

HESKA CORP  
Form 10-Q  
November 04, 2016

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

FORM 10-Q  
(Mark One)

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

For the quarterly period ended September 30, 2016  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 0-22427

HESKA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 77-0192527  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a small reporting company) Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No   
6,898,009 shares of the Registrant's Public Common Stock, \$.01 par value, were outstanding at November 3, 2016.



## TABLE OF CONTENTS

	Page
PART I - FINANCIAL INFORMATION	
Item 1. Unaudited Condensed Consolidated Financial Statements:	
<u>Condensed Consolidated Balance Sheets</u>	-2
<u>Condensed Consolidated Statements of Operations</u>	-3
<u>Condensed Consolidated Statements of Comprehensive Income</u>	-4
<u>Condensed Consolidated Statements of Cash Flows</u>	-5
<u>Notes to Condensed Consolidated Financial Statements</u>	-6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	-20
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	-29
Item 4. <u>Controls and Procedures</u>	-30
PART II - OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	-30
Item 1A. <u>Risk Factors</u>	-30
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	-46
Item 3. <u>Defaults Upon Senior Securities</u>	-46
Item 4. <u>Mine Safety Disclosures</u>	-46
Item 5. <u>Other Information</u>	-46
Item 6. <u>Exhibits</u>	-47
<u>Signatures</u>	-48
<u>Exhibit Index</u>	-49

HESKA, ALLERCEPT, HEMATRU, SOLO STEP, THYROMED, VET/OX and VITALPATH are registered trademarks of Heska Corporation. TRI-HEART is a registered trademark of Intervet Inc., d/b/a Merck Animal Health, formerly known as Schering-Plough Animal Health Corporation ("Merck Animal Health"), which is a unit of Merck & Co., Inc., in the United States and is a registered trademark of Heska Corporation in other countries. DRI-CHEM is a registered trademark of FUJIFILM Corporation. This quarterly report on Form 10-Q also refers to trademarks and trade names of other organizations.

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

	(unaudited)	
	December	September
	31,	30,
	2015	2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$6,890	\$9,214
Accounts receivable, net of allowance for doubtful accounts of \$189 and \$205, respectively	16,136	15,981
Due from – related parties	308	1,353
Inventories, net	16,101	19,776
Other current assets	1,827	1,641
Total current assets	41,262	47,965
Property and equipment, net	17,020	17,260
Note receivable – related party	1,516	—
Goodwill and other intangibles	20,966	29,252
Deferred tax asset, net	25,883	22,747
Other long-term assets	3,072	7,088
Total assets	\$109,719	\$124,312
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$7,624	\$6,027
Accrued liabilities	5,416	6,045
Current portion of deferred revenue	5,461	3,398
Line of credit	143	1,553
Other short-term borrowings, including current portion of long-term note payable	159	375
Total current liabilities	18,803	17,398
Long-term note payable, net of current portion	69	171
Deferred revenue, net of current portion, and other	11,572	11,357
Total liabilities	30,444	28,926
Commitments and contingencies (Note 11)		
Non-controlling interest	15,747	15,595
Stockholders' equity:		
Preferred stock, \$.01 par value, 2,500,000 shares authorized, none issued or outstanding	—	—
Traditional common stock, \$.01 par value, 9,000,000 shares authorized, none issued or outstanding	—	—
Public common stock, \$.01 par value, 9,000,000 shares authorized, 6,625,287 and 6,897,184 shares issued and outstanding, respectively	66	69
Additional paid-in capital	227,267	236,014
Accumulated other comprehensive income	187	168
Accumulated deficit	(163,992 )	(156,460 )
Total stockholders' equity	63,528	79,791

Total liabilities and stockholders' equity	\$109,719	\$124,312
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See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2016	2015	2016
Revenue:				
Core companion animal health	\$20,983	\$26,386	\$61,312	\$74,284
Other vaccines, pharmaceuticals and products	7,051	7,044	13,526	16,257
Total revenue, net	28,034	33,430	74,838	90,541
Cost of revenue	16,437	19,712	42,860	52,699
Gross profit	11,597	13,718	31,978	37,842
Operating expenses:				
Selling and marketing	5,173	5,490	15,872	16,495
Research and development	493	507	1,304	1,605
General and administrative	3,789	3,229	9,810	9,724
Total operating expenses	9,455	9,226	26,986	27,824
Operating income	2,142	4,492	4,992	10,018
Interest and other expense (income), net	(69	) 14	105	(85
Income before income taxes	2,211	4,478	4,887	10,103
Income tax expense:				
Current income tax expense	106	123	232	284
Deferred income tax expense	722	1,012	1,511	2,287
Total income tax expense	828	1,135	1,743	2,571
Net income	1,383	3,343	3,144	7,532
Net income (loss) attributable to non-controlling interest	(32	) (4	) (66	) 477
Net income attributable to Heska Corporation	\$1,415	\$3,347	\$3,210	\$7,055
Basic earnings per share attributable to Heska Corporation	\$0.22	\$0.49	\$0.51	\$1.05
Diluted earnings per share attributable to Heska Corporation	\$0.20	\$0.45	\$0.46	\$0.97
Weighted average outstanding shares used to compute basic earnings per share attributable to Heska Corporation	6,344	6,871	6,270	6,727
Weighted average outstanding shares used to compute diluted earnings per share attributable to Heska Corporation	7,139	7,454	7,041	7,299

See accompanying notes to condensed consolidated financial statements.



HESKA CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended September 30, 2015		2016		Nine Months Ended September 30, 2015		2016	
Net income	\$1,383	\$3,343	\$3,144	\$7,532				
Other comprehensive income:								
Sale of equity investment	—	—	—	(90	)			
Unrealized gain on available for sale investments	—	—	6	—				
Foreign currency translation	(114	) 28	49	71				
Comprehensive income	1,269	3,371	3,199	7,513				
Comprehensive income (loss) attributable to non-controlling interest	(32	) (4	) (66	) 477				
Comprehensive income attributable to Heska Corporation	\$1,301	\$3,375	\$3,265	\$7,036				

See accompanying notes to condensed consolidated financial statements.

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HESKA CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2015	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$3,144	\$7,532
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	3,240	3,418
Deferred tax expense	1,511	2,287
Stock based compensation	1,540	1,685
Unrealized (gain) loss on foreign currency translation	34	(1 )
Changes in operating assets and liabilities:		
Accounts receivable	(2,053 )	377
Inventories	(8,439 )	(5,661 )
Other current assets	(159 )	197
Accounts payable	2,154	(1,817 )
Accrued liabilities and other	1,446	475
Other non-current assets	(1,599 )	(3,997 )