing to third-party veterinary diagnostic laboratories and sales to independent third-party distributors. Revenue from direct sales and distribution relationships represented 72% and 28%, respectively, of revenue for both the years ended December 31, 2021 and December 31, 2020, and 64% and 36% for the year ended December 31, 2019.

Segment Change

During the second quarter of 2020, following the scil acquisition, the chief operating decision maker (“CODM”) changed how he assesses performance and allocates resources based on geographic regions. As a result, the Company determined it has two operating and reportable segments: North America and International. North America consists of the United States, Canada and Mexico. International consists of geographies outside of North America, primarily our operations in Australia, France, Germany, Italy, Malaysia, Spain and Switzerland. The Company's core strategic focus on Point of Care laboratory and imaging products is included in both segments. The North America segment also includes the contract manufacturing of vaccines and pharmaceutical products. The Company revised prior comparative periods to conform to the current period segment presentation. Refer to Note 18 - Segment Reporting to the consolidated financial statements included in Part II. Item 8 of this Annual Report on Form 10-K for further information.

Impact of COVID-19 Pandemic and Current Economic Environment

Beginning in the first quarter of 2020, to limit the spread of COVID-19, governments took various actions including the issuance of stay-at-home policies and social distancing procedures and guidelines, causing some businesses to adjust, reduce or suspend business and operating activities. Veterinary care is widely recognized as an "essential" service for pet owners, and veterinarians continued to deliver essential medical care for sick and injured pets. The stay-at-home policies deployed early in 2020 to combat the spread of COVID-19 resulted in a decrease in companion animal clinical visits, including delay of elective procedures and wellness visits and as a result, lower demand for diagnostic testing services. Beginning in the second quarter of 2020, certain local, state and federal governments began to ease the stay-at-home policies and allowed more businesses and facilities to re-open, leading to a recovery in companion animal clinical visits and associated demand for our diagnostic products. In some part, and different depending on the geography, due to the introduction and acceptance of COVID-19 vaccines, restrictions have eased in many of the countries in which we operate. Global diagnostic animal health demand continued throughout 2021. While this trend is encouraging, with the rise in COVID-19 variants, the extent to which the continuation, or another wave, of COVID-19, or an outbreak of other health epidemics could impact our business, results of operations and financial condition, including the potential for write-offs or impairments of assets and suspension of capital investments, will depend on future developments. We are unable to predict with certainty the effects of the COVID-19 pandemic on our customers, suppliers and vendors, as well as the actions of governments, and when and to what extent normal economic and operating conditions can resume; these effects may differ from those assumed in our projected estimates. Even after the COVID-19 pandemic has subsided, we may continue to experience adverse impacts to our business, mainly in our ability to place new capital equipment, primarily under long-term contracts, as a result of any economic impact that may occur in the future.

Due to our dependence on global suppliers, manufacturers and shipping routes, we are experiencing increased delays in receiving supply, increased shipping costs and some targeted increase in materials cost. Because our long-term subscription programs, the commercial program of our largest revenue category, Point of Care laboratory instruments and consumables, include annual price adjustments at a greater of 4% or the consumer price index, we are able to mitigate some of these costs in this highly inflationary environment.

Our financial position remains strong. On March 5, 2021, we completed a public offering of shares of common stock. As a result, we have sufficient liquidity to sustain our operations. We will continue to actively seek opportunities that are consistent with our strategic direction, which may include a need to raise additional capital.

Critical Accounting Estimates

Note 1 - Operations and Summary of Significant Accounting Policies to the consolidated financial statements included in Part II. Item 8 of this Annual Report on Form 10-K describes the significant accounting policies used in preparation of these consolidated financial statements. We believe the following critical accounting estimates and assumptions may have a material impact on reported financial condition and operating performance and involve significant levels of judgment to account for highly uncertain matters or are susceptible to significant change. In each of these areas, management makes estimates based on historical results, current trends and future projections. Therefore, these are considered to be our critical accounting policies and estimates.

Deferred Tax Assets - Valuation Allowance

We evaluate our ability to realize the tax benefits associated with a deferred tax asset (“DTA”) by analyzing our forecasted taxable income using both historical and projected future operating results, the reversal of

existing temporary differences, taxable income in prior carry back years (if permitted) and the availability of tax planning strategies. A valuation allowance is required to be established unless management determines that it is more likely than not that we will ultimately realize the tax benefit associated with a deferred tax asset. As of December 31, 2021 and 2020, we had valuation allowances of approximately $2.8 million and $6.4 million, respectively.

Business Combinations

We account for transactions that represent business combinations under the acquisition method of accounting, which requires us to allocate the total consideration paid for each acquisition to the assets we acquire and liabilities we assume based on their fair values as of the date of acquisition, including identifiable intangible assets. The allocation of the purchase price utilizes significant estimates in determining the fair values of identifiable assets acquired and liabilities assumed, especially with respect to intangible assets. We may refine our estimates and make adjustments to the assets acquired and liabilities assumed over a measurement period, not to exceed one year.

The Company has financial liabilities resulting from our business combinations, including contingent consideration arrangements and notes payable. We estimate the fair value of these financial liabilities using Level 3 inputs that require the use of numerous assumptions and a probability-weighted outcome analysis, which may change based on the occurrence of future events and lead to increased or decreased operating income in future periods. Estimating the fair value at an acquisition date and in subsequent periods involves significant judgments, including projecting the future financial and product development performance of the acquired businesses. The Company will update its assumptions each reporting period based on new developments and record such amounts at fair value based on the revised assumptions. Changes in the fair value of these financial liabilities are recorded in the Consolidated Statements of Loss within general and administrative expenses.

Valuation of Goodwill and Intangibles

A significant portion of the purchase price for acquired businesses is generally assigned to intangible assets. Intangible assets other than goodwill are initially valued at fair value. If a quoted price in an active market for the identical asset is not readily available at the measurement date, the fair value of the intangible asset is estimated based on discounted cash flows using market participant assumptions, which are assumptions that are not specific to Heska. The selection of appropriate valuation methodologies and the estimation of discounted cash flows require significant assumptions about the timing and amounts of future cash flows, risks, appropriate discount rates, and the useful lives of intangible assets. When material, we utilize independent valuation experts to advise and assist us in determining the fair values of the identified intangible assets acquired in connection with a business acquisition and in determining appropriate amortization methods and periods for those intangible assets. Goodwill is initially valued based on the excess of the purchase price of a business combination over the fair value of acquired net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized.

We assess goodwill for impairment annually, at the reporting unit level, in the fourth quarter and whenever events or circumstances indicate impairment may exist. In evaluating goodwill for impairment, we have the option to first assess the qualitative factors to determine whether it is more-likely-than-not that the estimated fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the comparison of the estimated fair value of the reporting unit to the carrying value. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, we determine that is it more-likely-than-not that the estimated fair value of a reporting is less than its carrying amount, we would then estimate the fair value of

the reporting unit and compare it to the carrying value. If the carrying value exceeds the estimated fair value we would recognize an impairment for the difference; otherwise, no further impairment test would be required. In contrast, we can opt to bypass the qualitative assessment for any reporting unit in any period and proceed directly to quantitative analysis. Doing so does not preclude us from performing the qualitative assessment in any subsequent period.

As part of our goodwill testing process, we evaluate factors specific to a reporting unit as well as industry and macroeconomic factors that are reasonably likely to have a material impact on the fair value of a reporting unit. Examples of the factors considered in assessing the fair value of a reporting unit include: the results of the most recent impairment test, the competitive environment, the regulatory environment, anticipated changes in product or labor costs, revenue growth trends, the consistency of operating margins and cash flows and current and long-range financial forecasts. The long-range financial forecasts of the reporting units, which are based upon management's long-term view of our markets, are used by senior management and the Board of Directors to evaluate operating performance.

We performed qualitative assessments in the fourth quarters of 2021, 2020 and 2019 and determined that no indications of impairment existed.

We assess the realizability of intangible assets other than goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If an impairment review is triggered, we evaluate the carrying value of intangible assets based on estimated undiscounted future cash flows over the remaining useful life of the primary asset of the asset group and compare that value to the carrying value of the asset group. The cash flows that are used contain our best estimates, using appropriate and customary assumptions and projections at the time. If the net carrying value of an intangible asset exceeds the related estimated undiscounted future cash flows, an impairment to adjust the intangible asset to its fair value would be reported as a non-cash charge to earnings. If necessary, we would calculate the fair value of an intangible asset using the present value of the estimated future cash flows to be generated by the intangible asset, and applying a risk-adjusted discount rate. We had no impairments of our intangible assets during the years ended December 31, 2021, 2020 and 2019.

These valuations require the use of management's assumptions, which would not reflect unanticipated events and circumstances that may occur.

Share-Based Compensation Expense

We utilize share-based compensation arrangements as part of our long-term incentive plan. Our share-based compensation programs provide for grants of many types of awards, but we currently grant stock options, including performance stock options, restricted stock awards, and restricted stock units, along with the issuance of employee stock purchase rights. The total fair value of future awards may vary significantly from past awards based on a number of factors, including our share-based award practices. Therefore, share-based compensation expense is likely to fluctuate, possibly significantly, from year to year.

The majority of our currently issued restricted stock awards, restricted stock units, and performance stock options are tied to Company and market-related performance metrics and generally include a time vesting component. We also grant stock options and restricted stock awards tied to time vesting to employees and directors. All significant inputs into the determination of expense as well as the related expense are discussed further in Note 12 - Capital Stock to the consolidated financial statements included in Part II. Item 8 of this Annual Report on Form 10-K.

Restricted Stock Awards and Units (Time Vesting)

The fair value of restricted stock awards and restricted stock units with only time-based vesting terms used in our expense recognition method is measured based on the number of shares granted and the closing market price of our common stock on the date of grant. Such value is recognized as an expense over the corresponding requisite service period. Forfeitures are accounted for as they occur.

Performance-Based Stock Compensation Awards

We also grant restricted stock awards, restricted stock units, and performance stock options subject to performance vesting criteria, in addition to service, to our executive officers and other key employees. This type of grant consists of the right to receive shares of, or options to purchase, common stock, subject to achievement of time-based criteria and certain Company and market performance-related goals over a specified period, as established by the Compensation Committee of our Board of Directors. We recognize any related share-based compensation expense ratably over the requisite service period based on the probability assessment on the outcome of the performance condition related to company performance metrics. The fair value used in our expense recognition method is measured based on the number of shares granted and the closing market price of our common stock on the date of grant for restricted stock awards and units and the Black-Scholes model for performance stock options. The amount of share-based compensation expense recognized in any one period can vary based on the attainment or expected attainment of the performance goals. If such performance goals are not ultimately met, no compensation expense is recognized and any previously recognized compensation expense is reversed. We recognize any related share-based compensation expense ratably over the service period based on the most probable outcome of the performance condition related to market performance metrics. For awards related to market performance, the fair value used in our expense recognition method is measured based on the number of shares granted, and a Monte Carlo simulation model, which incorporates the probability of the achievement of the market-related performance goals as part of the grant date fair value. If such performance goals are not ultimately met, the expense is not reversed.

Recent Accounting Pronouncements

From time to time, the FASB or other standard setting bodies issue new accounting pronouncements. Updates to the FASB ASC are communicated through issuance of an ASU. Unless otherwise discussed, we believe that recently issued guidance, whether adopted or to be adopted in the future, is not expected to have a material impact on our Consolidated Financial Statements upon adoption.

To understand the impact of recently issued guidance, whether adopted or to be adopted, please review the information provided in Note 1 - Operations and Summary of Significant Accounting Policies to the consolidated financial statements included in Part II. Item 8 of this Annual Report on Form 10-K.

Results of Operations

Our analysis presented below is organized to provide the information we believe will facilitate an understanding of our historical performance and relevant trends going forward. This discussion should be read in conjunction with our consolidated financial statements, including the notes thereto, in Part II. Item 8 of this Annual Report on Form 10-K.

The following table sets forth, for the periods indicated, certain data derived from our Consolidated Statements of Loss (in thousands):

	Year Ended December 31,	
	2021	2020
Revenue, net	$ 253,739	$ 197,323
Gross profit	105,794	81,290
Operating expenses	106,787	89,482
Operating loss	(993)	(8,192)
Interest and other expense, net	2,448	5,601
Loss before income taxes and equity in losses of unconsolidated affiliates	(3,441)	(13,793)
Income tax (benefit) expense	(3,573)	239
Net income (loss) before equity in losses of unconsolidated affiliates	132	(14,032)
Equity in losses of unconsolidated affiliates	(1,280)	(720)
Net loss, after equity in losses of unconsolidated affiliates	(1,148)	(14,752)
Net loss attributable to non-controlling interest	—	(353)
Net loss attributable to Heska Corporation	$ (1,148)	$ (14,399)
Diluted loss per share attributable to Heska Corporation[1]	$ (0.11)	$ (1.66)
Non-GAAP net income per diluted share [1][2]	$ 1.61	$ 0.74
Adjusted EBITDA [2]	$ 29,739	$ 22,319
Net margin [2]	0.1 %	(7.1)%
Adjusted EBITDA margin [2]	11.7 %	11.3 %

[1] Shares used in the diluted per share calculation for diluted loss per share attributable to Heska Corporation are (in thousands) 10,015 for the year ended December 31, 2021 and 8,653 for the year ended December 31, 2020. Shares used in the diluted per share calculation for non-GAAP net income per diluted share are (in thousands): 10,407 for the year ended December 31, 2021 compared to 9,451 for the year ended December 31, 2020.

[2] See “Non-GAAP Financial Measures” for a reconciliation of Adjusted EBITDA to net income, Non-GAAP net income per diluted share to Diluted loss per share attributable to Heska Corporation, and Adjusted EBITDA margin to Net margin, the closest comparable GAAP measures, for each of the periods presented.

Revenue

Total revenue increased 28.6% to $253.7 million in 2021 compared to $197.3 million in 2020. The significant increase in revenue is driven primarily by the acquisition of scil, which was completed on April 1, 2020, and which contributed $22.3 million for the year ended December 31, 2021 that was not included in the prior year period. Excluding the impacts of the acquisition of scil, revenue growth was driven by POC Lab Consumables of $14.4 million or 15.8% in the year ended December 31, 2021, recovery from COVID impacts in the prior year related to capital placements in POC Imaging products of $7.5 million and growth within our contract manufactured product for third parties, including TriHeart, and immunotherapy products

of $6.5 million. The launch of element AIM in the year ended December 31, 2021 also contributed to growth in the POC Laboratory space.

Gross Profit

Gross profit increased 30.1% to $105.8 million in 2021 compared to $81.3 million in 2020. Gross margin percent expanded to 41.7% in 2021 compared to 41.2% in 2020. The increase in gross profit is due mainly to the increase in revenue as well as the acquisition of scil, which was not included in the first quarter of the prior year period. The increase in gross margin percentage is due to favorable product mix, primarily as a result of POC Lab Consumables and POC Imaging.

Operating Expenses

Selling and marketing expenses increased 17.7% to $45.3 million in 2021 compared to $38.5 million in 2020. The increase is a direct result of international expansion related to recent acquisitions and is in line with management expectations. The increase is also impacted by higher stock-based compensation expenses of $1.1 million as well as other compensation-related expenses.

Research and development expenses decreased 20.4% to $7.0 million in 2021, compared to $8.8 million in 2020. The decrease is primarily related to lower spending on product development for the urine and fecal diagnostic analyzer and enhanced immunodiagnostic offerings in the current year as these products are now commercialized.

General and administrative expenses increased 29.1% to $54.5 million in 2021, compared to $42.2 million in 2020. The increase is driven primarily by incremental stock-based compensation expense of $7.4 million and other compensation-related increases of $6.0 million as well as increased costs associated with international expansion of $3.5 million, and higher consulting and other professional services of approximately $3.0 million. This is partially offset by lower one-time costs of $8.4 million in the year ended December 31, 2021, as there were significant costs associated with the scil acquisition in the year ended December 31, 2020.

Interest and Other Expense, Net

Interest and other expense, net, was $2.4 million in 2021, compared to $5.6 million in 2020. The decrease was primarily driven by a change in interest expense related to the Notes. Refer to Note 16 - Convertible Notes to the consolidated financial statements included in Part II. Item 8 of this Annual Report on Form 10-K.

Income Tax (Benefit) Expense

In 2021, we had total income tax benefit of $3.6 million compared to a total income tax expense in 2020 of $0.2 million. See Note 5 - Income Taxes to the consolidated financial statements included in Part II. Item 8 of this Annual Report on Form 10-K for additional information regarding our income taxes.

Net (Loss) Attributable to Heska Corporation

Net loss attributable to Heska Corporation was $1.1 million in 2021, compared to net loss attributable to Heska Corporation of $14.4 million in 2020. The difference between this line item and "Net (loss) income after equity in losses of unconsolidated affiliates" is the net income or loss attributable to the minority interest in our French subsidiary, Optomed (which has been merged into our French subsidiary scil animal care company sarl), which we purchased in February 2019. The difference between these line items was $0 for 2021, as the Company acquired the remaining 30% minority interest in Optomed in October 2020, and a gain of $0.4 million for 2020.

Adjusted EBITDA

Adjusted earnings before interest, taxes, depreciation, and amortization ("EBITDA") in 2021 was $29.7 million (11.7% adjusted EBITDA margin), compared to $22.3 million (11.3% adjusted EBITDA margin) in 2020. The increase is driven by increased revenue and gross profit as discussed above. This is partially offset by an increase in operating expenses primarily as a result of the acquisition of scil and compensation-related increases. See “Non-GAAP Financial Measures” for a reconciliation of adjusted EBITDA to net income and adjusted EBITDA margin to net loss margin, the closest comparable GAAP measures, for each of the periods presented.

Earnings Per Share

Diluted loss per share attributable to Heska was $0.11 in 2021 compared to loss of $1.66 per diluted share in 2020. The lower loss is primarily due to higher revenue and gross profit as discussed above, interest and amortization charges relating to the Notes, and income tax benefit.

Non-GAAP Earnings Per Share

Non-GAAP EPS was income of $1.61 per diluted share in 2021 compared to income of $0.74 per diluted share in 2020. The increase is primarily due to higher revenue and gross profit as discussed above. See “Non-GAAP Financial Measures" for a reconciliation of non-GAAP EPS to net (loss) income attributable to Heska per diluted share, the closest comparable U.S. GAAP measure, in each of the periods presented.

Non-GAAP Financial Measures

In addition to financial measures presented on the basis of accounting principles generally accepted in the U.S. (“U.S. GAAP”), we also present EBITDA, adjusted EBITDA, adjusted EBITDA margin, and non-GAAP net income (loss) per diluted share, which are non-GAAP measures.

These measures should be viewed as a supplement to, not substitute for, our results of operations presented under U.S. GAAP. The non-GAAP financial measures presented may not be comparable to similarly titled measures of other companies because they may not calculate their measures in the same manner. Management uses EBITDA, adjusted EBITDA, adjusted EBITDA margin and non-GAAP net income (loss) per diluted share as key profitability measures, which are included in our quarterly analyses of our operating results to our senior management team, our annual budget and related goal setting and other performance measurements. We believe these non-GAAP measures enhance our investors' understanding of our business performance and that not adjusting for the items included in the reconciliations below would hinder comparison of the performance of our businesses on a period-over-period basis or with other businesses.

The following tables reconcile our most directly comparable as-reported financial measures calculated in accordance with GAAP to our non-GAAP financial measures (in thousands, except percentages and per share amounts):

	Year Ended December 31,	
	2021	2020
Net income (loss) [1]	$ 132	$ (14,032)
Income tax (benefit) expense	(3,573)	239
Interest expense, net	2,404	5,767
Depreciation and amortization	13,555	11,385
EBITDA	$ 12,518	$ 3,359
Acquisition-related and other one-time costs [2]	$ 238	$ 9,837
Stock-based compensation	18,263	9,490
Equity in losses of unconsolidated affiliates	(1,280)	(720)
Net loss attributable to non-controlling interest	—	353
Adjusted EBITDA	$ 29,739	$ 22,319
Net margin [3]	0.1 %	(7.1)%
Adjusted EBITDA margin [3]	11.7 %	11.3 %

[1] Net income (loss) used for reconciliation represents the "Net income (loss) before equity in losses of unconsolidated affiliates."

[2] To exclude the effect of one-time charges of $0.2 million for the year ended December 31, 2021 compared to $9.8 million for the year ended December 31, 2020. These costs were incurred primarily as a result of acquisition-related charges, partially offset by a reduction of contingent consideration of $1.7 million as well as litigation settlement proceeds of $1.2 million for the year ended December 31, 2021.

[3] Net margin and adjusted EBITDA margin are calculated as the ratio of net income (loss) and adjusted EBITDA, respectively, to revenue.

	Year Ended December 31,	
	2021	2020
GAAP net income attributable to Heska per diluted share	$ (0.11)	$ (1.66)
Acquisition-related costs and other one-timed costs[1]	0.02	1.04
Amortization of acquired intangibles[2]	0.60	0.55
Purchase accounting adjustments related to inventory and fixed asset step-up[3]	0.03	0.08
Amortization of debt discount and issuance costs	0.01	0.33
Stock-based compensation	1.75	1.00
Loss on equity investee transactions	0.12	0.08
Estimated income tax effect of non-GAAP adjustments[4]	(0.81)	(0.68)
Non-GAAP net income per diluted share	$ 1.61	$ 0.74
Shares used in diluted per share calculations	10,407	9,451

[1] To exclude the effect of one-time charges of $0.2 million for the year ended December 31, 2021 compared to $9.8 million for the year ended December 31, 2020. These costs were incurred primarily as a result of acquisition-related charges, partially offset by a reduction of contingent consideration of $1.7 million as well as litigation settlement proceeds of $1.2 million for the year ended December 31, 2021.

[2] To exclude the effect of amortization of acquired intangibles of $6.3 million in the year ended December 31, 2021, compared to $5.2 million in the year ended December 31, 2020. These costs were incurred as part of the purchase accounting adjustments for the acquisitions of scil, Optomed and CVM.

[3] To exclude the effect of purchase accounting adjustments for inventory step up amortization and depreciation related to the step-up of fixed assets of $0.3 million for the year ended December 31, 2021, compared to $0.7 million for the year ended December 31, 2020.

[4] Represents income tax expense utilizing an estimated effective tax rate that adjusts for non-GAAP measures including: acquisition-related and other one-time costs (excluding benefits which are not deductible for tax of $1.0 million for the year ended December 31, 2021 compared to $4.0 million expense for the year ended December 31, 2020), amortization of acquired intangibles, purchase accounting adjustments, amortization of debt discount and issuance costs, and stock-based compensation. This incorporates the tax benefit related to stock-based compensation of $1.6 million for the year ended December 31, 2021 compared to $0.2 million for the year ended December 31, 2020. Adjusted effective tax rates are approximately 25% for the years ended December 31, 2021 and December 31, 2020.

Analysis by Segment

The North America segment includes sales and costs from the United States, Canada and Mexico. The International segment includes sales and costs from Australia, France, Germany, Italy, Malaysia, Spain and Switzerland.

The North America segment represented 62.6% of our revenue and the International segment represented 37.4% of our revenue for the year ended December 31, 2021.

The following sections and tables set forth, for the periods indicated, certain data derived from our Consolidated Statements of (Loss) Income (in thousands).

North America Segment

	Year Ended December 31,		Change	
	2021	2020	Dollar Change	% Change
Point of Care laboratory:	$ 86,841	$ 72,910	$ 13,931	19.1 %
Instruments & Other	*14,837*	*13,663*	*1,174*	*8.6 %*
Consumables	*72,004*	*59,247*	*12,757*	*21.5 %*
Point of Care imaging	29,512	20,651	8,861	42.9 %
PVD	24,939	19,810	5,129	25.9 %
OVP	17,606	17,695	(89)	(0.5)%
Total North America revenue	$ 158,898	$ 131,066	$ 27,832	21.2 %
North America Gross Profit	$ 74,426	$ 60,903	$ 13,523	22.2 %
North America Gross Margin	46.8 %	46.5 %		
North America Operating Income (Loss)	$ 650	$ (4,977)	$ 5,627	113.1 %
North America Operating Income (Loss) Margin	0.4 %	(3.8)%		

North America segment revenue increased 21.2% to $158.9 million for the year ended December 31, 2021, compared to $131.1 million for the year ended December 31, 2020 in part due to the acquisition of scil, which contributed $4.3 million that was not present in the year ended December 31, 2020. Excluding this, the remaining revenue growth was driven by a 19.7% increase in POC Lab Consumables due to increased price and utilization, a 28.2% increase in sales from Point of Care Imaging as we experienced recovery from COVID-19 restrictions in the prior year, and an increase of 25.9% in PVD driven by Tri-heart and Allergy sales.

Gross profit was $74.4 million compared to $60.9 million for the year ended December 31, 2021 and 2020, respectively. The increase in gross profit is primarily driven by increased revenue in the current year, specifically related POC Lab Consumables, POC Imaging and PVD sales. Gross margin was 46.8% for the year ended December 31, 2021, compared to 46.5% in the year ended December 31, 2020. The increase is due to favorable mix, specifically increased revenue and margins for consumables due mainly to utilization and price, Imaging and OVP.

North America operating income was $0.7 million in the year ended December 31, 2021 compared to an operating loss of $(5.0) million for the year ended December 31, 2020. The increase is driven by higher revenue and gross profit in 2021, partially offset by increased operating costs primarily related to stock based compensation in the current year.

International Segment

	Year Ended December 31,		Change	
	2021	**2020**	**Dollar Change**	**% Change**
Point of Care laboratory:	$ 61,017	$ 40,136	$ 20,881	52.0 %
Instruments & Other	*15,001*	*7,782*	*7,219*	*92.8 %*
Consumables	*46,016*	*32,354*	*13,662*	*42.2 %*
Point of Care imaging	28,492	22,537	5,955	26.4 %
PVD	5,332	3,584	1,748	48.8 %
Total International revenue	$ 94,841	$ 66,257	$ 28,584	43.1 %
International Gross Profit	$ 31,368	$ 20,387	$ 10,981	53.9 %
International Gross Margin	33.1 %	30.8 %		
International Operating Loss	$ (1,643)	$ (3,215)	$ 1,572	48.9 %
International Operating Loss Margin	(1.7)%	(4.9)%		

International revenue was $94.8 million compared to $66.3 million for the year ended December 31, 2021 and 2020, respectively, in part driven by the acquisition of scil, which contributed $18.0 million that was not present in the year ended December 31, 2020. The remaining revenue growth is driven by increased placements as a result of transitioning to the reset program in Europe, POC consumable growth of 8.5%, excluding the impact of the scil acquisition, fewer COVID-19 impacts for POC Imaging, and higher sales of single-use tests.

Gross profit was $31.4 million compared to $20.4 million for the year ended December 31, 2021 and 2020, respectively. Gross margin for the International segment was 33.1% for the year ended December 31, 2021, compared to 30.8% for the year ended December 31, 2020. The increase in gross profit is primarily driven by increase in revenue and lower costs relating mainly to our POC Lab Consumables as we continue to rationalize the product portfolio in Europe. The increase in gross margin is driven by favorable product mix within POC Lab Consumables and POC Imaging.

International operating loss decreased $1.6 million for the year ended December 31, 2021, compared to the prior year. The decrease in operating loss is driven by increased revenue and gross profit, partially offset by increased operating expenses, as a result of the scil acquisition now being included for the full year and increased compensation costs.

Liquidity, Capital Resources and Financial Condition

We believe that adequate liquidity and cash generation is important to the execution of our strategic initiatives. Our ability to fund our operations, acquisitions, capital expenditures, and product development efforts may depend on our ability to access other forms of capital as well as our ability to generate cash from operating activities, which is subject to future operating performance, as well as general economic, financial, competitive, legislative, regulatory, and other conditions, some of which may be beyond our control, including but not limited to effects of the COVID-19 pandemic. Our primary source of liquidity is our available cash of $223.6 million, which includes net proceeds from the issuance of common stock of $164.2 million on March 5, 2021.

A summary of our cash from operating, investing and financing activities is as follows (in thousands):

	December 31,		Change	
	2021	2020	Dollar Change	% Change
Net cash provided by (used in) operating activities	$ 6,247	$ (656)	$ 6,903	1,052.3 %
Net cash used in investing activities	(35,001)	(126,597)	91,596	72.4 %
Net cash provided by financing activities	166,404	123,764	42,640	34.5 %
Foreign exchange effect on cash and cash equivalents	(410)	793	(1,203)	(151.7)%
Increase (decrease) in cash and cash equivalents	137,240	(2,696)	139,936	5,190.5 %
Cash and cash equivalents, beginning of the period	86,334	89,030	(2,696)	(3.0)%
Cash and cash equivalents, end of the period	$ 223,574	$ 86,334	$ 137,240	159.0 %

For the year ended December 31, 2021 and the year ended December 31, 2020, cash flow provided by (used in) operations was $6.2 million and $(0.7) million, respectively, which was primarily the result of (in thousands):

	December 31,		Change	
	2021	2020	Dollar Change	% Change
Net income, after equity in losses from unconsolidated affiliates	$ (1,148)	$ (14,752)	$ 13,604	92.2 %
Non cash expenses and other adjustments	30,842	25,652	5,190	20.2 %
Change in accounts receivable	2,193	(5,755)	7,948	138.1 %
Change in inventories, net	(14,905)	(5,409)	(9,496)	(175.6)%
Change in lease receivables, net	(5,902)	(611)	(5,291)	(866.0)%
Change in other assets	(4,329)	340	(4,669)	1,373.2 %
Change in accounts payable	662	(280)	942	336.4 %
Change in other liabilities	(1,166)	159	(1,325)	833.3 %
Net cash provided by (used in) operating activities	$ 6,247	$ (656)	$ 6,903	1052.3 %

For the year ended December 31, 2021 and the year ended December 31, 2020, cash flow used in investing activities was $35.0 million and $126.6 million, respectively, which was primarily used for (in thousands):

	December 31,		Change	
	2021	2020	Dollar Change	% Change
Acquisition of Biotech	$ (16,250)	$ —	$ (16,250)	NM
Acquisition of BiEssA, net of cash acquired	(4,513)	—	(4,513)	NM
Acquisition of Lacuna, net of cash acquired	(3,882)	—	(3,882)	NM
Acquisition of scil, net of cash acquired	—	(104,401)	104,401	100.0 %
Acquisition of CVM	—	(14,420)	14,420	100.0 %
Promissory note receivable issuance	(9,000)	—	(9,000)	NM
Convertible note receivable issuance	—	(6,650)	6,650	100.0 %
Purchase of minority interest	—	(450)	450	100.0 %
Purchases of property and equipment	(1,768)	(686)	(1,082)	(157.7)%
Proceeds from disposition of property and equipment	412	10	402	(4,020.0)%
Net cash used in investing activities	$ (35,001)	$ (126,597)	$ 91,596	72.4 %

For the year ended December 31, 2021 and the year ended December 31, 2020, cash flow from financing activities was $166.4 million and $123.8 million, respectively, which was the result of (in thousands):

	December 31,		Change	
	2021	2020	Dollar Change	% Change
Proceeds from issuance of common stock	$ 169,230	$ 4,273	$ 164,957	(3,860.4)%
Purchase of shares withheld for tax obligations	(1,629)	(1,477)	(152)	NM
Payment of stock issuance costs	(314)	(214)	(100)	46.7 %
Preferred Stock Proceeds	—	122,000	(122,000)	(100.0)%
Payments of related party debts	—	(1,140)	1,140	100.0 %
Proceeds from line of credit borrowings	7	613	(606)	98.9 %
Repayments of line of credit borrowings	(890)	(291)	(599)	NM
Net cash provided by financing activities	$ 166,404	$ 123,764	$ 42,640	34.5 %

We believe that our cash, cash equivalents and marketable securities balances, as well as the cash flows generated by our operations, will be sufficient to satisfy our anticipated cash needs for working capital and capital expenditures, including selling and marketing team expansion and product development initiatives, for at least the next 12 months. Our belief may prove to be incorrect, however, and we could utilize our available financial resources sooner than we currently expect. For example, we actively seek opportunities that are consistent with our strategic direction, which may require additional capital. Our future capital requirements and the adequacy of available funds will depend on many factors, including those set forth in Part I. Item 1A, "Risk Factors". We may seek additional equity or debt financing in order to meet these future capital requirements, even in the absence of any acquisitions. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us, or at all. If we are unable to raise additional capital when desired, our business, results of operations and financial condition would be adversely affected.

Effect of currency translation on cash

Net effect of foreign currency translations on cash changed $1.2 million to a $0.4 million negative impact in 2021, compared to a $0.8 million positive impact in 2020. The net effect of foreign currency translation on cash changed to a positive $0.8 million from a $0 impact in 2019. These effects are related to changes in exchange rates between the U.S. Dollar and the Swiss Franc, Euro, Canadian Dollar, Australian Dollar, and Malaysian Ringgit which are the functional currencies of our subsidiaries.

Material Cash Requirements

The Company has not entered into any transactions with unconsolidated entities whereby the Company has financial guarantees, subordinated retained interests, derivative instruments, or other contingent arrangements that expose the Company to material continuing risks, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provided financing, liquidity, market risk or credit risk support to the Company, or engages in leasing, hedging or research and development services with the Company.

Purchase obligations represent contractual agreements to purchase goods or services that are legally binding; specify a fixed, minimum or range of quantities; specify a fixed, minimum, variable, or indexed price provision; and specify approximate timing of the transaction.

The following table presents certain future payments due by the Company as of December 31, 2021 (in thousands):

	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years
Purchase obligations	$ 41,126	$ 19,751	$ 11,976	$ 9,399	$ —
Operating lease obligations	6,127	2,297	2,964	692	174
Finance lease obligations	565	213	233	113	6
Convertible senior notes [1]	86,250	—	—	86,250	—
Future interest obligations [2]	17,010	3,234	7,394	6,382	—
Total	$ 151,078	$ 25,495	$ 22,567	$ 102,836	$ 180

[1] Includes the principal amount of the convertible senior notes. Although the notes mature in 2026, they can be converted into cash and shares of our common stock prior to maturity if certain conditions are met. Any conversion prior to maturity can result in repayments of the principal amounts sooner than the scheduled repayments as indicated in the table. For additional information, refer to Note 16 - Convertible Notes to the consolidated financial statements included in Part II. Item 8 of this Annual Report on Form 10-K.

[2] Includes interest payments for both the convertible senior notes and other long term borrowings.

Net Operating Loss Carryforwards

As of December 31, 2021, we had a net operating loss carryforward (“NOL”) and domestic research and development tax credit carryforward. See Note 5 - Income Taxes to the consolidated financial statements included in Part II. Item 8 of this Annual Report on Form 10-K for additional information regarding our carryforwards.

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 U.S. and foreign interest rates and changes in foreign currency exchange rates as measured against the U.S. Dollar. These exposures are directly related to our normal operating and funding activities.

Interest Rate Risk

In September 2019, we issued $86.25 million aggregate principal amount of Notes. The fair market value of the Notes is affected by our common stock price. The fair value of the Notes will generally increase as our common stock price increases and will generally decrease as our common stock price declines in value. In addition, the fair market value of the Notes is exposed to interest rate risk. Generally, the fair market value of our fixed interest rate Notes will increase as interest rates fall and decrease as interest rates rise. Additionally, on our balance sheet we carry the Notes at face value less unamortized discount and debt issuance cost and we present the fair value for required disclosure purposes only. For additional information, refer to Note 16 - Convertible Notes to the consolidated financial statements included in Part II. Item 8 of this Annual Report on Form 10-K and to our consolidated financial statements included herein. We had no interest rate hedge transactions in place on December 31, 2021.

Foreign Currency Risk

Foreign currency risk may impact our revenue and 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. We had no foreign currency hedge transactions in place on December 31, 2021. We do not currently consider foreign currency risk to be material to our business.

Inflation Risk

Inflation generally impacts us by increasing our costs of labor, material, transportation and general overhead costs. The rates of inflation experienced in recent years have not had a material impact on our financial statements as inflationary cost increases have been more than offset by net realized annual price increases and productivity gains. We cannot reasonably estimate our ability to successfully recover any impact of inflation cost increases into the future.

Item 8. Financial Statements and Supplementary Data

HESKA CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Heska Corporation

Opinion on the financial statements
We have audited the accompanying consolidated balance sheets of Heska Corporation and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of loss, comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated February 28, 2022 expressed an unqualified opinion.

Basis for opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical audit matters
The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Stock-based compensation – assessment of probability related to stock-based compensation subject to performance-based vesting requirements

As described further in Note 12 to the financial statements, the Company grants restricted stock awards and stock options. Certain restricted stock awards and stock options have performance-based vesting conditions, which vest based on when performance targets are met. Performance based awards are recognized as an expense based on the probability of achieving the underlying performance targets. We identified the probability assessment of achieving the performance targets as a critical audit matter.

The principal consideration for our determination that the probability of achieving the performance targets is a critical audit matter is that the probability is based on a subjective assessment of the Company's prospective financial information. The probability assessment requires management to estimate the successful development and market acceptance of future product launches, future sales targets, operating performance, and EBITDA. Changes in the subjective probability assessment can materially affect the amount and timing of the recognition of stock-based compensation expense and the probability assessment requires significant auditor subjectivity in evaluating the reasonableness of those judgments and estimates.

Our audit procedures related to the probability of achieving the performance targets included the following, among others.

- We tested the design and operating effectiveness of internal controls relating to management's determination of stock-based compensation expense, including testing management's review controls over the identification of the terms of the performance conditions and the key inputs used in determining the probability of achieving the performance targets.
- We evaluated the reasonableness of management's prospective financial information by comparing management's previous forecasts to actual results to assess management's ability to accurately forecast actual results. We also evaluated the reasonableness of forecasted revenue by comparing sales growth to current market and industry trends; operating performance and EBITDA by comparing to current market and industry trends, historical information, and inquiring of individuals outside of the finance department; and future product introductions by evaluating the status of development, recent placement history, and inquiring of individuals outside of the finance department. We also evaluated the consistency of forecasts used in the probability assessment with other elements of the financial statements that use the forecast as an input.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2020.

Denver, Colorado
February 28, 2022

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Heska Corporation

Opinion on internal control over financial reporting
We have audited the internal control over financial reporting of Heska Corporation and subsidiaries (the "Company") as of December 31, 2021, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company as of and for the year ended December 31, 2021, and our report dated February 28, 2022 expressed an unqualified opinion on those financial statements.

Basis for opinion
The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting ("Management's Report"). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Our audit of, and opinion on, the Company's internal control over financial reporting does not include the internal control over financial reporting of Biotech Laboratories U.S.A. LLC and BiEsse A-Laboratorio die Analisi Veterinarie S.r.l., whose financial statements reflect total assets and revenues constituting 7% and less than 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2021. As indicated in Management's Report, Biotech Laboratories U.S.A. LLC and BiEsse A-Laboratorio die Analisi Veterinarie S.r.l. were acquired during 2021. Management's assertion on the effectiveness of the Company's internal control over financial reporting excluded internal control over financial reporting of Biotech Laboratories U.S.A. LLC and BiEsse A-Laboratorio die Analisi Veterinarie S.r.l.

Definition and limitations of internal control over financial reporting
A company's internal control over financial reporting is a process designed 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. A company's internal control over financial

reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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 risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP

Denver, Colorado
February 28, 2022

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of Heska Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of (loss) income, comprehensive loss, stockholders' equity, and cash flows of Heska Corporation and subsidiaries (the “Company”) for the year ended December 31, 2019, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations of the Company and its cash flows for the year ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company adopted the Accounting Standards Codification (ASC) Topic 842, “Leases,” using the modified retrospective adoption method on January 1, 2019.

Basis for Opinion

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Plante & Moran, PLLC

We served as the Company’s auditor from 2006-2020.

Denver, Colorado

February 28, 2020, except for the effects of the change in segments described in Notes 2 and 18, as to which the date is February 26, 2021

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

	December 31,	
	2021	**2020**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 223,574	$ 86,334
Accounts receivable, net of allowance for losses of $874 and $769, respectively	27,995	31,080
Inventories	49,361	40,037
Net investment in leases, current, net of allowance for losses of $137 and $192, respectively	6,175	4,794
Prepaid expenses	5,244	3,875
Other current assets	7,206	5,155
Total current assets	319,555	171,275
Property and equipment, net	33,413	35,542
Operating lease right-of-use assets	5,198	5,457
Goodwill	118,826	88,276
Other intangible assets, net	56,705	55,992
Deferred tax asset, net	19,429	5,694
Net investment in leases, non-current	20,128	15,789
Investments in unconsolidated affiliates	5,424	6,704
Related party convertible note receivable, net	6,800	6,671
Promissory note receivable from investee, net	8,448	—
Other non-current assets	10,146	8,439
Total assets	$ 604,072	$ 399,839
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 15,374	$ 15,119
Accrued liabilities	19,424	18,055
Operating lease liabilities, current	2,227	2,087
Deferred revenue, current, and other	6,901	6,854
Total current liabilities	43,926	42,115
Convertible note, non-current, net	84,034	48,459
Notes payable	15,900	—
Deferred revenue, non-current	3,854	4,667
Other long-term borrowings	—	554
Operating lease liabilities, non-current	3,509	3,858
Deferred tax liability	12,667	11,856
Other liabilities	4,328	1,277
Total liabilities	168,218	112,786
Stockholders' equity:		
Preferred stock, $.01 par value, 2,500,000 shares authorized, none issued or outstanding	—	—
Common stock, $.01 par value, 20,000,000 and 13,250,000 shares authorized, respectively, none issued or outstanding	—	—
Public common stock, $.01 par value, 20,000,000 and 13,250,000 shares authorized, 10,712,347 and 9,475,845 shares issued and outstanding, respectively	107	95
Additional paid-in capital	579,354	423,650
Accumulated other comprehensive income	5,037	14,169
Accumulated deficit	(148,644)	(150,861)
Total stockholders' equity	435,854	287,053
Total liabilities and stockholders' equity	$ 604,072	$ 399,839

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2021	**2020**	**2019**
Revenue, net	$ 253,739	$ 197,323	$ 122,661
Cost of revenue	147,945	116,033	68,212
Gross profit	105,794	81,290	54,449
Operating expenses:			
Selling and marketing	45,284	38,468	27,678
Research and development	6,982	8,772	8,240
General and administrative	54,521	42,242	18,204
Total operating expenses	106,787	89,482	54,122
Operating (loss) income	(993)	(8,192)	327
Interest and other expense, net	2,448	5,601	2,910
Loss before income taxes and equity in losses of unconsolidated affiliates	(3,441)	(13,793)	(2,583)
Income tax (benefit) expense:			
Current income tax expense	891	1,780	359
Deferred income tax benefit	(4,464)	(1,541)	(1,805)
Total income tax (benefit) expense	(3,573)	239	(1,446)
Net income (loss) before equity in losses of unconsolidated affiliates	132	(14,032)	(1,137)
Equity in losses of unconsolidated affiliates	(1,280)	(720)	(594)
Net loss after equity in losses of unconsolidated affiliates	(1,148)	(14,752)	(1,731)
Net loss attributable to redeemable non-controlling interest	—	(353)	(266)
Net loss attributable to Heska Corporation	$ (1,148)	$ (14,399)	$ (1,465)
Basic loss per share attributable to Heska Corporation	$ (0.11)	$ (1.66)	$ (0.20)
Diluted loss per share attributable to Heska Corporation	$ (0.11)	$ (1.66)	$ (0.20)
Weighted average outstanding shares used to compute basic loss per share attributable to Heska Corporation	10,015	8,653	7,446
Weighted average outstanding shares used to compute diluted loss per share attributable to Heska Corporation	10,015	8,653	7,446

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2021	**2020**	**2019**
Net loss after equity in losses of unconsolidated affiliates	$ (1,148)	$ (14,752)	$ (1,731)
Other comprehensive (loss) income:			
Minimum pension liability	107	(40)	73
Translation adjustments and gains (losses) from intra-entity transactions	(9,239)	13,696	163
Comprehensive loss	(10,280)	(1,096)	(1,495)
Comprehensive loss attributable to redeemable non-controlling interest	—	(353)	(266)
Comprehensive loss attributable to Heska Corporation	$ (10,280)	$ (743)	$ (1,229)

See accompanying notes to consolidated financial statements.

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

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balances, December 31, 2018	—	$ —	7,676	$ 77	$ 257,034	$ 277	$ (134,979)	$ 122,409
Net loss attributable to Heska Corporation	—	—	—	—	—	—	(1,465)	(1,465)
Issuance of common stock, net of shares withheld for employee taxes	—	—	206	2	(1,620)	—	—	(1,618)
Stock-based compensation	—	—	—	—	4,968	—	—	4,968
Convertible notes, equity	—	—	—	—	29,834	—	—	29,834
Other comprehensive income	—	—	—	—	—	236	—	236
Balances, December 31, 2019	—	$ —	7,882	$ 79	$ 290,216	$ 513	$ (136,444)	$ 154,364
Adoption of accounting standards	—	—	—	—	—	—	(18)	(18)
Balances, January 1, 2020	—	—	7,882	79	290,216	513	(136,462)	154,346
Net loss attributable to Heska Corporation	—	—	—	—	—	—	(14,399)	(14,399)
Issuance of common stock, net of shares withheld for employee taxes	—	—	85	1	2,795	—	—	2,796
Issuance of preferred stock	122	1	—	—	121,785	—	—	121,786
Conversion to common stock	(122)	(1)	1,509	15	(14)	—	—	—
Stock-based compensation	—	—	—	—	9,490	—	—	9,490
Purchase of minority interest	—	—	—	—	(622)	—	—	(622)
Other comprehensive income	—	—	—	—	—	13,656	—	13,656
Balances, December 31, 2020	—	$ —	9,476	$ 95	$ 423,650	$ 14,169	$ (150,861)	$ 287,053
Adoption of accounting standards	—	—	—	—	(29,834)	—	3,365	(26,469)
Balances, January 1, 2021	—	—	9,476	95	393,816	14,169	(147,496)	260,584
Net loss attributable to Heska Corporation	—	—	—	—	—	—	(1,148)	(1,148)
Issuance of common stock, net of shares withheld for employee taxes	—	—	295	3	3,098	—	—	3,101
Equity offering, net of issuance costs	—	—	941	9	164,177	—	—	164,186
Stock-based compensation	—	—	—	—	18,263	—	—	18,263
Other comprehensive loss	—	—	—	—	—	(9,132)	—	(9,132)
Balances, December 31, 2021	—	$ —	10,712	$ 107	$ 579,354	$ 5,037	$ (148,644)	$ 435,854

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2021	**2020**	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss after equity in losses from unconsolidated affiliates	$ (1,148)	$ (14,752)	$ (1,731)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:			
Depreciation and amortization	13,555	11,385	4,916
Non-cash impact of operating leases	2,136	1,985	1,565
Deferred income tax benefit	(4,464)	(1,541)	(1,805)
Stock-based compensation	18,263	9,490	4,968
Change in fair value of contingent consideration and notes payable	(1,607)	—	—
Equity in losses of unconsolidated affiliates	1,280	720	594
Accretion of discounts and issuance costs	60	3,090	1,842
Provision for credit losses	353	614	113
Other losses (gains)	1,266	(91)	560
Changes in operating assets and liabilities (net of effect of acquisitions):			
Accounts receivable	2,193	(5,755)	3,683
Inventories	(14,905)	(5,409)	918
Lease receivables	(5,902)	(611)	(3,129)
Other assets	(4,329)	340	(451)
Accounts payable	662	(280)	(1,686)
Due to related parties	—	—	(226)
Other liabilities	(1,166)	159	(6,835)
Net cash provided by (used in) operating activities	6,247	(656)	3,296
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in subsidiary, net of cash acquired	—	—	(622)
Acquisition of Biotech	(16,250)	—	—
Acquisition of BiEssA, net of cash acquired	(4,513)	—	—
Acquisition of Lacuna, net of cash acquired	(3,882)	—	—
Acquisition of scil, net of cash acquired	—	(104,401)	—
Acquisition of CVM	—	(14,420)	927
Promissory note receivable issuance	(9,000)	—	—
Convertible note receivable issuance	—	(6,650)	—
Purchase of minority interest	—	(450)	—
Real estate asset acquisition	—	—	(1,184)
Purchases of property and equipment	(1,768)	(686)	(1,044)
Proceeds from disposition of property and equipment	412	10	—
Net cash used in investing activities	(35,001)	(126,597)	(1,923)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	169,230	4,273	1,829
Payments for taxes related to shares withheld for employee taxes	(1,629)	(1,477)	(3,447)
Payment of stock issuance costs	(314)	(214)	—
Preferred Stock Proceeds	—	122,000	—
Convertible debt proceeds	—	—	86,250
Payments of related party debts	—	(1,140)	—
Borrowings on line of credit and other debts	7	613	6,750
Repayments of line of credit borrowings and other debts	(890)	(291)	(13,941)
Payment of debt issuance costs	—	—	(3,177)
Net cash provided by financing activities	166,404	123,764	74,264
FOREIGN EXCHANGE EFFECT ON CASH AND CASH EQUIVALENTS	(410)	793	4
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	137,240	(2,696)	75,641
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	86,334	89,030	13,389
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 223,574	$ 86,334	$ 89,030

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Non-cash transfers of equipment between inventory and property and equipment, net	$ 4,600	$ 4,437	$ 827
Non-cash conversion of preferred stock to common stock	$ —	$ 122,000	$ —
Contingent consideration for acquisitions	$ 4,034	$ —	$ —
Notes payable issued in acquisition	$ 15,900	$ —	$ —
Consideration payable for CVM Acquisition (See Note 3)	$ —	$ —	$ 14,420
Indemnity holdback for acquisition	$ 346	$ —	$ —

See accompanying notes to consolidated financial statements.

1. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Heska Corporation and its wholly-owned subsidiaries ("Heska", the "Company", "we" or "our") sell veterinary and animal health diagnostic and specialty products. Our offerings include Point of Care diagnostic laboratory instruments and supplies; digital imaging diagnostic products, software and services; digital cytology services; vaccines; local and cloud-based data services; allergy testing and immunotherapy; and single-use offerings such as in-clinic diagnostic tests and heartworm preventive products. Our core focus is on supporting veterinarians in the canine and feline healthcare space.

Basis of Presentation and Consolidation

In the opinion of management, the accompanying Consolidated Financial Statements contain all adjustments, consisting of normal, recurring adjustments, necessary to present fairly the financial position of the Company as of December 31, 2021 and 2020, as well as the results of our operations, statements of stockholders' equity and cash flows for the years ended December 31, 2021, 2020 and 2019.

The audited Consolidated Financial Statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Our audited Consolidated Financial Statements include our accounts and the accounts of our wholly-owned subsidiaries since their respective dates of acquisitions. All intercompany accounts and transactions have been eliminated in consolidation. Where our ownership of a subsidiary was less than 100%, the non-controlling interest is reported on our consolidated balance sheets. The non-controlling interest in our consolidated net loss is reported as "Net loss attributable to non-controlling interest" on our Consolidated Statements of Loss. Our audited Consolidated Financial Statements are stated in U.S. Dollars and have been prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP").

Beginning in the first quarter of 2020, to limit the spread of COVID-19, governments took various actions including the issuance of stay-at-home policies and social distancing procedures and guidelines, causing some businesses to adjust, reduce or suspend business and operating activities. Veterinary care is widely recognized as an "essential" service for pet owners, and veterinarians continued to deliver essential medical care for sick and injured pets. The stay-at-home policies deployed early in 2020 to combat the spread of COVID-19 resulted in a decrease in companion animal clinical visits, including delay of elective procedures and wellness visits and as a result, lower demand for diagnostic testing services. Beginning in the second quarter of 2020, certain local, state and federal governments began to ease the stay-at-home policies and allowed more businesses and facilities to re-open, leading to a recovery in companion animal clinical visits and associated demand for our diagnostic products. In some part, and different depending on the geography, due to the introduction and acceptance of COVID-19 vaccines, restrictions have eased in many of the countries in which we operate. Global diagnostic animal health demand continued throughout 2021. While this trend is encouraging, with the rise in COVID-19 variants, the extent to which the continuation, or another wave, of COVID-19, or an outbreak of other health epidemics could impact our business, results of operations and financial condition, including the potential for write-offs or impairments of assets and suspension of capital investments, will depend on future developments. We are unable to predict with certainty the effects of the COVID-19 pandemic on our customers, suppliers and vendors, as well as the actions of governments, and when and to what extent normal economic and operating conditions can resume; these effects may differ from those assumed in our projected estimates. Even after the COVID-19 pandemic has subsided, we may continue to experience adverse impacts to our business, mainly in our ability to place new capital equipment, primarily under long-term contracts, as a result of any economic impact that may occur in the future.

Use of Estimates

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 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 credit losses and the net realizable value of inventory; determining future costs associated with warranties provided; determining the period over which our obligations are fulfilled under agreements to license product rights and/or technology rights; evaluating long-lived and intangible assets and investments for estimated useful lives and impairment; estimating the useful lives and standalone selling prices of instruments under leasing arrangements; determining the allocation of purchase price under purchase accounting; estimating the expense associated with the granting of stock; determining the need for, and the amount of a valuation allowance on deferred tax assets; determining the fair value of our embedded derivative; determining the value of the contingent consideration in a business combination and determining the value of the non-controlling interest in a business combination. Our actual results may differ from these estimates and it is at least reasonably possible that a change in estimate could occur in future periods.

Concentration of Credit Risk

Financial instruments that potentially subject us to a concentration of credit risk consist of cash and cash equivalents and accounts receivable. We maintain the majority of our cash and cash equivalents with high credit quality financial institutions, and at times may have cash levels that exceed federally insured limits. We have no off-balance-sheet concentrations of credit risk such as foreign exchange contracts, options contracts or other foreign currency hedging arrangements. Our accounts receivable balances are due largely from distribution partners, domestic veterinary clinics and individual veterinarians and other animal health companies.

No customer accounted for more than 10% of our consolidated accounts receivable at December 31, 2021 or 2020.

We have established an allowance for credit losses based upon factors surrounding the credit risk of specific customers, historical trends and other information.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable are recorded net of an allowance for credit losses. From time to time, our customers are unable to meet their payment obligations. We continuously monitor our customers' credit worthiness and establish allowances for estimated credit losses related to our accounts receivable, net investment in leases, contract assets, and promissory notes. Our allowances are established based on factors surrounding the credit risk of specific customers, historical experience including collections and write-off history, and current economic conditions. Account balances are considered past due if payments have not been received within agreed upon invoice and/or contract terms and the Company may employ collection agencies and legal counsel to pursue recovery of defaulted amounts. Account balances are written off against the allowance after all collection efforts have been exhausted and it is probable the receivable will not be recovered. The Company also performs a qualitative assessment, on a quarterly basis, to monitor economic factors and other uncertainties that may require additional adjustments for the expected credit loss allowance.

While such credit losses have historically been within our expectations and the provisions established, there is no assurance that we will continue to experience the same credit loss rates that we have in the past. A significant change in the liquidity or financial position of our customers could have a material adverse impact

on the collectability of accounts receivable and our future operating results. The Company will continue to actively monitor the impact of the COVID-19 pandemic on expected credit losses. In 2020, the Company adopted Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses (Topic 326).* See "Adoption of New Accounting Standards" below for impacts of adoption.

Changes in the allowance for credit losses are summarized as follows (in thousands):

	Years Ended December 31,		
	2021	2020	2019
Balances at beginning of period	$ 769	$ 186	$ 245
Additions from acquisitions	3	90	—
Additions - charged to expense	353	614	113
Foreign exchange effects	(3)	—	—
Deductions - write offs, net of recoveries	(248)	(121)	(172)
Balances at end of period	$ 874	$ 769	$ 186

As discussed in Note 17. Note Receivables, the Company also recorded an allowance for expected credit losses on our long-term note receivables. Inherent in the assessment of the allowance are certain judgments and estimates including, among others, the borrower’s access to capital, the borrower’s willingness or ability to pay, general economic conditions and industry default rates, and the ongoing relationship with the borrower.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost, which approximates market value, and include short-term, highly liquid investments with original maturities of less than three months. We valued our foreign cash accounts at the spot market foreign exchange rate as of each balance sheet date, with changes due to foreign exchange fluctuations recorded in Accumulated other comprehensive income in the Consolidated Balance Sheets. The majority of our cash and cash equivalents are held in accounts not insured by governmental entities. The foreign cash balances are summarized as follows (denominated in foreign currency, in thousands):

	As of December 31,	
	2021	2020
European Union Euros	5,497	8,520
Swiss Francs	224	138
Canadian Dollars	4,191	2,993
Australian Dollars	676	159
Malaysian Ringgit	1,412	364

Fair Value of Financial Instruments

In accordance with ASC 820, *Fair Value Measurements* (“ASC 820”), the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Quoted prices in active markets for similar assets and liabilities, quoted prices for identically similar assets or liabilities in markets that are not active and models for which all significant inputs are observable either directly or indirectly.

Level 3: Unobservable inputs reflecting the reporting entity’s own assumptions or external inputs for inactive markets.

The Company's financial instruments consist of cash, short-term trade receivables and payables, a long-term note receivable with an embedded derivative asset, and its 3.75% Convertible Senior Notes due 2026 (the "Notes"). The carrying values of cash and cash equivalents and short-term trade receivables and payables approximate fair value because of the short-term nature of the instruments.

The fair values of our financial instruments at December 31, 2021 and December 31, 2020 were (in thousands):

2021	Total	Level 1	Level 2	Level 3
Financial Assets				
Convertible note receivable embedded derivative	$ 888	$ —	$ —	$ 888
Promissory note receivable derivative	337	—	—	337
Financial Liabilities				
BiEsseA Contingent Consideration	2,334	—	—	2,334
Notes payable	15,900	—	—	15,900
Balances, December 31, 2021	$ 19,459	$ —	$ —	$ 19,459

2020	Total	Level 1	Level 2	Level 3
Financial Assets				
Convertible note receivable embedded derivative	$ 995	$ —	$ —	$ 995
Balances, December 31, 2020	$ 995	$ —	$ —	$ 995

The Company's financial assets based upon Level 3 inputs include embedded derivatives relating to its note receivables. The Company determined the redemption features of its convertible note receivable represents an embedded derivative. The estimated fair value of the embedded derivative asset is evaluated through Level 3 inputs using a probability-weighted scenario analysis. The Company determined the warrant associated with its promissory note receivable represents a derivative. The estimated fair value of the derivative asset is evaluated through Level 3 inputs, using an enterprise valuation model. For additional information regarding the Company's note receivables and derivatives, refer to Note 17, Notes Receivable.

The estimated fair value of the Company's 3.75% Convertible Senior Notes due in 2026 (the "Notes"), is disclosed at each reporting period and is evaluated through Level 2 inputs with consideration of quoted market prices in less active markets. For additional information regarding the Company's accounting treatment for the issuance of the Notes, refer to Note 16, Convertible Notes.

The Company's financial liabilities based upon Level 3 inputs include contingent consideration arrangements and notes payable relating to its acquisitions of Lacuna, BiEsseA and Biotech. The Company is obligated to pay contingent consideration payments of $2.0 million in connection with the Lacuna acquisition based on the achievement of certain performance metrics within a twelve month period ("Initial Earn Out Period"), reducing to $1.0 million if such metrics were met in a twelve month period subsequent to the Initial Earn Out Period. The Company is obligated to pay contingent consideration payments of $2.9 million in connection with the BiEsseA acquisition based on the achievement of certain revenue metrics within three annual periods after 2021. The Company is obligated to pay contingent notes of up to $17.5 million in connection with the Biotech acquisition based on the achievement of certain product development milestones or at a predetermined date in the future. If development milestones are not met, there is the possibility that the Company will only pay $8.8 million. Refer to Note 3, Acquisitions and Related Party Items for further discussion.

The fair value of our contingent consideration and notes payable arrangements are determined based on a probability-weighted outcome analysis. The fair value of the contingent consideration and notes payable liabilities associated with future payments were based on several factors, the most significant of which are the financial and product development performance of the acquired businesses. For the contingent consideration liabilities, the Company will update its assumptions each reporting period based on new developments and record such amounts at fair value based on the revised assumptions until the agreements expire. Changes in fair value are recorded in the Consolidated Statements of Loss within general and administrative expenses. The note payable associated with the Biotech acquisition is not adjusted to fair value each period.

The following table presents the changes of our Level 3 assets and liabilities as of December 31, 2021 (in thousands):

	Derivative Assets		Contingent Consideration Liabilities		Notes Payable
	Convertible note receivable	Promissory note receivable	Lacuna	BiEsseA	Biotech
Balances, December 31, 2020	$ 995	$ —	$ —	$ —	$ —
Acquisition value	—	307	1,700	2,334	15,900
Cash payments	—	—	—	—	—
Changes in fair value	(107)	30	(1,700)	—	—
Balances, December 31, 2021	$ 888	$ 337	$ —	$ 2,334	$ 15,900

Options Embedded in Non-controlling Interest

In connection with the Biotech acquisition, the Company applies the guidance in ASC 480, *Distinguishing Liabilities from Equity*, to determine whether the put and call options embedded in shares representing a non-controlling interest represent a liability. If the fixed price of the embedded put and call options are identical at a stated future date, the embedded options and the non-controlling interest are accounted for on a combined basis as a financing arrangement of the purchase of the non-controlling interest and are recorded as a liability at fair value on the reporting date. The Company fully consolidates the subsidiary, including 100 percent of the subsidiary net income or loss, in its Consolidated Statements of Loss/income.

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation. The costs of additions and improvements are capitalized, while maintenance and repairs are charged to expense as incurred. When an item is sold or retired, the cost and related accumulated depreciation is relieved and the resulting gain or loss,

if any, is recognized in the Consolidated Statements of Loss. We provide for depreciation primarily using the straight-line method by charges to income in amounts that allocate the cost of property and equipment over their estimated useful lives as follows:

Asset Classification	Estimated Useful Life
Building	10 to 43 years
Machinery and equipment	2 to 10 years
Office furniture and equipment	3 to 7 years
Computer hardware and software	3 to 7 years
Leasehold and building improvements	5 to 15 years

We capitalize certain costs incurred in connection with developing or obtaining software designated for internal use based on three distinct stages of development. Qualifying costs incurred during the application development stage, which consist primarily of internal payroll and direct fringe benefits and external direct project costs, including labor and travel, are capitalized and amortized on a straight-line basis over the estimated useful life of the asset, which range from three to seven years. Costs incurred during the preliminary project and post-implementation and operation phases are expensed as incurred. These costs are general and administrative in nature and related primarily to the determination of performance requirements, data conversion and training. Costs capitalized in connection with internal-use software were immaterial for the years ended December 31, 2021, 2020, and 2019.

Inventories

Inventories are stated at the lower of cost or net realizable value using the first-in, first-out method. Inventory we manufacture includes the cost of material, labor and overhead. We write down the carrying value of inventory for estimated obsolescence by an amount equal to the difference between the cost of inventory and the estimated market value when warranted based on assumptions of future demand, market conditions, remaining shelf life, or product functionality.

Investments in Unconsolidated Affiliates

Investments in unconsolidated affiliates are measured and recorded as either non-marketable equity securities or equity method investments. Non-marketable equity securities are equity securities without readily determinable fair value that are measured and recorded using a measurement alternative which measures the securities at cost minus impairment, if any, plus or minus changes from qualifying observable price changes. Equity method investments are equity securities in investees we do not control but over which we have the ability to exercise significant influence. When the equity method of accounting is determined to be appropriate, the initial measurement of the investment includes the cost of the investment and all direct transaction costs incurred to acquire the investment. Equity method investments are measured at cost minus impairment, if any, plus or minus our share of equity method investee income or loss, which is recorded as a separate line on the income statement. Both types of investments are evaluated for impairment if a triggering event occurs.

Goodwill, Intangible and Other Long-Lived Assets

Goodwill is initially valued based on the excess of the purchase price of a business combination over the fair value of acquired net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Intangible assets other than goodwill are initially valued at fair value. If a quoted price in an active market for the identical asset is not

readily available at the measurement date, the fair value of the intangible asset is estimated based on discounted cash flows using market participant assumptions, which are assumptions that are not specific to the Company. The selection of appropriate valuation methodologies and the estimation of discounted cash flows require significant assumptions about the timing and amounts of future cash flows, risks, appropriate discount rates, and the useful lives of intangible assets. When material, we utilize independent valuation experts to advise and assist us in determining the fair values of the identified intangible assets acquired in connection with a business acquisition and in determining appropriate amortization methods and periods for those intangible assets.

We assess goodwill for impairment annually, at the reporting unit level, in the fourth quarter and whenever events or circumstances indicate impairment may exist. In evaluating goodwill for impairment, we have the option to first assess the qualitative factors to determine whether it is more-likely-than-not that the estimated fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the comparison of the estimated fair value of the reporting unit to the carrying value. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, we determine that it is more-likely-than-not that the estimated fair value of a reporting is less than its carrying amount, we would then estimate the fair value of the reporting unit and compare it to the carrying value. If the carrying value exceeds the estimated fair value we would recognize an impairment for the difference; otherwise, no further impairment test would be required. In contrast, we can opt to bypass the qualitative assessment for any reporting unit in any period and proceed directly to quantitative analysis. Doing so does not preclude us from performing the qualitative assessment in any subsequent period. Following the acquisition of scil in April 2020, we restructured our operating segments based on how the Chief Operating Decision Maker (“CODM”) manages the business, allocates resources, makes operating decisions and evaluates operating performance. As further discussed in Note 18, our new reporting segments are North America and International. As a result of the change in operating segments, we also revised our reporting units to aggregate our legal entities based on similarities in economic characteristics.

As a result of the recent global economic disruption and uncertainty due to the COVID-19 pandemic, the Company performed a qualitative assessment during the first quarter of 2020. Based on the interim assessment performed, we concluded that there was no triggering event and additionally, no indications of impairment existed. We performed qualitative assessments in the fourth quarters of 2021, 2020, and 2019 and determined that no indications of impairment existed.

We assess the realizability of intangible assets other than goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If an impairment review is triggered, we evaluate the carrying value of intangible assets based on estimated undiscounted future cash flows over the remaining useful life of the primary asset of the asset group and compare that value to the carrying value of the asset group. The cash flows that are used contain our best estimates, using appropriate and customary assumptions and projections at the time. If the net carrying value of an intangible asset exceeds the related estimated undiscounted future cash flows, an impairment to adjust the intangible asset to its fair value would be reported as a non-cash charge to earnings. If necessary, we would calculate the fair value of an intangible asset using the present value of the estimated future cash flows to be generated by the intangible asset, and applying a risk-adjusted discount rate. We had no impairments of our intangible assets during the years ended December 31, 2021, 2020, and 2019.

Revenue Recognition

We generate revenue through the sale of products, either by outright purchase by our customers or through a subscription agreement whereby our customers receive instruments and pay us a monthly fee for the consumables needed to conduct testing. Subscription placement is the majority of our Point of Care ("POC")

laboratory transactions while outright sales to customers are the majority of both Point of Care imaging diagnostic transactions and Pharmaceuticals, Vaccines and Diagnostic ("PVD") revenue.

For outright sales of products, revenue is recognized when control of the promised product or service is transferred to our customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those products or services (the transaction price). Taxes assessed by governmental authorities and collected from the customer are excluded from our revenue recognition. A performance obligation is a promise in a contract to transfer a distinct product or service to a customer and is the unit of account under ASC 606. For instruments, consumables and most software licenses sold by the Company, control transfers to the customer at a point in time. To indicate the transfer of control, the Company must have a present right to payment, legal title must have passed to the customer, the customer must have the significant risks and rewards of ownership and where acceptance is not a formality, the customer must have accepted the product or service. Heska's principal terms of sale are FOB Shipping Point, or equivalent, and, as such, we primarily transfer control and record revenue for product sales upon shipment. If a performance obligation to the customer with respect to a sales transaction remains unfulfilled following shipment (typically owed installation), revenue recognition for that performance obligation is deferred until such commitments have been fulfilled. For extended warranty and service plans, control transfers to the customer over the term of the arrangement and as such the revenue is recognized ratably based upon the period of time elapsed under the arrangement.

Our revenue under subscription agreements relates to operating-type lease ("OTL") arrangements or sales-type lease ("STL") arrangements. Determination of an OTL or STL is primarily determined as a result of the length of the contract as compared to the estimated useful life of the instrument, among other factors. Leases are outside of the scope of ASC 606 and are therefore accounted for in accordance with ASC 842, *Leases*. A STL would result in earlier recognition of instrument revenue as compared to an OTL, which is generally upon installation of the instruments. Instrument lease revenue for our OTL subscription agreements is recognized on a straight-line basis over the life of the lease and is included with the predominant non-lease components in consumables revenue. For instrument only OTL agreements, operating lease income is recognized on a straight-line basis over the term of the lease. The cash collected under both arrangements is over the term of the contract. The OTLs and STLs are not cancellable until after an initial term. See below for additional information on our lease accounting policies.
For contracts with both lease and non-lease components, the Company allocates the contracts' transaction price for each component on a relative standalone selling price basis using our best estimate of the standalone selling price of each distinct product or service in the contract. When available, the method used to estimate the standalone selling price is the price observed in standalone sales to customers. When prices in standalone sales are not available, we use a cost-plus margin approach. Changes in these values can impact the amount of consideration allocated to each component of the contract. Allocation of the transaction price is determined at the contracts' inception. The Company does not adjust the transaction price for the effects of a significant financing component when the period between the transfer of the promised good or service to the customer and payment for that good or service by the customer is expected to be one year or less.

To the extent the transaction price includes variable consideration, such as future payments based on consumable usage over time, we apply judgment to determine if the variable consideration should be constrained. As the variable consideration is highly susceptible to factors outside of the Company's influence, and the potential values contain a broad range of possible outcomes given all potential amounts of consumption that could occur, it is likely that a significant revenue reversal would occur should the variable consideration be estimated at an amount greater than the minimum stated amount until such a time as the uncertainty is resolved. For our subscription agreements with variable consideration based on consumable

usage over time, the variable consideration is allocated to the non-lease components upon resolution of the uncertainty and is included in consumables revenue.

We generate Other Vaccines and Pharmaceuticals ("OVP") revenue through contract manufacturing agreements with customers. Revenue from these customer contracts is generally recognized upon shipment or acceptance by our customer, under the same guidelines noted above for other outright product sales. Heska assessed the over-time criteria within ASC 606 and concluded that while products within this segment have no alternative use to Heska, as Heska is contractually prohibited to redirect the product to other customers, Heska does not have right to payment for performance to date. Therefore, point in time revenue recognition has been determined to be appropriate.

Recording revenue from the sale of products involves the use of estimates and management's judgment. We must make a determination at the time of sale whether the customer has the ability and intent to make payments in accordance with arrangements. For contracts with multiple performance obligations, we exercise judgment in allocating the transaction price for each performance obligation based on an estimated standalone selling price for each distinct product or service. We do not generally allow return of products or instruments. Distributor rebates are recorded as a reduction to revenue.

Refer to Note 2 for additional disclosures required by ASC 606.

Leases

The Company acts as a lessee and a lessor. As a lessee, the Company leases buildings, office equipment, and vehicles. As a lessor, the Company enters into sales-type and operating leases as part of its subscription agreements.

The Company determines if an arrangement is a lease at inception based on whether control of an identified asset is transferred. For leases where the Company is the lessee, ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent an obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The measurement of future lease payments includes fixed payments, as well as fixed rate increases that are initially measured at the lease commencement date. Variable lease payments, typically based on the usage of the underlying asset or changes in an index or rate, are excluded from the measurement of ROU assets and lease liabilities and are expensed as incurred.
As most of the Company’s leases do not provide an implicit interest rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The lease terms used to calculate the ROU asset and related lease liability include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for operating leases is recognized on a straight-line basis over the lease term as an operating expense while the expense for finance leases is recognized as amortization expense and interest expense. The Company has lease agreements which require payments for lease and non-lease components and has elected to account for these as a single lease component for our building and office equipment leases, but as separate components for our vehicle leases.

As a lessor, our subscription agreements relate to both OTL arrangements and STL arrangements. For a STL, instrument revenue is generally recorded upon installation of the instruments and the cost of the customer-leased instruments is removed from inventory and recognized in the Consolidated Statements of Loss. There is no residual value taken into consideration as it does not meet our capitalization requirements. There is no option for a lessee to purchase the underlying asset and the lease term does not include an assumption that the lease will be extended or terminated. For our OTL agreements that include both lease and non-lease

components, revenue is recognized on a straight-line basis over the term of the lease and is included with the predominant non-lease components in consumables revenue. For instrument only OTL agreements, operating lease income is recognized on a straight-line basis over the term of the lease. For an OTL, the costs of customer-leased instruments are recorded within property and equipment in the accompanying Consolidated Balance Sheets and depreciated over the instrument's estimated useful life. The depreciation expense is reflected in cost of revenue in the accompanying Consolidated Statements of Loss.

For leases that commenced before the January 1, 2019 effective date of ASC 842, the Company elected the permitted practical expedients to not reassess the following: (i) whether any expired or existing contracts contain leases; (ii) the lease classification for any expired or existing leases; and (iii) initial direct costs for any existing leases. The Company also elected to exclude leases with a term of 12 months or less from the recognized ROU assets and lease liabilities.

Stock-based Compensation

Stock-based compensation expense is measured at the grant date based upon the estimated fair value of the portion of the award that is ultimately expected to vest and is recognized as expense over the applicable requisite service period of the award generally using the straight-line method.

Advertising Costs

Advertising costs are expensed as incurred and are included in sales and marketing expenses. Advertising expenses were $0.6 million for the year ended December 31, 2021, $0.4 million for the year ended December 31, 2020, and $0.3 million for the year ended December 31, 2019.

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.

Earnings Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued.

Foreign Currency Translation

The functional currency of certain foreign subsidiaries is the local currency. Accordingly, assets and liabilities of these subsidiaries 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. Gains and losses arising from intercompany foreign currency transactions that are of a long-term investment nature are reported as a component of Accumulated other comprehensive income in the Consolidated Balance Sheets.

Warranty Costs

The Company generally provides for the estimated cost of hardware and software warranties in the period the related revenue is recognized. The Company assesses the adequacy of its accrued warranty liabilities and adjusts the amounts as necessary based on actual experience and changes in future estimates. Should product failure rates differ from our estimates, actual costs could vary significantly from our expectations. Extended warranties are sold to our customers and revenue is recognized over the term of the warranty agreement, as expected costs are incurred.

Adoption of New Accounting Pronouncements

Effective January 1, 2021, we adopted ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to the accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740, and also clarifies and amends existing guidance to improve consistent application. We evaluated the impact of the standard on our consolidated financial statements and the adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

Effective January 1, 2021, we adopted ASU 2020-01, *Investments-Equity Securities (Topic 321)*, *Investments-Equity Method and Joint Ventures (Topic 323)*, and *Derivatives and Hedging (Topic 815)*. The amendments in this ASU clarify the interaction between the accounting for investments in equity securities, investments in equity method and certain derivatives instruments. The ASU is expected to reduce diversity in practice and increase comparability of the accounting for these interactions. We evaluated the impact of the standard on our consolidated financial statements and the adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

Effective January 1, 2021, we early adopted ASU 2020-06, *Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)*, which simplifies the accounting for certain convertible instruments. The update reduces the number of accounting models for convertible debt instruments and convertible preferred stock. Convertible debt will be accounted for as a single liability measured at its amortized cost and convertible preferred stock will be accounted for as a single equity instrument measured at its historical cost, as long as no other features require bifurcation and recognition as derivatives. The update also requires the if-converted method to be used for convertible instruments and the effect of potential share settlement be included in the diluted earnings per share calculation when an instrument may be settled in cash or shares.

The Company's 3.75% Convertible Senior Notes due 2026 (the "Notes") are a convertible instrument with a cash-conversion feature that is accounted for within the scope of ASC 470-20 and impacted by the adoption of ASU 2020-06. The Company has elected to apply the modified retrospective method wherein the Company recognized a cumulative-effect adjustment to the opening balance of retained earnings (January 1, 2021). Further, the Company will not restate EPS in prior periods. The Company calculated the cumulative-effect

adjustment as of January 1, 2021 by comparing (i) the historical amortization schedule for the Notes through December 31, 2020 and (ii) an updated amortization schedule wherein the conversion feature within the Notes would not be separated as an equity component and subsequently recognized as non-cash interest expense under ASC 835-30. As a result of ASU 2020-06, while cash interest expense is not impacted, non-cash interest accretion is limited to the amortization of debt issuance costs under ASC 835-30. Therefore, the Company prepared its transition journal entries by (i) reversing the conversion feature amount recorded in APIC and (ii) reversing the difference in non-cash interest expense via retained earnings. The adoption resulted in a decrease to accumulated deficit of $3.4 million, a decrease to additional paid-in capital of $29.8 million, and an increase to convertible note, non-current, net of $35.2 million. Additionally, due to the adoption, the Company reversed the remaining balance of the net deferred tax liability of $8.8 million, which was initially recorded in connection with the Notes.

Effective January 1, 2021, we adopted ASU 2020-10, *Codification Improvements*, which updates various codification topics by clarifying or improving disclosure requirements to align with the SEC's regulations. We evaluated the impact of the standard on our consolidated financial statements and the adoption of this ASU did not have a material impact on our consolidated financial statements and disclosures.

Accounting Pronouncements Not Yet Adopted

In July 2021, the Financial Accounting Standards Board (the "FASB") issued ASU 2021-05, *Leases (Topic 842), Lessors- Certain Leases with Variable Lease Payments.* This guidance amends the lease classification accounting for lessors for certain leases with variable lease payments that do not depend on a reference index or a rate and would have resulted in the recognition of a loss at lease commencement if classified as a sale-type or direct financing lease. Under the new guidance, these leases will be classified as an operating lease. The amendment is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. We do not expect adoption of the new guidance to have a material impact on our financial statements.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers.* This guidance requires an acquiring entity to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. At acquisition date, the acquirer should account for the related revenue contracts in accordance with Topic 606 as if it had originated the contracts. The amendment is effective for fiscal years beginning after December 15, 2022, with early adoption permitted. We do not expect adoption of the new guidance to have a material impact on our financial statements.

2. REVENUE

We separate our goods and services among two reportable segments, North America and International. The two segments consist of revenue originating from:

- **North America:** including the United States, Canada and Mexico
- **International:** all geographies outside North America, currently consisting primarily of Australia, France, Germany, Italy, Malaysia, Spain and Switzerland

Refer to Note 18 for further detail regarding the change in reportable segments which required recast of prior period presentation.

The following table summarizes our segment revenue (in thousands):

	Year Ended December 31,		
	2021	2020	2019
North America Revenue:			
POC Lab Instruments & Other	$ 14,837	$ 13,663	$ 13,446
POC Lab Consumables	72,004	59,247	53,267
POC Imaging	29,512	20,651	21,655
PVD	24,939	19,810	10,965
OVP	17,606	17,695	16,090
Total North America Revenue	$ 158,898	$ 131,066	$ 115,423
International Revenue:			
POC Lab Instruments & Other	$ 15,001	$ 7,782	$ 96
POC Lab Consumables	46,016	32,354	323
POC Imaging	28,492	22,537	3,998
PVD	5,332	3,584	2,821
Total International Revenue	$ 94,841	$ 66,257	$ 7,238
Total Revenue	$ 253,739	$ 197,323	$ 122,661

Remaining Performance Obligations

Remaining performance obligations represent the aggregate transaction price allocated to performance obligations with an original contract term greater than one year which are fully or partially unsatisfied at the end of the period. Remaining performance obligations include noncancelable purchase orders, the non-lease portion of minimum purchase commitments under long-term supply arrangements, extended warranty, service and other long-term contracts. Remaining performance obligations do not include revenue from contracts with customers with an original term of one year or less, revenue from long-term supply arrangements with no minimum purchase requirements, revenue expected from purchases made in excess of the minimum purchase requirements, or revenue from instruments leased to customers. While the remaining performance obligation disclosure is similar in concept to backlog, the definition of remaining performance obligations excludes leases and contracts that provide the customer with the right to cancel or terminate for convenience with no substantial penalty, even if historical experience indicates the likelihood of cancellation or termination is remote. Additionally, the Company has elected to exclude contracts with customers with an original term of one year or less from remaining performance obligations.

As of December 31, 2021, the aggregate amount of the transaction price allocated to remaining minimum performance obligations was approximately $167.4 million. As of December 31, 2021, the Company expects to recognize revenue as follows (in thousands):

Year Ending December 31,	Revenue
2022	$ 40,216
2023	36,867
2024	31,914
2025	26,215
2026	20,886
Thereafter	11,325
	$ 167,423

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled contract assets, deferred revenue, and customer deposits and billings in excess of revenue recognized. In addition, the Company defers certain costs incurred to obtain contracts.

Contract Assets

Certain unbilled amounts related to long-term contracts for which we provide a free term to the customer are recorded in "Other current assets" and "Other non-current assets" on the accompanying Consolidated Balance Sheets. The collection of these balances occurs over the term of the underlying contract. The balances as of December 31, 2021 were $1.5 million and $5.1 million for current and non-current assets, respectively, shown net of related unearned interest. The balances as of December 31, 2020 were $1.2 million and $4.1 million for current and non-current assets, respectively, shown net of related unearned interest.

Contract Liabilities

The Company receives cash payments from customers for licensing fees or other arrangements that extend for a specified term. These contract liabilities are classified as either current or long-term in the Consolidated Balance Sheets based on the timing of when the Company expects to recognize revenue. As of December 31, 2021 and 2020, contract liabilities were $9.6 million and $9.9 million, respectively, and are included within "Deferred revenue, current, and other" and "Deferred revenue, non-current" in the accompanying Consolidated Balance Sheets. The decrease in the contract liability balance during the year ended December 31, 2021 is approximately $6.8 million of revenue recognized during the period, offset by approximately $6.5 million of additional deferred sales in 2021. The decrease in the contract liability balance during the year ended December 31, 2020 is $4.2 million of revenue recognized during the period, offset by $3.8 million of additional deferred sales. Contract liabilities are reported on the accompanying Consolidated Balance Sheets on a contract-by-contract basis.

Contract Costs

The Company capitalizes certain direct incremental costs incurred to obtain customer contracts, typically sales-related commissions, where the recognition period for the related revenue is greater than one year. Contract costs are classified as current or non-current, and are included in "Other current assets" and "Other non-current assets" in the Consolidated Balance Sheets based on the timing of when the Company expects to recognize the expense. Contract costs are generally amortized into selling and marketing expense with a certain percentage recognized immediately based upon placement of the instrument with the remainder recognized on a straight-line basis (which is consistent with the transfer of control for the related goods or services) over the average term of the underlying contracts, approximately 6 years. Management assesses these costs for impairment at least quarterly on a portfolio basis and as “triggering” events occur that indicate it is more-likely-than-not that an impairment exists. The balance of contract costs as of December 31, 2021 and December 31, 2020 was $4.1 million and $3.0 million, respectively. The increase in contract costs for the year ended December 31, 2021 is amortization expense of approximately $1.1 million, offset by approximately $2.2 million of additional contract cost capitalization. Amortization expense for the year ended December 31, 2020 was approximately $1.0 million, offset by approximately $1.2 million of additional contract costs capitalization and $0.1 million of the acquisition of scil contract costs. Contract costs are calculated and reported on a portfolio basis.

3. ACQUISITION AND RELATED PARTY ITEMS

Biotech Acquisition

On September 1, 2021, Heska acquired 65% of the equity of Biotech Laboratories U.S.A. LLC ("Biotech"), a developer of rapid assay diagnostic testing, in exchange for approximately $16.3 million in cash. As part of the purchase, Heska entered into put and call options in order to purchase the remaining 35% ownership in future years. The counterparty, Chinta Lamichhane, DVM, Ph.D, maintains an interest in Biotech and is an employee of the Company, thus commencing a related party relationship. Aside from the acquisition described herein, there were no financial or non-financial transactions between the Company and the counterparty.

In conjunction with the acquisition, the Company entered into various put and call options which are classified on the Consolidated Balance Sheets as Notes Payable. The written put options can be exercised after June 30, 2024, at a valuation identical to the initial purchase price. The written call options can be exercised at any time prior to June 30, 2026, at an amount equal to two times the initial valuation or after June 30, 2026, at a valuation identical to the initial purchase price. Additionally, if certain product development milestones are met, the shares may be bought in various tranches at two times the initial valuation. The Company evaluated the put and call options embedded in the shares representing the non-controlling interest under the guidance in ASC 480, *Distinguishing Liabilities from Equity,* and determined the instrument met the criteria to be recorded as a liability because the fixed price of the put and call options are identical starting after June 30, 2026. As a result, the Company recorded the transaction as a financing arrangement of the purchase of the non-controlling interest, and will record 100% of the income and loss of Biotech in our Consolidated Statements of Loss. The options were not redeemable as of the acquisition date or as of the period ending December 31, 2021. The estimated fair value of the Notes Payable as of the acquisition date of $15.9 million is inclusive of the probability weighted outcomes of the options described herein.

The total purchase consideration exceeded the fair value of the identifiable net assets acquired, resulting in goodwill of $25.8 million, all of which is attributable to our North America segment and primarily consists of opportunities to expand product offerings and the experienced workforce acquired. In connection with the acquisition and pursuant to the elections under Section 754 of the Internal Revenue Code, the Company expects to obtain an increase with respect to the tax basis in the assets of Biotech.

The acquisition was accounted for as a business combination in accordance with ASC 805, *Business Combinations*. As such, the total purchase consideration was allocated to the assets acquired and liabilities assumed based on their fair values as of September 1, 2021.

The information below represents the preliminary purchase price allocation as of the acquisition date (in thousands):

		September 1, 2021
Purchase price in cash	$	16,250
Notes payable		15,900
Total purchase consideration	$	32,150
Accounts receivables	$	18
Other current assets		1
Inventories		173
Property and equipment, net		148
Operating lease right-of-use assets		1,033
Other intangible assets, net		6,000
Other non-current assets		15
Total assets acquired		7,388
Accounts payable		11
Accrued liabilities		33
Operating lease liabilities, current		188
Operating lease liabilities, non-current		845
Net assets acquired		6,311
Goodwill		25,839
Total fair value of consideration transferred	$	32,150

The Company's preliminary estimates of fair values of the net assets acquired are based on the information that was available at the date of the acquisition, and the Company is continuing to evaluate the underlying inputs and assumptions used in its valuations. Accordingly, these preliminary estimates are subject to change during the measurement period, which is up to one year from the date of the acquisition. Among items still being evaluated are deferred taxes. A decrease in the fair value of assets acquired or an increase in the fair value of liabilities assumed in the acquisition from those valuations would result in a corresponding increase in the amount of goodwill from the acquisition.

Intangible assets acquired, amortization method and estimated useful life as of September 1, 2021, was as follows (dollars in thousands):

	Useful Life	Amortization Method	Fair Value
Developed technology	6 years	Straight-line	$ 6,000
Total intangible assets acquired			$ 6,000

The Company incurred acquisition related costs of approximately $0.4 million and $0 for the years ended December 31, 2021 and 2020, respectively, which are included within general and administrative expenses on our Consolidated Statements of Loss.

Pro forma financial information related to the acquisition of Biotech has not been provided as it is not material to our consolidated results of operations.

BiEsseA Acquisition

On July 1, 2021, the Company completed the acquisition of BiEsse A-Laboratorio die Analisi Veterinarie S.r.l. (“BSA”). The Company acquired 100% of the issued and outstanding shares of BSA for an aggregate purchase price of $7.2 million, consisting of $4.8 million in cash and contingent consideration described below.

As additional consideration for the shares, the Company agreed to a contingent earn-out of an additional $2.8 million based on the achievement of certain performance metrics within three annual periods after 2021, each of which can pay up to one third of the total earn-out. The fair value of the contingent consideration as of the acquisition date, and as of December 31, 2021, was $2.3 million.

The total purchase consideration exceeded the fair value of the identifiable net assets acquired, resulting in $4.6 million of goodwill, all of which is attributable to our International segment. The goodwill resulting from this acquisition consists largely of the Company's expected future product sales and synergies from combining operations. All of the goodwill is tax deductible for purposes of calculating Controlled Foreign Corporation tested income, which may result in a decrease to the Company's future U.S. federal income tax liability.

The acquisition was accounted for as a business combination in accordance with ASC 805, *Business Combinations*. As such, the total purchase consideration was allocated to the assets acquired and liabilities assumed based on their fair values as of July 1, 2021. The total purchase consideration is subject to customary working capital adjustments, which were finalized as of December 31, 2021.

Per the tax indemnification included in the purchase agreement of BSA, the seller has indemnified the Company for $0.5 million related to uncertain tax positions taken in prior years. The outcome of this arrangement will either be settled or expire due to lapse of statute of limitations by 2025. As of December 31, 2021, approximately $0.5 million of the indemnification agreement remains outstanding.

The information below represents the preliminary purchase price allocation as of the acquisition date (in thousands):

	July 1, 2021
Purchase price in cash	$ 4,835
Fair value of contingent consideration	2,334
Total purchase consideration	$ 7,169
Cash and cash equivalents	$ 322
Accounts receivables	152
Other receivables	497
Prepaid expenses	8
Other current assets	275
Property and equipment, net	89
Operating lease right-of-use assets	44
Other intangible assets, net	3,329
Total assets acquired	4,716
Accounts payable	208
Accrued liabilities	334
Operating lease liabilities, current	37
Deferred revenue, current, and other	85
Operating lease liabilities, non-current	20
Deferred tax liability, net	925
Other liabilities	500
Net assets acquired	2,607
Goodwill	4,562
Total fair value of consideration transferred	$ 7,169

The Company's preliminary estimates of fair values of the net assets acquired are based on the information that was available at the date of the acquisition, and the Company is continuing to evaluate the underlying inputs and assumptions used in its valuations. Accordingly, these preliminary estimates are subject to change during the measurement period, which is up to one year from the date of the acquisition. Among items still being evaluated are deferred taxes. A decrease in the fair value of assets acquired or an increase in the fair value of liabilities assumed in the acquisition from those valuations would result in a corresponding increase in the amount of goodwill from the acquisition.

Intangible assets acquired, amortization method and estimated useful life as of July 1, 2021, was as follows (dollars in thousands):

	Useful Life	Amortization Method	Fair Value
Customer relationships	14 years	Straight-line	$ 3,329
Total intangible assets acquired			$ 3,329

The Company incurred acquisition related costs of approximately $0.3 million and $0 for the years ended December 31, 2021 and 2020, respectively, which are included within general and administrative expenses on our Consolidated Statements of Loss.

Pro forma financial information related to the acquisition of BisseA has not been provided as it is not material to our consolidated results of operations.

Lacuna Acquisition

On February 1, 2021, the Company completed the acquisition of Lacuna Diagnostics, Inc. ("Lacuna"), a veterinary digital cytology company, to broaden the Company's Point of Care diagnostic offerings. The Company acquired 100% of the issued and outstanding shares of Lacuna for a purchase price of $4.3 million. The Company then dissolved Lacuna on February 1, 2021. In accordance with the purchase agreement, the Company is required to hold a $0.4 million general indemnity holdback that is intended to provide a non-exclusive source of funds for the payment of any losses identified and shall be released within 18 months of closing. As of December 31, 2021, $0.1 million of the indemnification holdback was released for licensing fees and $0.3 million of the indemnification holdback remains outstanding. As additional consideration for the shares, the Company agreed to a contingent earn-out of an additional $2.0 million based on the achievement of certain performance metrics within a twelve month period ("Initial Earn Out Period"), reducing to $1.0 million if such metrics were met in a twelve month period subsequent to the Initial Earn Out Period. The fair value of the contingent consideration as of the acquisition date was $1.7 million, and subsequently decreased to $0 as of December 31, 2021, which resulted in a $1.7 million gain included within general and administrative expenses in the Consolidated Statement of Loss for the year ended December 31, 2021.

The total purchase consideration exceeded the fair value of the identifiable net assets acquired, resulting in $4.2 million of goodwill, primarily related to expanded opportunities with our offerings. All of the goodwill is allocated to the North America segment and is not tax deductible for income tax purposes.

The acquisition was accounted for as a business combination in accordance with ASC 805, *Business Combinations*. As such, the total purchase consideration was allocated to the assets acquired and liabilities assumed based on their fair values as of February 1, 2021. As of December 31, 2021, the Company has finalized the accounting for the acquisition.

The information below represents the final purchase price allocation as of the acquisition date (in thousands):

	February 1, 2021
Purchase price in cash	$ 4,255
Fair value of contingent consideration	1,700
Total purchase consideration	$ 5,955
Cash and cash equivalents	$ 3
Accounts receivable	170
Property and equipment, net	530
Other intangible assets, net	1,185
Total assets acquired	1,888
Deferred tax liability	133
Net assets acquired	1,755
Goodwill	4,200
Total fair value of consideration transferred	$ 5,955

Intangible assets acquired, amortization method and estimated useful life as of February 1, 2021, was as follows (dollars in thousands):

	Useful Life	Amortization Method	Fair Value
Developed technology	3 years	Straight-line	$ 1,000
Customer relationships	6 months	Straight-line	150
Trade name	11 months	Straight-line	35
Total intangible assets acquired			$ 1,185

The Company incurred acquisition related costs of approximately $0.1 million and $0 for the years ended December 31, 2021 and 2020, respectively, which are included within general and administrative expenses on our Consolidated Statements of Loss.

Pro forma financial information related to the acquisition of Lacuna has not been provided as it is not material to our consolidated results of operations.

scil Acquisition

On April 1, 2020, the Company completed the acquisition of scil animal care company GmbH (“scil”) from Covetrus, Inc. The Company purchased 100% of the capital stock of scil for an aggregate purchase price of $110.3 million in cash. The acquisition represents a key milestone in the Company's long-term strategic plan, creating a global veterinary diagnostics company with leadership positions in key geographic markets. The purchase price exceeded the identifiable net assets, resulting in goodwill of $46.0 million, primarily attributable to the synergies expected from the expanded market opportunities with our offerings and the experienced workforce acquired. Of the goodwill acquired, $37.3 million is allocated to our International segment and $8.7 million is allocated to our North America segment. All of the goodwill is tax deductible for purposes of calculating Controlled Foreign Corporation ("CFC") tested income, which may result in a decrease to the Company's future U.S. federal tax liability.

The acquisition was accounted for using the acquisition method of accounting in accordance with ASC 805, *Business Combinations*, which requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. As such, the total purchase consideration was allocated to the assets acquired and liabilities assumed based on a preliminary estimate of their fair values as of April 1, 2020. The Company finalized the accounting for the acquisition as of March 31, 2021.

The information below represents the final purchase price allocation of scil (in thousands):

	April 1, 2020
Total purchase consideration	$ 110,290
Cash and cash equivalents	$ 5,889
Accounts receivable	10,707
Inventories	11,278
Net investment in leases, current	311
Prepaid expenses	1,692
Other current assets	1,338
Property and equipment, net	19,320
Operating lease right-of-use assets	877
Other intangible assets, net	44,517
Net investment in leases, non-current	1,027
Investments in unconsolidated affiliates	55
Other non-current assets	291
Total assets acquired	97,302
Accounts payable	8,221
Accrued liabilities	7,067
Operating lease liabilities, current	356
Deferred revenue, current, and other	3,220
Deferred revenue, non-current	94
Operating lease liabilities, non-current	529
Deferred tax liability	13,249
Other liabilities	276
Net assets acquired	64,290
Goodwill	46,000
Total fair value of consideration transferred	$ 110,290

Per the tax indemnification included in the purchase agreement of scil, the seller has indemnified the Company for $1.1 million related to uncertain tax positions taken in prior years. The outcome of this arrangement will either be settled or expire due to lapse of statute of limitations by 2027. As of December 31, 2021, approximately $0.4 million of the indemnification agreement remains outstanding.

Intangible assets acquired, amortization method and estimated useful life as of April 1, 2020, was as follows (dollars in thousands):

	Useful Life	Amortization Method	Fair Value
Customer relationships	10 years	Straight-line	$ 36,272
Internally developed software	7 years	Straight-line	353
Backlog	0.2 years	Straight-line	210
Non-compete agreements	2 years	Straight-line	60
Trade name subject to amortization	0.8 years	Straight-line	66
Trademarks and trade names not subject to amortization	n/a	Indefinite	7,556
Total intangible assets acquired			$ 44,517

scil generated net revenue of $61.3 million and a net loss of $1.1 million for the period from April 1, 2020 to December 31, 2020.

The Company incurred acquisition related costs of approximately $0, $6.3 million and $0.7 million for the years ended December 31, 2021, 2020 and 2019, respectively, which are included within general and administrative expenses on our Consolidated Statements of Loss.

Unaudited Pro Forma Financial Information

The following tables present unaudited supplemental pro forma financial information as if the acquisition had occurred on January 1, 2019 (in thousands):

	Year Ended December 31,	
	2020	2019
Revenue, net	$ 215,874	$ 201,700
Net loss before equity in losses of unconsolidated affiliates	$ (14,848)	$ (2,159)
Net loss attributable to Heska Corporation	$ (15,215)	$ (2,487)

The pro forma financial information presented above has been prepared by combining our historical results and the historical results of scil and further reflects the effect of purchase accounting adjustments, including: (i) amortization of acquired intangible assets, (ii) the impact of certain fair value adjustments such as depreciation on the acquired property, plant and equipment, and (iii) historical intercompany sales between the Company and scil. The unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of what actual results of operations would have been if the acquisition had occurred as the beginning of the period presented, nor are they indicative of future results of operations.

CVM

On December 5, 2019, Heska entered into a definitive agreement to purchase 100% of the outstanding shares of CVM Diagnostico Veternario S.L. and CVM Ecografia S.L. (“CVM”, collectively), primarily to expand international operations in Europe. CVM is headquartered in Tudela, outside of Madrid, Spain. CVM mainly operates in Spain. The terms of the agreement transferred control of CVM upon signing, and the transfer of the purchase price of approximately $14.4 million and shares occurred in January 2020. The purchase price exceeded the fair value of the identifiable net assets and, accordingly, $9.0 million was allocated to goodwill within the International segment, all of which is tax deductible for purposes of calculating CFC tested income. The goodwill resulting from this acquisition consists largely of expanded product offerings and the acquired workforce.

The fair values allocated to CVM's assets and liabilities as of the acquisition date, as well as the purchase price, are reflected in the table below (in thousands):

Purchase Price	**December 5, 2019**
Consideration paid to former owners	$ 14,420
Cash and cash equivalents	$ 1,226
Accounts receivable	583
Inventories	1,621
Other current assets	1,186
Property and equipment	345
Other intangible assets	2,608
Other non-current assets	460
Total assets acquired	8,029
Accounts payable	94
Accrued liabilities	471
Current portion of deferred revenue, and other	54
Deferred tax liability	683
Other long-term borrowings	1,109
Other liabilities	157
Net assets acquired	5,461
Goodwill	8,959
Total fair value of consideration transferred	$ 14,420

During the year ended December 31, 2020, the Company made certain valuation adjustments to provisional amounts previously recognized. These measurement period adjustments resulted in a net $110 thousand increase of goodwill, primarily due to fair value adjustments resulting in a decrease in net identifiable assets acquired. The Company finalized the accounting for the CVM acquisition in the fourth quarter of 2020.

Intangible assets acquired, amortization method and estimated useful life as of December 5, 2019, were as follows (dollars in thousands):

	Useful Life	**Amortization Method**	**Fair Value**
Customer relationships	6 years	Straight-line	$ 2,440
Trade name	4 years	Straight-line	111
Developed technology	n/a	Indefinite	57
			$ 2,608

CVM generated net revenue of $0.8 million and net income of $0.1 million, for the period from December 6, 2019 to December 31, 2019.

The Company incurred acquisition related costs of approximately $0, $0.6 million and $0.1 million for the years ended December 31, 2021, 2020 and 2019, respectively, which are included within general and administrative expenses on our Consolidated Statements of Loss.

Unaudited Pro Forma Financial Information

The following table presents unaudited supplemental pro forma financial information as if the CVM acquisition had occurred on January 1, 2018 (in thousands):

	Year Ended December 31, 2019
Revenue, net	$ 130,434
Net (loss) income before equity in losses of unconsolidated affiliates	$ (460)
Net (loss) income attributable to Heska Corporation	$ (788)

The pro forma financial information presented above has been prepared by combining our historical results and the historical results of CVM and further reflects the effect of purchase accounting adjustments. The unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of what actual results of operations would have been if the acquisition had occurred as the beginning of the period presented, nor are they indicative of future results of operations.

Other Related Party Activities

CVM Diagnostico Veternario S.L. and CVM Ecografia S.L. (“CVM”, collectively) conducted related party activities with Practice Clinicas Veterinarias Moviles, S.L. ("CVM Practice"), the owner of which was part of CVM management through June 1, 2021. CVM continues to lease two warehouses from CVM Practice, however the related party relationship was terminated as of June 1, 2021. CVM Practice charged CVM $37 thousand and $31 thousand during the year ended December 31, 2021 and year ended December 31, 2020, respectively, all of which is related to lease payments. The right-of-use asset and lease liability amounts related to the warehouse leases were approximately $0.2 million as of December 31, 2021 and $0.2 million as of December 31, 2020.

4. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

The carrying values of investments in unconsolidated affiliates, categorized by type of investment, is as follows (in thousands):

	December 31, 2021	December 31, 2020
Equity method investment	$ 2,406	$ 3,686
Non-marketable equity security investment	3,018	3,018
Investment in Unconsolidated Affiliates	$ 5,424	$ 6,704

Equity Method Investment

On September 24, 2018, we invested approximately $5.1 million, including costs, to acquire an equity interest in a business as part of our product development strategy. As of December 31, 2021, our ownership interest in the business was 28.7%. In connection with the investment, the Company entered into a Manufacturing Supply Agreement that grants the Company global exclusivity to specified products to be delivered under the agreement for a 15-year period that begins upon the Company's receipt and acceptance of an initial order under the agreement. The Company accounts for this investment using the equity method of accounting. Under the equity method, the carrying value of the investment is adjusted for the Company's proportionate share of the investee's reported earnings or losses with the corresponding share of earnings or losses reported as Equity in losses of unconsolidated affiliates, listed below Net income before equity in losses of unconsolidated affiliates within the Consolidated Statements of Loss.

Non-Marketable Equity Security Investment

On August 8, 2018, the Company invested approximately $3.0 million, including costs, in exchange for preferred stock. The Company's investment is a non-marketable equity security, recorded using the measurement alternative of cost minus impairment, if any, plus or minus changes resulting from qualifying observable price changes.

As part of the agreement, the Company entered into a Supply and License Agreement, which provides that the investee produce and commercialize products that will enhance the Company's diagnostic portfolio. As part of this agreement, the Company made an upfront payment of $1.0 million related to a worldwide exclusive license agreement over a 20-year period, recorded in both short and long-term other assets. In addition, the agreement provides for an additional contingent payment of $10.0 million, relating to the successful achievement of sales milestones. This potential future milestone payment has not yet been accrued as it is not deemed by the Company to be probable at this time.

Both parties in this arrangement are active participants and are exposed to significant risks and rewards dependent on the commercial success of the activities of the collaboration. The parties are actively working on developing and testing the product as well as funding the research and development. Heska classifies the amounts paid for research and development work within the North America segment research and development operating expenses. Expense is recognized ratably when incurred and in accordance with the development plan.

5. INCOME TAXES

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

	Year Ended December 31,		
	2021	2020	2019
Domestic	$ 2,347	$ (9,441)	$ (1,872)
Foreign	(5,788)	(4,352)	(711)
	$ (3,441)	$ (13,793)	$ (2,583)

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

	December 31,	
	2021	2020
Inventory	$ 4,616	$ 2,993
Accrued compensation	(70)	295
Stock options	3,581	2,322
Research and development tax credit	1,276	1,308
Research and development expense	3,291	2,571
Deferred revenue	1,390	1,441
Property and equipment	524	298
Net operating loss carryforwards	4,401	8,757
Foreign tax credit carryforward	64	64
Sales-type leases	2,494	1,324
Convertible debt equity component	—	(8,691)
Foreign intangible	(11,477)	(11,311)
Other	(540)	(1,124)
	9,550	247
Valuation allowance	(2,788)	(6,409)
Total net deferred tax assets (liabilities)	$ 6,762	$ (6,162)

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

	Year Ended December 31,		
	2021	2020	2019
Current income tax (benefit) expense:			
Federal	$ —	$ (24)	$ —
State	666	339	189
Foreign	225	1,465	170
Total current expense	$ 891	$ 1,780	$ 359
Deferred income tax (benefit) expense:			
Federal	$ (4,364)	$ 369	$ (1,610)
State	(813)	289	(307)
Foreign	713	(2,199)	112
Total deferred (benefit) expense	(4,464)	(1,541)	(1,805)
Total income tax (benefit) expense	$ (3,573)	$ 239	$ (1,446)

The Company's income tax (benefit) expense 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,		
	2021	2020	2019
Statutory federal tax rate	21 %	21 %	21 %
State income taxes, net of federal benefit	3 %	(4)%	9 %
Non-consolidated Investment Income	8 %	1 %	(2)%
Foreign income inclusion	— %	(12)%	— %
Non-temporary stock option benefit	49 %	6 %	48 %
Meals and entertainment permanent difference	— %	— %	(2)%
GILTI permanent difference	— %	— %	2 %
Other permanent differences	— %	1 %	(1)%
Foreign tax rate differences	10 %	2 %	6 %
Change in tax rate	8 %	1 %	(6)%
Change in valuation allowance	88 %	(4)%	(17)%
Other deferred differences	(25)%	(2)%	(9)%
Transaction costs	(4)%	(6)%	(6)%
Executive compensation limitation	(65)%	(6)%	(7)%
Research & development credit	(1)%	2 %	20 %
Equity Investment	(8)%	(4)%	— %
Change in uncertain tax benefits	11 %	3 %	— %
Contingent Consideration	10 %	— %	— %
Other Foreign Income Taxes Due	(2)%	— %	— %
Other	1 %	(1)%	— %
Effective income tax rate	104 %	(2)%	56 %

In 2021, we had total income tax benefit of $3.6 million, including $5.2 million in domestic deferred income tax benefit and $0.7 million in foreign deferred income tax expense, and $0.9 million in current income tax expense. In 2020, we had total income tax expense of $0.2 million, including approximately $0.6 million in domestic deferred income tax expense and $2.2 million of foreign deferred income tax benefit, and $1.8 million in current income tax expense. In 2019, we had total income tax benefit of $1.4 million, including approximately $1.9 million in domestic deferred income tax benefit and $0.1 million of foreign deferred income tax expense, a non-cash benefit, and approximately $0.4 million in current income tax expense. Income tax expense decreased in 2021 from 2020 due to change in valuation allowance, stock option benefits, and executive compensation limitation. Income tax expense increased in 2020 from 2019 due to foreign income inclusion, executive compensation limitations and acquisition related costs.

Cash paid for income taxes for the years ended December 31, 2021, 2020 and 2019 was $2.4 million, $993 thousand and $128 thousand, respectively.

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. Although the U.S. and many states generally have statutes of limitations ranging from 3 to 5 years, those statutes could be extended due to the Company's net operating loss and tax credit carryforward positions in several of the Company's tax jurisdictions. In the U.S., the tax years 2018 - 2020 remain open to examination by the Internal Revenue Service.

As of December 31, 2021, the Company had net operating loss carryforwards ("NOL") of approximately $7.0 million, a foreign tax credit of $64 thousand and a domestic research and development tax credit carryforward of approximately $1.3 million for federal tax purposes. Our federal NOL is expected to expire as follows if unused: $0.4 million in 2022, $5.47 million in 2024 through 2025 and $0.5 million in 2027 through 2037. Our federal NOL of $0.7 million does not have an expiration date. Our foreign NOL of $9.4 million does not have an expiration date.

The Company considered multiple factors in assessing the need for a decrease in the partial valuation allowance against the Company's deferred tax assets as of December 31, 2021. Due to executive compensation limitation significantly disallowing expense related to stock compensation along with future projections of income, the Company believes they will be able to utilize the remaining Federal NOLs and tax credits before they expire. Due to statute of limitations however, the Company does believe $61 thousand of state NOLs will expire before they can be utilized. For foreign NOL purposes, the Company believes due to projected losses in Germany and historical three year cumulative losses, all statutory deferred tax assets will not be utilized and therefore increased the valuation allowance against all statutory deferred balances in Germany. As a result, the Company recorded an additional $3.6 million tax effected decrease to the current partial valuation allowance against the Company's worldwide net operating losses, statutory assets, and tax credits for the year ended December 31, 2021. As of December 31, 2021, the Company had a deferred tax asset of approximately $5.7 million from net operating losses and tax credits and a net partial valuation allowance of approximately $2.8 million recorded against these deferred tax assets. The Company will continue to closely monitor the need for an additional valuation allowance against its deferred tax assets in each subsequent reporting period which can be impacted by actual operating results compared to the Company's forecast.

ASC Topic 740 prescribes the accounting for uncertainty in income taxes recognized in the financial statements in accordance with the other provisions contained within this guidance. This topic prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by the taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely or being realized upon ultimate audit settlement. In the normal course of business, the Company's tax returns are subject to examination by various taxing authorities. Such examination may result in future tax and interest assessments by these taxing authorities for uncertain tax positions taken in respect to certain matters.

The following provides a reconciliation of unrecognized tax benefits which are included in Other liabilities within the Consolidated Balance Sheets (in thousands):

	Year Ended December 31,	
	2021	2020
Balance at beginning of period	$ (808)	$ —
Acquired additions based on prior year tax positions	(508)	(1,072)
Reductions from lapse in statutes of limitations	404	358
Currency Translation Adjustment	19	(94)
Balance at the end of period	$ (893)	$ (808)

The total amount of unrecognized tax benefits, which are included in other liabilities within the combined balance sheets as of December 31, 2021 was approximately $0.9 million, which may impact the effective tax rate if recognized. These unrecognized tax benefits were recognized as part of the acquisition of scil animal care company GmbH in 2020 and BiEssA A-Laboratorio die Analisi Veterinarie S.r.l in 2021. Per the tax indemnification included in the purchase agreements, the sellers have indemnified the Company for these other liabilities, which would reduce the economic impact to the Company if these positions were settled with tax authorities. It is expected that the amount of unrecognized tax benefits will change in the next 12 months; however, the Company does not expect the change to have a material impact on the combined financial statements. The Company recognizes interest and penalties related to uncertain tax positions in income tax (benefit)/expense. Interest and penalties accrued as of December 31, 2021 are $18 thousand.

As of December 31, 2021, the Company had accumulated undistributed earnings generated by foreign subsidiaries of approximately $3.4 million, which would be subject to U.S. taxes and foreign withholding taxes of approximately $167 thousand if repatriated. If the Company decides to repatriate these foreign earnings, it would need to adjust its income tax provision in the period it determined that the earnings would no longer be indefinitely invested outside the United States.

6. LEASES

Lessee Accounting

The Company leases buildings, office equipment, and vehicles. The following table summarizes the Company's operating and finance lease balances (in thousands):

Leases	Balance Sheet Location	December 31, 2021	December 31, 2020
Assets			
Operating	Operating lease right-of-use assets	$ 5,198	$ 5,457
Finance	Property and equipment, net	1,650	1,907
Total Leased Assets		$ 6,848	$ 7,364
Liabilities			
Operating	Operating lease liabilities, current	$ 2,227	$ 2,087
	Operating lease liabilities, non-current	3,509	3,858
Finance	Deferred revenue, current, and other	200	295
	Other liabilities	331	261
Total Lease Liabilities		$ 6,267	$ 6,501

For the year ended December 31, 2021, operating lease expense was approximately $3.1 million, including immaterial variable lease costs. For the year ended December 31, 2020, operating lease expense was approximately $2.8 million, including immaterial variable lease costs. For the year ended December 31, 2019, operating lease expense was approximately $2.4 million, including immaterial variable lease costs.

Finance lease amortization expense was $0.4 million, $0.3 million, and $44 thousand for the years ended December 31, 2021, 2020 and 2019, respectively. Finance lease interest expense was $12 thousand, $10 thousand, and $3 thousand for the years ended December 31, 2021, 2020 and 2019, respectively.

Supplemental cash flow information related to the Company's operating and finance leases for the years ended December 31, 2021, 2020, and 2019 respectively, was as follows (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash outflows - operating leases	$ 2,315	$ 2,213	$ 1,800
Operating cash outflows - finance leases	$ 12	$ 10	$ 3
Financing cash outflows - finance leases	$ 290	$ 250	$ 36
ROU assets obtained in exchange for new lease obligations:			
Operating leases	$ 1,028	$ 788	$ 604
Finance leases	$ 310	$ 159	$ 11

The following table presents the weighted average remaining lease term and weighted average discount rate related to the Company's leases:

	December 31,	
	2021	2020
Weighted average remaining lease term:		
Operating	3.0 years	3.1 years
Finance	3.5 years	2.9 years
Weighted average discount rate:		
Operating	4.2 %	4.2 %
Finance	3.0 %	2.1 %

The following table presents the maturity of the Company's lease liabilities as of December 31, 2021 (in thousands):

Year Ending December 31,	Operating Leases	Finance Leases
2022	$ 2,297	$ 213
2023	2,479	134
2024	484	98
2025	353	71
2026	339	41
Thereafter	175	6
Total lease payments	6,127	563
Less: imputed interest	391	32
Total lease liabilities	$ 5,736	$ 531

Lessor Accounting

The Company enters into sales-type leases as part of our subscription agreements. The following table presents the maturity of the Company's lease receivables as of December 31, 2021 (in thousands):

Year Ending December 31,	Sales-Type Leases
2022	$ 6,175
2023	5,938
2024	5,168
2025	4,076
2026	3,060
Thereafter	1,921
Total undiscounted future maturities	26,338
Less: interest	35
Total lease receivables	$ 26,303

The following table summarizes the profit recognized on the commencement date for sales-type leases and lease income for equipment-only operating leases (in thousands):

	Year Ended December 31,		
	2021	**2020**	**2019**
Sales-type lease revenue	$ 12,243	$ 5,617	$ 6,890
Sales-type lease cost of revenue	9,925	3,951	5,099
Profit recognized at commencement for sales-type leases	$ 2,318	$ 1,666	$ 1,791
Operating lease income	$ 2,110	$ 1,012	$ —

7. EARNINGS PER SHARE

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

The following is a reconciliation of the weighted-average shares outstanding used in the calculation of basic and diluted earnings per share ("EPS") for the years ended December 31, 2021, 2020 and 2019 (in thousands, except per share data):

	Years ended December 31,		
	2021	2020	2019
Net loss attributable to Heska Corporation	$ (1,148)	$ (14,399)	$ (1,465)
Basic weighted-average common shares outstanding	10,015	8,653	7,446
Assumed exercise of dilutive stock options and restricted shares	—	—	—
Diluted weighted-average common shares outstanding	10,015	8,653	7,446
Basic loss per share attributable to Heska Corporation	$ (0.11)	$ (1.66)	$ (0.20)
Diluted loss per share attributable to Heska Corporation	$ (0.11)	$ (1.66)	$ (0.20)

The following potentially outstanding common shares from convertible preferred stock, convertible senior notes, stock options and restricted stock awards were excluded from the computation of diluted EPS because the effect would have been antidilutive (in thousands):

	Years ended December 31,		
	2021	2020	2019
Convertible preferred stock	—	458	—
Convertible senior notes	996	118	—
Stock options and restricted shares	404	328	300
	1,400	904	300

As more fully described in Note 16, the Notes are convertible under certain circumstances, as defined in the indenture, into a combination of cash and shares of the Company's common stock. As discussed in Note 1, the Company early adopted ASU 2020-06, effective January 1, 2021, which amends certain guidance on the computation of EPS for convertible instruments. Prior to the adoption of ASU 2020-06, the Company used the treasury stock method when calculating the potential dilutive effect of the conversion feature of the Notes on earnings per share, if any. Under ASU 2020-06, the treasury stock method is no longer available, and entities must apply the if-converted method for convertible instruments and the effect of potential share settlement must be included in the diluted earnings per share calculation when an instrument may be settled in cash or shares. To determine the dilutive effect to earnings per share using the if-converted method, interest expense on the outstanding Notes is added back to the diluted earnings per share numerator and all of the potentially dilutive shares are included in the diluted earnings per share denominator. For year ended December 31, 2021, all of the potentially issuable shares with respect to the Notes were excluded from the

calculation of diluted net earnings per share because the effect was anti-dilutive. The Company has elected to apply the modified retrospective method of adoption and will not restate EPS for the prior period.

As discussed in Note 12, the Company issued and sold an aggregate of 122,000 shares of its Preferred Stock to certain investors in a private placement offering. The shares were converted into 1,508,964 shares of Public Common Stock, effective on April 21, 2020. The potential dilutive effect of the convertible preferred stock was calculated using the if-converted method for the period the preferred shares were outstanding. For the year ended December 31, 2020, these shares were excluded from the computation of diluted EPS because the effect would have been antidilutive.

8. GOODWILL AND OTHER INTANGIBLES

The following summarizes the changes in goodwill during the years ended December 31, 2021 and 2020 (in thousands):

	North America	International	Total
Carrying amount, December 31, 2019	$ 25,724	$ 10,480	$ 36,204
Goodwill attributable to acquisitions	8,742	37,258	46,000
Measurement period adjustment to prior year acquisition	—	110	110
Foreign currency adjustments	948	5,014	5,962
Carrying amount, December 31, 2020	$ 35,414	$ 52,862	$ 88,276
Goodwill attributable to acquisitions (subject to change)	30,039	4,562	34,601
Measurement period adjustment to prior year acquisition	—	—	—
Foreign currency adjustments	82	(4,133)	(4,051)
Carrying amount, December 31, 2021	$ 65,535	$ 53,291	$ 118,826

Other intangibles assets, net consisted of the following as of December 31, 2021 and 2020 (in thousands):

	2021			2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:						
Customer relationships and other	$ 47,629	$ (11,145)	$ 36,484	$ 46,989	$ (6,436)	$ 40,553
Developed technology	15,633	(3,218)	12,415	8,669	(1,696)	6,973
Trade names	223	(166)	57	197	(105)	92
Intangible assets not subject to amortization:						
Trade names	7,749	—	7,749	8,374	—	8,374
Total intangible assets	$ 71,234	$ (14,529)	$ 56,705	$ 64,229	$ (8,237)	$ 55,992

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

	Years Ended December 31,		
	2021	2020	2019
Amortization expense	$ 6,291	$ 5,196	$ 1,278

The remaining weighted-average amortization period for intangible assets is approximately 7.8 years.

Estimated amortization expense related to intangibles for each of the five years from 2022 through 2026 and thereafter is as follows (in thousands):

Year Ending December 31,	
2022	$ 7,141
2023	6,773
2024	6,347
2025	6,293
2026	5,875
Thereafter	16,527
Total amortization related to finite-lived intangible assets	48,956
Indefinite-lived intangible assets	7,749
Net intangible assets	$ 56,705

9. PROPERTY AND EQUIPMENT, NET

Property and equipment, net, consisted of the following (in thousands):

	December 31,	
	2021	2020
Land	$ 2,959	$ 2,590
Building	11,288	12,737
Machinery and equipment	39,851	40,411
Office furniture and equipment	1,732	2,047
Computer hardware and software	5,285	4,773
Leasehold and building improvements	10,796	10,728
Construction in progress	286	4
Property and equipment, gross	72,197	73,290
Less accumulated depreciation	(38,784)	(37,748)
Total property and equipment, net	$ 33,413	$ 35,542

The Company has subscription agreements whereby its instruments in inventory may be placed at a customer's location on a rental basis. For instruments classified as operating leases, the cost of these instruments is transferred to machinery and equipment and depreciated, typically over a 5 to 7 year period depending on the circumstance under which the instrument is placed with the customer. Our cost of instruments under operating leases as of December 31, 2021 and 2020 was $15.1 million and $13.6 million, respectively, before accumulated depreciation of $5.8 million and $4.7 million, respectively.

Depreciation expense for property and equipment was $6.4 million, $6.2 million and $3.6 million for the years ended December 31, 2021, 2020 and 2019, respectively.

10. INVENTORIES

Inventories consisted of the following (in thousands):

	December 31,	
	2021	2020
Raw materials	$ 16,094	$ 14,454
Work in process	3,656	4,262
Finished goods	29,611	21,321
Total inventories	$ 49,361	$ 40,037

Inventories are measured on a first-in, first-out basis and stated at lower of cost or net realizable value.

11. ACCRUED LIABILITIES

Accrued liabilities consisted of the following (in thousands):

	December 31,	
	2021	2020
Accrued payroll and employee benefits	$ 9,392	$ 7,949
Accrued property taxes	656	659
Accrued purchase orders	552	1,549
Accrued taxes	3,574	3,731
Other	5,250	4,167
Total accrued liabilities	$ 19,424	$ 18,055

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

12. CAPITAL STOCK

Stock Plans

The Company has stock incentive plans which authorize granting of stock options, restricted stock awards, restricted stock units, and stock purchase rights to our employees, officers, directors and consultants. In 1997, the board of directors adopted the 1997 Stock Incentive Plan (the "1997 Plan"), which was later amended in December 2018 to be renamed the "Stock Incentive Plan." In May 2012, stockholders approved an amendment allowing for an increase of 250,000 shares and an annual increase through 2016 based on the number of non-employee directors serving as of our Annual Meeting of Stockholders, subject to a maximum of 45,000 shares per year. The plan was further amended in May 2016, May 2018, and April 2020 to increase the number of shares authorized for issuance by 500,000, 250,000, and 300,000 shares, respectively. In May 2003, the stockholders approved a new plan, the 2003 Equity Incentive Plan (the "2003 Plan"), which allows for the granting of stock options/restricted stock for up to 239,050 shares of the Company's common stock. In May 2021, stockholders approved the Heska Corporation Equity Incentive Plan (the "Stock Plan") that replaced the Stock Incentive Plan and the 2003 Plan and includes a reserve for an additional 250,000 shares of common stock along with any shares that remained available for grant under the prior plans. The total number of shares reserved for issuance as of December 31, 2021 was 109,301.

Stock Options

The stock options granted by the Board of Directors may be either incentive stock options ("ISOs") or non-qualified stock options ("NQs") and may include time-based vesting terms and/or be tied to Company and market-related performance metrics. 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. 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 Stock Incentive Plan, in the event we are sold or merged, outstanding options will either be assumed by the surviving corporation or vest immediately.

We use the Black-Scholes option-pricing model to estimate the fair value of time-vested and performance stock options granted, which includes four key inputs: expected term, expected volatility, risk-free interest rate and expected dividends. Our expected term is estimated based on historical exercise patterns. Our expected volatility input was estimated based on our historical stock price volatility. Our risk-free interest rate input was determined based on the U.S. Treasury yield curve at the time of option issuance. Our expected dividends inputs were zero in all periods as we did not anticipate paying dividends in the foreseeable future. For options tied to market performance, the fair value used in our expense recognition method is measured based on the number of shares granted, and a Monte Carlo simulation model, which incorporates the probability of the achievement of the market-related performance goals as part of the grant date fair value. We recognize forfeitures as they occur.

Time Vesting Stock Options

The fair value of each time vesting option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2021	2020	2019
Risk-free interest rate	0.98%	3.64%	1.62%
Expected lives	5.6 years	5.3 years	4.7 years
Expected volatility	47%	46%	40%
Expected dividend yield	0%	0%	0%

A summary of our time vesting stock option activity is as follows:

	Year Ended December 31, 2021	
	Options	Weighted Average Exercise Price
Outstanding at beginning of period	464,232	$ 57.18
Granted at market	19,500	$ 188.62
Forfeited	(71)	$ 98.66
Expired	—	$ —
Exercised	(63,459)	$ 52.03
Outstanding at end of period	420,202	$ 64.06
Exercisable at end of period	326,931	$ 53.85

The total estimated fair value of time vesting stock options granted was computed to be approximately $1.6 million, $2.4 million and $2.6 million during the years ended December 31, 2021, 2020 and 2019, respectively. The amounts are amortized ratably over the requisite service periods of the options. The weighted average estimated fair value of options granted was computed to be approximately $82.77, $28.66

and $29.89 during the years ended December 31, 2021, 2020 and 2019, respectively. The total intrinsic value of options exercised was $9.9 million, $5.0 million and $12.8 million during the years ended December 31, 2021, 2020 and 2019, respectively. The cash proceeds from options exercised were $3.3 million, $3.4 million and $1.0 million during the years ended December 31, 2021, 2020 and 2019, respectively.

The following table summarizes information about time vesting stock options outstanding and exercisable at December 31, 2021.

	Options Outstanding			Options Exercisable		
Exercise Prices	Number of Options Outstanding at December 31, 2021	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number of Options Exercisable at December 31, 2021	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price
$7.36 - $21.09	84,828	1.88	$ 9.87	84,828	1.88	$ 9.87
$21.10 - $69.76	98,288	6.82	$ 53.06	63,288	6.01	$ 48.71
$69.77 - $71.83	90,000	6.32	$ 69.81	90,000	6.32	$ 69.81
$71.84 - $95.65	96,131	6.91	$ 80.90	70,362	6.58	$ 79.10
$95.66 - $188.62	50,955	8.01	$ 133.53	18,453	6.28	$ 99.62
$7.36 - $188.62	420,202	5.88	$ 64.06	326,931	5.16	$ 53.85

As of December 31, 2021, there was approximately $2.9 million of total unrecognized compensation cost related to outstanding time vesting stock options. That cost is expected to be recognized over a weighted-average period of 1.31 years with all cost to be recognized by the end of May 2024, assuming all options vest according to the vesting schedules in place at December 31, 2021. As of December 31, 2021, the aggregate intrinsic value of outstanding options was approximately $49.9 million and the aggregate intrinsic value of exercisable options was approximately $42.1 million.

Performance Stock Options

Our performance-based stock options are tied to either market-related vesting conditions or Company performance metrics, including future product launches, future sales targets, operating performance, and earnings before interest, taxes, depreciation, and amortization ("EBITDA").

A summary of our performance-based stock option activity is as follows:

	Year Ended December 31, 2021	
	Options	Weighted Average Exercise Price
Outstanding at beginning of period	220,000	$ 60.94
Granted at market	34,800	$ 198.40
Outstanding at end of period	254,800	$ 79.71
Exercisable at end of period	25,000	$ 60.94

The performance-based stock options granted during the year ended December 31, 2021, were valued using a Monte Carlo simulation model. The model used the following weighted-average assumptions: risk-free interest rate of 0.77%, expected volatility of 46.3% based on historical stock volatility, expected term of 5.0 years based on historical exercises, and no expected dividend yield.

The total estimated fair value of performance-based stock options granted was computed to be approximately $2.6 million, $6.0 million and $0 during the years ended December 31, 2021, 2020 and 2019, respectively. The weighted-average estimated fair value of options granted was computed to be approximately $75.62, $25.04 and $0 during the years ended December 31, 2021, 2020 and 2019, respectively. As of December 31, 2021, the aggregate intrinsic value of outstanding options was approximately $26.7 million and the aggregate intrinsic value of exercisable options was approximately $3.0 million. As of December 31, 2021, there was approximately $2.8 million of total unrecognized compensation cost related to outstanding performance-based stock options that is expected to be recognized over a weighted-average period of 1.0 year.

	Options Outstanding			Options Exercisable		
Exercise Prices	Number of Options Outstanding at December 31, 2021	Weighted Average Remaining Contractual Life in Years	Weighted Average Outstanding Price	Number of Options Exercisable at December 31, 2021	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price
$60.94	220,000	8.29	$ 60.94	25,000	8.29	$ 60.94
$198.40	34,800	4.44	$ 198.40	—	—	$ —
$60.94 - $198.40	254,800	7.77	$ 79.71	25,000	8.29	$ 60.94

As of December 31, 2021, we reviewed each of the underlying corporate performance targets and determined that approximately 45,000 shares were related to corporate performance targets in which we did not deem achievement probable. The unrecognized compensation cost associated with the performance options not deemed probable, based on grant date fair value, is approximately $1.1 million. Any change in the probability determination could accelerate the recognition of this expense.

Restricted Stock Awards and Units

We have granted unvested restricted stock awards and restricted stock units (collectively, “restricted stock”) to management and directors pursuant to the Stock Incentive Plan. The restricted stock awards and units have varying vesting periods, but generally become fully vested between one and seven years after the grant date, depending on the specific award, performance targets met for performance based awards granted to management, and vesting period for time based awards. Management performance based awards are granted at the target amount of shares that may be earned and are tied to future sales targets, product development, profitability measures such as gross margin and operating profit, and/or non-GAAP measures such as EBITDA and adjusted EBITDA margin. We value the restricted stock awards and units related to service and/or company performance targets based on grant date fair value and expense over the period when achievement of those conditions is deemed probable. For restricted stock awards related to market conditions, we utilize a Monte Carlo simulation model to estimate grant date fair value and expense over the requisite period. We recognize forfeitures as they occur.

The following table summarizes restricted stock transactions for the year ended December 31, 2021:

	Restricted Stock Awards		Restricted Stock Units	
	Restricted Stock	Weighted-Average Grant Date Fair Value Per Award	Restricted Stock	Weighted-Average Grant Date Fair Value Per Award
Non-vested as of December 31, 2020	291,520	$ 78.44	—	$ —
Granted	243,369	$ 207.24	6,000	$ 172.11
Vested	(30,082)	$ 68.33	—	$ —
Forfeited	(11,294)	$ 104.49	—	$ —
Non-vested as of December 31, 2021	493,513	$ 141.98	6,000	$ 172.11

The weighted average grant date fair value of awards granted during the year was $207.24, $87.29, and $74.93 for the years ended December 31, 2021, 2020 and 2019, respectively. Fair value of restricted stock vested was $5.6 million, $5.0 million, and $0.3 million for the years ended December 31, 2021, 2020 and 2019, respectively.

As of December 31, 2021, there was approximately $22.2 million and $0.6 million of total unrecognized compensation cost related to restricted stock awards and restricted stock units, respectively, with probable Company performance targets, as well as market and time vesting conditions. The Company expects to recognize this expense over a weighted average period of 1.4 years for restricted stock awards and 1.6 years for restricted stock units. As of December 31, 2021, we reviewed each of the underlying corporate performance targets and determined that approximately 191,000 shares of common stock for restricted stock awards and approximately 1,000 shares of common stock for restricted stock units were related to corporate performance targets in which we did not deem achievement probable. The unrecognized compensation cost associated with the restricted stock awards and restricted stock units not deemed probable, based on grant date fair value, is approximately $30.9 million and $0.1 million, respectively. Any change in the probability determination could accelerate the recognition of this expense.

Employee Stock Purchase Plan

Under the 2020 Employee Stock Purchase Plan (the "ESPP"), we are authorized to issue up to 200,000 shares of common stock to our employees, of which 9,296 had been issued as of December 31, 2021. The ESPP provides for the issuance of shares of our common stock to participating employees. At the end of each designated offering period, which occurs every six months on June 30 and December 31, employees can elect to purchase shares of our common stock with contributions of up to 10% of their base pay, accumulated via payroll deductions, at an amount equal to 85% of the lower of our stock price on (i) the first trading day of the offering period, or (ii) the last trading day of the offering period.

We issued 5,437, 10,069 and 10,698 shares under the ESPP for the years ended December 31, 2021, 2020 and 2019, respectively. The weighted-average fair value of the purchase rights granted was $29.56, $16.19 and $18.10 per share for the years ended December 31, 2021, 2020 and 2019, respectively.

Series X Convertible Preferred Stock

On March 30, 2020, the Company completed a private placement offering in which the Company issued and sold an aggregate of 122,000 shares of its Series X Convertible Preferred Stock, par value $0.01 per share (the "Preferred Stock"). The shares of Preferred Stock issued and sold were priced at $1,000 per share (the “Stated Value”), resulting in gross proceeds of $122.0 million, less issuance costs of $0.2 million. The Company used

approximately $111.0 million of the proceeds from the offering to fund the April 1, 2020 acquisition of scil and plans to use the remaining proceeds for working capital and general corporate purposes.

The offering was made pursuant to the Securities Purchase Agreement (the “Securities Purchase Agreement”), dated as of January 12, 2020, by and among the Company and certain investors, and subsequent amendment (the “Securities Purchase Agreement Amendment”) to the Securities Purchase Agreement, entered into by the Company and each investor on March 30, 2020 (the Securities Purchase Agreement as amended by the Securities Purchase Agreement Amendment, the “Amended Securities Purchase Agreement”).

The shares of Preferred Stock were convertible into shares of the Company’s Common Stock at an initial ratio of approximately 12.4 shares of Common Stock for each share of Preferred Stock (equivalent to a conversion price of approximately $80.85 per share of common stock), at the option of the holders of the Preferred Stock or the Company, subject to the Company possessing sufficient unissued and otherwise unreserved shares of Common Stock under the Company’s Restated Certificate of Incorporation, as amended (the “Certificate of Incorporation”). On April 14, 2020, the Company gave notice of its exercise of its right to convert the 122,000 shares of Preferred Stock into 1,508,964 shares of Public Common Stock (the "Conversion Shares") and the conversion was effective on April 21, 2020. The conversion resulted in dilution of less than 20% of total shares of the Company’s Public Common Stock currently issued and outstanding. A registration statement on Form S-3 (File No. 333-238005) registering the Conversion Shares for resale was filed by us with the SEC on May 5, 2020.

2021 Equity Offering

On March 5, 2021, the Company completed a public offering of 940,860 shares of common stock, $0.01 par value per share, at a public offering price of $186.00 per share. The Company received net proceeds of approximately $164.2 million after deducting underwriting discounts and commissions and issuance costs. The Company granted the underwriters an option to purchase up to an additional 141,129 shares of common stock from the Company at the offering price of $186.00 per share (less the underwriting discounts and commissions), within 30 days of the Prospectus Supplement dated March 2, 2021. The Company evaluated the accounting treatment of the option under ASC 815-40, *Derivatives and Hedging - Contracts on an Entity's Own Equity*, and determined that it met the criteria for equity treatment thereunder. The underwriters’ option was not exercised and expired on April 1, 2021. The Company is using the net proceeds of the offering for general corporate purposes, including working capital, further development and potential commercialization of current and future product initiatives, collaborations, and capital expenditures. The Company may also use a portion of the net proceeds of this offering to fund possible investments in or acquisitions of complementary businesses, products or technologies, or to repay indebtedness. See the Consolidated Statements of Cash Flows for further details regarding investing activities completed thus far.

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Pension Adjustments	Foreign Currency Translation[1]	Foreign Currency Gain on Intra-Entity Transactions[2]	Total Accumulated Other Comprehensive Income
Balances at December 31, 2019	$ (346)	$ 859	$ —	$ 513
Other comprehensive (loss) income	(40)	5,013	8,683	13,656
Balances at December 31, 2020	(386)	5,872	8,683	14,169
Other comprehensive income (loss)	107	(3,898)	(5,341)	(9,132)
Balances at December 31, 2021	$ (279)	$ 1,974	$ 3,342	$ 5,037

[1] Foreign currency gains and losses related to translation of foreign subsidiary financial statements.
[2] The Company has intercompany loans of a long-term investment nature that are denominated in a foreign currency. These transactions are considered to be of a long-term nature if settlement is not planned or anticipated in the foreseeable future.

14. COMMITMENTS AND CONTINGENCIES

Warranties

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 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. Historically, the Company has incurred minimal warranty costs. The Company's warranty reserve was $0.5 million and $0.5 million as of December 31, 2021 and 2020.

Litigation

From time to time, the Company may be involved in litigation relating to claims arising out of its operations. The Company records accruals for outstanding legal matters when it believes it is probable that a loss will be incurred, and the amount can be reasonably estimated.

On February 18, 2020, a former managing director of scil filed a claim disputing the effective date of the termination of his management service agreement and the validity of the Company´s waiver of his two-year post-contractual non-compete obligation. The Company intends to defend itself against the claim. Whether or not this will be successful depends on complex facts and circumstances. The Company is, based on the advice of its legal counsel, confident that it will be successful in evidencing the effective date of the termination of the management service agreement and as such, no accrual has been recorded for this ongoing litigation. Additionally, we are indemnified by the scil acquisition agreement for this claim.

At December 31, 2021, the Company was not a party to any other legal proceedings that were expected, individually or in the aggregate, to have a material adverse effect on our business, financial condition or operating results.

Litigation Settlement

On November 1, 2019, Heska filed a civil complaint against Qorvo US, Inc, Qorvo Biotechnologies, LLC (together with Qorvo US, Inc, "Qorvo"), and Zomedica Inc. d/b/a Zomedica Corp ("Zomedica") in the United States District Court for the Middle District of North Carolina, asserting claims for trade secret

misappropriation, unfair and deceptive trade practices, unjust enrichment, tortious interference with business relations, and injunctive relief. In the litigation, Qorvo and Zomedica moved to assert counterclaims against Heska for unfair and deceptive trade practices and attempted monopolization. Both parties denied one another's allegations, contentions, claims and counterclaims asserted in the litigation. The parties resolved these allegations through a negotiated settlement on September 20, 2021. In consideration for negotiation of the rights and obligations asserted by the parties, Qorvo agreed to pay the Company $1.2 million. The case was dismissed with prejudice and the matter is considered closed by the parties. The Company collected the payment on October 5, 2021, and realized $1.2 million of other income during the year ended December 31, 2021.

Off-Balance Sheet Commitments

We have no off-balance sheet arrangements or variable interest entities.

Purchase Obligations

The Company has contractual obligations with suppliers for unconditional annual minimum inventory purchases in the amounts of $41.1 million as of December 31, 2021.

15. INTEREST AND OTHER EXPENSE (INCOME), NET

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

	Year Ended December 31,		
	2021	2020	2019
Interest income	$ (1,797)	$ (607)	$ (661)
Interest expense	4,201	6,374	3,089
Other (income) expense, net	44	(166)	482
Interest and other expense (income), net	$ 2,448	$ 5,601	$ 2,910

Cash paid for interest was $3.3 million, $3.2 million and $0.4 million for the years ended December 31, 2021, 2020 and 2019, respectively.

16. CONVERTIBLE NOTES

Convertible Notes

On September 17, 2019, the Company issued $86.25 million aggregate principal amount of 3.750% Convertible Senior Notes due 2026 (the "Notes"), which included the exercise in full of an $11.25 million purchase option, to certain financial institutions as the initial purchasers of the Notes (the "Initial Purchasers"). The Notes are senior unsecured obligations of the Company. The Notes were issued pursuant to an Indenture, dated September 17, 2019 (the "Indenture"), between the Company and U.S. Bank National Association, as trustee.

The net proceeds from the sale of the Notes were approximately $83.7 million after deducting the initial purchasers' discounts and the offering expenses payable by the Company. The Company used approximately $12.8 million of the net proceeds from the Notes to repay all outstanding indebtedness on its existing Credit Facility with JPMorgan Chase Bank, N.A., and an additional $2.0 million to fully fund a cash collateralized, letter of credit facility under a new Credit Facility. The Company subsequently terminated the Credit Facility with JPMorgan Chase Bank, N.A. on December 31, 2019. The Company expects to use the

remainder of the net proceeds from the sale of the Notes to fund our intended expansion efforts, including through acquisitions of complementary businesses or technologies or other strategic transactions, and for working capital and other general corporate purposes.

The Notes are senior unsecured obligations of the Company and will rank senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to any of our unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness to the extent of the value of assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of our subsidiaries.

The Company pays interest on the Notes semiannually in arrears at a rate of 3.750% per annum on March 15 and September 15 of each year. The Notes are convertible based upon an initial conversion rate of 11.5434 shares of the Company’s common stock per $1,000 principal amount of Notes (equivalent to a conversion price of approximately $86.63 per share of common stock). The Notes would convert in full into 995,618 shares of common stock based on the initial conversion rate. The conversion rate will be subject to standard anti-dilution adjustments upon the occurrence of certain events but will not be adjusted for accrued and unpaid interest. The interest rate on the Notes may be increased by up to 0.50% upon the occurrence of certain events of default or non-timely filings until such matter has been cured.

The Indenture includes customary covenants, but no financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities, and sets forth certain events of default and certain types of bankruptcy or insolvency events of default involving the Company after which the Notes become automatically due and payable. The Company can settle any conversions of the Notes in cash, shares of the Company’s common stock or a combination thereof, with the form of consideration determined at the Company’s election. The Company intends to settle the principal value of the Notes in cash and issue shares of the Company’s common stock to settle the intrinsic value of the conversion feature. There can be no guarantee, however, that any settlement will be affected by the Company as currently intended, and the timing and other factors of any settlement, many of which may be outside the Company's control, could impact the actual amounts to be settled in either cash or common stock.

The Notes will mature on September 15, 2026, unless earlier repurchased, redeemed or converted. Prior to March 15, 2026, holders may convert all or a portion of their Notes only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on December 31, 2019 (and only during such calendar quarter), if the last reported sale price of the Company’s common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the 5 business day period after any 5 consecutive trading day period (the "Notes measurement period") in which the trading price per $1,000 principal amount of Notes for each trading day of the Notes measurement period was less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate on each such trading day; (3) with respect to any Notes called for redemption by the Company, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On and after March 15, 2026 until the close of business on the scheduled trading day immediately preceding the maturity date, holders may convert their Notes at any time, regardless of the foregoing circumstances. Holders of Notes who convert their Notes in connection with a notice of a redemption or a make-whole fundamental change (each as defined in the Indenture) may be entitled to a premium in the form of an increase in the conversion rate of the Notes.

The Company may not redeem the Notes prior to September 20, 2023. On or after September 20, 2023, the Company may redeem for cash all or part of the Notes if the last reported sale price of the Company’s

common stock equals or exceeds 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides notice of the redemption. The redemption price will be 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any. No sinking fund is provided for the Notes.

Upon the occurrence of a fundamental change (as defined in the Indenture), holders may require the Company to repurchase all or a portion of their Notes for cash at a price equal to 100% of the principal amount of the Notes to be repurchased plus any accrued but unpaid interest to, but excluding, the fundamental change repurchase date.

In accounting for the issuance of the Notes prior to the adoption of ASU 2020-06, the Company initially separated the Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component, representing the conversion option, which does not meet the criteria for separate accounting as a derivative as it is indexed to the Company's own stock, was determined by deducting the fair value of the liability component from the par value of the Notes. The difference between the principal amount of the Notes and the liability component represented the debt discount, which was recorded as a direct deduction from the related debt liability in the Consolidated Balance Sheet and amortized to interest expense using the effective interest method over the term of the Notes. The effective interest rate of the Notes was 15.3% per annum prior to adopting ASU 2020-06. The equity component of the Notes was approximately $39.5 million, net of allocated issuance costs of $1.5 million. This is included in additional paid-in capital in the Consolidated Balance Sheet as of December 31, 2020, net of deferred tax impacts of $9.7 million. The Company allocated transaction costs related to the Notes using the same proportions as the proceeds from the Notes. Transaction costs attributable to the liability component were recorded as a direct deduction from the related debt liability in the Consolidated Balance Sheet and amortized to interest expense over the term of the Notes, and transaction costs attributable to the equity component were netted with the equity component in shareholders’ equity.

In addition, the Company determined that the additional interest that could be due to the holders of the Notes upon an event of default or non-timely filing represented an embedded derivative feature that should be bifurcated from the Notes. The Company concluded that the fair value of this embedded derivative feature was de minimis upon the issuance of the Notes and at December 31, 2021.

As discussed in Note 1, the Company early adopted ASU 2020-06, effective January 1, 2021, which simplifies the accounting for certain convertible instruments. Under the new standard, qualifying convertible debt is accounted for as a single liability measured at its amortized cost, as long as no other features require bifurcation and recognition as derivatives. As a result of ASU 2020-06, the Company's cash interest expense is not impacted, however, the Company's non-cash interest accretion is limited to the amortization of debt issuance costs under ASC 835-30. The new effective interest rate of the Notes post-adoption is 4.35%. The Company also reversed the conversion feature amount recorded in APIC and reversed the difference in non-cash interest expense via retained earnings.

During the years ended December 31, 2021 and 2020, no portion of the Notes was converted and the liability component was classified as long-term debt on the Company's Consolidated Balance Sheet as of December 31, 2021.

The following table summarizes the net carrying amount of the Notes as of December 31, 2021 (in thousands):

	December 31, 2021	December 31, 2020
Principal amount of the Notes	$ 86,250	$ 86,250
Unamortized debt discount	(2,216)	(37,791)
Net carrying amount	$ 84,034	$ 48,459

Interest expense related to the Notes is comprised of the amortization of debt discount and debt issuance costs and the contractual coupon interest as follows (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Interest expense related to contractual coupon interest[2]	$ 3,755	$ 3,234	$ 925
Interest expense related to amortization of debt discount[1]	415	3,111	1,744
Total interest expense	$ 4,170	$ 6,345	$ 2,669

[1] Refer to Note 1. Summary of Significant Accounting Policies relating to an immaterial out of period error correction of non-cash interest identified and recorded during the fourth fiscal quarter of 2020.

[2]The year ended December 31, 2021 includes $0.5 million of additional interest expense related to the restrictive legend on the Notes. The legend was removed as of December 31, 2021 and the Notes will not accrue additional interest in future periods.

As of December 31, 2021, the remaining period over which the unamortized discount will be amortized is 57.0 months.

The estimated fair value of the Notes was $194.3 million and $156.9 million as of December 31, 2021 and 2020, respectively, determined through consideration of quoted market prices in less active markets. The fair value measurement is classified as Level 2 in the fair value hierarchy, which is defined in ASC 820 as inputs other than quoted prices in active markets that are either directly or indirectly observable. Based on our closing stock price of $182.49 on December 31, 2021, the if-converted value exceeded the aggregate principal amount of the Notes by $95.4 million.

17. NOTE RECEIVABLES

Related Party Convertible Note Receivable

On December 9, 2020, the Company's equity method investee (the “Equity Method Investee”), issued a Convertible Promissory Note to the Company (the “Convertible Promissory Note”) with a principal amount of $6.65 million and a stated interest rate of 3.0% per annum that is payable monthly. The Convertible Promissory Note has a maturity date of December 9, 2023, or otherwise upon qualified redemption event or in the event of a default. Refer to Note 4 for additional information on our equity method investment.
The conversion of the Convertible Promissory Note is contingent upon certain events. Due to the convertible debt features included in the Convertible Promissory Note, it is not an equity security and is therefore not considered an additional investment in our Equity Method Investee. The Company accounted for the transaction as a note receivable, included in Related party convertible note receivable, net on the Consolidated Balance Sheets. The note receivable will be measured at amortized cost and evaluated for credit losses each reporting period. The Company determined that the redemption features described above met the definition of an embedded derivative that requires bifurcation from the note receivable host. The Company measured the redemption features at fair value, with the residual proceeds paid allocated to the note receivable host, creating a discount to the note receivable. The discount will be amortized over the contractual term of the Convertible Promissory Note using the effective interest method. The effective interest rate of the Convertible Promissory Note is 8.69%, and the amortization of the discount will be included as interest income within Interest and other (income) expense, net on the Consolidated Statements of Loss.

The carrying value of the note receivable, included in Related party convertible note receivable, net on the Consolidated Balance Sheets, is as follows (in thousands):

	December 31, 2021	December 31, 2020
Principal amount	$ 6,650	$ 6,650
Unamortized discount	(672)	(977)
Net carrying amount	$ 5,978	$ 5,673

The fair value of the embedded derivative was $0.9 million as of December 31, 2021 and $1.0 million as of December 31, 2020, respectively, and is included in Related party convertible note receivable, net on the Consolidated Balance Sheets. The fair value of the derivative will be remeasured each reporting period, with the mark-to-market adjustment to be included in Interest and other (income) expense, net on the Consolidated Statements of Loss. In addition, the Company recorded an allowance for expected credit losses on the promissory note of $67 thousand as of December 31, 2021.

Promissory Note Receivable from Investee

On February 1, 2021, one of the Company's equity investees (the "Investee"), which the Company accounts for as a non-marketable equity security, issued a Promissory Note to the Company (the “Promissory Note”) with a principal amount of $9.0 million and a stated interest rate of 10.0% per annum that is payable monthly. The Promissory Note has a maturity date of December 1, 2024 and provides for interest only payments through December 1, 2023. Beginning on January 1, 2024, the Promissory Note requires repayment of the principal and interest over twelve consecutive monthly payments. As additional consideration, the Company

was also issued a warrant to acquire securities of the Investee that expires December 31, 2034. Refer to Note 4 for additional information on our equity investments.

The Company evaluated the accounting treatment of the warrant to acquire securities and determined it is a freestanding instrument that meets the definition of a derivative under ASC 815 and requires bifurcation from the note receivable host. The Company measured the warrant at fair value, with the residual proceeds paid allocated to the note receivable host, creating a discount to the note receivable. The discount will be amortized over the contractual term of the Promissory Note using the effective interest method. The effective interest rate of the Promissory Note is 10.99%, and the amortization of the discount will be included as interest income within Interest and other (income) expense, net on the Consolidated Statements of Loss.

The carrying value of the note receivable, included in Promissory note receivable from investee, net, on the Consolidated Balance Sheets, is as follows (in thousands):

	December 31, 2021	December 31, 2020
Principal amount	$ 9,000	$ —
Unamortized discount	(254)	—
Net carrying amount	$ 8,746	$ —

The fair value of the derivative was $0.3 million at issuance and $0.3 million as of December 31, 2021, and is included in Other non-current assets on the Consolidated Balance Sheets. The fair value of the derivative will be remeasured each reporting period, with the mark-to-market adjustment to be included in other Interest and other (income) expense, net on the Consolidated Statements of Loss. In addition, the Company recorded an allowance for expected credit losses on the note receivable of $0.3 million as of December 31, 2021.

18. SEGMENT REPORTING

On April 1, 2020, Heska completed the acquisition of scil. Following this acquisition, the Company restructured its operating segments based on how the Chief Operating Decision Maker (“CODM”) manages the business, allocates resources, makes operating decisions and evaluates operating performance. The CODM changed how he assesses performance and allocates resources based on geographic regions in order to better align with the global operations of the Company. Based on this change, the Company determined it has two reportable segments and revised prior comparative periods to conform to the current period segment presentation. The Company’s two segments are North America and International.

The North America segment is comprised of the Company's operations in the United States, Canada and Mexico and the International segment is comprised of geographies outside of North America, which are the Company's operations primarily in Australia, France, Germany, Italy, Malaysia, Spain and Switzerland. Certain expenses incurred at the Company’s headquarters located in the North America segment are allocated to each segment in a manner consistent with where the benefits from the expenses are derived. However, there are certain corporate expenses included in the North America segment that we do not allocate. Such expenses include research and development, certain selling, marketing, general, and administrative costs that support the global organization. Sales and transfers between operating segments are accounted for at market-based transaction prices and are eliminated in consolidation. The Company's sales are determined by the country of origin where the sale occurred. For a description of Heska's previous operating segments, refer to Note 17 to the consolidated financial statements included in Part II. Item 8 of Heska's Annual Report on Form 10-K for the year ended December 31, 2019.

Our CODM continues to evaluate segment performance and allocate resources based on Revenue, Cost of Revenue, Gross Profit, Gross Margin and Operating Income. The CODM does not evaluate operating

segments using asset information; however, we have included total asset information by segment below as there was a material change in total assets by segment as of December 31, 2021 due to the acquisition of scil.

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

Year Ended December 31, 2021	North America	International	Total
Total revenue	$ 158,898	$ 94,841	$ 253,739
Cost of revenue	84,472	63,473	147,945
Gross profit	74,426	31,368	105,794
Gross margin	47%	33%	42%
Operating income (loss)	650	(1,643)	(993)
Income (loss) before income taxes	2,072	(5,513)	(3,441)
Investments in unconsolidated affiliates	5,424	—	5,424
Total assets	441,234	162,838	604,072
Net assets	308,973	126,881	435,854
Capital expenditures	700	1,068	1,768
Depreciation and amortization	5,673	7,882	13,555

Year Ended December 31, 2020	North America	International	Total
Total revenue	$ 131,066	$ 66,257	$ 197,323
Cost of revenue	70,163	45,870	116,033
Gross profit	60,903	20,387	81,290
Gross margin	46%	31%	41%
Operating loss	(4,977)	(3,215)	(8,192)
Loss before income taxes	(7,871)	(5,922)	(13,793)
Investments in unconsolidated affiliates	6,704	—	6,704
Total assets	238,550	161,289	399,839
Net assets	156,931	130,122	287,053
Capital expenditures	443	243	686
Depreciation and amortization	4,735	6,650	11,385

Year Ended December 31, 2019	North America	International	Total
Total revenue	$ 115,423	$ 7,238	$ 122,661
Cost of revenue	63,089	5,123	68,212
Gross profit	52,334	2,115	54,449
Gross margin	45%	29%	44%
Operating income (loss)	1,426	(1,099)	327
Loss before income taxes	(1,343)	(1,240)	(2,583)
Investments in unconsolidated affiliates	7,424	—	7,424
Total assets	219,402	25,022	244,424
Net assets	133,835	20,699	154,534
Capital expenditures	1,005	39	1,044
Depreciation and amortization	4,788	128	4,916

The Company measures its geographic revenue information based on the country of origin where the sale occurred. The geographic classification is independent of where the customer resides or where the customer is physically located while using the Company's product. Total revenue by principal geographic area was as follows (in thousands):

	For the Year Ended December 31,		
	2021	2020	2019
United States	$ 141,588	$ 120,244	$ 113,485
Canada	17,310	10,822	1,938
Germany	44,148	29,543	—
France	18,671	12,615	3,473
Spain	14,071	12,995	759
Italy	10,145	5,850	—
Switzerland	3,885	3,343	2,820
Other International	3,921	1,911	186
Total	$ 253,739	$ 197,323	$ 122,661

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

	As of December 31,		
	2021	2020	2019
United States	$ 12,502	$ 11,805	$ 14,712
Canada	719	643	—
Germany	12,795	14,630	—
France	3,127	4,205	152
Spain	1,051	1,209	391
Italy	1,966	1,944	—
Switzerland	63	46	33
Other International	1,190	1,060	181
Total	$ 33,413	$ 35,542	$ 15,469

Revenue from Covetrus represented approximately 8%, 6% and 14% of our consolidated revenue for the years ended December 31, 2021, 2020 and 2019, respectively. Consolidated revenue from Covetrus attributable to our North America segment represented approximately 7%, 5% and 14%, respectively, whereas revenue from Covetrus attributable to our International segment represented 1%, 1%, and 0% for the years ended December 31, 2021, 2020 and 2019, respectively. No other customer accounted for more than 10% of our consolidated revenue for the years ended December 31, 2021, 2020 or 2019.

19. SUBSEQUENT EVENTS

VetZ GmbH Acquisition

On January 3, 2022, the Company acquired 100% of the equity of VetZ GmbH (“VetZ”), a European leader in veterinary practice information management software solutions (“PIMS”). The preliminary cash purchase price was approximately $32.1 million, including a general indemnity holdback of approximately $1.4 million. The preliminary cash purchase price is subject to potential purchase price adjustments, and the holdback must be released within 18 months of closing. Additionally, the seller may earn an additional $15.5 million in Heska stock, which will be issued in tranches based on future financial and non-financial milestones. The preliminary allocation of the cash purchase price to the fair value of assets acquired and liabilities assumed has not yet been completed. It is not practicable to disclose the preliminary purchase price allocation for this acquisition given the short period of time between the acquisition date and the issuance of these consolidated financial statements.

In connection with the VetZ acquisition, the Company entered into a related party building lease agreement with the former owners, who will now be employees of the Company. The Company will pay monthly rent of approximately $17 thousand for this lease beginning in January 2022. There was no financial statement impact for this lease agreement for the year ended December 31, 2021.

Stock Issuances

On February 17, 2022, the Compensation Committee of the Company's Board of Directors authorized the issuance of 51,919 performance-based restricted stock awards to executive officers and other members of management. The vesting of the restricted stock awards is subject to the achievement of certain Company performance conditions. The performance conditions must be achieved by December 31, 2025, otherwise the restricted stock awards are forfeited.

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 principal executive officer and our principal 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, 2021. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were 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 period specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal 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 principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on criteria set forth in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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, 2021.

As discussed in Note 3. Acquisition and Related Party Items in Item 8 "Financial Statements and Supplementary Data", the Company acquired Biotech on September 1, 2021 and BiEsseA on July 1, 2021. Consistent with guidance issued by the U.S. Securities and Exchange Commission, management excluded an assessment of the effectiveness of the Company’s internal control over financial reporting related to Biotech and BiEsseA as of December 31, 2021. Biotech and BiEsseA combined accounted for approximately 7% of Heska's total assets at December 31, 2021 and less than 1% of total net revenue for the year ended December 31, 2021.

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.

Grant Thornton, an independent registered public accounting firm, has audited our Consolidated Financial Statements included in this Form 10-K, and as part of the audit, has issued a report, included herein, on the effectiveness of our internal control over financial reporting as of December 31, 2021.

Changes in Internal Control over Financial Reporting

We evaluated our internal controls over financial reporting in relation to recurring performance and changes to the control environment due to COVID-19. Based on the assessment, we determined there was no change in our internal control over financial reporting that occurred during the fourth quarter of 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Certain information required by Part III is incorporated by reference to our definitive Proxy Statement to be filed with the SEC in connection with the solicitation of proxies for our 2022 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 "Information About Our Executive Officers."

Directors

The information required by this section with respect to our directors will be incorporated by reference to the information in the sections entitled Proposal No. 1 "Election of Directors" in the Proxy Statement.

Code of Ethics

Our Board of Directors has adopted a code of conduct and ethics for our senior executive and financial officers (including our principal executive officer, principal financial officer and principal accounting officer). The code of conduct and ethics is available on our website at www.heska.com under the Corporate Governance section under the Company Information section under the "Investors" tab. We intend to disclose any amendments to or waivers from the code of conduct and 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.

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" 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 "Ownership of Securities - 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, 2021, including the Equity Incentive Plan, the Stock Incentive Plan, as amended and restated, the 2003 Stock Incentive Plan, as amended and the 2020 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	(b) Weighted-Average Exercise Price of Outstanding Options and Rights	(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	675,002	$69.97	300,005
Equity Compensation Plans Not Approved by Stockholders	None	None	None
Total	675,002	$69.97	300,005

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 Structure 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 2022 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:

NOTE: All schedules have been omitted because they are either not required or the information is included in the financial statements and notes thereto.

(3) Exhibits:

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

Exhibit Number	Notes	Description of Document
2.1#++	(19)	Agreement regarding the sale and purchase of the sole share in scil animal care company GmbH among Registrant, Heska GmbH, Covetrus Animal Health Holdings Limited and Covetrus, Inc. dated January 14, 2020.
2.2#	(22)	Amendment Agreement dated April 1, 2020 regarding the agreement on the sale and purchase of the sole share in scil animal care company GmbH.
2.3#++	(27)	Sale and Purchase Agreement dated November 1, 2021 regarding Veterinärmedizinisches Dienstleistungszentrum (VetZ) GmbH Online-Dienstleistungen Für Tierärzte among Registrant, Heska GmbH, F2 Beteiligungs GmbH & Co. KG, F3P GmbH, Mr. Ingo Fraedrich, and Mr. Thomas Fraedrich.
3(i)	(4)	Restated Certificate of Incorporation of the Registrant.
3(ii)	(4)	Certificate of Amendment to Restated Certificate of Incorporation of Registrant.
3(iii)	(4)	Certificate of Amendment to the Restated Certificate of Incorporation, as amended, of Registrant.
3(iv)	(9)	Certificate of Amendment to the Restated Certificate of Incorporation, as amended, of Registrant.
3(v)	(10)	Certificate of Amendment to the Restated Certificate of Incorporation, as amended, of Registrant.
3(vi)	(13)	Certificate of Amendment to the Restated Certificate of Incorporation, as amended, of Registrant.
3(vii)	(15)	Certificate of Amendment to the Restated Certificate of Incorporation, as amended, of Registrant.
3(viii)	(20)	Certificate of Amendment to the Restated Certificate of Incorporation, as amended, of Registrant.
3(ix)	(27)	Certificate of Amendment to the Restated Certificate of Incorporation, as amended, of Registrant.
3(x)#	(22)	Certificate of Designation of Preferences, Rights and Limitations of Series X Convertible Preferred Stock.
3(xi)	(16)	Amended and Restated Bylaws of the Registrant, as amended.

4.1	(18)	Indenture, dated as of September 17, 2019, by and between Heska Corporation and U.S. National Bank Association, as Trustee (including the form of the Notes).
4.2		Description of Securities
10.1*	(23)	Heska Corporation Equity Incentive Plan.
10.2*	(20)	Heska Corporation Stock Incentive Plan, as amended and restated.
10.3*	(17)	Stock Incentive Plan Restricted Stock Grant Agreement.
10.4*	(17)	Stock Incentive Plan Restricted Stock Grant Agreement (Performance-based Award).
10.5*	(17)	Stock Incentive Plan Restricted Stock Grant Agreement (Management Incentive Plan Award).
10.6*	(17)	Stock Incentive Plan Restricted Stock Grant Agreement (Outside Director Award).
10.7*	(17)	Stock Incentive Plan Employees and Consultants Option Agreement.
10.8*	(17)	Stock Incentive Plan Outside Directors Option Agreement.
10.09*	(3)	2003 Equity Incentive Plan, as amended and restated.
10.10*	(9)	2003 Equity Incentive Plan Restricted Stock Grant Agreement (Performance-based Award).
10.11*	(9)	2003 Equity Incentive Plan Restricted Stock Grant Agreement (Management Incentive Plan Award).
10.12*	(9)	2003 Equity Incentive Plan Restricted Stock Grant Agreement (Outside Director Award).
10.13*	(9)	2003 Equity Incentive Plan Employees and Consultants Option Agreement.
10.14*	(9)	2003 Equity Incentive Plan Outside Directors Option Agreement.
10.15*	(20)	2020 Employee Stock Purchase Plan of Registrant, as amended and restated.
10.16*	(26)	Amended and Restated Management Incentive Plan Master Document.
10.17*	(26)	Director Compensation Policy.
10.18*	(2)	Form of Indemnification Agreement entered into between Registrant and its directors and certain officers.
10.19*	(24)	Amended and Restated Employment Agreement dated June 8, 2021 by and between Registrant and Kevin Wilson.
10.20*	(5)	Restricted Stock Grant Agreement between Registrant and Kevin S. Wilson, effective as of March 26, 2014.
10.21*	(7)	Restricted Stock Grant Agreement between Registrant and Kevin S. Wilson, effective as of May 6, 2014.
10.22*	(11)	Restricted Stock Grant Agreement between Registrant and Kevin S. Wilson, effective as of December 1, 2017.
10.23*	(12)	Restricted Stock Grant Agreement between Registrant and Kevin S. Wilson, effective as of March 7, 2018.
10.24*	(14)	Restricted Stock Grant Agreement between Registrant and Kevin S. Wilson, effective as of May 3, 2018.
10.25*	(16)	Employment Agreement between Registrant and Catherine I. Grassman, effective as of June 1, 2019
10.26*	(1)	Employment Agreement between Registrant and Nancy Wisnewski, effective as of April 15, 2002.
10.27*	(2)	Amendment to Employment Agreement between Registrant and Nancy Wisnewski, effective as of January 1, 2008.

10.28*	(21)	Employment Agreement between Registrant and Steven M. Eyl, effective as of April 16, 2020.
10.29*	(26)	Employment Agreement between Registrant and Christopher Sveen, effective as of April 15, 2020
10.30*	(26)	Employment Agreement between Registrant and Eleanor Baker, effective as of April 9, 2020
10.31*	(12)	Restricted Stock Grant Agreement form for grants issued on March 7, 2018 (for officers other than Kevin S. Wilson).
10.32*	(12)	Notice of Stock Option Grant for grants issued on March 7, 2018.
10.33+	(6)	Clinical Chemistry Analyzer Agreement between Registrant and FUJIFILM Corporation, effective as of January 30, 2007; and First Amendment to Clinical Chemistry Analyzer Agreement between Registrant and FUJIFILM Corporation, effective as of April 1, 2014.
10.34	(8)	Second Amendment to Clinical Chemistry Analyzer Agreement between Registrant and FUJIFILM Corporation, effective as of April 1, 2015.
10.35++	(19)	Third Amendment to Clinical Chemistry Analyzer Agreement between Registrant and FUJIFILM Corporation, effective as of August 27, 2019.
10.36#++	(25)	Fourth Amendment to Clinical Chemistry Analyzer Agreement between Registrant and FUJIFILM Corporation, effective as of February 18, 2021.
10.37+	(11)	Exclusive Supply Agreement by and between Registrant and Shenzhen Mindray Bio-Medical Electronics Co., Ltd., effective as of September 1, 2013; and Supplemental memo to September 1, 2013 Exclusive Supply Agreement by and between Registrant and Shenzhen Mindray Bio-Medical Electronics Co., Ltd., effective as of March 1, 2015.
10.38++	(21)	First Amendment to Exclusive Supply Agreement by and between Registrant and Shenzhen Mindray Bio-Medical Electronics Co., Ltd., effective as of June 1, 2020.
10.39+	(21)	Amended and Restated Supply Agreement by and between Registrant and Shenzhen Mindray Bio-Medical Electronics Co., Ltd., effective as of June 1, 2020.
10.40+	(11)	Master Supply Agreement between Registrant and Butler Animal Health Supply, LLC d/b/a Henry Schein Animal Health effective as of October 17, 2014.
10.41#	(22)	Registration Rights Agreement, dated as of March 30, 2020, by and among Heska Corporation and the several purchaser signatory thereto.
10.42+	(22)	Amended and Restated Supply Agreement by and between Registrant and Shenzhen Mindray Bio-Medical Electronics Co., Ltd., effective as of June 1, 2020.
10.43#	(11)	Master Supply Agreement between Registrant and Butler Animal Health Supply, LLC d/b/a Henry Schein Animal Health effective as of October 17, 2014.
21.1		Subsidiaries of the Company.
23.1		Consent of Grant Thornton LLP.
23.2		Consent of Plante & Moran, PLLC
24.1		Power of Attorney (See Signature Page of this Form 10-K).
31.1		Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2		Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1**		Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS		XBRL Instance Document.
101.SCH		XBRL Taxonomy Extension Schema Document.

101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
104.0	Cover Page Interactive Data File (embedded within the Inline XBRL document contained in Exhibit 101)

Notes

*	Indicates management contract or compensatory plan or arrangement.
+	Portions of the exhibit have been omitted pursuant to a request for confidential treatment.
++	Certain confidential information contained in this exhibit has been omitted because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.
#	Certain personally identifiable information has been omitted from this exhibit pursuant to Item 601(a)(6) under Regulation S-K.
**	Furnished herewith but not filed.
(1)	Filed with the Registrant's Form 10-K for the year ended December 31, 2006.
(2)	Filed with the Registrant's Form 10-K for the year ended December 31, 2007.
(3)	Filed with the Registrant's Form 10-K for the year ended December 31, 2008.
(4)	Filed with the Registrant's Form 10-K for the year ended December 31, 2012.
(5)	Filed with the Registrant's Form 10-K for the year ended December 31, 2013.
(6)	Filed with the Registrant's Form 10-Q for the quarter ended June 30, 2014.
(7)	Filed with the Registrant's Form 10-K for the year ended December 31, 2014.
(8)	Filed with the Registrant's Form 10-Q for the quarter ended March 31, 2015.
(9)	Filed with the Registrant's Form 10-K for the year ended December 31, 2016.
(10)	Filed with the Registrant's Form 10-Q for the quarter ended March 31, 2017.
(11)	Filed with the Registrant's Form 10-K for the year ended December 31, 2017.
(12)	Filed with the Registrant's Form 10-Q for the quarter ended March 31, 2018.
(13)	Filed with the Registrant's Form 8-K on May 9, 2018.
(14)	Filed with the Registrant's Form 10-Q for the quarter ended June 30, 2018.
(15)	Filed with the Registrant's Form 10-Q for the quarter ended June 30, 2019.
(16)	Filed with the Registrant's Form 8-K on June 1, 2019.
(17)	Filed with the Registrant's Form 10-K for the year ended December 31, 2018.
(18)	Filed with the Registrant's Form 8-K on September 17, 2019.
(19)	Filed with the Registrant's Form 10-K for the year ended December 31, 2019.
(20)	Filed with the Registrant’s Form 10-Q for the quarter ended March 31, 2020.
(21)	Filed with the Registrant’s Form 10-Q for the quarter ended June 30, 2020.
(22)	Filed with the Registrant’s Form 8-K on April 1, 2020.
(23)	Filed with the Registrant's Form 10-Q for the quarter ended June 30, 2021.
(24)	Filed with the Registrant's Form 8-K on June 10, 2021.
(25)	Filed with the Registrant's Form 10-Q for the quarter ended March 31, 2021.
(26)	Filed with the Registrant's Form 10-K for the year ended December 31, 2020.
(27)	Filed with the Registrant’s S-3 on February 16, 2022, File Number 333-262795.

Item 16. Form 10-K Summary

Registrants may voluntarily include a summary of information required by Form 10-K under this Item 16. The Registrant has elected not to include such summary information.

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 February 28, 2022.

HESKA CORPORATION

By: /s/ KEVIN S. WILSON

Kevin S. Wilson
Chief Executive Officer and President

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Catherine Grassman his or her true and lawful attorneys-in-fact, 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 of said attorney-in-fact or their substitute may do or cause to be done by virtue hereof.

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

Signature	Title	Date
/s/ KEVIN S. WILSON Kevin S. Wilson	Chief Executive Officer, President and Director (Principal Executive Officer)	February 28, 2022
/s/ CATHERINE GRASSMAN Catherine Grassman	Executive Vice President, Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2022
/s/ SCOTT HUMPHREY Scott Humphrey	Chair	February 28, 2022
/s/ ROBERT L. ANTIN Robert L. Antin	Director	February 28, 2022
/s/ STEPHEN L. DAVIS Stephen L. Davis	Director	February 28, 2022
/s/ MARK F. FURLONG Mark F. Furlong	Director	February 28, 2022
/s/ JOACHIM HASENMAIER Joachim Hasenmaier	Director	February 28, 2022
/s/ SHARON J. LARSON Sharon J. Larson	Director	February 28, 2022
/s/ DAVID E. SVEEN David E. Sveen, Ph.D.	Director	February 28, 2022

HESKA CORPORATION
DESCRIPTION OF SECURITIES

DESCRIPTION OF COMMON STOCK

General

The following description summarizes important terms of our common stock. Because it is only a summary, it does not contain all the information that may be important to you. For a complete description of the matters set forth herein, you should refer to our Certificate of Incorporation and our bylaws, both of which are filed as exhibits to our Annual Report on Form 10-K, and to the applicable provisions of Delaware law.

On May 4, 2010, our stockholders approved an amendment to our Certificate of Incorporation (the "NOL Protective Amendment"). The NOL Protective Amendment places restrictions on the transfer of our common stock that could adversely affect our ability to use our domestic Federal Net Operating Loss carryforward ("NOL"). The NOL Protective Amendment reclassified our capital stock into shares of Traditional common stock and common stock, which together we refer to as our "common stock." These restrictions on transfer prohibit certain future transfers of our capital stock that could adversely affect our ability to utilize our NOL and certain income tax credits to reduce our federal income taxes, which we refer to as the "Tax Benefits." Pursuant to the NOL Protective Amendment, each share of Traditional common stock was automatically reclassified into one share of common stock.

After giving effect to the amendments to our Certificate of Incorporation adopted subsequent to the NOL Protective Amendment, our authorized capital stock consists of 42,500,000 shares of capital stock, par value $0.01 per share, of which:

- 20,000,000 shares of original common stock are designated as Traditional common stock;
- 20,000,000 shares of NOL restricted common stock are designated as Public common stock; and
- 2,500,000 shares are designated as preferred stock.

All outstanding shares of common stock are validly issued, fully paid, and nonassessable.

The number of authorized shares of common stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the capital stock of the Company entitled to vote.

Voting rights

Each holder of common stock is entitled to one vote for each share of common stock held of record on the applicable record date on all matters submitted to a vote of stockholders. There are no cumulative voting rights for the election of directors in our Certificate of Incorporation. The directors elected at each annual meeting of stockholders are elected for a one year term of office expiring at the next annual meeting of stockholders.

Directors are elected by a plurality of the vote of the holders of a majority of the stock present in person or represented by proxy and entitled to vote on the election of directors. Except as provided otherwise in the Certificate of Incorporation, the bylaws, or applicable Delaware law, 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 matter shall decide any matter brought before a meeting of stockholders.

Dividend rights; rights upon liquidation

The holders of common stock are entitled to receive dividends out of assets legally available for dividends at times and in amounts as our board of directors may determine. These dividend rights are subject to any preferential dividend rights that may be granted to holders of outstanding preferred stock.

In the event of our liquidation, dissolution or winding up, each share of common stock is entitled to share pro rata in any distribution of our assets after payment or providing for the payment of liabilities and the liquidation preference of any then outstanding preferred stock.

Preemptive and other rights

Other than as set forth under the caption "Conversion" below, holders of common stock have no preemptive or other rights to purchase, subscribe for or otherwise acquire any unissued or treasury shares or other of our securities. There are no redemption or sinking fund provisions applicable to the common stock securities.

Conversion

Each share of Public common stock will automatically be converted into the equivalent number of shares of Traditional common stock on the earliest of January 1, 2026, the date our board of directors determines that the transfer restrictions described below are no longer necessary or advisable to preserve the Tax Benefits due to changes in tax laws, or the date our board of directors determines in good faith that it is in the best interests of the Company and our stockholders to terminate the transfer restrictions.

NOL transfer restrictions

As a result of the NOL Protective Amendment, the shares of common stock are subject to transfer restrictions such that holders of common stock are restricted from attempting to transfer (which includes any direct or indirect acquisition, sale, transfer, assignment, conveyance, pledge or other disposition) any of the shares of common stock (or options, warrants or other rights to acquire common stock, or securities convertible or exchangeable into common stock), to the extent that such transfer would (i) create or result in an individual or entity becoming a five-percent stockholder of the common stock for purposes of Section 382 of the Internal Revenue Code of 1986, as amended, and the related Treasury Regulations, which individual or entity is referred to as a "five-percent stockholder," or (ii) increase the stock ownership percentage of any existing five-percent stockholder.

Transfers that violate the provisions of the NOL Protective Amendment shall be null and void *ab initio* and shall not be effective to transfer any record, legal, beneficial or any other ownership of the number of shares which result in the violation of the NOL Protective Amendment, which shares are referred to as "Excess Securities." The purported transferee shall not be entitled to any rights as a Company stockholder with respect to the Excess Securities. Instead, the purported transferee would be required, upon demand by us, to transfer the Excess Securities to an agent designated by us for the limited purpose of consummating an orderly arm's-length sale of such Excess Securities. The net proceeds of the sale will be distributed first to reimburse the agent for any costs associated with the sale, second to the purported transferee to the extent of the price it paid, and finally to the purported transferor to the extent there is any additional amount, or, if the purported transferor cannot readily be identified to us, to cover the

costs incurred by us as a result of such prohibited transfer, with the remainder, if any, to be donated to a charity designated by our board of directors.

With respect to any transfer that does not involve a transfer of our "securities" within the meaning of Delaware law but which would cause any five-percent stockholder to violate the transfer restrictions, the following procedure would apply in lieu of those described above. In such case, no such five-percent stockholder would be required to dispose of any interest that is not a security of the Company, but such five-percent stockholder and/or any person whose ownership of our securities is attributed to such five-percent stockholder, would be deemed to have disposed of (and would be required to dispose of) sufficient securities (which securities shall be disposed of in the inverse order in which they were acquired), simultaneously with the transfer, to cause such five-percent stockholder not to be in violation of the transfer restrictions, and such securities would be treated as Excess Securities to be disposed of through the agent under the provisions summarized above, with the maximum amount payable to such five-percent stockholder or such other person that was the direct holder of such Excess Securities from the proceeds of sale by the agent being the fair market value of such Excess Securities at the time of the prohibited transfer.

The NOL Protective Amendment also provides us with various remedies to prevent or respond to a purported transfer that violates its provisions, including that any person who knowingly violates it, together with any persons in the same control group with such person, are jointly and severally liable to us for such amounts as will put us in the same financial position as it would have been in had such violation not occurred.

The foregoing transfer restriction provisions may only be amended or repealed by the affirmative vote of the holders of at least two-thirds of the shares entitled to vote thereon. This summary description of the NOL Protective Amendment does not purport to be complete and is qualified in its entirety by reference to the full text of the NOL Protective Amendment.

Anti-takeover provisions in Delaware law and our certificate of incorporation

The NOL Protective Amendment may have an "anti-takeover" effect because, among other things, the common stock restricts the ability of a person, entity or group to accumulate more than five percent of the common stock and the ability of persons, entities or groups now owning more than five percent of the outstanding shares of common stock from acquiring additional shares of common stock without the approval of our board of directors.

We are subject to Section 203 of the Delaware General Corporation Law, an anti-takeover law. In general, the statute prohibits a publicly held Delaware corporation from engaging in a business combination with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A "business combination" includes a merger, asset sale or other transaction resulting in financial benefit to the stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns (or within three years prior, did own) 15% or more of the corporation's voting stock.

The Certificate of Incorporation provides that special meetings of stockholders may be called only at the request of our chairman of the board of directors, our chief executive officer or president, or by a resolution adopted by a majority of our board of directors.

The provisions described above, together with the ability of our board of directors to issue preferred stock without stockholder approval, could have the effect of delaying, deferring or preventing a change in control, delaying, deferring or preventing the removal of existing management, deterring potential acquirers from making an offer to our stockholders, and limiting

any opportunity of our stockholders to realize premiums over prevailing market prices of our common stock in connection with offers by potential acquirers.

The above-described effects could occur even if a majority of our stockholders might benefit from such a change in control or offer.

Listing

Our common stock is listed on The Nasdaq Capital Market under the symbol “HSKA”.

Exhibit 21.1

SUBSIDIARIES OF COMPANY

Diamond Animal Health, Inc., an Iowa corporation

BioTech Laboratories U.S.A. LLC, a Delaware limited liability company

Heska AG, a corporation incorporated under the laws of Switzerland

Heska Canada, Limited, a limited company organized under the laws of British Columbia, Canada

Heska Australia Pty Ltd, a proprietary company organized under the laws of Australia and registered in Victoria

SCI A. Duchene Immo, a real estate company formed under the laws of France

Veterinärmedizinisches Dienstleistungszentrum (VetZ) GmbH, a corporation incorporated under the laws of Germany

Heska GmbH, a corporation incorporated under the laws of Germany

scil animal care company GmbH, a corporation incorporated under the laws of Germany

scil animal care company sarl, a limited liability company organized under the laws of France

scil animal care company SL., a limited liability company organized under the laws of Spain

scil animal care company Ltd., a limited company organized under the laws of the United Kingdom

scil animal care company Srl, a limited liability company organized under the laws of Italy

scil Diagnostics Sdn Bhd, a public limited company organized under the laws of Malaysia

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated February 28, 2022, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of Heska Corporation and subsidiaries on Form 10-K for the year ended December 31, 2021. We consent to the incorporation by reference of said reports in the Registration Statements of Heska Corporation on Forms S-8 (File Nos. 333-30951, 333-34111, 333-47129, 333-72155, 333-38138, 333-39448, 333-55112, 333-82096, 333-89738, 333-102871, 333-106679, 333-112701, 333-115995, 333-123196, 333-132916, 333-141737, 333-194120, 333-194122, 333-195734, 333-204036, 333-211567, 333-225112, 333-238006, 333-238008) and on Form S-3 (File No. 333-238005, 333-253700, and 333-262795).

/s/ Grant Thornton LLP

Denver, Colorado
February 28, 2022

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Heska Corporation's Registration Statements on Form S-8 (File Nos. 333-30951, 333-34111, 333-47129, 333-72155, 333-38138, 333-39448, 333-55112, 333-82096, 333-89738, 333-102871, 333-106679, 333-112701, 333-115995, 333-123196, 333-132916, 333-141737, 333-194120, 333-194122, 333-195734, 333-204036, 333-211567, 333-225112, 333-238006, 333-238008, and 333-255803) and Form S-3 (File Nos. 333-238005, 333-253700, and 333-262795) of our report dated February 28, 2020, except for the effects of the change in segments described in Notes 2 and 18, as to which the date is February 26, 2021, relating to the statements of loss, comprehensive loss, stockholders' equity, and cash flows for the year ended December 31, 2019, and the related notes (collectively referred to as the "financial statements") of Heska Corporation, which appear in this Annual Report on Form 10-K.

/s/ Plante & Moran, PLLC

Denver, Colorado

February 28, 2022

Exhibit 31.1

CERTIFICATION

I, Kevin S. Wilson, 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.

Dated: February 28, 2022

/s/ Kevin S. Wilson
KEVIN S. WILSON
Chief Executive Officer and President
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Catherine Grassman, 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.

Dated: February 28, 2022

/s/ Catherine Grassman

CATHERINE GRASSMAN
Executive Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Kevin S. Wilson, 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, 2021 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, to the best of my knowledge.

Dated: February 28, 2022

By: /s/ Kevin S. Wilson
Name: KEVIN S. WILSON
Title: Chief Executive Officer and President

I, Catherine Grassman, 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, 2021 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, to the best of my knowledge.

Dated: February 28, 2022

By: /s/ Catherine Grassman
Name: CATHERINE GRASSMAN
Title: Executive Vice President, 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.