POINT OF CARE LAB AND IMAGING DIAGNOSTICS • ALLERGY • VACCINES • PREVENTATIVES

2018 ANNUAL REPORT

CLEARED FOR LAUNCH

2018 Heska Corporation Annual Report

This report was finalized on March 25, 2019 and speaks only as of such date or, with respect to historical information (including the financial data included herein), to such earlier date as may be expressly stated. Information contained herein has not been updated for the passage of time or otherwise from such dates.

This report also contains express or implied forward-looking information about the future plans, financial condition and operating performance of Heska Corporation ("Heska") that are not statements of historical fact. These are forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations, and factors that could cause our actual business and financial results to differ materially from those expressed in Heska's forward-looking statements include the following: risks related to relying on historical results to project future performance; uncertainties related to Heska's ability to enter successfully markets throughout the world in an economically sustainable manner; competition and uncertainties related to Heska's ability to gain customers currently serviced by competitors, gain new customers and maintain existing customers; uncertainties related to Heska's ability to successfully launch new products with currently projected capabilities, including where Heska is reliant on one or more third parties for development or other technical work to be done; uncertainties related to spending in the veterinary marketplace, including Heska's ability to predict the sustainability of current trends and future trends; uncertainties related to any product's ability to perform and be recognized as anticipated, in particular when such product is under development; uncertainties related to Heska's ability to sell and market its products in an economically sustainable fashion, including related to varying international customs, cultures, languages and sales cycles; uncertainties related to Heska's ability to identify, investigate and complete acquisitions, investments and other strategic development opportunities in a manner than creates, rather than diminishes, shareholder value; uncertainties related to the reputation of Heska and its offerings with Heska's customers and the reputation of third parties which sell Heska's products, including Heska's ability to benefit from such reputations; uncertainties related to Heska's ability to supply capital necessary for its initiatives, including Heska's ability to raise capital in the future if necessary; uncertainties related to product development and commercialization, including the risk that a planned product will not perform as anticipated or a new product will not gain the market acceptance anticipated; uncertainties with foreign political and economic climates, and currency fluctuations; risks related to Heska's reliance on third parties with exclusive marketing rights to certain Heska products; uncertainties related to Heska's reliance on third-parties to supply certain of its products, which is substantial; and the risks and uncertainties set forth in Heska's filings and future filings with the Securities and Exchange Commission ("SEC"), including those articulated in Heska's Annual Report on Form 10-K for the twelve month period ended December 31, 2018. Heska does not undertake any obligation to update any forward-looking statement except as may be required by law.

March 15, 2019

Dear Shareholder,

Thank you for your interest in Heska and the good mission we pursue. Heska is honored to make a difference in the lives of millions of people through our efforts in animal health. Heska's point-of-care diagnostics are often a pet's only healthcare voice in their times of need and are regularly the key information underpinning their preventative and predictive healthcare solutions. We are thankful and humbled to be part of a very select group of companies doing this good work while building value for shareholders.

Long-term followers of Heska are familiar with our strong belief in the power of five-year plans to create substantial and sustainable value. Under Act One (2013-2017), our first five-year plan, Heska retooled to focus on core business lines and strategic assets for the future, while deemphasizing legacy business lines that lacked the same opportunity to add value and build sustainable growth. Because we believe in optimizing what works before scaling it, Act One focused on products and product roadmaps that solve our customers' most important problems, in unique ways, to make Heska solutions highly profitable for users and Heska. Our efforts in this regard grew our lines of the future to 70% of sales in 2018; we see this trend continuing, as our most valuable diagnostics and allergy products are projected to grow to over 90% of total sales by the end of Act Two.

2018 was the first year of our Act Two (2018-2022) five-year plan. In 2018, Heska continued to prepare the ground for major growth, even as we faced challenges from perennially strong competitors and sometimes from ourselves, as we missed the mark in some areas. Because we believe a key job of leadership is to define reality and to adjust to it proactively, we were clear-eyed in facing these challenges and we are better prepared for the inevitable, next tests. While 2018 had its challenges, Heska did "punch above its weight" in our most important Point of Care Lab Diagnostics business, by gaining domestic market share for the fifth year in a row, to reach 2,175 multi-year subscribers, which drove Point of Care Lab Diagnostics Consumables sales growth of 14.3% at gross margins that were up 170 basis points. Heska subscriber metrics were also quite strong, with a 95% Rate of Retention, 20% growth in Months Under Subscription, and an increase in Minimum Contract Subscription Value of 28%. Heska's Point of Care Lab Diagnostics business is performing wonderfully. Heska's future is now firmly in animal health point-of-care diagnostics and informatics, where our innovations are developed, made, or sold by Heska to solve important problems across the globe. We have targeted this critical value creation opportunity since 2013 and we have made excellent progress. With the "mix" now strongly favoring Heska's high-margin product lines and multi-year subscriptions, Heska is positioned to scale.

2019 is the second year of our Act Two (2018-2022) five-year plan, and we are focused on realizing the promise of last year's $19MM of investments in R&D and sales team expansions, to pursue our most aggressive product launch cycle ever. If successful, we will capture decades of growth potential in domestic and new international markets. In 2019, Heska goes global, with launches into Australia, the European Union, and other international markets to directly sell our expanding product portfolio at greater scale. Key to our international launch is Heska's upcoming Element RC rotor-style chemistry, which is engineered to deliver more and superior tests than the competition, in a smaller, easier-to-use, and lower cost per result platform. For domestic and international markets, Heska is launching the industry's most advanced immunodiagnostics platform in 2019. The all new Element i+ is designed to bring the power of multiplex testing to our Element i franchise, in a highly differentiated, faster, lower cost per result technology that supports a test menu pipeline that can drive growth over the next decades. With more to come in 2019 and 2020, we have a great deal of work and opportunity ahead, as we continue to innovate to leapfrog the competition, expand our geographic footprint, extend our subscriber base, leverage our market access and expertise, and execute on important business development, licensing, partnership, and acquisition opportunities.

While we know the competition votes "no" on our plans every day, we are energized by this fact and excited by the opportunity to convince their customers, our customers, and greenfield customers of the superior value of Heska products and services. We aim to deliver these messages to a global animal healthcare industry that continues to see favorable, broad-based trends that are increasingly driving meaningful investment and strategic activity amongst customers, suppliers, and potential partners. As a leader in the space, our unique strengths point towards an important and rapidly scalable role for Heska in the race to serve animals and pets of all types and nationalities. We are committed to the necessary time, investments, and efforts to reach our potential and we are grateful for the chance to work for you as we proceed down this road together.

Respectfully,

Kevin S. Wilson
Chief Executive Officer and President

plante moran

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and
Board of Directors of Heska Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheet of Heska Corporation and subsidiaries (the "Company") as of December 31, 2018 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO framework").

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and the results of its operations and its cash flows for the year ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in the COSO framework.

As discussed in Note 1 to the financial statements, the Company adopted Accounting Standards Codification (ASC) Topic 606, "Revenue from Contracts with Customers," using the modified retrospective adoption method on January 1, 2018.

Basis for Opinion

The Company's management is responsible for these financial statements, 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 Controls over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting 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, and whether effective internal control over financial reporting was maintained in all material respects.

PRAXITY™
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To the Stockholders and
Board of Directors of Heska Corporation

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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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.

Plante & Moran, PLLC

We have served as the Company’s auditor since 2006.
Denver, Colorado
March 7, 2019

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Report of Independent Public Accounting Firm

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

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of Heska Corporation (the “Company”) as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows, for each year in the two year period ended December 31, 2017, 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 financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each year in the two year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

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.

EKS+H LLLP

EKS&H LLLP

March 19, 2018
Denver, Colorado

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

	December 31,	
	2018	**2017**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,389	$ 9,659
Accounts receivable, net of allowance for doubtful accounts of $245 and $215, respectively	16,454	15,367
Due from – related parties	—	1
Inventories, net	25,104	32,596
Lease receivable, current, net of allowance for doubtful accounts of $40 and $0, respectively	2,989	2,069
Other current assets	4,471	3,096
Total current assets	62,407	62,788
Property and equipment, net	15,981	17,331
Goodwill	26,679	26,687
Other intangible assets, net	9,764	1,958
Deferred tax asset, net	14,121	11,877
Lease receivable, non-current	11,908	9,615
Investments in unconsolidated affiliates	8,018	—
Other non-current assets	7,574	5,188
Total assets	$ 156,452	$ 135,444
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,469	$ 9,489
Due to – related parties	226	1,828
Accrued liabilities	10,142	4,074
Current portion of deferred revenue, and other	2,526	3,992
Total current liabilities	20,363	19,383
Deferred revenue, net of current portion	7,082	8,431
Line of credit and other long-term borrowings	6,031	6,000
Other liabilities	567	1,190
Total liabilities	34,043	35,004
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, $.01 par value, 2,500,000 shares authorized, none issued or outstanding	—	—
Common stock, $.01 par value, 10,250,000 and 10,000,000 shares authorized, respectively, none issued or outstanding	—	—
Public common stock, $.01 par value, 10,250,000 and 10,000,000 shares authorized, 7,675,692 and 7,302,954 shares issued and outstanding, respectively	77	73
Additional paid-in capital	257,034	243,598
Accumulated other comprehensive income	277	232
Accumulated deficit	(134,979)	(143,463)
Total stockholders' equity	122,409	100,440
Total liabilities and stockholders' equity	$ 156,452	$ 135,444

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2018	**2017**	**2016**
Revenue:			
Core companion animal	$ 108,924	$ 105,191	$ 107,398
Other vaccines and pharmaceuticals	18,522	24,150	22,685
Total revenue, net	127,446	129,341	130,083
Cost of revenue	70,808	71,080	76,191
Gross profit	56,638	58,261	53,892
Operating expenses:			
Selling and marketing	24,663	23,225	22,092
Research and development	3,334	2,004	2,147
General and administrative	24,847	14,813	13,120
Total operating expenses	52,844	40,042	37,359
Operating income	3,794	18,219	16,533
Interest and other (income) expense, net	(13)	(150)	29
Income before income taxes and equity in losses of unconsolidated affiliates	3,807	18,369	16,504
Income tax (benefit) expense:			
Current income tax expense	140	49	407
Deferred income tax (benefit) expense	(2,255)	8,864	3,932
Total income tax (benefit) expense	(2,115)	8,913	4,339
Net income before equity in losses of unconsolidated affiliates	5,922	9,456	12,165
Equity in losses of unconsolidated affiliates	(72)	—	—
Net income, after equity in losses of unconsolidated affiliates	5,850	9,456	12,165
Net (loss) income attributable to non-controlling interest	—	(497)	1,657
Net income attributable to Heska Corporation	$ 5,850	$ 9,953	$ 10,508
Basic earnings per share attributable to Heska Corporation	$ 0.81	$ 1.42	$ 1.55
Diluted earnings per share attributable to Heska Corporation	$ 0.74	$ 1.30	$ 1.43
Weighted average outstanding shares used to compute basic earnings per share attributable to Heska Corporation	7,220	7,026	6,783
Weighted average outstanding shares used to compute diluted earnings per share attributable to Heska Corporation	7,856	7,642	7,361

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2018	**2017**	**2016**
Net income, after equity in losses of unconsolidated affiliates	$ 5,850	$ 9,456	$ 12,165
Other comprehensive income (loss):			
Minimum pension liability	70	12	75
Sale of equity investment	—	—	(90)
Foreign currency translation	(25)	123	(75)
Comprehensive income	5,895	9,591	12,075
Comprehensive (loss) income attributable to non-controlling interest	—	(497)	1,657
Comprehensive income attributable to Heska Corporation	$ 5,895	$ 10,088	$ 10,418

See accompanying notes to consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances, January 1, 2016	6,625	$ 66	$ 227,267	$ 187	$ (163,992)	$ 63,528
Net income, after equity in losses of unconsolidated affiliates	—	—	—	—	12,165	12,165
Issuance of common stock related to the acquisition of Cuattro Veterinary International, LLC	175	2	6,347	—	—	6,349
Issuance of common stock, net of shares withheld for employee taxes	226	2	1,616	—	—	1,618
Stock-based compensation	—	—	2,260	—	—	2,260
Accretion of non-controlling interest	—	—	1,145	—	—	1,145
Other comprehensive loss	—	—	—	(90)	—	(90)
Balances, December 31, 2016	7,026	$ 70	$ 238,635	$ 97	$ (151,827)	$ 86,975
Net income, after equity in losses of unconsolidated affiliates	—	—	—	—	9,456	9,456
Issuance of common stock, net of shares withheld for employee taxes	277	3	1,373	—	—	1,376
Stock-based compensation	—	—	2,745	—	—	2,745
Accretion of non-controlling interest	—	—	845	—	—	845
Distribution for Heska Imaging minority	—	—	—	—	(1,092)	(1,092)
Other comprehensive income	—	—	—	135	—	135
Balances, December 31, 2017	7,303	$ 73	$ 243,598	$ 232	$ (143,463)	$ 100,440
Adoption of accounting standards	—	—	—	—	2,634	2,634
Balances, January 1, 2018, as adjusted	7,303	73	243,598	232	(140,829)	103,074
Net income, after equity in losses of unconsolidated affiliates	—	—	—	—	5,850	5,850
Issuance of common stock, net of shares withheld for employee taxes	318	3	2,759	—	—	2,762
Issuance of common stock related to acquisition of assets from Cuattro, LLC	55	1	5,450	—	—	5,451
Stock-based compensation	—	—	5,227	—	—	5,227
Other comprehensive income	—	—	—	45	—	45
Balances, December 31, 2018	7,676	$ 77	$ 257,034	$ 277	$ (134,979)	$ 122,409

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income, after equity in losses from unconsolidated affiliates	$ 5,850	$ 9,456	$ 12,165
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	4,595	4,754	4,645
Deferred income tax (benefit) expense	(2,255)	8,864	3,932
Stock-based compensation	5,227	2,745	2,260
Other losses (gains)	80	(46)	(3)
Changes in operating assets and liabilities:			
Accounts receivable	(1,076)	5,243	(4,700)
Inventories	6,046	(13,834)	(4,731)
Due from related parties	1	99	(59)
Lease receivable, current	(920)	(1,244)	(736)
Other current assets	(505)	(474)	883
Accounts payable	(2,020)	3,143	(688)
Due to related parties	(1,477)	250	1,356
Accrued liabilities and other	6,146	(1,380)	(351)
Lease receivable, non-current	(2,294)	(4,782)	(3,867)
Other non-current assets	(871)	(984)	(1,951)
Deferred revenue and other	(3,240)	(1,401)	(2,300)
Net cash provided by operating activities	13,287	10,409	5,855
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of equity investment	—	—	115
Acquisition of intangible asset	(2,750)	—	—
Investments in unconsolidated affiliates	(8,091)	—	—
Purchase of minority interest	—	(13,757)	—
Purchases of property and equipment	(1,358)	(3,469)	(3,417)
Proceeds from disposition of property and equipment	25	57	—
Net cash used in investing activities	(12,174)	(17,169)	(3,302)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	4,034	2,452	2,382
Repurchase of common stock	(1,271)	(1,076)	(762)
Distributions to non-controlling interest members	(126)	(965)	—
Proceeds from line of credit borrowings	3,000	40,307	34,792
Repayments of line of credit borrowings	(3,000)	(34,979)	(34,262)
Repayments of other debt	(10)	(68)	(747)
Payment of debt issuance costs	—	(120)	—
Net cash provided by financing activities	2,627	5,551	1,403
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH	(10)	74	(52)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,730	(1,135)	3,904
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,659	10,794	6,890
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 13,389	$ 9,659	$ 10,794
NON-CASH TRANSACTIONS:			
Transfers of equipment between inventory and property and equipment, net	$ 1,449	$ 1,637	$ 1,250
Common stock issued as partial consideration of Cuattro acquisition transactions (See Note 3)	$ 5,450	$ —	$ 6,349

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; 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, 2018 and 2017, as well as the results of our operations, statements of stockholders' equity and cash flows for the twelve months ended December 31, 2018, 2017 and 2016.

The audited Consolidated Financial Statements included herein have been prepared pursuant to the rules and regulations of the 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 income is reported as "Net income (loss) attributable to non-controlling interest" on our Consolidated Statements of Income. 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").

Reclassification

To maintain consistency and comparability, certain amounts in the financial statements have been reclassified to conform to current year presentation.

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 doubtful accounts 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 of instruments under leasing arrangements; determining the allocation of purchase price under purchase accounting; estimating the expense associated with the granting of stock options; and determining the need for, and the amount of a valuation allowance on deferred tax assets.

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 financial institutions that management believes are creditworthy in the form of demand deposits. 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.

Henry Schein represented 12% and 17% of our consolidated accounts receivable at December 31, 2018 and 2017, respectively. Merck entities represented approximately 10% and 15% of our consolidated accounts receivable at December 31, 2018 and 2017, respectively. DLL represented 8% and 11% of our consolidated accounts receivable at December 31, 2018 and 2017, respectively. Eli Lilly entities, including Elanco, represented approximately 32% and 4% of our consolidated accounts receivable at December 31, 2018 and 2017, respectively. No other customer accounted for more than 10% of our consolidated accounts receivable at December 31, 2018 or 2017.

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

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at net realizable value. From time to time, our customers are unable to meet their payment obligations. We continuously monitor our customers' credit worthiness and use our judgment in establishing a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. 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.

Changes in allowance for doubtful accounts are summarized as follows (in thousands):

	Years Ended December 31,		
	2018	**2017**	**2016**
Balances at beginning of period	$ 215	$ 237	$ 189
Additions - charged to expense	104	168	163
Deductions - write offs, net of recoveries	(74)	(190)	(115)
Balances at end of period	$ 245	$ 215	$ 237

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 current earnings. We held 1.6 million and 1.1 million Euros at December 31, 2018 and 2017, respectively. We held 0.2 million and 0.1 million Swiss Francs at December 31, 2018 and 2017, respectively. The majority of our cash and cash equivalents are held at U.S.-based or Swiss-based financial institutions in accounts not insured by governmental entities.

Fair Value of Financial Instruments

Our financial instruments consist of cash and cash equivalents, short-term trade receivables and payables and the Company's revolving line of credit. The carrying values of cash and cash equivalents and short-term trade receivables and payables approximate fair value because of the short-term nature of the instruments. The fair value of our line of credit balance is estimated based on current rates available for similar debt with similar

maturities and collateral, and at December 31, 2018 and 2017, approximates the carrying value due primarily to the floating rate of interest on such debt instruments.

Inventories

Inventories are stated at the lower of cost or net realizable value using the first-in, first-out method. Inventory we manufacture includes the cost of material, labor and overhead. If the cost of inventories exceeds estimated net realizable value, provisions are made to reduce the carrying value to estimated net realizable value. This estimate is calculated utilizing various information including assumptions of future market demand, market conditions and remaining shelf life.

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

	December 31,	
	2018	**2017**
Raw materials	$ 15,000	$ 18,465
Work in process	3,592	4,296
Finished goods	8,085	11,465
Allowance for excess or obsolete inventory	(1,573)	(1,630)
	$ 25,104	$ 32,596

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 Income. 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 20 years
Machinery and equipment	2 to 7 years
Office furniture and equipment	3 to 7 years
Computer hardware and software	3 to 5 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 five 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.

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 will be recorded as a separate line on the income statement. Both types of investments will be 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 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.

We performed qualitative assessments in the fourth quarters of 2018, 2017, and 2016 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, 2018, 2017, and 2016.

Revenue Recognition

We account for revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers,* which we adopted on January 1, 2018, using the modified retrospective transition approach. See "Adoption of New Accounting Pronouncements" below for impacts of adoption.

We generate our CCA segment 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 usage of the instrument as well as the consumables needed to conduct testing. Outright sales to customers are the majority of both Point of Care imaging diagnostic transactions and the sale of pharmaceuticals and vaccines, while subscription placement is the majority of Point of Care laboratory transactions.

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 or acceptance by the customer), 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. Revenue for extended warranties and service is recognized based upon the period of time elapsed under the arrangement.

Our revenue under subscription agreements relates to OTL arrangements or 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 840*, Leases*. A STL would result in earlier recognition of instrument revenue as compared to an OTL, which is generally upon installation of the instruments. The cash collected under both arrangements is over the term of the contract. The cost of the customer-leased instruments is removed from inventory and recognized in the Consolidated Statements of Income. Instrument lease revenue for OTL agreements is recognized on a straight-line basis over the life of the lease, and 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 Income. The OTLs and STLs are not cancellable until after an initial term. OTLs may include a minimum utilization rather than a minimum supply credit. Adoption of ASC 842 (refer to *Accounting Pronouncements Not Yet Adopted*) may

impact the classification of this type of lease on a go-forward basis due to the change in lessor requirements within the new standard.

For contracts with multiple performance obligations, the Company allocates the contracts' transaction price for each performance obligation 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. The primary method used to estimate the standalone selling price is the price observed in standalone sales to customers of a prior period. Changes in these values can impact the amount of consideration allocated to each component of the contract. When prices in standalone sales are not available, we may use a cost-plus margin approach. 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. This allocation approach also applies to contracts for which a portion of the contract relates to a lease component.

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.

We generate revenue within our OVP segment through contract manufacturing agreements with customers. The timing of revenue recognition of our customer contracts are 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.

Revenue generated from licensing arrangements is recognized based on the underlying term of the contract.

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. While we do utilize past payment history and, to the extent available for new customers, public credit information in making our assessment, the determination of whether collectability is reasonably assured is ultimately a judgment that must be made by management. We must also make estimates regarding our future obligations relating to returns, rebates, allowances and similar other programs. 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.

Prior to the adoption of ASC 606 on January 1, 2018, the Company recognized revenue in accordance with Topic 605, *Revenue Recognition*. Our policy was to recognize revenue when the applicable revenue recognition criteria were met, which generally included the following: persuasive evidence of an arrangement exists; delivery has occurred or services rendered; price is fixed or determinable; and collectability is reasonably assured. The adoption of the new revenue standard did not materially change our recognition from ASC 605 (as disclosed under *Adoption of New Accounting Pronouncements*).

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 vesting 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 $0.2 million for each of the years ended December 31, 2018, 2017 and 2016.

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, including the prior year impact of the enacted 21% U.S. corporate income tax rate under the Tax Cuts and Jobs Act, 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 our Swiss subsidiary is the Swiss Franc. Assets and liabilities of our Swiss subsidiary are translated using the exchange rate in effect at the balance sheet date. Revenue and expense accounts and cash flows are translated using an average of exchange rates in effect during the period. Cumulative translation gains and losses are shown in the Consolidated Balance Sheets as a separate component of stockholders' equity. Exchange gains and losses arising from transactions denominated in foreign currencies (i.e., transaction gains and losses) are recognized as a component of other income (expense) in current operations, as are exchange gains and losses on intercompany transactions expected to be settled in the near term.

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, 2018, we adopted FASB ASU 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting*, which provides clarification on accounting for modifications in share-based payment awards. The adoption of this guidance did not have an impact on our consolidated financial statements or related disclosures as there were no modifications to our share-based payment awards during 2018.

In March 2018, we adopted FASB ASU 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*, which updates the income tax accounting to reflect the SEC's interpretive guidance released on December 22, 2017, when the 2017 Tax Act was signed into law. See Item 8, Note 4 - Income Taxes, for the impact of adoption to our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* and has subsequently issued several supplemental and/or clarifying ASUs (collectively "ASC 606"). ASC 606 prescribes a single common revenue standard that replaces most existing GAAP revenue recognition guidance. ASC 606 outlines a five-step model, under which Heska recognized revenue as performance obligations within customer contracts are satisfied. ASC 606 is intended to provide more consistent interpretation and application of the principles outlined in the standard across filers in multiple industries and within the same industries compared to current practices, which should improve comparability. Along with the issuance of ASC 606, additional cost guidance was issued and codified under ASC 340-40 that outlines the requirements for capitalizing incremental costs of obtaining a contract and costs to fulfill a contract that meet certain capitalization criteria.

On January 1, 2018, we adopted ASC 606 using the modified retrospective method for all customer contracts not yet completed as of the adoption date. Results for reporting periods beginning January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and continue to be reported in accordance with the Company's historic accounting under Topic 605, *Revenue Recognition.*

We recorded an increase to beginning retained earnings of $2.6 million as of January 1, 2018 due to the cumulative impact of adopting ASC 606. The impact to beginning retained earnings was primarily driven by the capitalization of certain costs to obtain our customer contracts, which were primarily sales-related commissions. The adoption of ASC 606 did not have a significant impact on our Consolidated Financial Statements as of and for the twelve months ended December 31, 2018. As a result, comparisons of revenues and operating profit performance between periods are not affected by the adoption of this ASU.

Accounting Pronouncements Not Yet Adopted

In June 2018, the FASB issued ASU 2018-07, *Compensation – Stock Compensation (Topic 718)*, Improvements to Nonemployee Share-Based Payment Accounting. This ASU is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with accounting for employee share-based compensation. ASU 2018-07 is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods, with early adoption permitted but no earlier than an entity's adoption date of Topic 606. We will adopt the provisions of this ASU in the first quarter of 2019. Adoption of the new standard is not expected to have a material impact on our Consolidated Financial Statements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The

ASU permits companies to elect a reclassification of the disproportionate tax effects in accumulated other comprehensive income ("AOCI") caused by the Tax Cuts and Jobs Act of 2017 to retained earnings. The ASU also requires additional disclosures. This update is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption permitted. We will adopt the provisions of this ASU in the first quarter of 2019. As of December 31, 2018, the Company does not have any disproportionate income tax effects in AOCI to reclassify, therefore, adoption of the new standard is not expected to have a material impact on our Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326)*, which require that financial assets measured at amortized cost be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected. The income statement reflects the measurement of credit losses for newly recognized financial assets, as well as the increases or decreases of expected credit losses that have taken place during the period. The measurement of expected credit losses is based upon historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*. This ASU clarifies that receivables from operating leases are accounted for using the lease guidance and not as financial instruments. The amendments in this update are effective for fiscal years beginning after December 15, 2019 and interim periods within those annual periods. Early adoption for fiscal year beginning after December 15, 2018 is permitted. We will adopt the provisions of this ASU in the first quarter of 2020. We are currently evaluating the effect of this update on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes ASC 840, *Leases*. This update requires lessees to recognize a lease liability and a right-of-use ("ROU") asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The update also expands the required quantitative and qualitative disclosures surrounding leases. The accounting for lessors does not fundamentally change except for changes to conform and align guidance to the lessee guidance as well as to the new revenue recognition guidance in ASU 2014-09. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases* and ASU 2018-11, *Leases, Targeted Improvements,* which provide additional clarification and implementation guidance on certain aspects of ASU 2016-02 and have the same effective date and transition requirements. Specifically, ASU 2018-10 provides certain amendments that affect narrow aspects of the guidance issued in ASU 2016-02, and ASU 2018-11 creates an additional transition method option allowing entities to record a cumulative effect adjustments to the opening retained earnings balance in the year of adoption. ASU 2018-11 also allows lessors to not separate nonlease components from the associated lease component if certain conditions are met. In December 2018, the FASB issued ASU 2018-20, *Leases: Narrow-Scope Improvements for Lessors.* This ASU provides an election for lessors to exclude sales and related taxes from consideration in the contract, requires lessors to exclude from revenue and expense lessor costs paid directly to a third party by lessees, and clarifies lessors' accounting for variable payments related to both lease and nonlease components.

Adoption of ASC 842 is required for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. The Company has elected, as of January 1, 2019, to adopt the standard using the effective date as our date of initial application. The comparative information will not be recast and will continue to be reported under the accounting standard in effect for those periods. A package of practical expedients were made available to lessees and will be elected by the Company, which among other things, allows us to carry forward the historical lease classification.

Heska assessed the impact that the adoption of ASC 842 is expected to have on its Consolidated Financial Statements by analyzing its current portfolio of leases, including a review of historical accounting policies and practices to identify potential differences in applying the guidance of ASC 842. We also performed a comprehensive review of our current processes and systems to determine and implement changes required to support the adoption of ASC 842 on January 1, 2019.

Based on a review of contracts that convey the right to control use of an identified asset within our Core Companion Animal ("CCA") segment, we determined we are both a lessee and a lessor. We evaluated the types of assets, the terms associated with their contracts and the present value of future lease payments expected to be paid. As a lessor, our revenue under subscription agreements relates to either OTL or STL arrangements, which will now be recognized under ASC 842. As a lessee, our most significant lease balances are related to buildings and vehicles which have lease terms through 2023 and 2021, respectively.

Based on a review of contracts that convey the right to control use of an identified asset within our Other Vaccines and Pharmaceuticals ("OVP") segment, we determined we are only a lessee. We evaluated the types of assets, the terms associated with their contracts and the present value of future lease payments expected to be paid. Our OVP segment does not enter into transactions as a lessor and has relatively immaterial agreements of which were entered into as a lessee.

The standard will not have a material net impact in our Consolidated Balance Sheets, Consolidated Statements of Income or Consolidated Statements of Cash Flows. The most significant impact will be the recognition of ROU assets and lease liabilities for the operating leases, of which we are the lessee. The effect of this update is expected to be a ROU asset and lease liability of between $6.5 to 7.0 million dollars. As a lessor, accounting for our subscription agreements which are operating-type leases will remain substantially unchanged.

2. REVENUE

We separate our goods and services among:

- Point of Care laboratory products including instruments, consumables and services;
- Point of Care imaging products including instruments, software and services;
- Single use pharmaceuticals, vaccines and diagnostic tests primarily related to companion animals; and
- Other vaccines and pharmaceuticals.

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

	Year Ended December 31,		
	2018	**2017**	**2016**
Point of Care laboratory revenue:	$ 57,375	$ 54,855	$ 48,817
Consumables	*44,771*	*39,161*	*36,344*
Sales-type leases	*5,888*	*7,382*	*4,754*
Outright instrument sales	*4,922*	*6,391*	*5,684*
Other	*1,794*	*1,921*	*2,035*
Point of Care imaging revenue:	22,832	21,907	29,609
Outright instrument sales	*19,746*	*19,187*	*26,936*
Service revenue	*854*	*713*	*1,206*
Operating type leases	*2,232*	*2,007*	*1,467*
Other CCA revenue:	28,717	28,429	28,972
Other pharmaceuticals, vaccines and diagnostic tests	*28,265*	*28,008*	*28,596*
Research and development, license and royalty revenue	*452*	*421*	*376*
Total CCA revenue	$ 108,924	$ 105,191	$ 107,398

Revenue from our OVP segment consists of revenue generated from contract manufacturing agreements and from other license and research and development revenue. The following table summarizes our OVP revenue (in thousands):

	Year Ended December 31,		
	2018	**2017**	**2016**
Contract manufacturing	$ 17,508	$ 23,490	$ 21,477
License, research and development	1,014	660	1,208
Total OVP revenue	$ 18,522	$ 24,150	$ 22,685

Remaining Performance Obligations

Remaining performance obligations related to ASC 606 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 while these contracts are included within backlog.

As of December 31, 2018, the aggregate amount of the transaction price allocated to remaining minimum performance obligations was approximately $84.1 million. As of December 31, 2018, the Company expects to recognize revenue as follows (in thousands):

Year Ending December 31,		**Revenue**
2019	$	23,194
2020		19,556
2021		15,474
2022		12,281
2023		8,744
Thereafter		4,873
	$	84,122

Contract Balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables, deferred revenue, and customer deposits and billings in excess of revenue recognized (contract liabilities) on the Consolidated Balance Sheets. In addition, the Company defers certain costs incurred to obtain contracts (contract costs).

Contract Receivables

Certain unbilled receivable balances related to long-term contracts for which we provide a free term to the customer but have recognized revenue are recorded in other current and other non-current assets. We have no further performance obligations related to these receivable balances and the collection of these balances occurs over the term of the underlying contract. The balances as of December 31, 2018 were $0.9 million and $3.3 million for current and non-current assets, respectively, shown net of related unearned interest. The balances as of December 31, 2017 were $0.7 million and $3.1 million for current and non-current assets, respectively.

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, 2018 and 2017, contract liabilities were $9.6 million and $12.3 million, respectively, and are included within "Current portion of deferred revenue, and other" and "Deferred revenue, net of current portion" in the accompanying Consolidated Balance Sheets. The decrease in the contract liability balance during the year ended December 31, 2018 is $4.1 million of revenue recognized during the period, offset by $1.4 million of additional deferred sales. The decrease in the contract liability balance during the year ended December 31, 2017 is $4.0 million of revenue recognized during the period, offset by $2.5 million of additional deferred sales.

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, 2018 and at the date of adoption was $2.5 million and $2.4 million, respectively. Amortization expense for the year ended December 31, 2018 was approximately $1.0 million, offset by approximately $1.0 million of additional contract costs capitalized.

Contract liabilities are reported on the accompanying Consolidated Balance Sheets on a contract-by-contract basis whereas contract costs are calculated and reported on a portfolio basis.

3. ACQUISITION AND RELATED PARTY ITEMS

Purchase Agreement for Certain Assets

On December 21, 2018, the Company closed a transaction (the "Asset Acquisition") to acquire certain assets from Cuattro, LLC ("Cuattro"), all related to the CCA segment. Cuattro is owned by Kevin S. Wilson, the CEO and President of Heska Corporation. Pursuant to the Asset Acquisition, dated November 26, 2018, the Company issued 54,763 shares of the Company's common stock, $0.01 par value per share (the "Common Stock"), to Cuattro on the Closing Date, at an aggregate value equal to approximately $5.4 million based on the adjusted closing price per share of the Common Stock as reported on the Nasdaq Stock Market on the Asset Acquisition agreement date. These shares were issued to Cuattro in a private placement in reliance upon an exemption from the registration requirements of the Securities Act pursuant to Section 4(a)(2) thereof and the safe harbor provided by Rule 506 of Regulation D promulgated thereunder. In addition to the Common Stock, the Company paid cash in the amount of $2.8 million to Cuattro as part of the transaction. The total purchase price was determined based on a valuation report from an independent third party. Part of the Asset Acquisition was an agreement to terminate the supply and license agreement that Heska had been operating under since the acquisition of Cuattro Veterinary USA, LLC.

The Company evaluated the acquisition of the purchased assets under ASC 805, *Business Combinations* and ASU 2017-01, *Business Combinations (Topic 805)* and concluded that as substantially all of the fair value of the gross assets acquired is concentrated in an identifiable group of similar assets, the transaction did not meet the requirements to be accounted for as a business combination and therefore was accounted for as an asset acquisition. Accordingly, the purchase price of the purchased assets was allocated entirely to an identifiable intangible asset as identified below. In addition to the software assets acquired, Cuattro is obligated, without further compensation, to assist the Company with the implementation of third-party image hosting platform and necessary data migration.

Intangible assets acquired, amortization method and estimated useful life as of December 31, 2018 was as follows (dollars in thousands) (life in years):

	Useful Life	Amortization Method	Fair Value
Acquired Technology	10.00	Straight-line	$8,200

Cuattro Veterinary, LLC

On May 31, 2016, the Company closed a transaction (the "Merger") to acquire Cuattro Veterinary, LLC ("Cuattro International") from Kevin S. Wilson, and all of the members of Cuattro International (the "Members"). Pursuant to the Merger, the Company issued 175,000 shares of the Company's common stock, $0.01 par value per share (the "Common Stock"), to the Members on the Closing Date, at an aggregate value equal to approximately $6.3 million based on the adjusted closing price per share of the Common Stock as reported on the Nasdaq Stock Market on the Merger closing date. These shares were issued to the Members in a private placement in reliance upon an exemption from the registration requirements of the Securities Act pursuant to Section 4(a)(2) thereof and the safe harbor provided by Rule 506 of Regulation D promulgated thereunder. Effective on the Merger closing date, each of the Members executed lock-up agreements with the Company that restricted their ability to sell any of the shares of Common Stock received in the Merger until 180 days after the Merger closing date. In addition, the Company assumed approximately $1.5 million in debt as part of the transaction.

Mr. Wilson is a founder of Cuattro International, Cuattro, LLC, Cuattro Software, LLC and Cuattro Medical, LLC. Mr. Wilson, Mrs. Wilson and trusts for the benefit of Mr. and Mrs. Wilson's children and family own a 100% interest in Cuattro, LLC and a majority interest in Cuattro Medical, LLC. Cuattro, LLC owns a 100% interest in Cuattro Software, LLC and, prior to the Merger, owned a majority interest in Cuattro International.

The Company recorded assets acquired and liabilities assumed at their estimated fair values. Intangible assets were valued based on a report from an independent third party. The goodwill associated with the acquisition is the result of expected synergies and expansion of the technology into additional markets.

The following summarizes the aggregate consideration paid by the Company and the allocation of the purchase price (in thousands):

Common stock issued - 175,000 shares	$	6,347
Debt assumed		1,535
Total fair value of consideration transferred	$	7,882

Accounts receivable	$	222
Inventories		39
Due from Cuattro, LLC		963
Property and equipment		80
Other tangible assets		164
Deferred tax asset		56
Intangible assets		2,521
Goodwill		5,783
Accounts payable		(112)
Deferred tax liability		(905)
Other assumed liabilities		(929)
Total fair value of consideration transferred	$	7,882

Intangible assets acquired, amortization method and estimated useful lives as of May 31, 2016 was as follows (dollars in thousands):

	Useful Life	Amortization Method	Fair Value
Customer relationships	6.67	Straight-line	$2,521

Cuattro International is a provider to international markets of digital radiography technologies for veterinarians. As a leading provider of advanced veterinary diagnostic and specialty products, we made the acquisition in an effort to combine Cuattro International's international reach with our domestic success in the imaging and Point of Care laboratory markets in the U.S. International markets represent a significant portion of worldwide veterinary revenues for which we intend to compete.

As of the closing date of the Merger, Cuattro International was renamed Heska Imaging International, LLC, and the Company's interest in both Heska Imaging International, LLC ("International Imaging") and Heska Imaging US, LLC ("U.S. Imaging") was transferred to the Company's wholly-owned subsidiary, Heska Imaging Global, LLC ("Global Imaging").

Cuattro Veterinary USA, LLC

On February 24, 2013, the Company acquired a 54.6% interest in Cuattro Veterinary USA, LLC (the "Acquisition"), which was subsequently renamed Heska Imaging US, LLC ("U.S. Imaging"). The remaining minority position (45.4)% in U.S. Imaging was subject to purchase by Heska under performance-based puts and calls following the audit of our financial statements for 2016 and 2017. The required performance criteria were met in 2016, we considered notice given on March 3, 2017 that the put option was being exercised and on May 31, 2017, we delivered $13.8 million in cash to obtain the remaining minority position in U.S. Imaging.

Prior to the purchase of the minority position (the "Imaging Minority"), Shawna M. Wilson, Clint Roth, DVM, Steven M. Asakowicz, Rodney A. Lippincott, Kevin S. Wilson and Cuattro, LLC owned approximately 29.75%, 8.39%, 4.09%, 3.07%, 0.05% and 0.05% of U.S. Imaging, respectively. Kevin S. Wilson is the Chief Executive Officer and President of the Company and the spouse of Shawna M. Wilson. Steven M. Asakowicz and Rodney A. Lippincott each serve as Executive Vice President, Companion Animal Health Sales for the Company. On April 3, 2017, and in accordance with the terms of its Operating Agreement, U.S. Imaging distributed $2.1 million based on past operating performance, including $1.0 million to its minority interest members. As of December 31, 2017, U.S. Imaging accrued an additional $0.3 million distribution, including $0.1 million to its minority interest members, all of which was paid in January 2018.

On June 1, 2017, the Company consolidated its assets and liabilities in the U.S. Imaging and International Imaging companies into Global Imaging, which was re-named Heska Imaging, LLC ("Heska Imaging").

Related Party Activities

Cuattro, LLC charged Heska Imaging $4.6 million, $17.7 million and $14.5 million during 2018, 2017 and 2016, respectively, primarily related to digital imaging products, pursuant to an underlying supply contract that contains minimum purchase obligations, software and services as well as other operating expenses. The Company charged Cuattro, LLC $3 thousand, $0.1 million and $0.2 million in the years ended December 31, 2018, 2017 and 2016, respectively, for facility usage and other services. As of the December 21, 2018, the closing date of the aforementioned Asset Acquisition, all supply and license agreements with Cuattro have been terminated.

The Company had receivables from Cuattro, LLC of approximately $0 and $1 thousand as of December 31, 2018 and 2017, respectively which is included in "Due from - related parties" on the Company's Consolidated Balance Sheets. Heska Imaging owed Cuattro $0.2 million and $1.7 million as of December 31, 2018 and 2017, respectively, which is included in "Due to - related parties" on the Company's Consolidated Balance Sheets.

Heska Corporation charged U.S. Imaging $2.9 million from January 1, 2017 to May 31, 2017, prior to the acquisition of the minority interest, and $5.3 million for the year ended December 31, 2016, for sales and other administrative related expenses.

4. INCOME TAXES

Income Taxes

As of December 31, 2018, the Company had a domestic federal net operating loss carryforward ("NOL"), of approximately $74.3 million and a domestic research and development tax credit carryforward of approximately $0.5 million. Our federal NOL is expected to expire as follows if unused: $68.3 million in 2019 through 2023, $5.5 million in 2024 and 2025 and $0.5 million in 2027 and later.

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 a number of the Company's tax jurisdictions. In the U.S., the tax years 2015 - 2017 remain open to examination by the Internal Revenue Service.

Cash paid for income taxes for the years ended December 31, 2018, 2017 and 2016 was $36 thousand, $213 thousand and $357 thousand, respectively.

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

	Year Ended December 31,		
	2018	**2017**	**2016**
Domestic	$ 3,602	$ 18,188	$ 16,375
Foreign	205	181	129
	$ 3,807	$ 18,369	$ 16,504

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

	December 31,	
	2018	2017
Inventory	$ 1,249	$ 1,321
Accrued compensation	110	103
Stock options	1,281	914
Research and development	476	442
Legal Settlement	1,678	—
Deferred revenue	3,305	2,002
Property and equipment	3,065	2,531
Net operating loss carryforwards – domestic	17,088	22,627
Foreign tax credit carryforward	38	54
Capital leases	(3,936)	(3,757)
Unremitted earnings for controlled foreign corporations	—	(50)
Other	—	194
	24,354	26,381
Valuation allowance	(10,233)	(14,504)
Total net deferred tax assets	$ 14,121	$ 11,877

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

	Year Ended December 31,		
	2018	2017	2016
Current income tax expense:			
Federal	$ (115)	$ —	$ 197
State	192	6	179
Foreign	63	43	31
Total current expense	$ 140	$ 49	$ 407
Deferred income tax (benefit) expense:			
Federal	$ (1,877)	$ 9,736	$ 3,545
State	(378)	(872)	387
Foreign	—	—	—
Total deferred (benefit) expense	(2,255)	8,864	3,932
Total income tax (benefit) expense	$ (2,115)	$ 8,913	$ 4,339

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,		
	2018	2017	2016
Statutory federal tax rate	21 %	34 %	34 %
State income taxes, net of federal benefit	(8)%	(5)%	2 %
Non-controlling interest in Heska Imaging US, LLC	— %	1 %	(3)%
Non-temporary stock option benefit	(50)%	(30)%	(7)%
Meals and entertainment permanent difference	1 %	— %	— %
GILTI permanent difference	1 %	— %	— %
Other permanent differences	1 %	1 %	(1)%
Change in tax rate	— %	32 %	— %
Change in valuation allowance	— %	16 %	— %
Other deferred differences	(21)%	— %	— %
Other	(1)%	— %	1 %
Effective income tax rate	(56)%	49 %	26 %

In 2018, we had total income tax benefit of $2.1 million, including $2.3 million in domestic deferred income tax benefit, a non-cash benefit, and $0.1 million in current income tax expense. In 2017, we had total income tax expense of $8.9 million, including $8.9 million in domestic deferred income tax expense, a non-cash expense, and $0.05 million in current income tax expense. In 2016, we had total income tax expense of $4.3 million, including $3.9 million in domestic deferred income tax expense, a non-cash expense, and $0.4 million in current income tax expense. Income tax expense decreased in 2018 from 2017 from the recognition of $1.9 million in tax benefits related to stock based compensation deductions. The overall increase in tax expense in 2017 from 2016 was due to the re-measurement of our deferred tax assets (including the valuation allowance) due to the U.S. Tax Cuts and Jobs Act, offset by the reduction of tax expense from stock based compensation deductions.

ASC 740 provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in the financial statements. Tax positions must meet a "more-likely-than-not" recognition threshold before a benefit is recognized in the financial statements. As of December 31, 2018, the Company has not recorded a liability for uncertain tax positions. The Company would recognize interest and penalties related to uncertain tax positions in income tax (benefit) expense. No interest and penalties related to uncertain tax positions were accrued at December 31, 2018.

U.S. Tax Reform

On December 22, 2017, the tax legislation commonly known as the U.S. Tax Cuts and Jobs Act (the "Act") was signed into law. This enactment resulted in a number of significant changes to U.S. federal income tax law for U.S. corporations. Most notably, the statutory U.S. federal corporate income tax rate was changed from 35% to 21% for corporations; a one-time transition tax via a mandatory deemed repatriation of post-1986 undistributed foreign earnings; a tax on global intangible low-taxed income (“GILTI”) for tax years beginning after December 31, 2017; the further limitation of the deductibility of share-based compensation of certain highly compensated employees; and the repeal of the corporate alternative minimum tax; amongst other things.

Shortly after enactment, the SEC issued SAB 118, which provides guidance on accounting for the new legislation. Under SAB 118, an entity should recognize amounts for which accounting can be completed. Where accounting under ASC 740 is incomplete relative to certain income tax effects of tax reform, the entity should recognize provisional amounts and adjust such amounts as more information becomes available and disclose this information in its financial statements. The measurement period under SAB 118 is one year from date of enactment. The measurement period for these changes ended on December 22, 2018. In the fourth quarter of 2017, the Company recorded a provisional net inclusion amount of $38 thousand for the one-time transition tax. After finalizing the accounting for the transition tax, the Company recorded an additional $10 thousand for the net inclusion of the transition tax in the fourth quarter of 2018. The Company elected to pay this tax liability in one payment instead of the optional eight year period. As of December 31, 2018, the Company completed its analysis of the impact of the Act in accordance with SAB 118 and the amounts are no longer considered provisional.

GILTI, added by the Act for years beginning after December 31, 2017, is the excess, if any, of the Company's share of our foreign subsidiaries' (CFC) "net CFC tested income" over its "net deemed tangible income" for the tax year. For 2018, the Company has recorded a GILTI addition to taxable gross income of $230 thousand. The Company has elected to treat GILTI as a period cost instead of recording a deferred tax liability and to use the "tax law ordering approach" when assessing the need for a valuation allowance related to the potential loss of cash tax savings from net operating losses used to offset future GILTI.

The Act made significant changes to IRC §162(m), limit on the deduction for excessive remuneration to covered employees of public corporations. IRC §162(m) disallows the Company from deducting the compensation of any covered employee which exceeds $1.0 million with respect to such employee, for the taxable year. For the limitation, the Company has elected to allocate compensation on a cash first approach. Tax deductible compensation will be allocated to cash-compensation first and a deferred tax asset will only be recorded for share-based compensation up to the limit of $1.0 million per covered employee per year. If cash-based compensation is expected to exceed the limitation, no deferred tax asset will be recorded for any share based compensation in that taxable year. Any excess compensation over the limitation will be a non-deductible expense to the Company and would increase our effective tax rate in future periods.

As of December 31, 2017, Heska no longer asserted indefinite reinvestment under the exception noted in ASC 740-30-25-3, which states that the presumption that all undistributed earnings will be transferred to the parent entity may be overcome, and no income taxes shall be accrued by the parent entity. In 2017, we had an excess of the amount for financial reporting over the tax basis in our foreign subsidiaries and we recorded an estimated $0.2 million of deferred tax liability for the unremitted earnings of foreign subsidiaries. In 2018, tax liability from the GILTI tax resulted in an excess of the amount for tax over the financial reporting basis in our foreign subsidiaries. Therefore, in accordance with ASC 740, we have removed our deferred tax liability and have not recorded a deferred tax asset for the excess tax basis in unremitted earnings from foreign subsidiaries.

5. SALES-TYPE LEASES

In our CCA segment, primarily related to our Point of Care laboratory products, the Company enters into sales-type leases as part of our subscription agreements. Detail of scheduled minimum lease receipts for our sales-type leases are as follows (in thousands):

Year Ending December 31,	
2019	$ 2,989
2020	3,163
2021	3,089
2022	2,715
2023	1,854
Thereafter	1,087
	$ 14,897

6. EARNINGS PER SHARE

Basic earnings per share ("EPS") is computed by dividing net income 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 for the years ended December 31, 2018, 2017 and 2016 (in thousands, except per share data):

	Years ended December 31,		
	2018	**2017**	**2016**
Net income attributable to Heska Corporation	$ 5,850	$ 9,953	$ 10,508
Basic weighted-average common shares outstanding	7,220	7,026	6,783
Assumed exercise of dilutive stock options and restricted stock awards	636	616	578
Diluted weighted-average common shares outstanding	7,856	7,642	7,361
Basic earnings per share	$ 0.81	$ 1.42	$ 1.55
Diluted earnings per share	$ 0.74	$ 1.30	$ 1.43

The following stock options and restricted awards were excluded from the computation of diluted earnings per share because they would have been anti-dilutive (in thousands):

	Years ended December 31,		
	2018	**2017**	**2016**
Stock options	111	123	234

7. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

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

	December 31, 2018
Equity method investment	$ 5,000
Non-marketable equity security investment	3,018
	$ 8,018

Equity Method Investment

On September 24, 2018, the Company invested $5.1 million, including costs, in exchange for a 28.7% interest of a business as part of our product development strategy. 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 (loss) within the Consolidated Statements of Income.

Additionally, the Company entered into a 15-year Manufacturing Supply Agreement, which grants the Company global exclusivity to specified goods.

Non-Marketable Equity Security Investment

On August 8, 2018, the Company invested $3.0 million, including costs, in MBio Diagnostics, Inc. ("MBio"), in exchange for 1,714,285 shares of Series B-3 preferred stock, representing a 6.9% interest in MBio. The Company's investment in MBio 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 with MBio, which provides that MBio produce and commercialize products that will enhance the Company's diagnostic portfolio. As part of this agreement, the Company made upfront payment to MBio 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 from Heska to MBio 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 MBio's research and development work within the CCA segment research and development operating segments. Expense is recognized ratably when incurred and in accordance with the development plan.

The Company evaluated both its equity method investment and non-marketable equity security investment for impairment as of December 31, 2018, and determined that no indications of impairment existed.

8. GOODWILL AND OTHER INTANGIBLES

The following summarizes the changes in goodwill during the years ended December 31, 2018 and 2017 (in thousands):

Carrying amount, December 31, 2016	$	26,647
Foreign currency adjustments		40
Carrying amount, December 31, 2017	$	26,687
Foreign currency adjustments		(8)
Carrying amount, December 31, 2018	$	26,679

Other intangibles assets, net consisted of the following as of December 31, 2018 and 2017 (in thousands):

	2018			2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired technology	$ 8,200	$ —	$ 8,200	$ —	$ —	$ —
Customer relationships and other	3,303	(1,739)	1,564	3,309	(1,351)	1,958
Total intangible assets	$ 11,503	$ (1,739)	$ 9,764	$ 3,309	$ (1,351)	$ 1,958

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

	Years Ended December 31,		
	2018	2017	2016
Amortization expense	$ 388	$ 388	$ 230

Estimated amortization expense related to intangibles for each of the five years from 2019 through 2023 and thereafter is as follows (in thousands):

Year Ending December 31,	
2019	$ 1,208
2020	1,208
2021	1,203
2022	1,198
2023	851
Thereafter	4,096
	$ 9,764

9. PROPERTY AND EQUIPMENT

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

	December 31,	
	2018	2017
Land	$ 377	$ 377
Building	2,978	2,868
Machinery and equipment	33,087	32,188
Office furniture and equipment	1,687	1,665
Computer hardware and software	4,704	4,579
Leasehold and building improvements	9,953	8,156
Construction in progress	1,274	3,531
	54,060	53,364
Less accumulated depreciation	(38,079)	(36,033)
Total property and equipment, net	$ 15,981	$ 17,331

The Company has subscription agreements whereby its instruments in inventory may be placed in a customer's location on a rental basis. The cost of these instruments is transferred to machinery and equipment and depreciated, typically over a five to seven-year period depending on the circumstance under which the instrument is placed with the customer. Our cost of equipment under operating leases at December 31, 2018 and 2017, respectively, was $10.8 million and $10.8 million, before accumulated depreciation of $6.1 million and $5.0 million.

Depreciation expense for property and equipment was $4.2 million, $4.3 million and $4.4 million for the years ended December 31, 2018, 2017 and 2016, respectively.

10. ACCRUED LIABILITIES

Accrued liabilities consisted of the following (in thousands):

	2018	2017
Accrued payroll and employee benefits	$ 759	$ 1,209
Accrued property taxes	632	661
Accrued settlement (see Note 13)	6,750	—
Other	2,001	2,204
Total accrued liabilities	$ 10,142	$ 4,074

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

11. CAPITAL STOCK

Stock Plans

We have two stock option plans which authorize granting of stock options, restricted 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") and terminated two prior stock plans. All shares that remained available for grant under the terminated plans were incorporated into the 1997 Plan, including shares subsequently canceled under prior plans. In May 2012, the stockholders approved an amendment to the 1997 Plan allowing for an increase of 250,000 shares and an annual increase through 2016 based on the number of non-employee directors serving as of our Annual Meeting of Stockholders, subject to a maximum of 45,000 shares per year. In May 2016, the stockholders approved a further amendment to the 1997 Plan to authorize an additional 500,000 shares to be available for issuance thereunder. In May 2018, the stockholders approved a further amendment to the 1997 Plan to authorize an additional 250,000 shares to be available for issuance thereunder. In December 2018, the Company's Board of Directors amended the 1997 Plan and renamed it the "Stock Incentive Plan". 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. The number of shares reserved for issuance under both plans as of December 31, 2018 was 252,448.

Stock Options

The stock options granted by the Board of Directors may be either incentive stock options ("ISOs") or non-qualified stock options ("NQs"). The exercise price for options under all of the plans may be no less than 100% of the fair value of the underlying common stock. Options granted will expire no later than the tenth anniversary subsequent to the date of grant or three months following termination of employment, except in cases of death or disability, in which case the options will remain exercisable for up to twelve months. Under

the terms of the 1997 Plan, in the event we are sold or merged, outstanding options will either be assumed by the surviving corporation or vest immediately.

There are four key inputs to the Black-Scholes model which we use to estimate the fair value for options which we issue: expected term, expected volatility, risk-free interest rate and expected dividends, all of which require us to make estimates. Our estimates for these inputs may not be indicative of actual future performance and changes to any of these inputs can have a material impact on the resulting estimated fair value calculated for the option. Our expected term input was estimated based on our historical experience for time from option grant to option exercise for all employees in 2018, 2017 and 2016. We treated all employees in one grouping in all three years. Our expected volatility input was estimated based on our historical stock price volatility in 2018, 2017 and 2016. Our risk-free interest rate input was determined based on the U.S. Treasury yield curve at the time of option issuance in 2018, 2017 and 2016. Our expected dividends inputs were zero in all periods as we did not anticipate paying dividends in the foreseeable future. We recognize forfeitures as they occur.

Weighted average assumptions used in 2018, 2017 and 2016 for each of these four key inputs are listed in the following table:

	2018	2017	2016
Risk-free interest rate	2.66%	1.76%	1.76%
Expected lives	4.9 years	4.8 years	4.5 years
Expected volatility	40%	41%	41%
Expected dividend yield	0%	0%	0%

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

	Year Ended December 31,	
	2018	
	Options	Weighted Average Exercise Price
Outstanding at beginning of period	630,847	$ 29.312
Granted at Market	153,700	$ 75.244
Forfeited	(18,978)	$ 53.010
Expired	(896)	$ 65.414
Exercised	(144,120)	$ 25.740
Outstanding at end of period	620,553	$ 40.741
Exercisable at end of period	386,176	$ 21.214

The total estimated fair value of stock options granted were computed to be approximately $4.4 million, $1.0 million and $3.2 million during the years ended December 31, 2018, 2017 and 2016, respectively. The amounts are amortized ratably over the vesting periods of the options. The weighted average estimated fair value of options granted was computed to be approximately $28.81, $37.35 and $24.59 during the years ended December 31, 2018, 2017 and 2016, respectively. The total intrinsic value of options exercised was $10.5 million, $17.7 million and $9.9 million during the years ended December 31, 2018, 2017 and 2016, respectively. The cash proceeds from options exercised was $3.2 million, $1.8 million and $1.9 million during the years ended December 31, 2018, 2017 and 2016, respectively.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2018.

	Options Outstanding			Options Exercisable		
Exercise Prices	Number of Options Outstanding at December 31, 2018	Weighted Average Remaining Contractual Life in Years	Weighted Average Outstanding Price	Number of Options Exercisable at December 31, 2018	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price
$4.50 - $7.36	167,737	3.61	$ 6.565	167,737	3.61	$ 6.565
$7.37 - $32.21	128,465	5.26	$ 15.777	127,261	5.25	$ 15.631
$32.22 - $62.50	75,972	7.03	$ 39.745	54,133	7.04	$ 39.647
$62.51 - $69.77	130,000	9.18	$ 69.770	—	0.00	$ —
$69.78 - $108.25	118,379	8.40	$ 85.020	37,045	8.12	$ 79.793
$4.50 - $108.25	620,553	6.45	$ 40.741	386,176	5.06	$ 21.214

As of December 31, 2018, there was approximately $5.3 million of total unrecognized compensation cost related to outstanding stock options. That cost is expected to be recognized over a weighted-average period of 1.9 years with all cost to be recognized by the end of October 2022, assuming all options vest according to the vesting schedules in place at December 31, 2018. As of December 31, 2018, the aggregate intrinsic value of outstanding options was approximately $28.9 million and the aggregate intrinsic value of exercisable options was approximately $25.2 million.

Employee Stock Purchase Plan

Under the 1997 Employee Stock Purchase Plan (the "ESPP"), we are authorized to issue up to 450,000 shares of common stock to our employees, of which 429,729 had been issued as of December 31, 2018. On May 5, 2015, our shareholders approved the amendment and restatement of the ESPP, including a 75,000 share increase to 450,000 total shares authorized under the ESPP as well as changes discussed below as compared to the ESPP prior to the amendment and restatement. Employees who are expected to work at least 20 hours per week and 5 months per year are eligible to participate and can choose to have up to 10% of their compensation withheld to purchase our stock under the ESPP when they choose to withhold a whole percentage of their compensation.

Beginning on July 1, 2013, our ESPP had a 27-month offering period and three-month accumulation periods ending on each March 31, June 30, September 30 and December 31. The purchase price of stock on March 31, June 30, September 30 and December 31 was the lesser of (1) 85% of the fair market value at the time of purchase and (2) the greater of (i) 95% of the fair market value at the beginning of the applicable offering period or (ii) 65% of the fair market value at the time of purchase. In addition, participating employees may purchase shares under the ESPP at the beginning of an applicable offering period for a purchase price of stock equal to 95% of the fair market value at such time or at 5 pm on a day other than March 31, June 30, September 30 and December 31 during the applicable offering period for a purchase price of stock equal to 95% of the fair market value at purchase.

Beginning April 1, 2015, employees may elect to withhold a positive fixed amount from each compensation payment in addition to the previous approach of withholding a whole percentage of such compensation payment, with all withholding for a given employee subject to a maximum monthly amount of $2,500 following the amendment and restatement as opposed to a $25,000 maximum annual amount prior to the amendment and restatement. For offering periods beginning on or after April 1, 2015, the purchase price of stock on March 31, June 30, September 30 and December 31 is to be the lesser of (1) 85% of the fair market

value at the time of purchase and (2) the greater of (i) 85% of the fair market value at the beginning of the applicable offering period, (ii) the fair market value at the beginning of the applicable offering period less 1 cent and (iii) 65% of the fair market value at the time of purchase. In addition, participating employees may elect to purchase shares under the ESPP at the beginning of an applicable offering period for a purchase price of stock equal to the greater of (1) 85% of the fair market value at the beginning of the applicable offering period and (2) the fair market value at the beginning of the applicable offering period less 1 cent or at 5 pm on a day other than March 31, June 30, September 30 and December 31 during the applicable offering period for a purchase price of stock equal to the greater of (1) 85% of the fair market value at the time of purchase and (2) the fair market value at the time of purchase less 1 cent.

We issued 10,078, 10,983 and 17,826 shares under the ESPP for the years ended December 31, 2018, 2017 and 2016, respectively.

For the years ended December 31, 2018**,** 2017 and 2016, we estimated the fair values of stock purchase rights granted under the ESPP using the Black-Scholes pricing model and the following weighted average assumptions:

	2018	2017	2016
Risk-free interest rate	1.67%	0.74%	0.54%
Expected lives	1.2 years	1.2 years	1.2 years
Expected volatility	42%	45%	42%
Expected dividend yield	0%	0%	0%

The weighted-average fair value of the purchase rights granted was $18.14, $15.72 and $8.23 per share for the years ended December 31, 2018, 2017 and 2016, respectively.

Restricted Stock

We have granted non-vested restricted stock awards (“restricted stock”) to management and directors pursuant to the 1997 Plan. The restricted stock awards have varying vesting periods, but generally become fully vested between one and four 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. We valued the restricted stock awards 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, 2018:

	RSAs	Weighted-Average Grant Date Fair Value Per Award
Non-vested as of December 31, 2017	124,943	$ 57.67
Granted	190,730	$ 71.77
Vested	(56,243)	$ 28.97
Forfeited	—	—
Non-vested as of December 31, 2018	259,430	$ 74.26

The weighted average grant date fair value of awards granted during the year was $71.77, $82.36 and $33.64 for the years ended December 31, 2018, 2017 and 2016, respectively. Fair value of restricted stock vested was $4.4 million, $3.9 million and $1.5 million for the years ended December 31, 2018, 2017 and 2016, respectively.

As of December 31, 2018, there was approximately $3.0 million of total unrecognized compensation cost related to restricted stock. The Company expects to recognize this expense over a weighted average period of 1.6 years. As of December 31, 2018, we reviewed each of the underlying corporate performance targets and determined that approximately 167,000 of shares of common stock were related to corporate performance targets in which we did not deem achievement probable. No compensation expense had been recorded at any period prior to December 31, 2018. The unrecognized compensation cost associated with the restricted stock awards not deemed probable, based on grant date fair value, is approximately $13.5 million. Any change in the probability determination could accelerate the recognition of this expense.

Restrictions on the transfer of Company stock

The Company's Restated Certificate of Incorporation, as amended (the "Certificate of Incorporation"), places restrictions (the "Transfer Restrictions") on the transfer of the Company's stock that could adversely affect the Company's ability to utilize its domestic Federal Net Operating Loss Position. In particular, the Transfer Restrictions prevent the transfer of shares without the approval of the Company's Board of Directors if, as a consequence of such transfer, 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 the Company's Board of Directors. Any transfer of shares in violation of the Transfer Restrictions (a "Transfer Violation") shall be void *ab initio* under the Certificate of Incorporation, and the Company's Board of Directors has procedures under the 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.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Minimum pension liability	Foreign currency translation	Total accumulated other comprehensive income
Balances at December 31, 2016	$ (501)	$ 598	$ 97
Other comprehensive income	12	123	135
Balances at December 31, 2017	(489)	721	232
Other comprehensive income (loss)	70	(25)	45
Balances at December 31, 2018	$ (419)	$ 696	$ 277

13. COMMITMENTS AND CONTINGENCIES

Royalty Agreements

The Company holds certain rights to market and manufacture all products developed or created under certain research, development and licensing agreements with various entities. In connection with such agreements, the Company has agreed to pay the entities royalties on net product sales. Royalties of $0.3 million became payable under these agreements in the years ended December 31, 2018 and 2017, and $0.4 million in the year ended December 31, 2016.

Operating Leases

The Company has entered into operating leases for its office and research facilities, vehicles and certain equipment with future minimum payments as of December 31, 2018 as follows (in thousands):

Year Ending December 31,		
2019	$	2,134
2020		1,993
2021		1,859
2022		1,765
2023		2,357
Thereafter		—
	$	10,108

The Company had rent expense, relating to office space, of $1.5 million for the year ended December 31, 2018 and $1.6 million for the years ended December 31, 2017 and 2016. Other rent expense totaled $0.4 million for the years ended December 31, 2018 and 2017 and $0.3 million for the year ended December 31, 2016.

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 October 10, 2018, we reached an agreement in principle to settle the complaint that was filed against the Company by Shaun Fauley on March 12, 2015 in the U.S. District Court Northern District of Illinois alleging our transmittal of unauthorized faxes in violation of the federal Telephone Consumer Protection Act of 1991, as amended by the Junk Fax Prevention Act of 2005, as a class action. The settlement, which was approved by the court on February 28, 2019, will require us, among other things, to make available a total of $6.75 million to pay class members, as well as to pay attorneys' fees and expenses to legal counsel to the class. The Company has recorded an estimated loss provision of approximately $7.0 million in 2018 in connection with the settlement agreement and expenses associated with the matter, which is included in general and administrative expenses in the Consolidated Statements of Income. The Company does not have insurance coverage for the Fauley Complaint.

At December 31, 2018, 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.

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 of its products. The Company also sells a renewal warranty for certain of its products. The typical remedy for breach of warranty is to correct or replace any defective product, and if not possible or practical, the Company will accept the return of the defective product and refund the amount paid. Historically, the Company has incurred minimal warranty costs. The Company's warranty reserve was $0.2 million as of December 31, 2018 and 2017.

14. INTEREST AND OTHER (INCOME) EXPENSE

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

	Year Ended December 31,		
	2018	2017	2016
Interest income	$ (261)	$ (167)	$ (124)
Interest expense	310	245	160
Other expense (income), net	(62)	(228)	(7)
	$ (13)	$ (150)	$ 29

Cash paid for interest was $224 thousand, $206 thousand and $78 thousand for the years ended December 31, 2018, 2017 and 2016, respectively.

15. CREDIT FACILITY AND LONG-TERM DEBT

On July 27, 2017, and as subsequently amended in May and December of 2018, we entered into a Credit Agreement (the "Credit Agreement") with JPMorgan Chase Bank, N.A. ("Chase") which provides for a revolving credit facility of up to $30.0 million (the "Credit Facility"). The Credit Facility provides us with the ability to borrow up to $30.0 million, although the amount of the Credit Facility may be increased by an additional $20.0 million up to a total of $50.0 million subject to receipt of additional lender commitments and other conditions. Any interest on borrowings due is to be charged at either the (i) rate of interest per annum publicly announced from time to time by Chase at its prime rate in effect at its principal offices in New York City, subject to a floor, minus 1.65%, or (ii) the interest rate per annum equal to (a) LIBOR for the interest period in effect multiplied by (b) Chase's Statutory Reserve Rate (as defined in the Credit Agreement), plus 1.10% and payable monthly. There is an annual minimum interest charge of $60 thousand under the Credit Agreement. Chase holds first right of priority over all other liens, if any were to exist. Borrowings under the Credit Facility are subject to certain financial and non-financial covenants and are available for various corporate purposes, including general working capital, capital investments and certain permitted acquisitions. The Credit Agreement also permits us to issue letters of credit, although there are currently none outstanding. The maturity date of the Credit Facility is July 27, 2020. The foregoing discussion of the Credit Facility is a summary only and is qualified in its entirety by reference to the full text of the Credit Agreement, a copy of which has been filed as an exhibit to the Company's Current Report on Form 8-K filed with the SEC on August 2, 2017. Additionally, a Facility Amendment has been filed as an exhibit to the Company's Current Report on Form 10-Q filed with the SEC on August 8, 2018 followed by a second Facility Amendment which has been filed as an exhibit to this Annual Report on Form 10-K for the year ended December 31, 2018.

As of December 31, 2018 and 2017, we had $6.0 million of borrowings outstanding on this line of credit and we were in compliance with all financial covenants. In connection with the Credit Agreement, the Company

incurred debt issuance costs of $120 thousand. These costs are included in other non-current assets on the Company's Consolidated Balance Sheets, and will be amortized to interest expense ratably over the term of the agreement.

Concurrent with the Credit Agreement, we repaid all outstanding balances and closed our $15.0 million asset-based revolving line of credit with Wells Fargo, which had a maturity date of December 31, 2017.

16. SEGMENT REPORTING

The Company's two reportable segments are CCA and OVP. The CCA segment includes Point of Care diagnostic laboratory instruments and consumables, and Point of Care digital imaging diagnostic instruments and software services as well as single use diagnostic and other tests, pharmaceuticals and vaccines, primarily for canine and feline use. These products are sold directly by the Company as well as through independent third party distributors and through other distribution relationships. CCA segment products manufactured at the Des Moines, Iowa production facility included in the OVP segment's assets are transferred at cost and are not recorded as revenue for the OVP segment. The OVP segment includes private label vaccine and pharmaceutical production, primarily for cattle, in addition to other small mammals. All OVP products are sold by third parties under third party labels.

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

Year Ended December 31, 2018	Core Companion Animal	Other Vaccines and Pharmaceuticals	Total
Total revenue	$ 108,924	$ 18,522	$ 127,446
Operating income	2,040	1,754	3,794
Income before income taxes	2,053	1,754	3,807
Investments in unconsolidated affiliates	8,018	—	8,018
Total assets	133,586	22,866	156,452
Net assets	96,129	26,280	122,409
Capital expenditures	180	1,178	1,358
Depreciation and amortization	3,369	1,226	4,595

Year Ended December 31, 2017	Core Companion Animal	Other Vaccines and Pharmaceuticals	Total
Total revenue	$ 105,191	$ 24,150	$ 129,341
Operating income	12,656	5,563	18,219
Income before income taxes	12,828	5,541	18,369
Investments in unconsolidated affiliates	—	—	—
Total assets	111,625	23,819	135,444
Net assets	75,984	24,456	100,440
Capital expenditures	209	3,260	3,469
Depreciation and amortization	3,736	1,018	4,754

Year Ended December 31, 2016	Core Companion Animal	Other Vaccines and Pharmaceuticals	Total
Total revenue	$ 107,398	$ 22,685	$ 130,083
Operating income	13,015	3,518	16,533
Income before income taxes	12,938	3,566	16,504
Investments in unconsolidated affiliates	—	—	—
Total assets	110,995	19,849	130,844
Net assets	68,072	18,903	86,975
Capital expenditures	1,135	2,282	3,417
Depreciation and amortization	3,800	845	4,645

Revenue is attributed to individual countries based on customer location. Total revenue by principal geographic area was as follows (in thousands):

	For the Years Ended December 31,		
	2018	2017	2016
U.S.	$ 115,543	$ 116,823	$ 120,082
Canada	2,992	2,924	2,378
Europe	5,995	4,780	4,781
Other International	2,916	4,814	2,842
Total	$ 127,446	$ 129,341	$ 130,083

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

	As of December 31,		
	2018	2017	2016
U.S.	$ 152,633	$ 132,070	$ 127,827
Europe	3,819	3,374	3,017
Total	$ 156,452	$ 135,444	$ 130,844

In our CCA segment, revenue from Butler Animal Health Supply, LLC d/b/a Henry Schein Animal Health ("Henry Schein") represented approximately 15%, 13% and 13% of our consolidated revenue for the years ended December 31, 2018, 2017 and 2016, respectively. Revenue from Merck entities, including Merck Animal Health, represented approximately 12%, 12% and 11% for the years ended December 31, 2018, 2017 and 2016, respectively. Revenue from De Lage Landen Financial Services, Inc. ("DLL"), represented approximately 6%, 7% and 11% of our consolidated revenue for the years ended December 31, 2018, 2017 and 2016, respectively; DLL is a third party that provides financing and leasing for our customers, primarily for our Point of Care imaging products. In our OVP segment, revenue from Eli Lilly entities, including Elanco, represented approximately 9%, 11% and 12% for the years ended December 31, 2018, 2017 and 2016, respectively. No other customer accounted for more than 10% of our consolidated revenue for the years ended December 31, 2018, 2017 or 2016.

17. SUPPLEMENTAL QUARTERLY FINANCIAL DATA (Unaudited)

The following tables present quarterly unaudited results for the two years ended December 31, 2018 and 2017 (amounts in thousands, except per share data).

	Q1	Q2	Q3	Q4	Total
2018					
Total revenue	$ 32,765	$ 29,662	$ 30,955	$ 34,064	$ 127,446
Gross profit	13,307	13,065	14,794	15,472	56,638
Operating income (loss)	1,871	2,204	(3,595)	3,314	3,794
Net income (loss) before equity in losses of unconsolidated affiliates	2,155	1,897	(1,670)	3,540	5,922
Net income (loss), after equity in losses of unconsolidated affiliates	2,155	1,897	(1,670)	3,468	5,850
Net income (loss) attributable to Heska Corporation	2,155	1,897	(1,670)	3,468	5,850
Basic earnings (loss) per share attributable to Heska Corporation	0.30	0.26	(0.23)	0.47	0.81
Diluted earnings (loss) per share attributable to Heska Corporation	0.28	0.24	(0.23)	0.44	0.74
2017					
Total revenue	$ 29,559	$ 33,405	$ 30,336	$ 36,041	$ 129,341
Gross profit	13,209	14,929	13,553	16,570	58,261
Operating income	2,788	4,560	3,778	7,093	18,219
Net income (loss)	4,303	3,139	3,083	(1,069)	9,456
Net income (loss) attributable to Heska Corporation	4,606	3,333	3,083	(1,069)	9,953
Basic earnings (loss) per share attributable to Heska Corporation	0.67	0.47	0.43	(0.15)	1.42
Diluted earnings (loss) per share attributable to Heska Corporation	0.60	0.44	0.40	(0.15)	1.30

Note that the sum of each value line for the four quarters does not necessarily equal the amount reported for the full year due to rounding.

Onward 2019

OFFICERS

Kevin S. Wilson, Chief Executive Officer and President
Jason A. Napolitano, Chief Operating Officer and Chief Strategist
Nancy Wisnewski, Ph.D., Executive Vice President, Diagnostic Operations and Product Development
Steven M. Eyl, Executive Vice President, Global Sales and Marketing
Jason D. Aroesty, Executive Vice President, International Diagnostics
Steven M. Asakowicz, Executive Vice President, Companion Animal Health Sales
Rodney A. Lippincott, Executive Vice President, Companion Animal Health Sales
Catherine I. Grassman, Vice President, Chief Accounting Officer and Controller
Eleanor F. Baker, Vice President, General Counsel and Secretary*
Glenn R. Frank, Vice President, Research and Development*
Laurie E. Peterson, Vice President, Heska Des Moines*
Daniel J. Pollack, Vice President, Financial Planning and Business Analytics*
Mark N. Skeels, Vice President, Research and Development – Software*
Christopher D. Sveen, Vice President, General Counsel*

BOARD OF DIRECTORS

Scott W. Humphrey, Chair of the Board; Former President and Chief Executive Officer of One Hope United
Mark F. Furlong, Former President and Chief Executive Officer, BMO Harris Bank, N.A.
Sharon J. Larson, Principal and CEO of SLR Associates, LLC
G. Irwin Gordon, Former Executive Vice President and Chief Revenue Officer of Invitation Homes
David E. Sveen, Ph.D., President, Cedarstone Partners, Inc.
Bonnie J. Trowbridge, Retired Partner, PricewaterhouseCoopers LLP
Kevin S. Wilson, Chief Executive Officer and President, Heska Corporation
Carol A. Wrenn, Owner and President of Aurora Borealis Enterprises, LLC and Owner and President of Whitewater Advisors, LLC

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*All Officers of Heska Corporation identified without an asterisk are "officers" under Section 16 of the Securities Exchange Act of 1934, as amended, and "executive officers" as defined in Rule 3b-7 under the Exchange Act. Those Officers identified with an asterisk are neither Section 16 "officers" nor "executive officers" of Heska Corporation, but they are board-appointed officers of Heska Corporation. ©2019 Heska Corporation. All Rights Reserved. HESKA is a registered trademark of Heska Corporation in the U.S. and other countries. US19LT0302