

HESKA CORP  
Form DEF 14A  
April 06, 2009

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

**SCHEDULE 14A**  
**(RULE 14a-101)**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  X

Filed by a Party other than the Registrant  O

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240 Rule 14a-12

HESKA CORPORATION  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
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  - (1) Amount Previously Paid:
  - (2) Form, Schedule or Registration Statement No.:
  - (3) Filing Party:
  - (4) Date Filed:



April 6, 2009

Dear Heska Stockholder:

I am pleased to invite you to attend the Annual Meeting of Stockholders of Heska Corporation to be held on Tuesday, May 5, 2009 at 9:00 a.m., local time, at 3760 Rocky Mountain Avenue, Loveland, Colorado 80538.

Details regarding the meeting and the business to be conducted are more fully described in the accompanying Notice of Annual Meeting and Proxy Statement. This notice and all proxy materials in connection with this Annual Meeting are also available on <https://materials.proxyvote.com/42805E>.

Your vote is important. Whether or not you plan to attend the 2009 Annual Meeting, I hope you will vote as soon as possible. You may vote by mailing a proxy or in person at the annual meeting. Please review the instructions in the proxy statement and on the proxy card regarding your voting options.

Thank you for your ongoing support of and continued interest in Heska.

Sincerely,

Robert B. Grieve  
*Chairman and Chief Executive Officer,*  
*Heska Corporation*

Loveland, Colorado

**YOUR VOTE IS IMPORTANT**

In order to ensure your representation at the meeting, please complete, sign and date the enclosed proxy as promptly as possible and return it in the enclosed envelope (to which no postage need be affixed if mailed in the United States).

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**NOTICE OF 2009 ANNUAL MEETING OF STOCKHOLDERS**

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**TIME** 9:00 a.m., local time, on Tuesday, May 5, 2009

**PLACE** Heska Corporation  
3760 Rocky Mountain Avenue  
Loveland, Colorado 80538

- ITEMS OF BUSINESS**
1. To elect two Directors to a three-year term.
  2. To approve an amendment to our 1997 Stock Incentive Plan (our 1997 Stock Plan ), which would reduce the number of shares which could be issued and allow for the further issuance of incentive stock options under our 1997 Stock Plan.
  3. To ratify the appointment of Ehrhardt Keefe Steiner & Hottman PC as Heska Corporation s independent registered public accountant.
  4. To consider such other business as may properly come before the 2009 Annual Meeting.

**RECORD DATE** You can vote if you were a stockholder of record at the close of business on March 26, 2009.

**ANNUAL REPORT** Our 2008 Annual Report on Form 10-K, which is not a part of the proxy soliciting material, is enclosed.

**VOTING BY PROXY** Please submit a proxy as soon as possible so that your shares can be voted at the 2009 Annual Meeting in accordance with your instructions. For specific instructions on voting, please refer to the instructions on the proxy card.

April 6, 2009

By Order of the Board of Directors

Jason A. Napolitano  
*Executive Vice President, Chief Financial Officer  
and Secretary, Heska Corporation*

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*This proxy statement and accompanying proxy card are being distributed on or about April 6, 2009.*

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING  
TO BE HELD ON MAY 5, 2009**

**The Proxy Statement, the Proxy Card and our 2008 Annual Report on Form 10-K are available at  
<https://materials.proxyvote.com/42805E>.**

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**QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS**

**AND THE 2009 ANNUAL MEETING**

**Q: *Why am I receiving these materials?***

**A:** The Board of Directors (the Board) of Heska Corporation, a Delaware corporation (Heska or the Company), is providing these proxy materials for you in connection with Heska's Annual Meeting of Stockholders (the Annual Meeting). The 2009 Annual Meeting will take place on Tuesday, May 5, 2009. As a stockholder, you are invited to attend the 2009 Annual Meeting and are entitled to and requested to vote on the items of business described in this proxy statement.

**Q: *What information is contained in these materials?***

**A:** The information included in this proxy statement relates to the proposals to be voted on at the 2009 Annual Meeting, the voting process, the compensation of our Directors and most highly paid Executive Officers, and certain other required information. Our 2008 Annual Report on Form 10-K as filed with the Securities and Exchange Commission is also enclosed.

**Q: *What items of business will be voted on at the 2009 Annual Meeting?***

**A:** The items of business scheduled to be voted on at the 2009 Annual Meeting are:

- (1) The election of two nominees to serve on our Board of Directors for a three-year term;
- (2) The approval of an amendment to our 1997 Stock Plan, which would reduce the number of shares which could be issued and allow for the further issuance of incentive stock options under our 1997 Stock Plan; and
- (3) The ratification of our independent registered public accountant for fiscal 2009.

We will also consider other business that properly comes before the 2009 Annual Meeting.

**Q: *How does the Board recommend I vote on the proposals?***

**A:** The Board recommends a vote FOR the election of each of the Director nominees, FOR approval of the amendment to our 1997 Stock Plan and FOR the ratification of Ehrhardt Keefe Steiner & Hottman PC ( EKS&H ) as the Company's independent registered public accountant.

**Q: *Who is entitled to vote?***

**A:** Stockholders as of the close of business on March 26, 2009 (the Record Date ) are entitled to vote at the 2009 Annual Meeting. As of the Record Date, 52,010,928 shares of our common stock were issued and outstanding. Each stockholder is entitled to one vote for each share of common stock held on the Record Date. A list of stockholders entitled to vote at the 2009 Annual Meeting will be available at the 2009 Annual Meeting and for ten days prior to the meeting during normal business hours at our offices at 3760 Rocky Mountain Avenue, Loveland, Colorado 80538, by contacting our Secretary.

**Q: *How do I vote?***

**A:** There are two ways you can vote:

- (1) Sign and date each proxy card you receive and return it in the prepaid envelope.
  
- (2) Vote in-person at the 2009 Annual Meeting. If your shares are held of record by a broker, bank or other nominee and you wish to vote your shares at the 2009 Annual Meeting, you must contact your broker, bank or other nominee to obtain the proper documentation and bring it with you to the 2009 Annual Meeting.

**Q: *How can I change my vote or revoke my proxy?***

**A:** You have the right to revoke your proxy and change your vote at any time before the meeting by notifying our Secretary, or returning a later-dated proxy card. You may also revoke your proxy and change your vote by voting in person at the meeting.

**Q: *Who can help answer my questions?***

**A:** If you have any questions about the 2009 Annual Meeting or how to vote or revoke your proxy, you should contact:

Heska Corporation

Attn: Secretary

3760 Rocky Mountain Avenue

Loveland, Colorado 80538

(970) 493-7272

If you need additional copies of this proxy statement or voting materials, please contact our Secretary as described above.

**Q: *What does it mean if I get more than one proxy card?***

**A:** It means that you hold shares registered in more than one account. Sign and return all proxies to ensure that all of your shares are voted.

**Q: *Who will serve as inspector of elections?***

**A:** The inspector of elections will be a representative of Computershare Trust Company, Inc., our transfer agent.

**Q: *What are the quorum and voting requirements for the 2009 Annual Meeting?***

**A:** The quorum requirement for holding the 2009 Annual Meeting and transacting business is that holders of a majority of the outstanding shares of our common stock entitled to vote must be present in person at the meeting or represented by proxy. Both abstentions and non-votes are counted for the purposes of determining the presence of a quorum, but not in determining the matter at hand. We will consider an abstention or a non-vote on a given matter to be a forfeiture of the right to vote on that matter and a forfeiture of the voting power present at the 2009 Annual Meeting underlying the forfeited votes regarding that matter. Accordingly, if you abstain on a given matter, your shares will not be voted for or against that matter and will not be considered as present and entitled to vote on that matter. However, you may abstain on a given matter for a certain portion of your shares and vote on the same matter with the remaining portion of your shares without forfeiting the votes underlying the shares you choose to vote. For example, a stockholder who owns 100 shares may choose to abstain on a proposal with 50 shares and vote for a proposal with the other 50 shares. In this case, the stockholder would forfeit his right to vote 50 shares on the proposal and would have his other 50 votes count for the proposal. In addition, an abstention or a non-vote on any matter will not affect your ability to vote on any other matter. If you hold shares in street name through a broker or other nominee, your broker or nominee may not be permitted to exercise voting discretion with respect to certain matters to be acted upon. If you do not give your broker or nominee specific instructions, your shares may not be voted on those matters and, if so, will not be considered as present and entitled to vote with respect to those matters.

The holders of a majority of the outstanding shares of our common stock, present in person or by proxy, will constitute a quorum for the transaction of business at the 2009 Annual Meeting. Election of Directors will be determined by a plurality of the votes of the shares present in person or by proxy at the 2009 Annual Meeting and entitled to vote on the election of Directors. The other matters submitted for stockholder approval at the 2009 Annual Meeting, including the approval of the amendment to our 1997 Stock Plan, will be approved by the affirmative vote of a majority of the shares having voting power present in person or by proxy at the 2009 Annual Meeting and entitled to vote on the subject matter.

**Q: *Who can attend the 2009 Annual Meeting?***

**A:** All stockholders as of the Record Date can attend. If you wish to vote your shares at the 2009 Annual Meeting and your shares are held of record by a broker, bank or other nominee, you must contact your broker, bank or other nominee to obtain the proper documentation

and bring it with you to the 2009 Annual Meeting.

**Q: *What happens if additional matters are presented at the 2009 Annual Meeting?***

**A:** Other than the three items of business described in this proxy statement, we are not aware of any other business to be acted upon at the 2009 Annual Meeting. If you grant a proxy, the persons named as proxyholders - Robert B. Grieve, Ph.D. our Chairman and Chief Executive Officer, Jason A. Napolitano, our Executive Vice President, Chief Financial Officer and Secretary and Michael A. Bent, our Vice President, Principal Accounting Officer and Controller - will have the discretion to vote your shares on any additional matters presented for a vote at the meeting. If for any unforeseen reason any of our nominees is not available as a candidate for Director, the persons named as proxyholders, Dr. Grieve, Mr. Napolitano and Mr. Bent, will vote your proxy for such other candidate or candidates who may be nominated by the Board.

**Q: *Where can I find the voting results of the meeting?***

**A:** We intend to announce preliminary voting results at the 2009 Annual Meeting and publish final results in our quarterly report on Form 10-Q for our second fiscal quarter of 2009.

**Q: *May I propose actions for consideration at next year's Annual Meeting or nominate individuals to serve as Directors?***

**A:** You may submit proposals, including Director nominations, for consideration at future stockholder meetings. All proposals or nominations should be addressed to: Secretary, Heska Corporation, 3760 Rocky Mountain Avenue, Loveland, Colorado 80538.

***Stockholder Proposals:*** For a stockholder proposal to be considered for inclusion in our proxy statement for the annual meeting next year, the written proposal must be received by our Secretary at our principal executive offices under either (1) Rule 14a-8 under the Securities Exchange Act of 1934, as amended (a Rule 14 Proposal ) or (2) the bylaws of Heska (a Bylaws Proposal ). A Rule 14 Proposal must be received by our Secretary at our principal executive offices no later than December 3, 2009. If the date of next year's annual meeting is moved more than 30 days before or after the anniversary date of this year's annual meeting, the deadline for inclusion of proposals in our proxy statement is instead a reasonable period of time before we begin to print and mail our proxy materials. Such proposals also will need to comply with Rule 14a-8 under the Securities Exchange Act of 1934, as amended, regarding the inclusion of stockholder proposals in company-sponsored proxy materials. For a Bylaws Proposal, the stockholder must deliver a written notice of intent to propose such action in accordance with our bylaws, which in general require

that the notice be received by us not less than 60 days nor more than 90 days prior to the first anniversary of the date on which notice of the prior year's annual meeting was mailed to stockholders. These proxy materials for the 2009 Annual Meeting were mailed on April 6, 2009. This means that for the 2010 Annual Meeting, that any such proposal must be received no earlier than January 6, 2010 and no later than February 5, 2010.

**Director Nominees:** You may propose Director candidates for consideration by the Board's Corporate Governance Committee. Any such recommendations should be directed to our Secretary at our principal executive offices. In addition, you may nominate a Director for consideration by Heska's stockholders if you give timely and adequate notice to our Secretary of your intention to make such nomination in accordance with our bylaws, which require that the notice be received by the Secretary within the time periods described above under "Stockholder Proposals" and with the detail regarding your nomination as is required by our bylaws.

**Copy of Bylaw Provisions:** You may contact our Secretary at our principal executive offices for a copy of the relevant bylaw provisions regarding the requirements for making stockholder proposals and nominating Director candidates. A copy of our bylaws has also been filed with the Securities and Exchange Commission with our Quarterly Report on Form 10-Q for the quarter ended June 30, 2002. A copy of which is accessible at the website of the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

**Q: *Who bears the costs of soliciting votes for the 2009 Annual Meeting?***

**A:** Heska is making this solicitation and will pay the entire cost of preparing, printing, assembling and mailing these proxy materials. In addition to the mailing of these proxy materials, certain of our Directors and employees may solicit proxies on our behalf in person, by telephone, electronic transmission or facsimile. No additional compensation will be paid to these people for such solicitation. Upon request, we will also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding proxy and solicitation materials to stockholders.

## **BOARD STRUCTURE AND COMMITTEES**

Our Board is divided into three classes serving staggered three-year terms. Our Board has three standing Committees, each of which is chaired by an outside Director: (1) Audit (the Audit Committee ), (2) Compensation (the Compensation Committee ) and (3) Corporate Governance (the Corporate Governance Committee ). The membership during 2008 and the function of each Committee are described below. Our Board held four meetings during 2008. Our Board currently has six Directors: Robert B. Grieve, Ph.D., Chairman, William A. Aylesworth, Peter Eio, G. Irwin Gordon, Louise L. McCormick and John F. Sasen, Sr. A. Barr Dolan also served as a Director in 2008; Mr. Dolan chose not to stand for re-election to our Board and his service as a Director ended on May 6, 2008, which was the day of our 2008 Annual Meeting. All of our Directors in 2008, other than Mr. Dolan, attended our last annual meeting of stockholders and all Board and applicable Committee meetings.

### ***Board Independence***

Our Board has determined that each of the Directors standing for re-election has no material relationship with the Company (either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company) and meets the requirements of independence as set forth in the rules and regulations promulgated by the Securities and Exchange Commission (the SEC ) and the Nasdaq Stock Market listing standards (the Nasdaq Listing Standards ). Furthermore, the Board has determined that, with the exception of Dr. Grieve, Heska's Chairman and Chief Executive Officer, all current members of the Board meet the requirements of independence as set forth in the rules and regulations promulgated by the SEC and the Nasdaq Listing Standards.

### ***Audit Committee***

Our Audit Committee has the following responsibilities:

- appoint and replace our independent auditors;
- compensate and oversee the work of our independent auditors;
- oversee and monitor the integrity of our annual and quarterly financial statements;
- review and discuss with management and our independent auditors significant financial reporting issues and critical accounting policies and practices;
- oversee and monitor the qualifications, independence and performance of our independent auditors;



- oversee and monitor our internal accounting and financial controls; and
- provide the results of examinations and recommendations derived therefrom to the Board.

During 2008, our Audit Committee met five times. Our Audit Committee consisted of Mr. Aylesworth, as Chairman, Mr. Eio and Mr. Gordon prior to our 2008 Annual Meeting on May 6, 2008 and has consisted of Mr. Aylesworth, as Chairman, Mr. Eio and Ms. McCormick since our 2008 Annual Meeting.

Our Board has determined that each of the current members of our Audit Committee meets the requirements of independence as set forth in Section 10A(m)(3) of the Securities Exchange Act of 1934, the rules and regulations promulgated by the SEC and the Nasdaq Listing Standards. Our Board has also determined that William A. Aylesworth is an audit committee financial expert within the meaning of the

rules and regulations promulgated by the SEC and he has accounting and related financial management expertise within the meaning of the Nasdaq Listing Standards.

Our Audit Committee has a written charter, which is available on our website at [www.heska.com](http://www.heska.com) (under Investors Corporate Governance). *The Company's website address provided above is not intended to function as a hyperlink, and the information on the Company's website is not and should not be considered part of this proxy statement and is not incorporated by reference herein.*

#### ***Compensation Committee***

Our Compensation Committee has the following responsibilities:

- discharge the Board's responsibilities relating to compensation of our Executive Officers, including our Chief Executive Officer;
- oversee all compensation programs involving the use of our stock; and
- produce an annual report on executive compensation for inclusion in our proxy statement for our annual meeting of stockholders.

During 2008, our Compensation Committee met five times. Our Compensation Committee consisted of Mr. Eio, as Chairman, Mr. Dolan and Mr. Gordon prior to our 2008 Annual Meeting and has consisted of Mr. Eio, as Chairman, Mr. Gordon and Mr. Sasen since our 2008 Annual Meeting.

Our Board has determined that each of the current members of our Compensation Committee meets the requirements of independence as set forth in the rules and regulations promulgated by the SEC and the Nasdaq Listing Standards.

Our Compensation Committee has a written charter, which is available on our website at [www.heska.com](http://www.heska.com) (under Investors Corporate Governance). *The Company's website address provided above is not intended to function as a hyperlink, and the information on the Company's website is not and should not be considered part of this proxy statement and is not incorporated by reference herein.*

#### ***Corporate Governance Committee***

Our Corporate Governance Committee has the following responsibilities:

- assist our Board by identifying qualified candidates for Director, and select the Director nominees for each annual meeting of stockholders;
- lead our Board in its annual review of our Board's performance;
- recommend Director nominees to our Board for each Board Committee; and
- develop and recommend to our Board the corporate governance guidelines applicable to the Company.

During 2008, our Corporate Governance Committee met four times. Our Corporate Governance Committee has consisted of Mr. Sasen, as Chairman, Mr. Aylesworth and Mr. Gordon since our 2006 Annual Meeting. Ms. McCormick is to replace Mr. Aylesworth as a member of our Corporate Governance Committee, beginning at our 2009 Annual Meeting.

Our Board has determined that each of the current members of our Corporate Governance Committee meets the requirements of independence as set forth in the rules and regulations promulgated by the SEC and the Nasdaq Listing Standards.

Our Corporate Governance Committee has a written charter, which is available on our website at [www.heska.com](http://www.heska.com) (under Investors Corporate Governance). In addition, our Corporate Governance Committee prepared, and our full Board has approved, Corporate Governance Guidelines outlining the qualifications, responsibilities and other issues related to our Board's governance role and functions. The document is also available on our website at [www.heska.com](http://www.heska.com) (under Investors Corporate Governance). *The references to the Company's website address provided above is not intended to function as a hyperlink, and the information on the Company's website is not and should not be considered part of this proxy statement and is not incorporated by reference herein.*

#### ***Consideration of Director Nominees***

Our Corporate Governance Committee considers candidates for Board membership suggested by its members. Our Corporate Governance Committee has also utilized a third-party executive search firm in the past to identify candidates.

Our Corporate Governance Committee does not have an established policy for minimum qualifications of Director nominees. However, pursuant to our Corporate Governance Guidelines, our Corporate Governance Committee will consider, among other things, diversity, skills and experience in such areas as operations, finance, marketing and sales, manufacturing, technology and the general needs of our Board.

Our Corporate Governance Committee will also consider nominees recommended by stockholders provided such recommendations are made in accordance with our bylaws and the procedures described in this proxy statement under Questions and Answers About the Proxy Materials and the 2009 Annual Meeting. Although to date no stockholder has presented any candidate for Board membership to us, it is expected that recommendations from stockholders would generally be considered in the same manner as recommendations by a Director or an Officer of the Company.

#### ***Stockholder Communication with our Board***

Stockholders can contact our Board, any Committee thereof, or any Director in particular, by writing to them, c/o Heska Corporation, 3760 Rocky Mountain Avenue, Loveland, Colorado 80538, Attn: Secretary. We will forward any correspondence sent in the foregoing manner to the appropriate addressee without review by management.

## DIRECTOR COMPENSATION

The form and amount of compensation paid to the non-employee Directors is reviewed from time to time by our Corporate Governance Committee, which currently is reviewing the method and level of Director compensation and may approve corresponding changes to take effect prior to year end. Any revisions to our Director Compensation policy have been recommended by our Corporate Governance Committee and approved by our Board.

In 2008, our sole employee Director did not receive any separate compensation for his Board activities. Non-employee Directors received the compensation described below.

On each date of our Annual Meeting, each continuing non-employee Director who was a Director immediately prior to the Annual Meeting automatically receives options valued at \$37,500 to purchase shares of our common stock, subject to a maximum grant of options to purchase 50,000 shares of our common stock. These grants are to be immediately exercisable and to vest in full on the earlier of (i) the one year anniversary of the date of grant and (ii) the date immediately preceding the date of the Annual Meeting for the year following the year of grant for the award. Any new non-employee Directors appointed or elected to our Board will be automatically granted options valued at \$37,500 to purchase shares of our common stock, subject to a maximum grant of option to purchase 50,000 shares of our common stock. Any such grant is to be immediately exercisable and to vest over a period of four years in equal annual installments. The value for options granted pursuant to this paragraph is to be determined pursuant to our option valuation policy at the time of issuance.

Each non-employee Director is also entitled to an annual cash retainer in the amount of \$20,000. The Company pays the annual retainer in advance, in quarterly installments on the first business day of each calendar quarter, subject to the non-employee Director's continued service to the Company as a non-employee Director on such date.

In addition, each non-employee Director who serves as Chairperson of a Board Committee is entitled to an annual cash retainer in the amount of \$5,000 (the "Chair Retainer"). The Chair Retainer is to be reduced from \$5,000 to \$2,500, effective July 1, 2009. The Company pays the Chair Retainer in advance, in quarterly installments on the first business day of each calendar quarter, subject to the non-employee Director's continued service as Chairperson of such Committee. Each non-employee Director who serves on a Board Committee will be entitled to an annual cash retainer of \$2,500 (the "Committee Retainer"). A non-employee Director who is also the Chairperson of a Committee shall be entitled to the Committee Retainer in addition to the Chair Retainer. The Company pays the Committee Retainer in advance, in quarterly installments on the first business day of each calendar quarter, subject to the non-employee Director's continued service as a member of such Committee. Non-employee Directors will also continue to be reimbursed for customary and usual travel expenses.

The following tables provide information for fiscal 2008 compensation for non-employee Directors who served during fiscal 2008.

### Director Compensation (1)

Name	Fees Earned Or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$) (2) (3)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$)	Total (\$)
William A. Aylesworth	30,000		27,250				57,250
A. Barr Dolan	11,250						11,250
Peter Eio	30,000		27,250				57,250
G. Irwin Gordon	26,250		27,250				53,500
Louise L. McCormick	21,250		27,250				48,500
John F. Sasen, Sr.	27,500		27,250				54,750

### 2008 Equity Grants to Directors

Name	Grant Date	Number of Securities Underlying Options	Exercise Price (\$)	Grant Date Fair Value of Option Award (\$ (3)
William A. Aylesworth	5/6/08	50,000	1.58	27,250
Peter Eio	5/6/08	50,000	1.58	27,250
G. Irwin Gordon	5/6/08	50,000	1.58	27,250
Louise L. McCormick	5/6/08	50,000	1.58	27,250
John F. Sasen, Sr.	5/6/08	50,000	1.58	27,250

(1) Reimbursed travel expenses incurred in connection with Board and Board Committee meeting attendance are not included.

(2) Represents cost recognized in 2008 for financial reporting purposes.

(3) Grant date fair value of option awards are based on valuation techniques required by Statement of Financial Accounting Standards No. 123 (revised 2004) Share-Based Payment and applicable guidance which we use in preparing our financial statements ( Option Accounting Rules ). Like any estimate prepared in good faith, the underlying assumptions we use under Option Accounting Rules may vary from our actual future results. The option valuations used for accounting and/or financial reporting purposes do not necessarily represent the value any individual recipient would place on an option award. In addition, Option Accounting Rules prohibit some valuation techniques which may be useful in certain circumstances. A more detailed description of our option valuation techniques and assumptions can be found in our Annual Report on Form 10-K for the year ended December 31, 2008 in our Note 7 of the Notes to Consolidated Financial Statements.



**PROPOSALS TO BE VOTED ON**

**PROPOSAL NO. 1**

**ELECTION OF DIRECTORS**

Our Board is divided into three classes serving staggered three-year terms. Our amended and restated certificate of incorporation requires us to ensure each class is as nearly equal in number as possible. Directors for each class are elected at the Annual Meeting of Stockholders held in the year in which the term for their class expires.

The terms for two continuing Directors will expire at this 2009 Annual Meeting. Directors elected at the 2009 Annual Meeting will hold office for a three-year term expiring at our 2012 Annual Meeting (or until their respective successors are elected and qualified, or until their earlier death, resignation or removal).

*Nominees for Three-Year Terms That Will Expire in 2012*

**William A. Aylesworth**, age 66, has served us as a Director since June 2000. Mr. Aylesworth served as Senior Vice President from 1988 to 2003 and Chief Financial Officer of Texas Instruments Incorporated from 1984 to 2003. He served as Treasurer of Texas Instruments from 1982 to 2002. From 1972 to 1982, he served in treasury services, and from 1967 to 1972, he held numerous assignments in control, manufacturing and marketing for Texas Instruments. He holds an M.S. in industrial administration from Carnegie Mellon University and a B.E.E. in electrical engineering from Cornell University.

**Robert B. Grieve, Ph.D.**, age 57, one of our founders, currently serves as Chief Executive Officer and Chairman of the Board of Directors. Dr. Grieve was named Chief Executive Officer effective January 1999, Vice Chairman effective March 1992 and Chairman of the Board effective May 2000. Dr. Grieve also served as Chief Scientific Officer from December 1994 to January 1999 and Vice President, Research and Development, from March 1992 to December 1994. He has been a member of our Board of Directors since 1990. He holds a Ph.D. degree from the University of Florida and M.S. and B.S. degrees from the University of Wyoming.

*Vote Required; Recommendation of our Board of Directors*

The affirmative vote of a plurality of the votes of the shares present in person or by proxy at the Annual Meeting and entitled to vote on the election of Directors will be used to elect the nominees. Our Board of Directors unanimously recommends a vote FOR the election of



Mr. Aylesworth and Dr. Grieve as our Directors.

Heska's Directors listed below whose terms are not expiring this year will continue in office for the remainder of their terms in accordance with our bylaws. Information regarding the business experience and education of each of such Directors is provided below.

*Directors Whose Terms Will Expire in 2011*

**Louise L. McCormick**, age 66, has served us as a Director since January 2008. Ms. McCormick was with Aetna, Inc. for over 25 years in various finance, strategic planning and legal positions, including as Corporate Secretary and Securities Counsel, and Vice President, Strategy, Finance and Administration. Ms. McCormick retired from Aetna, Inc. in 2000. Since June 2005, Ms. McCormick has served as an independent Director, investment committee chair and member of the ethics and corporate governance committee for Foresters, a Toronto-based insurance company. She also serves as a Director of a wholly-owned Foresters subsidiary, several non-profit and educational institutions. Ms. McCormick holds a J.D. from the University of Connecticut Law School and a M.S.T. and B.A. from the University of Florida.

**John F. Sasen, Sr.**, age 66, has served us as a Director since October 1998. Since April 1998, he has served as Executive Vice President and Chief Marketing Officer of PSS/World Medical, Inc. ( PSS ), a medical supply distributor, and has held various other senior executive positions at PSS, including President and Chief Operating Officer, since 1993. From July 1993 to April 1998, Mr. Sasen served as a Director of PSS. Prior to joining PSS, Mr. Sasen was Vice President Sales, Marketing and Distributor Relations for a division of Becton Dickinson & Company, a manufacturer of health care products. Mr. Sasen was with Becton Dickinson for over 20 years. In addition, Mr. Sasen serves as the Chairman of the Health Industry Distribution Association Education Foundation, Executive Director of the Health Industry Distributor Association, Director of Nova Vision, Inc. and Director of the Boys Home Foundation.

*Directors Whose Terms Will Expire in 2010*

**Peter Eio**, age 67, has served us as a Director since October 2002. Mr. Eio served as the President of LEGO Systems, Inc., from 1989 to 2001 and was Managing Director of LEGO UK from 1982 to 1989. He also held various positions with International Playtex, Inc., in Scandinavia and the UK from 1971 to 1981. His previous experience includes marketing, sales and general management positions. Mr. Eio is also a Director of several private companies and serves on the Board of several charitable and educational organizations. Mr. Eio holds an honorary degree from Rensselaer Polytechnic Institute (Doctor of laws-honoris causa, 1996), attended the IMD Business School in Lausanne, Switzerland and received the Prince Henrik Medal of Honor for services to Danish industry in 1992.

**G. Irwin Gordon**, age 58, has served us as a Director since May 2001. Mr. Gordon is the founder and Managing Partner of The Trion Group LP, a consulting firm. From July 2000 until August 2001, Mr. Gordon served as President and Chief Executive Officer of Gruma Corporation, a food manufacturer. He also served as President and Chief Operating Officer of Suiza Foods Corporation, a food manufacturer and distributor, from February 1998 to October 1999. Mr. Gordon joined Suiza in August 1997 as its Executive Vice President and Chief Marketing Officer. Prior to joining Suiza, Mr. Gordon held various positions with subsidiaries of PepsiCo, Inc. ( PepsiCo ), including most recently as Senior Vice President Global Branding for Frito-Lay, Inc., from May 1996 to August 1997. From 1983 to 1992, Mr. Gordon served as President and General Manager of several international Frito-Lay companies before becoming Senior Vice President Marketing, Sales and Technology for Frito-Lay International from 1992 to 1996. Prior to joining PepsiCo in 1992, Mr. Gordon served in various capacities at the Kellogg Company. Mr. Gordon holds an Education degree from the University of British Columbia and a Management Certificate from Stanford University.

**PROPOSAL NO. 2**

**APPROVAL OF AMENDMENT TO 1997 STOCK PLAN**

Our Board is submitting an amendment (the *Amendment*) to our 1997 Stock Incentive Plan (our *1997 Stock Plan*) for shareholder approval.

***Background***

Our 1997 Stock Plan was originally adopted by our Board and approved by our shareholders in 1997. The stated purpose of the 1997 Stock Plan is to promote the long-term success of the Company and the creation of stockholder value by a) encouraging employees, outside Directors and consultants to focus on critical long-range objectives, b) encouraging the attraction and retention of employees, outside Directors and consultants with exceptional qualifications and c) linking employees, outside Directors and consultants directly to stockholder interests through increased stock ownership. The 1997 Stock Plan seeks to achieve this purpose by providing for awards in the form of restricted shares or options (which may constitute incentive stock options or nonstatutory stock options). We have not issued restricted shares under the 1997 Stock Plan since 2001.

***Shares available under the 1997 Stock Plan are reduced by the Amendment***

The number of shares which may be issued under the 1997 Stock Plan is limited. Shares underlying options issued under the 1997 Stock Plan which are forfeited or terminate for any other reason before being exercised may be used to underlie the future grant of options or restricted shares under the 1997 Stock Plan. As of the Record Date, there were 2,576,652 shares available under the 1997 Stock Plan. The Amendment, if it had been approved on the Record Date, would have reduced the number of shares available under the 1997 Stock Plan on the Record Date by 250,000 to 2,326,652.

***Further incentive stock options may be issued under the 1997 Stock Plan due to the Amendment***

A stock option is the right to acquire shares at a fixed exercise price for a fixed period of time. Incentive stock options are a type of option designed to comply with certain provisions of the U.S. tax code which may offer the recipient certain tax advantages depending on circumstances, as is discussed in more detail below. An individual must be an employee to receive an incentive stock option, so outside Directors and consultants may not receive this type of option. The current 1997 Stock Plan does not allow the issuance of any incentive stock options after March 14, 2007. All incentive stock options issued since that date have been issued under our 2003 Equity Incentive Plan, as amended and restated (our *2003 Stock Plan*). Our 2003 Stock Plan is currently the only vehicle under which we may issue incentive stock options and has 479,738 shares available for issuance as of the Record Date. The 1997 Stock Plan allows for the issuance of nonstatutory stock options after March 14, 2007 and as outside Directors are not eligible for incentive stock options, all options issued to our outside Directors have been issued under the 1997 Stock Plan since that time. The Amendment will allow the issuance of incentive stock options through May 4, 2019.

***Certain Federal Tax Aspects***

The following paragraphs are a summary of the Company's understanding of the general federal income tax consequences to U.S. taxpayers and the Company of awards granted under the 1997 Stock Plan. Tax consequences for any particular individual may be different.

#### Incentive Stock Options

No taxable income is reportable when an incentive stock option is granted or exercised (except for purposes of the alternative minimum tax, in which case taxable income is the same as for nonstatutory stock options). If the participant exercises the option and then later sells or otherwise disposes of the shares more

than two years after the grant date and more than one year after the exercise date, the difference between the sale price and the exercise price will be taxed as capital gain or loss. If the participant exercises the option and then later sells or otherwise disposes of the shares before the end of the two- or one-year holding periods described above, he or she generally will have ordinary income at the time of the sale equal to the fair market value of the shares on the exercise date (or the sale price, if less) minus the exercise price of the option.

#### Nonstatutory Stock Options

No taxable income is reportable when a nonstatutory stock option, which also may be referred to as a nonqualified stock option, is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the excess of the fair market value (on the exercise date) of the shares purchased over the exercise price of the option. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

#### Restricted Stock

A participant will not have taxable income upon grant unless he or she elects to be taxed at that time. Instead, he or she will recognize ordinary income at the time of vesting equal to the fair market value (on the vesting date) of the vested shares.

#### Tax Effect for the Company

The Company generally will be entitled to a tax deduction in connection with an award under the 1997 Stock Plan in an amount equal to the ordinary income realized by a participant and at the time the participant recognizes such income (for example, the exercise of a nonstatutory stock option). Special rules limit the deductibility of compensation paid to our Chief Executive Officer and to each of our four most highly compensated Executive Officers. Under Section 162(m) of the Internal Revenue Code, the annual compensation paid to any of these specified executives will be deductible only to the extent that it does not exceed \$1,000,000. However, the Company can preserve the deductibility of certain compensation in excess of \$1,000,000 if the conditions of Section 162(m) are met. These conditions include stockholder approval of the 1997 Stock Plan, setting limits on the number of awards that any individual may receive and, for awards other than certain stock options, establishing performance criteria that must be met before the award actually will vest or be paid. The 1997 Stock Plan has been designed to permit the Company to grant awards that qualify as performance-based for purposes of satisfying the conditions of Section 162(m), thereby permitting the Company to continue to receive a federal income tax deduction in connection with such awards.

The Company expects a minimal impact on cash taxes paid resulting from deductions related to the 1997 Stock Plan due to the Company's large domestic net operating loss position, which allows the Company to offset current taxable income with losses from prior years for ordinary income tax purposes.

#### Awards to be Granted to Certain Individuals and Groups

The number of awards that an employee or consultant may receive under the Plan is at the discretion of our Compensation Committee and therefore cannot be determined in advance. The following table sets forth: a) the aggregate number of shares subject to incentive stock options granted under our 2003 Stock Plan during 2008, b) the aggregate number of shares subject to nonstatutory stock options granted under our 1997 Stock Plan during 2008 and c) the average per share exercise price of all such options. Dr. Grieve received both incentive stock options and nonstatutory stock options as federal tax rules limit the value of incentive stock options which may become exercisable in any given year.

Name	Number of Incentive Stock Options Granted (2003 Stock Plan)	Number of Nonstatutory Stock Options Granted (1997 Stock Plan)	Average Exercise Price Per Option
Robert B. Grieve, Ph.D.	68,762	231,238	\$ 0.44
Michael J. McGinley, Ph.D.	190,000		\$ 0.59
Jason A. Napolitano	130,000		\$ 0.44
Michael A. Bent	50,000		\$ 0.44
G. Lynn Snodgrass	50,000		\$ 0.44
All Executive Officers, as a group	538,762	231,238	\$ 0.48
All outside Directors, as a group		295,268	\$ 1.62
All others	490,000	20,000	\$ 0.72

**Summary**

Our Board believes incentive stock options are an important tool to be used in attracting, retaining and providing the proper long-term incentives to employees, and believes it is desirable to give the Company the flexibility to issue incentive stock options under the 1997 Stock Plan. Along with this change, our Board is proposing to reduce the shares available for issuance under the 1997 Stock Plan as an indication of the Company's commitment to using the 1997 Stock Plan to maximize shareholder value while minimizing any corresponding dilution.

If approved, the impact of the Amendment is intended only to: 1) reduce the number of shares we could issue under the 1997 Stock Plan by 250,000 and 2) allow us to issue incentive stock options through May 4, 2019 under the 1997 Stock Plan, assuming we have the underlying shares available under the 1997 Stock Plan. The foregoing is only a summary of the 1997 Stock Plan, as amended if approved, and is qualified in its entirety by reference to its full text, a copy of which is attached hereto as Appendix A.

**Vote Required; Recommendation of our Board of Directors**

The affirmative vote of a majority of the shares present in person or by proxy at our Annual Meeting which are entitled to vote on the subject matter and have voted and chosen not to abstain is required to approve the proposed amendment to our 1997 Stock Incentive Plan. If the amendment to our 1997 Stock Plan is not approved, the 1997 Stock Plan will remain as is with no changes i.e. the Company would be able to issue at least 2,576,652 new shares from the Record Date under the 1997 Stock Plan, including underlying nonstatutory stock options, although the Company could not issue incentive stock options under the 1997 Stock Plan.

Our Board unanimously recommends a vote FOR the approval of the Amendment to the 1997 Stock Plan.

**PROPOSAL NO. 3**

**RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANT**

Our Board of Directors is submitting the appointment of Ehrhardt Keefe Steiner & Hottman PC ( EKS&H ) as the Company 's independent registered public accountant for stockholder ratification at the 2009 Annual Meeting. EKS&H has served as our independent registered public accountant since March 31, 2006. A representative of EKS&H is expected to be present at the Annual Meeting and will have an opportunity to make a statement if the representative desires to do so. Such representative will also be available to answer questions at the meeting.

*Vote Required; Recommendation of our Board of Directors*





Stockholder ratification of the appointment of EKS&H as our independent registered public accountant is not required by our bylaws or otherwise. Our Board, however, is submitting the appointment of EKS&H to the stockholders for ratification as a matter of good corporate governance practice. The affirmative vote of a majority of the shares present in person or by proxy at our Annual Meeting which are entitled to vote on the subject matter and have voted and chosen not to abstain is required to ratify the appointment of EKS&H as our independent registered public accountant for fiscal 2009. If the stockholders fail to ratify the appointment, our Audit Committee will reconsider whether or not to retain that firm. Even if the appointment is ratified, our Audit Committee in its discretion may direct the appointment of a different independent registered public accountant at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders.

Our Board unanimously recommends a vote FOR the ratification of EKS&H as our independent registered public accountant for fiscal 2009.

**COMMON STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following tables show the number of shares of our common stock beneficially owned as of March 15, 2009 by each of the Named Executive Officers listed in the Summary Compensation Table, each of our Directors, all of our Directors and Named Executive Officers as a group, and each person who is known by us to be the beneficial owner of more than 5% of our common stock. We had 52,010,928 shares outstanding on March 15, 2009.

**Ownership Table**

Name and Address of Beneficial Owner	Shares Beneficially Owned (1)	Percentage Beneficially Owned (1)
State of Wisconsin Investment Board (2) P.O. Box 7842 Madison, WI 53707	9,310,600	17.9%
Zesiger Capital Group LLC (3) 320 Park Avenue, 30th Floor New York, NY 10022	8,054,700	15.5%
Pacific Coast Investors Limited (4) c/o Cha Enterprises Limited Room 3703 Jardine House 1 Connaught Place Central, Hong Kong	7,790,466	15.0%
William A. Aylesworth (5)	423,577	*
Peter Eio (5)	349,936	*
G. Irwin Gordon (5)	391,605	*
Robert B. Grieve, Ph.D. (5)(6)	2,915,529	5.4%
Louise L. McCormick (5)	155,268	*
John F. Sasen, Sr. (5)	423,737	*
Michael A. Bent (5)	463,319	*
Michael J. McGinley, Ph.D. (5)	519,526	*
Jason A. Napolitano (5)(7)	1,908,665	3.6%
G. Lynn Snodgrass (5)	149,887	*
All Directors and Executive Officers as a group (10 persons)(5)(6)(7)	7,701,049	13.2%

\* Amount represents less than 1% of our common stock.

(1) To our knowledge and unless otherwise noted, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them, subject to community property laws where applicable and the information contained in the footnotes to this table. Beneficial ownership is determined in accordance with the rules of the SEC and includes voting and investment power with respect to securities. Shares of common stock issuable upon exercise of stock options exercisable within 60 days of March 15, 2009 are deemed outstanding and beneficially owned by the person holding such option for purposes of computing such person's percentage ownership, but are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

- (2) Based upon information derived from a Schedule 13G filed on January 30, 2009 for holdings on December 31, 2008 by State of Wisconsin Investment Board pursuant to Section 13G of the Securities Exchange Act of 1934 and the rules promulgated thereunder (the Exchange Act ), reporting its beneficial ownership of our common stock. According to the Schedule 13G, State of Wisconsin Investment Board has sole power to vote and dispose of 9,310,600 shares.
- (3) Based upon information derived from a Schedule 13G filed February 10, 2009 for holdings on December 31, 2008 by Zesiger Capital Group LLC pursuant to Section 13G of the Exchange Act reporting its beneficial ownership of our common stock. According to the Schedule 13G, Zesiger Capital Group LLC has the sole power to vote 5,439,700 shares and the sole power to dispose of 8,054,700 shares.
- (4) Based upon information derived from a Schedule 13G filed June 27, 2008 for holdings on June 20, 2008 by Pacific Coast Investors Limited pursuant to Section 13G of the Exchange Act reporting its beneficial ownership of our common stock. According to the Schedule 13G, Pacific Coast Investors Limited has sole power to vote and dispose of 7,790,466 shares.
- (5) Includes Shares Owned and Exercisable Options from Exercisable Option Table below for each Director and Named Executive Officer, as well as for all Directors and Executive Officers as a group.
- (6) Includes 61,550 shares of common stock held for the benefit of Dr. Grieve s children and 15,649 shares of common stock held by Dr. Grieve s wife, all of with respect to which Dr. Grieve disclaims beneficial ownership. Dr. Grieve s business address is c/o the Company at 3760 Rocky Mountain Avenue, Loveland, Colorado 80538.
- (7) Includes 6,020 shares of common stock held by Mr. Napolitano s wife, with respect to which Mr. Napolitano disclaims beneficial ownership.

**Exercisable Option Table**

Name	Shares Owned (1)	Exercisable Options (2)	Exercisable Option Price Range (3)	Exercisable Option Average Price (4)	Weighted Average Remaining Contractual Life (5)	Exercisable In-the-money Options (6)	Net Shares from Exercisable Options (7)
William A. Aylesworth	40,000	383,577	\$0.38-4.12	\$ 1.38	5.45		
Peter Eio	20,000	329,936	\$0.48-2.73	\$ 1.37	6.21		
G. Irwin Gordon	27,000	364,605	\$0.38-2.687	\$ 1.35	5.61		
Robert B. Grieve, Ph.D. (8)	576,033	2,339,496	\$0.34-3.69	\$ 1.56	4.81		
Louise L. McCormick	60,000	95,268	\$1.58-1.83	\$ 1.70	8.98		
John F. Sasen, Sr.	34,923	388,814	\$0.65-4.12	\$ 1.38	5.66		
Michael A. Bent	37,069	426,250	\$0.34-2.37	\$ 1.26	5.10		
Michael J. McGinley, Ph.D.	24,193	495,333	\$0.34-3.06	\$ 1.24	5.76		
Jason A. Napolitano (9)	596,394	1,312,271	\$0.44-2.30	\$ 1.10	5.04		
G. Lynn Snodgrass	4,404	145,483	\$0.44-2.37	\$ 1.49	6.59		
All Directors and Executive Officers as a group (10 persons) (8)(9)	1,420,016	6,281,033	\$0.34-4.12	\$ 1.38	5.27		

(1) To our knowledge and unless otherwise noted, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown in the column, subject to community property laws where applicable and the information contained in the footnotes of this table.

(2) Represents shares of common stock issuable upon exercise of stock options exercisable within 60 days of March 15, 2009.

(3) Represents the lowest and highest strike price for stock options exercisable within 60 days of March 15, 2009.

(4) Represents the average strike price for stock options exercisable within 60 days of March 15, 2009.

(5) Represents the weighted average remaining contractual life, in years, for stock options exercisable within 60 days of March 15, 2009.

(6) Represents shares of common stock issuable upon exercise of stock options exercisable within 60 days of March 15, 2009 that have a strike price less than \$0.22, the last closing market price per share of Heska stock available on March 15, 2009.

(7) Represents net shares under the Treasury Stock method assuming a market price per share of \$0.22, the last closing market price per share of Heska stock available on March 15, 2009, for shares of common stock issuable upon exercise of stock options exercisable within 60 days of March 15, 2009 that have a strike price less than \$0.22.

(8) Includes 61,550 shares of common stock held for the benefit of Dr. Grieve's children and 15,649 shares of common stock held by Dr. Grieve's wife, all of with respect to which Dr. Grieve disclaims beneficial ownership.

(9) Includes 6,020 shares of common stock held by Mr. Napolitano's wife, with respect to which Mr. Napolitano disclaims beneficial ownership.



## Outstanding Option Table

Name	Shares Owned (1)	Outstanding Options (2)	Outstanding Option Price Range (3)	Outstanding Option Average Price (4)	Weighted Average Remaining Contractual Life (5)	Outstanding In-the-money Options (6)	Net Shares from Outstanding Options (7)
William A. Aylesworth	40,000	383,577	\$0.38-4.12	\$ 1.38	5.45		
Peter Eio	20,000	329,936	\$0.48-2.73	\$ 1.37	6.21		
G. Irwin Gordon	27,000	364,605	\$0.38-2.687	\$ 1.35	5.61		
Robert B. Grieve, Ph.D. (8)	576,033	2,801,996	\$0.34-3.69	\$ 1.48	5.54		
Louise L. McCormick	60,000	95,268	\$1.58-1.83	\$ 1.70	8.98		
John F. Sasen, Sr.	34,923	388,814	\$0.65-4.12	\$ 1.38	5.66		
Michael A. Bent	37,069	490,000	\$0.34-2.37	\$ 1.21	5.66		
Michael J. McGinley, Ph.D.	24,193	711,500	\$0.34-3.06	\$ 1.15	6.77		
Jason A. Napolitano (9)	596,394	1,499,354	\$0.44-2.30	\$ 1.09	5.57		
G. Lynn Snodgrass	4,404	215,900	\$0.44-2.37	\$ 1.32	7.48		
All Directors and Executive Officers as a group (10 persons)(8)(9)	1,420,016	7,280,950	\$0.34-4.12	\$ 1.32	5.81		

(1) To our knowledge and unless otherwise noted, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown in the column, subject to community property laws where applicable and the information contained in the footnotes of this table.

(2) Represents shares of common stock issuable upon exercise of stock options outstanding on March 15, 2009.

(3) Represents the lowest and highest strike price for stock options outstanding on March 15, 2009.

(4) Represents the average strike price for stock options outstanding on March 15, 2009.

(5) Represents the weighted average remaining contractual life, in years, for stock options outstanding on March 15, 2009.

(6) Represents shares of common stock issuable upon exercise of stock options outstanding on March 15, 2009 that have a strike price less than \$0.22, the last closing market price per share of Heska stock available on March 15, 2009.

(7) Represents net shares under the Treasury Stock method assuming a market price per share of \$0.22, the last closing market price per share of Heska stock available on March 15, 2009, for shares of common stock issuable upon exercise of stock options outstanding on March 15, 2009 that have a strike price less than \$0.22.

(8) Includes 61,550 shares of common stock held for the benefit of Dr. Grieve's children and 15,649 shares of common stock held by Dr. Grieve's wife, all of with respect to which Dr. Grieve disclaims beneficial ownership.

(9) Includes 6,020 shares of common stock held by Mr. Napolitano's wife, with respect to which Mr. Napolitano disclaims beneficial ownership.





**SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Compliance with Section 16(a) of the Securities Exchange Act of 1934 requires our Directors, Executive Officers and persons who own more than 10% of a registered class of our equity securities to file reports of holdings and transactions of Heska common stock and other equity securities with the SEC. Directors, Executive Officers and 10% or greater stockholders are required by SEC regulations to furnish us with copies of all of the Section 16(a) reports they file. Based solely upon a review of the copies of the forms furnished to us and the representations made by the reporting persons to us, we believe that during 2008 our Directors, Executive Officers and 10% or greater stockholders complied with all filing requirements under Section 16(a) of the Exchange Act.

**EQUITY COMPENSATION PLAN INFORMATION**

The following table sets forth information about our common stock that may be issued upon exercise of options and rights under all of our equity compensation plans as of December 31, 2008, including the 1988 Stock Option Plan, the 1997 Stock Incentive Plan, the 1997 Employee Stock Purchase Plan and the 2003 Equity Incentive Plan. Our stockholders have approved all of these plans.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights	(b) Weighted-Average Exercise Price of Outstanding Options and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
Equity Compensation Plans Approved by Stockholders	12,835,269	\$ 1.28	3,198,436
Equity Compensation Plans Not Approved by Stockholders	None	None	None
<b>Total</b>	<b>12,835,269</b>	<b>\$ 1.28</b>	<b>3,198,436</b>

**SIGNIFICANT RELATIONSHIPS AND TRANSACTIONS WITH DIRECTORS, OFFICERS OR PRINCIPAL STOCKHOLDERS*****Related Party Transactions***

Pursuant to our code of ethics for senior executives and financial officers, a copy of which is available on Heska's website at [www.heska.com](http://www.heska.com), and our Corporate Governance Committee charter, our Audit Committee or our Corporate Governance Committee must review and approve any transaction that the Company proposes to enter into that would be required to be disclosed under Item 404(a) of Regulation S-K. Item 404(a) of Regulation S-K requires the Company to disclose in its proxy statement any transaction involving more than \$120,000 in which the Company is a participant and in which any related person has or will have a direct or indirect material interest. A related person for purposes of this analysis is any executive officer, director, nominee for director, or holder of 5% or more of the Company's common stock, or an immediate family member of any of those persons.

Since January 1, 2008, the Company has not been a participant in any transaction with a related person other than the indemnification agreements described below.

*Indemnification agreements with officers and directors*

Our amended and restated certificate of incorporation and our bylaws provide that we will indemnify each of our Directors and Executive Officers to the fullest extent permitted by the Delaware General Corporation Law. Further, we have entered into indemnification agreements with each of our Directors and Executive Officers.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

#### Executive Compensation Objective and Philosophy

The Compensation Committee of Heska Corporation's Board of Directors (the Committee) administers our executive compensation program and establishes the salaries of our Executive Officers. The ultimate objective of our executive compensation program is to attract, retain and reward executives who will enhance the value and profitability of Heska Corporation (Heska or the Company) and increase stockholder value. The Committee strives to provide competitive compensation opportunities with the ultimate amount of compensation received tied significantly to short-term and long-term Company performance. Inherent in our approach is the philosophy that compensation can align behavior and actions with stockholder interests, attract and retain stronger executives and thus create value for stockholders over time. The Committee's goal in executive compensation is to design and administer programs that best serve these ends.

#### What is Heska's Executive Compensation Program Designed to Reward?

The Committee develops our executive compensation programs to reward Executive Officers for their contribution to Heska's financial performance and to recognize individual initiative, leadership, achievement and other contributions. An effective compensation program will reward executives for working well collectively as well as for strong individual performance.

#### What are the Elements of Heska's Executive Compensation?

Our compensation program is designed to reward four interlocking aspects of executive performance:

- Continued service to the Company; rewarded primarily through base salary, equity award requirements and vesting and competitive benefits levels;
- Individual contribution: rewarded primarily through the setting of base salary and annual Management Incentive Plan (MIP) targets;
- Annual financial performance: rewarded primarily through the awards paid under the MIP; and

- Long-term gains in stockholder value: rewarded primarily through the equity incentive program.

**Why Does Heska Choose to Pay Each Element of Executive Compensation?**

*Base salary.* Base salaries are set on an annual or other periodic basis and designed to reflect competitive market salaries for each position. They are also used in determining the basis for bonus targets in our Management Incentive Plan ( MIP ) discussed below.

*Performance-based incentive compensation.* This form of compensation is based on the achievement of predetermined financial, project, research or other designated objectives. This form of compensation is paid to reward near-term performance (i.e., no longer than the coming year) and encourage Executive Officers to optimize immediate opportunities. In recent years, an MIP has been offered to Executive Officers and other managers to provide a performance-based incentive.

*Long-term equity compensation.* This form of compensation is designed to encourage the achievement of superior financial results over an extended period of time and align the interests of stockholders and Executive Officers. It is intended to ensure that Executive Officers make thoughtful decisions about the Company's future and long-term prospects.

*Other benefits, compensation or arrangements.* Other than broad-based programs open to all employees, such as participation in our 401(k) program and employee stock purchase plan, this category tends to be used rarely. Most of our Executive Officers have employment agreements. An Executive Officer's extraordinary performance or participation in an unanticipated endeavor may occasionally trigger such an award in this category.

### **Perspective on Executive Compensation at Heska**

Heska was founded in 1988 and completed its initial public offering in 1997 but only achieved its first profitable year in 2005. We believe the Company's historical liquidity concerns and efforts to achieve profitability have influenced the Committee's decisions regarding executive compensation, as outlined below.

Profitability has been an important goal for Heska to ensure the sustainability of the business. Profitability has also been critical, not only for its own sake, but also for employee morale, attracting talented individuals to join the Company and commercial perceptions. At the request of Heska's Executive Officers to help achieve profitability, the Committee froze base salaries for all Executive Officers in 2005 and 2006. Similarly, the 2005 MIP called for a performance in excess of the Company's internal budget before any bonus payments were made and no payouts were ultimately made under the 2004 MIP or the 2005 MIP (with the foregoing base salary and MIP information defined as "Historical Cash Compensation"). Based on the challenges the Company faced in 2008 and at the request of management, the Committee has taken a similar approach to cash compensation in 2009. With limited circumstance-based exceptions outlined below, in November 2008 the Committee froze base salaries for all of our Executive Officers and also adopted a 2009 MIP that calls for a performance in excess of the Company's internal budget before any bonus payments are made.

Stock options have historically had the advantage of allowing the Company to address both liquidity and profitability concerns simultaneously. First, stock options allowed the Committee to compensate employees without a corresponding cash outlay, and, in fact, provided the Company with cash upon exercise in most instances. Secondly, stock options granted have not historically been required to be expensed for financial reporting purposes. Accordingly, the Committee tended to emphasize stock options as a tool for executive compensation. Since 2006, the Company has been required to recognize a cost for certain stock options in its financial statements, as detailed in the "Summary Compensation Table" below; the estimated fair value of stock options granted, rather than the corresponding intrinsic value, is amortized ratably over the vesting periods of the related options. After considering the significant impact that the use of fair values, rather than intrinsic values, would have on our future results of operations, as well as factors including Historical Cash Compensation to Executive Officers and similar cash compensation issues to other employees, the Company accelerated stock option vesting in December 2004 and March 2005 as well as issuing all options with immediate vesting on and between March 30, 2005 and December 31, 2005. This is why many options held by Executive Officers are vested, and exercisable, as of December 31, 2008 in the table labeled "Outstanding Equity Awards at Fiscal Year-End" below.

The Committee is also sensitive to, and tries to optimize, tax implications. It is our policy generally to qualify compensation paid to Executive Officers for deductibility under Section 162(m) of the Internal Revenue Code. The Committee has structured the Management Incentive Plan Master Document, the 2006 MIP, the 2007 MIP, the 2008 MIP and the 2009 MIP to qualify as awards under such plans as performance-based compensation and to maximize the tax deductibility of such awards. However, the Committee reserves the discretion to pay compensation to its Executive Officers that may not be tax deductible.

### **Determination of Compensation Elements**

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In reviewing the compensation of our Executive Officers, the Committee reviews the nature and scope of each Executive Officer's responsibilities as well as his or her effectiveness in that role as well as in supporting the Company's long-term goals. Heska's Board of Directors (the Board) formally evaluates the Chief Executive Officer (our CEO). Our CEO communicates his view of the performance of other Executive Officers to the Committee and makes recommendations regarding salary, incentive-based

performance compensation and long-term compensation grants for the Committee's consideration. The Company has a performance appraisal system it uses to evaluate its employees, including Executive Officers, which Dr. Grieve considers, potentially along with other information, such as third-party interviews of Company employees who interact with the Company's Executive Officers. As more detailed oversight of items such as short-term sales performance by product is considered more important, our CEO has historically taken a more active role in determining the cash performance-based incentive compensation of our Vice President of Sales than for our other Executive Officers. Through the end of 2008, our CEO approved cash performance-based incentive compensation for our Vice President of Sales and made the resulting compensation information available to the Committee. Decisions regarding base salary, long-term equity incentive compensation and other benefits, compensation or arrangements are made in the same manner for our Vice President of Sales as for our other Executive Officers. In the past few years, Heska's Vice President of Human Resources has compiled and presented data discussed below for the Committee's consideration of the different compensation elements discussed below. The Chief Financial Officer (our CFO) has also met with the Committee to communicate on issues of interest to the Committee, including the accounting implications of various compensation alternatives and information on our financial plans, expectations and historical results for the Committee's consideration.

The Committee has considered it appropriate, and in the best interests of Heska's stockholders, to endeavor to set our overall Executive Officer compensation near the mid-point of the range of companies in the comparison group it reviewed (Comparable Companies). The Committee also reviews the relative mix of compensation paid by Comparable Companies for use as a guideline. It is the sense of the Committee that performance-based incentive compensation has been relatively lower and long-term equity compensation relatively higher than for Comparable Companies. We anticipate the Committee will continue to exercise its discretion regarding the relative mix of compensation, although the relative mix may become more similar to that of Comparable Companies over time. The Committee views the difference between the compensation of our CEO and our other Named Executive Officers as largely a reflection of competitive market practices and the CEO's responsibility for all Company operations and not any compensation philosophy specific to Heska. In compensation matters, the Committee reviews relevant information and makes a case-by-case determination relying on its collective judgment and experience.

In 2005 and 2006, the process to determine executive compensation culminated at our Board meeting held in the fourth quarter. At that time a Committee meeting was held and final determinations were made regarding any base salary increases, MIP Plan adoption and/or long-term compensation equity grants for the coming year. Accordingly, all option grants to Executive Officers were granted after the market close on the day the Committee met during the Company's fourth quarter Board meeting. We expect this to be our standard practice going forward.

At our regularly scheduled Board meeting in November 2007, the Committee met with an outside compensation consultant (the Consultant) and decided to engage the Consultant for an assessment of executive compensation strategy and programs and to provide data on competitive compensation practices. Accordingly, the process to determine executive compensation was delayed. The Committee asked the Consultant to conduct a compensation survey of companies similar to Heska and to review the current total and equity compensation of the Company's Executive Officers. The Consultant reported to the Committee, only, and was prohibited from doing any work for management unless it was specifically requested by the Chairman of the Committee. The Committee viewed the Consultant as an advisor only, and the Committee retained the discretion to implement or not implement the Consultant's suggestions. In subsequent dialogue with the Consultant, alternative long-term compensation approaches were discussed, including the use of restricted stock and performance-based vesting. The Committee held a series of meetings in December 2007 to review information and suggestions from the Consultant and to debate, and ultimately approve, the form and scale of long-term equity compensation for 2008. Base salaries and 2008 performance-based incentive compensation were agreed upon at a Committee meeting during our regularly scheduled Board meeting in February 2008.

The Committee considers compensation data from companies in medical, biotechnology and general industry groups that have similar revenues, veterinary focus and/or are in a similar stage of development to

Heska. In 2006, the Committee reviewed compensation data for the following companies as part of its review of Executive Compensation: Abaxis, Abgenix, Arqule, Array Biopharma, Digene, Embrex, Hi Tech Pharmaceuticals, IDEXX Laboratories, Meridian Bioscience, MGI Pharma, Quidel and Savient Pharmaceuticals. In 2007, the Committee reviewed compensation data for the following companies as part of its review of Executive Compensation: Abaxis, Array Biopharma, Auxilium Pharmaceuticals, Cardiac Science, Cyberonics, Hi Tech Pharmaceuticals, IDEXX Laboratories, Immucor, Meridian Bioscience, MGI Pharma, Noven Pharmaceuticals, Quidel, Santarus, Savient Pharmaceuticals and Zoll Medical. The Committee also reviewed benchmark data resulting from a study of 120 life sciences companies carried out by the Consultant in 2007. In 2008, the Committee reviewed compensation data for the following companies as part of its review of Executive Compensation: Abaxis, Array Biopharma, Auxilium Pharmaceuticals, Cardiac Science, Cyberonics, Hi Tech Pharmaceuticals, IDEXX Laboratories, Immucor, Meridian Bioscience, MGI Pharma, Noven Pharmaceuticals, Quidel, Santarus, Savient Pharmaceuticals and Zoll Medical. The Committee also reviewed summary compensation data based on company size for each year.

**Base Salary.** The Committee reviews each Executive Officer's base salary annually. When reviewing base salaries, the Committee considers compensation data from companies in medical, biotechnology and general industry groups that have similar revenues, veterinary focus and/or are in a similar stage of development to Heska. Consideration is also given to prior performance, relevant experience, level of responsibility and skills, and abilities of each Executive Officer. The Committee believes that salary levels for our Executive Officers are set at a level that, at the time such salary determinations were made, were reasonable and necessary given the Company's financial resources and stage of development. The Committee reviews relevant information and makes a case-by-case determination relying on its collective judgment and experience.

In 2006, the Committee was concerned regarding the effect of the three year salary freeze on Executive Officer base salaries versus market levels. The information in the base salary table below was approved for the Named Executive Officers by the Committee. The Committee also agreed to consider a mid-2007 review of base salaries if necessary to bring them more in line with desired rates.

Name		Annual Salary	Percent Increase
Robert B. Grieve	\$	375,000	10.0%
Jason A. Napolitano	\$	232,575	5.0%
G. Lynn Snodgrass	\$	154,500	3.0%
Michael J. McGinley	\$	166,650	10.0%
John R. Flanders	\$	200,000	N/A(1)
Michael A. Bent	\$	165,635	3.8%

(1) Mr. Flanders joined the Company as of December 11, 2006.

In 2007, after reviewing and considering Comparable Company data and the recent performance of both Dr. Grieve and the Company, our Board of Directors decided to increase Dr. Grieve's base salary by approximately 6.7% to \$400,000 effective September 2007. In February 2008, after reviewing and considering relevant data, including input from Dr. Grieve, the Committee agreed to the following base salaries, effective March 2008. Dr. McGinley's salary increase was due in part, to his anticipated promotion and increased responsibilities upon another Executive Officer leaving the Company. Dr. McGinley was promoted to Executive Vice President, Global Operations and General Manager, Heska Des Moines in April 2008.



Name		Annual Salary	Percent Increase
Robert B. Grieve	\$	420,000	5.0%
Jason A. Napolitano	\$	243,000	4.5%
G. Lynn Snodgrass	\$	158,000	2.3%
Michael J. McGinley	\$	195,000	17.0%
John R. Flanders	\$	206,000	3.0%
Michael A. Bent	\$	172,000	3.0%

In November 2008, at the request of management based on the challenges the Company faced in 2008 and expected to face in the near term, the Committee froze base salaries for all Executive Officers, with the exception of Dr. McGinley and Mr. Snodgrass. Dr. Grieve proposed that, effective January 1, 2009, the Committee formally include Mr. Snodgrass in the 2009 MIP in lieu of the commission and bonus structure outlined below then in use for his performance-based incentive compensation, as Dr. Grieve felt Mr. Snodgrass had reached a level where this form of compensation was more appropriately based on overall corporate results rather than shorter term sales results. Dr. Grieve also proposed that Mr. Snodgrass's salary increase effective as of January 1, 2009 as historically it was intended that, compared with managers and other officers outside of sales, Mr. Snodgrass would receive a relatively lower proportion of his overall compensation in base pay and a relatively higher proportion in performance-based incentive compensation. The Committee accepted Dr. Grieve's recommendation, and increased Mr. Snodgrass's salary to \$180,120 effective January 1, 2009. In November 2008, our Board of Directors appointed Dr. McGinley the Company's President and Chief Operating Officer at a salary of \$230,000, effective January 1, 2009.

**Performance-Based Incentive Compensation.** The Company first adopted an MIP in 1999 to provide incentives to our Executive Officers, other managers and key employees to meet and exceed certain predetermined annual goals. Target annual incentives and specific performance criteria are established each year by the Committee, with the actual payout based on the extent to which the specified performance criteria are met. We believe this approach provides a strong incentive for our management to achieve the stated annual goals. An example of the incentive can be seen when comparing the cash levels of the 2006 MIP Payouts to the 2007 MIP Payouts in the Summary Compensation Table below. In late 2005, the Committee adopted the Management Incentive Plan Master Document (the Master Document). A goal of the Master Document is self-funding status for the MIP in any given year. A given year's MIP can be implemented by the Committee agreeing on four parameters: 1) the percent of salary that is an individual's targeted bonus compensation, 2) the relative weighting of company wide and individual performance, 3) the key parameter(s) the MIP Payouts are to be based upon and 4) the Payout Structure by which the MIP is funded. Typically there has been a cap on the MIP of approximately 150% of target payout to all employees, although this is not required in any given year. Each individual has a targeted MIP Payout and this is intended as a guideline. Our CEO will generally make recommendations to the Committee regarding MIP Payouts to other MIP Plan participants; all awards under the MIP Plan are at the discretion of the Committee. Any MIP Payouts are to be made in the first quarter of the following year. All Executive Officers are eligible for the 2009 MIP. All Executive Officers, with the exception of Mr. Snodgrass, our Vice President of Sales, were eligible for the MIP in 2006, 2007 and 2008. In 2006, 2007 and 2008, performance-based incentive compensation for Mr. Snodgrass consisted of commissions earned based on achieving certain sales volume targets (his Commissions) and, in 2007 and 2008, a bonus paid at the discretion of Dr. Grieve based on Company financial performance and individual performance that is similar to the MIP (his Bonus). Mr. Snodgrass's performance-based incentive compensation in 2006, 2007 and 2008 is discussed below.

In considering the 2006 MIP, the Committee was aware that the Executive Officers were entering their third consecutive year with the same salary and that the Executive Officers had not received any bonus payments in the prior two years. The Committee adopted a plan with relatively low payout thresholds, as detailed below. At the Committee meeting in the fourth quarter of 2005, the Committee adopted the 2006 MIP with the following parameters:



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Parameter	Result
% Salary Target	Chief Executive Officer 50%
	All other eligible Executive Officers 35%
Relative Weighting	75% Company Performance / 25% Individual Performance
Key Parameter	Pre-MIP Net Income Goal
Payout Structure	Funding starts at \$1 of Pre-MIP Net Income Goal
	50% Share of every \$1 in additional Pre-MIP Net Income
	MIP Capped at \$1.5 million (150% of targeted payout)

As an example, if Heska had \$1.2 million in Pre-MIP Net Income, there would be \$600 thousand available for the MIP for the Committee to distribute among plan participants. This represents a plan funded at 60% of target. Dr. Grieve's 2006 salary was \$341,000 and his targeted payout was \$170,500 (50% of \$341,000). In a 60% MIP-funded plan, his funded targeted payout would be \$102,300 (60% of \$170,500). The Committee could then adjust his pay upward for strong individual performance or downward for poor individual performance using a 25% weighting as a guideline for the adjustment. This is a guideline only, however, as the Committee retains discretion to adjust this number as circumstances dictate.

At a meeting in March 2007, the Committee approved a recommendation that all plan participants be paid an MIP Payout nearly 50% greater than target in accordance with performance achievement in excess of the individual MIP cap. The Committee also decided Dr. Grieve's MIP Payout would similarly be nearly 50% greater than target. The MIP Payouts to MIP-eligible Named Executive Officers are listed as Non-Equity Incentive Plan Compensation in the Summary Compensation Table below.

In considering the 2007 MIP, the Committee was aware that the Executive Officers were to receive base salary increases in the coming year and were likely to receive maximum MIP Payouts under the 2006 MIP as the 2006 MIP was expected to reach its capped level due to the Company's financial performance. The Committee adopted a plan with more aggressive payout thresholds than had been set for the 2006 MIP, as detailed below. At the Committee meeting in the fourth quarter of 2006, the Committee adopted the 2007 MIP with the following parameters:

Parameter	Result
% Salary Target	Chief Executive Officer 50%
	All other eligible Executive Officers 35%
Relative Weighting	75% Company Performance / 25% Individual Performance
Key Parameter	Pre-MIP Operating Income Goal
Payout Structure	Funding starts at \$4.5 million of Pre-MIP
	Operating Income Goal, as defined
	25.14% Share of every additional \$1 in
	Pre-MIP Operating Income Above Goal
	MIP Capped at \$1.65 million (150% of targeted payout)

At a Committee meeting in February 2008, the Committee approved MIP plan participants' MIP Payouts recommendations and decided Dr. Grieve's MIP Payout would be equal to his individual funded target. Each of the Named Executive Officers eligible for the MIP received an

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MIP Payout in line with his individual funded target. The MIP Payouts to MIP-eligible Named Executive Officers are listed as Non-Equity Incentive Plan Compensation in the Summary Compensation Table below. MIP Payouts were lower for 2007 than for 2006 due to a relatively lower funded status (roughly 30% of target for 2007 versus 150% of target for 2006) for 2007, which lowered the funded target MIP Payout for each MIP-eligible Named Executive Officer. The 2007 MIP achieved lower funded status than the 2006 MIP due to the more aggressive payout thresholds in the 2007 MIP.

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In considering the 2008 MIP, the Committee considered the Company's 2007 performance and 2008 outlook in setting the payout structure. At the Committee meeting in the first quarter of 2008, the Committee adopted the 2008 MIP with the following parameters:

Parameter	Result
% Salary Target	Chief Executive Officer 50%
	All other eligible Executive Officers 35%
Relative Weighting	75% Company Performance / 25% Individual Performance
Key Parameter	Pre-MIP Operating Income Goal
Payout Structure	Funding starts at \$5.862 million of Pre-MIP  Operating Income Goal, as defined  32.22% Share of every additional \$1 in  Pre-MIP Operating Income Above Goal  MIP Capped at \$1.732 million (150% of targeted payout)

The Company's financial performance was well below expectations in 2008. The Company failed to achieve pre-MIP Operating Income at a level to fund the MIP. Accordingly, no MIP Payouts were made under the 2008 MIP.

In considering the 2009 MIP, the Committee considered the challenges facing the Company and the importance of observing the MIP's self-funding goal, particularly in a period with tight credit conditions. Accordingly, the Committee approved an MIP with aggressive payout thresholds which were in excess of the Company's internal budget levels before any MIP Payouts were to be made. In November 2008, the Committee adopted the 2009 MIP with the following parameters:

Parameter	Result
% Salary Target	Chief Executive Officer 50%
	All other eligible Executive Officers 35%
Relative Weighting	75% Company Performance / 25% Individual Performance
Key Parameter	Pre-MIP Net Income, as defined in the Third Amended and Restated Credit and Security Agreement by and between Heska Corporation, Diamond Animal Health, Inc. and Wells Fargo Bank, National Association dated December 30, 2005.
Payout Structure	Funding starts at \$2 million of Pre-MIP Net Income  30.0% Share of every additional \$1 in Pre-MIP Net Income  MIP Capped at \$1.855 million (150% of targeted payout)

All of Mr. Snodgrass's performance-based incentive compensation for 2006 was from Commissions. For 2007, approximately \$45 thousand of Mr. Snodgrass's performance-based incentive compensation was from Commissions, with the balance resulting from his Bonus. Relatively lower performance versus target was the reason for the decline in Commissions from 2006 to 2007. For 2008, approximately \$35 thousand of Mr. Snodgrass's performance-based incentive compensation was from Commissions, with the balance resulting from his Bonus. Relatively lower performance versus target was the reason for the decline in Commissions from 2007 to 2008. Mr. Snodgrass's Bonus was greater in 2008

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than in 2007 due to the view that he had a greater contribution to overall Company performance outside of his core sales responsibility in 2008 than in 2007. Mr. Snodgrass's Commissions and Bonus are listed as Non-Equity Incentive Plan Compensation in the Summary Compensation Table below.

In the table named Grants of Plan-Based Awards below, we list potential payouts under the 2009 MIP to Named Executive Officers, under Estimated Future Payouts Under Non-Equity Incentive Plan Awards. All Threshold MIP Payouts are listed at \$0 as the MIP Plan will not fund if Pre-MIP Net Income, as defined in the table above, is at (or below) the threshold level of \$2.0 million. All Target MIP Payouts are as defined above. The Maximum MIP Payouts are 50% greater than the Target MIP Payouts to reflect

that the 2009 MIP Plan is capped at 150% of its targeted funding level. It is possible the Committee may decide to pay a Named Executive Officer greater than this amount, although this did not occur in 2006 when the 2006 MIP Plan reached its capped funding level.

**Long-term Equity Compensation.** Historically, we have used stock options to provide long-term equity compensation to our Executive Officers. The Committee is responsible for determining the number and terms of options, or other forms of long-term equity compensation, to be granted to Executive Officers, taking into account such factors as individual and Company performance, policies regarding cash compensation and practices of Comparable Companies. Options granted to Executive Officers have exercise prices equal to fair market value (closing price) at the time of grant and expire within ten years from the time of grant. Any vesting ceases and the vested portion of options must be exercised within a certain period should an Executive Officer leave Heska's service (subject to any rights to partial acceleration of vesting upon termination without cause under employment agreements). Accordingly, option grants will provide a return to an Executive Officer only if said Executive Officer continues to work for the benefit of the Company and only if Heska's market price per share appreciates over the option term. We believe that these provisions help both to retain qualified employees and to motivate them to achieve long-term increases in stock value, providing continuing benefits to the Company and its stockholders beyond those in the year of grant. The Committee had discussions regarding the use of restricted stock and performance-based vesting in December 2007, but decided not to pursue these alternatives. This was due to potential tax implications for employees in using restricted stock and the likely increase in complexity and administrative costs, as well as potential duplicative incentives to the MIP, in using performance-based vesting. While it appears stock options will remain the core component of long-term equity compensation in the near future, it is possible the Committee will choose to use restricted stock, restricted stock units, some other form of long-term equity compensation or some combination of the foregoing with or without stock options in the future.

In the fourth quarter of 2006, after significant discussion and considering factors including the Historical Compensation to Executive Officers, the fact that the 2006 MIP was expected to be capped, our expected financial results in the fourth quarter of 2006, the significant impact that the use of fair values for options granted would have on our future results of operations and the total number of options previously granted in 2006, the Committee decided to grant fully-vested stock options in an amount approximately 60% of the size of the prior year's grant and approved a grant of fully-vested stock options to Mr. Flanders upon his formally joining the Company. These options were granted at the close of business on November 17, 2006—the date of the Committee meeting, with the exception of options granted to Mr. Flanders which were granted upon his joining the Company on December 11, 2006.

In December 2007, after receiving input from the Consultant, reviewing relevant data, including data requested to follow-up on certain questions, and engaging in significant discussion and debate, the Committee approved a grant of stock options to certain Officers of the Company. Due to this process, including hiring and considering the input of the Consultant, the option grant occurred on December 31, 2007 later in the year than in 2006. In contrast to recent stock option grants, this stock option grant was subject to monthly vesting over a four year period as a result of the concern of some of our Board members that fully-vested options may not provide as great a retention incentive as desired. We anticipate granting stock options with 4-year monthly vesting will be our standard practice in the future. The Committee granted Dr. Grieve a significantly larger stock option grant than in the prior year, reflective of the Committee's view of the market and the Committee's evaluation of Dr. Grieve's performance. The Committee considered Dr. Grieve's input in addition to market data in determining stock option grants to the other Named Executive Officers, all of which increased or were at the same level as the prior year, except for Mr. Flanders who joined the Company in December 2006. Related option grants to Named Executive Officers are reflected in the Grants of Plan-Based Awards table below in the column labeled All Other Option Awards; Number of Securities Underlying Options (#).

In November 2008, the Committee considered the fact that 2009 salaries had been frozen for most Executive Officers, that no 2008 MIP Payouts were to be made and that the Company's 2009 MIP required a performance in excess of the Company's internal budget before any MIP Payouts

were to be made. Accordingly, the Committee desired to provide Executive Officers with a greater proportion of long-term



compensation than in the recent past. In November 2008, the Committee granted all of our Named Executive Officers a greater number of shares underlying options than in 2007, with the exception of Dr. Grieve, who received the same number of shares underlying options. Dr. McGinley received the largest year-over-year increase in recognition of his pending promotion to President and Chief Operating Officer and increased responsibilities.

Option Awards in the Summary Compensation Table below represent the cost of options recognized for financial reporting purposes for each of our Named Executive Officers. In 2006, the majority of the value for each Named Executive Officer is related to the fully vested option grants in the fourth quarter of 2006 discussed above. For all other Named Executive Officers other than Mr. Napolitano and Mr. Snodgrass, the only other option cost included is for options granted with a four year vesting schedule in January 2003 with monthly vesting in 2006 and January 2007. In addition to such options granted in January 2003, Mr. Napolitano's 2006 total also includes option cost from his initial grant of options upon joining the Company in May 2002, which vested monthly ending in May 2006 after an initial six-month cliff vest in November 2002. Mr. Snodgrass's 2006 total includes only options granted in the fourth quarter of 2006. Options granted on December 31, 2007 did not impact 2007 in the Summary Compensation Table because the affiliated cost will be recognized over the four year vesting period and these options were granted at year end. The significant decline in value in 2007 versus 2006 for each Named Executive Officer is due to the fact that 2007 includes at most one month of stock option vesting for each individual, as discussed above. In 2008, option award compensation increased for all Named Executive Officers due mostly to recognition of stock options granted on December 31, 2007. We expect the value recognized under Option Awards will increase in future years as the December 2007 and November 2008 option grants vest and future options are issued.

#### **Other Benefits, Compensation or Arrangements**

All Other Compensation in the Summary Compensation Table below represent matching funds received by each of our Named Executive Officers under our 401(k) plan, which is open to all employees, as well as life insurance and short-term and long-term disability premiums.

All of our Named Executive Officers, with the exception of Mr. Snodgrass, had employment contracts in 2006, 2007 and 2008. They entitle Named Executive Officers to payments based on salary, continuing medical benefits for a given period and immediate vesting of unvested options in certain circumstances. Payments based on salary are typically paid monthly. The Committee believes these are common, in line with the experience of the Committee for executives at other companies and are intended to provide Executive Officers with additional resources to seek a comparable job, which is unlikely to be a rapid process given the level of employment, in these certain circumstances, such as an acquisition. Dr. Grieve is also entitled to payout based on bonus targets in certain circumstances, such as termination without cause, as well. These employment contracts are intended to provide the Named Executive Officers with protections appropriate for, and in line with, those received by comparable executives at companies similar to Heska. Periodically, we review these agreements versus market benchmarks.

In summary, Heska Corporation currently faces a challenging environment. Heska's Executive Compensation is adjusting to that environment along with the Company. The Committee endeavors to find the proper level and balance of base salary, performance-based incentive compensation, long-term equity incentive compensation and other forms of compensation.

**Summary Compensation Table**

The following table sets forth compensation for services rendered in all capacities to us during 2006, 2007 and 2008 by Robert B. Grieve, our Chairman of the Board and Chief Executive Officer, Jason A. Napolitano, our Chief Financial Officer, and our three other most highly compensated Executive Officers for the fiscal year ended December 31, 2008 (the "Named Executive Officers").

**Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)(1)	Bonus	Stock Awards	Option Awards (\$)(2)(3)	Non-Equity Incentive Plan Compensation (\$)(4)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)(5)	Total (\$)
<b>Robert B. Grieve</b>									
Chairman of the Board and Chief Executive Officer	2008	416,666			61,696			11,277	489,639
	2007	377,667			1,126	60,242		10,077	449,112
	2006	341,000			88,393	251,378		8,689	689,460
<b>Jason A. Napolitano</b>									
Executive Vice President, Chief Financial Officer and Secretary	2008	241,263			22,586			5,346	269,195
	2007	230,729			239	24,519		4,146	259,633
	2006	221,500			95,123	114,300		927	431,850
<b>G. Lynn Snodgrass</b>									
Vice President, Sales	2008	157,417			8,231	52,972		2,217	220,837
	2007	153,750				52,119		1,113	206,982
	2006	150,000			30,052	93,610		3,281	276,943
<b>Michael J. McGinley(6)</b>									
President and Chief Operating Officer	2008	194,105			17,582			5,695	217,652
	2007	163,737			568	20,000		4,833	189,138
	2006	151,500			51,769	78,178		4,757	286,204
<b>John R. Flanders(7)</b>									
Vice President, General Counsel and Corporate Secretary	2008	205,000			6,257			4,294	215,551
	2007	200,000				21,000		3,730	224,730
	2006	6,146			142,260				148,406
<b>Michael A. Bent</b>									
Vice President, Principal Accounting Officer and Controller	2008	170,939			6,257			6,431	183,627
	2007	164,196			568	18,000		6,075	188,839
	2006	157,000			29,230	81,016		3,235	270,481

(1) Salary includes amounts, if any, deferred pursuant to 401(k) arrangements.

(2) Represents cost recognized in each year for financial reporting purposes.

(3) Grant date fair value of option awards are based on valuation techniques required by Option Accounting Rules. Like any estimate prepared in good faith, the underlying assumptions we use under Option Accounting Rules may vary from our actual future results. The option valuation used for accounting and/or financial reporting

purposes does not necessarily represent the value any individual recipient would place on an option award. In addition, Option Accounting Rules prohibits some valuation techniques which may be useful in certain circumstances. A more detailed description of our option valuation techniques and assumptions can be found in our Annual Report on Form 10-K for the year ended December 31, 2008 in our Note 7 of the Notes to Consolidated Financial Statements.

- (4) Amounts earned pursuant to our Management Incentive Plans except for Mr. Snodgrass whose amounts were Commissions earned based on achieving certain sales volume targets and a Bonus earned based on Company financial performance and individual performance that is similar to our Management Incentive Plans. Amounts indicated are for year in which compensation was earned.
- (5) Includes life insurance premiums, short-term and long-term disability premiums and 401(k) match.
- (6) Dr. McGinley was appointed President and Chief Operating Officer of the Company at an annual salary of \$230,000 effective as of January 1, 2009.
- (7) Mr. Flanders joined the Company as of December 11, 2006 and left the Company as of January 31, 2009.

**Grants of Plan-Based Awards in Last Fiscal Year**

The following table shows all grants of options to acquire shares of our common stock granted in the fiscal year ended December 31, 2008 to the Named Executive Officers.

**Grants of Plan-Based Awards**

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#) (2)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$) (3)
		Threshold (\$)	Target (\$)	Maximum (\$ (1))	Threshold (#)	Target (#)	Maximum (#)				
Robert B. Grieve	11/04/08 N/A		210,000	315,000				300,000	0.440	51,240	
Jason A. Napolitano	11/04/08 N/A		85,050	127,575				130,000	0.440	22,204	
G. Lynn Snodgrass	11/04/08 N/A		63,042	94,563				50,000	0.440	8,540	
Michael J. McGinley	11/04/08 4/18/08 N/A		80,500	120,750				160,000 30,000	0.440 1.40	27,328 15,312	
John R. Flanders(4)	11/04/08 N/A		72,100	108,150				50,000	0.440	8,540	
Michael A. Bent	11/04/08 N/A		60,200	90,300				50,000	0.440	8,540	

(1) Based on targeted bonus multiplied by the percentage cap in our 2009 Management Incentive Plan ( MIP ) for Named Executive Officers. Our 2009 MIP is designed with a cap of approximately \$1.855 million on total payouts, or 150% of projected targeted bonuses. Our 2009 MIP gives our Compensation Committee discretion as to how any payouts will be distributed and the ability to make total payouts above the cap level. Accordingly, although our Compensation Committee has never awarded an MIP Payout to an employee greater than the employee s targeted bonus multiplied by the applicable percentage cap , our Compensation Committee has the ability to make 2009 MIP Payouts to Executive Officers in excess of that amount, which is reported as maximum in this column.

(2) One-forty-eighth (1/48<sup>th</sup>) of the total options granted become vested and exercisable each month from the grant date until options granted have vested in full on the four-year anniversary of the grant date. Each option was granted with an exercise price equal to 100% of the fair market value of our stock on the date of grant as determined by our Compensation Committee, and has a term of ten years, subject to earlier termination in certain events related to termination of employment.

- (3) Grant date fair value of option awards are based on valuation techniques required by Option Accounting Rules. Like any estimate prepared in good faith, the underlying assumptions we use under Option Accounting Rules may vary from our actual future results. The option valuations used for accounting and/or financial reporting purposes do not necessarily represent the value any individual recipient would place on an option award. In addition, Option Accounting Rules prohibit some valuation techniques which may be useful in certain circumstances. A more detailed description of our option valuation techniques and assumptions can be found in our Annual Report on Form 10-K for the year ended December 31, 2008 in our Note 7 of the Notes to Consolidated Financial Statements.
- (4) Mr. Flanders left the Company effective January 31, 2009.

## Outstanding Equity Awards at Fiscal Year-End

The following table shows unexercised stock options held at the end of fiscal year ended December 31, 2008 by the executive officers named in the Summary Compensation Table.

Name	Option Awards					Stock Awards		Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date (1)	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)		
Robert B. Grieve	6,250	293,750		0.440	11/04/2018				
	75,000	225,000		1.830	12/31/2017				
	100,000			1.717	11/17/2016				
	400,000			1.250	12/15/2015				
	282,000			0.880	3/30/2015				
	475,000			2.300	1/5/2014				
	275,000			0.700	1/31/2013				
	69,996			0.340	1/6/2013				
	275,000			1.210	1/12/2012				
	125,000			1.250	2/5/2011				
	200,000			3.690	2/23/2010				
Jason A. Napolitano	2,708	127,292		0.440	11/04/2018				
	27,500	82,500		1.830	12/31/2017				
	90,000			1.717	11/17/2016				
	260,000			1.250	12/15/2015				
	195,000			0.880	3/30/2015				
	130,000			2.300	1/5/2014				
	29,166			0.700	1/31/2013				
	476,086			0.700	5/31/2012				
	70,802			0.810	4/30/2012				
	431			0.940	8/31/2011				
	7,869			0.940	8/24/2011				
G. Lynn Snodgrass	1,042	48,958		0.440	11/04/2018				
	10,000	30,000		1.830	12/31/2017				
	40,000			1.717	11/17/2016				
	40,000			1.250	12/15/2015				
	10,000			1.590	5/18/2014				
	20,000			1.840	4/30/2014				
	6,000			0.950	4/10/2013				
	7,500			1.060	2/5/2012				
	1,000			1.140	4/26/2011				
	400			2.000	11/17/2009				
	1,000			2.370	10/6/2009				
Michael J. McGinley	3,333	156,667		0.440	11/04/2018				
	5,000	25,000		1.400	4/18/2018				

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	17,500	52,500	1.830	12/31/2017
	60,000		1.717	11/17/2016
	95,000		1.250	12/15/2015
	95,000		0.880	3/30/2015
	55,000		2.300	1/5/2014
	45,000		0.700	1/31/2013
	30,000		0.340	1/6/2013
	40,000		1.060	2/5/2012
	14,000		1.140	4/26/2011
	3,000		2.000	8/2/2010
	7,500		2.000	11/17/2009
	7,000		3.060	4/6/2009
<b>John R. Flanders(2)</b>	1,042	48,958	0.440	11/4/2018
	7,500	22,500	1.830	12/31/2017
	200,000		1.650	12/11/2016
<b>Michael A. Bent</b>	1,042	48,958	0.440	11/04/2018
	7,500	22,500	1.830	12/31/2017
	30,000		1.717	11/17/2016
	75,000		1.250	12/15/2015
	80,000		0.880	3/30/2015
	65,000		1.590	1/5/2014
	45,000		0.700	1/31/2013
	30,000		0.340	1/6/2013
	26,000		0.990	4/12/2012
	32,000		1.060	2/5/2012
	12,000		1.140	4/26/2011
	3,000		2.000	11/17/2009
	12,000		2.370	10/6/2009

- 
- (1) Options are subject to earlier termination in certain events related to termination of service.
- (2) Mr. Flanders left the Company effective January 31, 2009.

**Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values**





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The following table shows aggregate exercises of options to purchase our common stock in the fiscal year ended December 31, 2008 by the Named Executive Officers.

### Option Exercises and Stock Vested

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized On Vesting (\$)
Robert B. Grieve				
Jason A. Napolitano				
G. Lynn Snodgrass				
Michael J. McGinley				
John R. Flanders(1)				
Michael A. Bent				

(1) Mr. Flanders left the Company effective January 31, 2009.

### Potential Payments Upon Termination or Change-in-Control

The following table summarizes the potential payments and benefits payable to each of the Named Executive Officers upon termination of employment or a change-in-control under each situation listed below, assuming, in each situation, that our Named Executive Officers were terminated on December 31, 2008 as determined under the terms of our plans and arrangements as in effect on December 31, 2008.

*Payments Upon Termination (Without a Change-in-Control).* Pursuant to an employment agreement with each of Dr. Grieve, Dr. McGinley and Messrs. Napolitano, Flanders and Bent, in the event he is involuntarily terminated, he is entitled to receive amounts earned during his term of employment. Such amounts include: base salary and the cost of health insurance premiums as set forth in the table below. Pursuant to his employment agreement, upon an involuntary termination not for cause, Dr. Grieve is entitled to accelerated vesting of all stock options, an extension of the term of all outstanding stock options and a bonus payment as set forth in the table below. Further, pursuant to his employment agreement, upon termination for good reason Dr. Grieve is entitled to the payments set forth below.

*Payments Upon Change-in-Control.* Pursuant to an employment agreement with each of Dr. Grieve, Dr. McGinley and Messrs. Napolitano, Flanders and Bent, in the event he is terminated upon a change-in-control he is entitled to receive amounts earned during the term of his employment. Such amounts include: base salary and the cost of health insurance premiums as set forth in the table below. Pursuant to his employment agreement, each of Dr. Grieve and Mr. Napolitano are entitled to accelerated vesting of all stock options and Dr. Grieve is entitled to an extension of the term of all outstanding stock options in certain circumstances. Further, pursuant to his employment agreement, upon an involuntary termination not for cause, Dr. Grieve is entitled to a bonus payment as set forth in the table below. Further, upon termination for good reason, Dr. Grieve is entitled to the payments set forth below.

*Payments Upon Death or Disability.* In the event of death or disability, Dr. Grieve is entitled to the same benefits as in the event of termination without a change in control and is also entitled to receive the death benefits under our life insurance plan or the disability benefits under our disability plan, as appropriate, as set forth below. In the event of death or disability, Dr. McGinley and Messrs. Napolitano, Snodgrass, Flanders and Bent, are each entitled to receive the death benefits under our life insurance plan or the disability benefits under our disability plan, as appropriate, as set forth below.

## Potential Payments Upon Termination or Change-in-Control (1)

Executive Benefits and Payments Upon Termination	Voluntary Termination or Termination for Cause (\$)	Other Than in Connection With a Change-in-Control		In Connection With a Change-in-Control		Death (\$)	Disability (\$)
		Involuntary Termination not for Cause (\$)	Termination for Good Reason (\$)	Involuntary Termination not for Cause (\$)	Termination for Good Reason (\$)		
<b>Robert B. Grieve</b>							
<i>Base Salary</i>		420,000	420,000	840,000	840,000	420,000	420,000
<i>Bonus</i>				502,756	502,756		
<i>Medical continuation</i>		12,716	12,716	25,433	25,433	12,716	12,716
<i>Death benefits</i>						300,000	
<i>Monthly disability benefits</i>							15,300
<i>Value of accelerated stock options (2)</i>							
<b>Jason A. Napolitano</b>							
<i>Base Salary</i>		121,500		243,000			
<i>Bonus</i>				8,814		300,000	
<i>Medical continuation</i>		4,407					
<i>Death benefits</i>							
<i>Monthly disability benefits</i>							4,000
<i>Value of accelerated stock options (2)</i>							
<b>G. Lynn Snodgrass</b>							
<i>Base Salary</i>							
<i>Bonus</i>							
<i>Medical continuation</i>						300,000	
<i>Death benefits</i>							
<i>Monthly disability benefits</i>							7,600
<i>Value of accelerated stock options (2)</i>							
<b>Michael J. McGinley</b>							
<i>Base Salary</i>		97,500		195,000			
<i>Bonus</i>							
<i>Medical continuation</i>		6,358		12,716		300,000	
<i>Death benefits</i>							
<i>Monthly disability benefits</i>							8,000
<i>Value of accelerated stock options (2)</i>							
<b>John R. Flanders (3)</b>							
<i>Base Salary</i>		103,000		206,000			
<i>Bonus</i>							
<i>Medical continuation</i>		6,358		12,716		300,000	
<i>Death benefits</i>							8,000
<i>Monthly disability benefits</i>							
<i>Value of accelerated stock options (2)</i>							
<b>Michael A. Bent</b>							
<i>Base Salary</i>		86,000		172,000			
<i>Bonus</i>							
<i>Medical continuation</i>		6,358		12,716		300,000	
<i>Death benefits</i>							
<i>Monthly disability benefits</i>							8,000
<i>Value of accelerated stock options (2)</i>							

(1) Based on 2008 salary and cost information.

- (2) Calculated based on December 31, 2008 closing price of \$0.2501 per share.
- (3) Mr. Flanders left the Company effective January 31, 2009.

*The following Compensation Committee Report and related disclosure shall not be deemed incorporated by reference by any general statement incorporating this proxy statement into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.*

#### **COMPENSATION COMMITTEE REPORT**

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

THE COMPENSATION COMMITTEE

Peter Eio, *Chairman*  
G. Irwin Gordon  
John F. Sasen, Sr.

April 6, 2009

**COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

Our Compensation Committee consists of non-employee Directors only. No interlocking relationship existed during 2008 between our Executive Officers, members of our Board of Directors or members of our Compensation Committee, and the Executive Officers, members of the Board of Directors or members of the Compensation Committee of the Board of Directors of any other company.

**AUDITOR FEES AND SERVICES**





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EKS&H was our independent registered public accountant for fiscal 2007 and 2008. KPMG LLP ( KPMG ) was our independent registered public accountant for fiscal 2005 and continued to bill us for services related to historical audit opinions, such as actions required to obtain consent to include these opinions in our SEC filings. In 2007, our Audit Committee engaged EKS&H to conduct an audit of fiscal 2005 so that we did not have to obtain KPMG s consent to include KPMG s audit opinion for that year in our Annual Report on Form 10-K for the year ended December 31, 2007 and any future SEC filings. The following table sets forth the aggregate fees billed by EKS&H for audit services rendered in connection with the consolidated financial statements and reports for fiscal years 2007 and 2008, respectively, and for other services rendered during 2007 and 2008 on behalf of Heska and its subsidiaries, as well as all out-of-pocket costs incurred in connection with these services which have been billed to Heska and its subsidiaries. Our Audit Committee has approved all of the below fees.

	EKS&H	
	2007	2008
Audit Fees (1)	\$ 369,286	\$ 275,750
Audit Related Fees (2)	15,500	16,750
Tax Fees		
All Other Fees		
Total	\$ 384,786	\$ 292,500

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(1) Audit fees represent fees for the audit of our annual financial statements, review of financial statements included in our Form 10-Q Quarterly Reports and services that are normally provided by the independent auditors in connection with statutory and regulatory filings including consents for historical audit opinions. EKS&H 2007 fees include an audit of fiscal 2005 and an audit of the Company s internal control over financial reporting. EKS&H 2008 fees include an audit of the Company s internal control over financial reporting.

(2) Audit related fees are fees for the assurance and related services by the independent auditors that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under Audit Fees. The services for fees disclosed under this category include the annual audit of our 401(k) Retirement Plan.

**Pre-Approval Policy.** Our Audit Committee pre-approves all auditing services and non-audit services not prohibited by law to be performed by our independent registered public accountant. Our Audit Committee also pre-approves all associated fees, except for *de minimis* amounts for non-audit services, which are approved by our Audit Committee prior to the completion of the audit. In February 2009, our Audit Committee approved EKS&H as our primary provider of tax compliance and return preparation services.

*The following Report of our Audit Committee and related disclosure shall not be deemed incorporated by reference by any general statement incorporating this proxy statement into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.*

## **REPORT OF OUR AUDIT COMMITTEE**

The ultimate responsibility for good corporate governance rests with Heska Corporation's Board of Directors (the Board), whose primary roles are oversight, counseling and direction to Heska Corporation's management in the best long-term interests of Heska Corporation (Heska or the Company) and its stockholders. The Audit Committee of the Board (the Audit Committee) has been established for the purpose of overseeing the accounting and financial reporting processes of the Company and audits of Heska's financial statements.

The Audit Committee operates under a written charter, a copy of which is available on Heska's website at [www.heska.com](http://www.heska.com). As described more fully in its charter, the purpose of the Audit Committee is to assist the Board in its oversight and monitoring of Heska's financial reporting, internal controls and audit function. Management is responsible for the preparation, presentation and integrity of Heska's financial statements; accounting and financial reporting principles; internal controls; and procedures designed to ensure compliance with accounting standards, applicable laws and regulations. The Audit Committee has hired an independent registered public accountant, who is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with generally accepted auditing standards. In accordance with the Sarbanes-Oxley Act of 2002, the Audit Committee has ultimate authority and responsibility to select, direct, compensate, evaluate and, when appropriate, replace Heska's independent registered public accountant.

The Audit Committee members are not professional accountants or auditors, and their functions are not intended to duplicate or to certify the activities of management and the independent registered public accountant, nor can the Audit Committee certify that the independent registered public accountant is independent under applicable rules. The Audit Committee serves a board-level oversight role, in which it provides advice, counsel and direction to management on the basis of the information it receives, discussions with management and the independent registered public accountant, and the experience of the Audit Committee's members in business, financial and accounting matters. The Audit Committee has the authority to engage its own outside advisers, including experts in particular areas of accounting, as it determines appropriate, apart from counsel or advisers hired by management.

In this context, during the year 2008, we met and held discussions with management and Ehrhardt Keefe Steiner & Hottman PC (EKS&H), Heska's independent registered public accountant. Management represented to us that Heska's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and we have reviewed and discussed the consolidated financial statements with management and EKS&H. In Audit Committee meetings with EKS&H, we discussed matters as required by Statement of Auditing Standards No. 61 (Communication with Audit Committees). Our review included a discussion with management of the quality, not merely the acceptability, of Heska's accounting principles, the reasonableness of significant estimates and judgments and the disclosure in Heska's consolidated financial statements.

We received from EKS&H the written disclosures required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence and discussed with EKS&H its independence. In reliance on the reviews and discussions noted above, and the report of the independent registered public accountant, we recommended to the Board that the Company's audited financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2008 (the Company's 2008 10-K), and be filed with the Securities and Exchange Commission.



On March 31, 2006, we dismissed KPMG LLP ( KPMG ) as Heska s independent registered public accountant and engaged EKS&H as Heska s independent registered public accountant. An extensive search was conducted to evaluate Heska s alternatives regarding independent registered public accountants, including face-to-face interviews conducted by the Chairman of the Audit Committee. We believe EKS&H is compatible with a company Heska s size and we believe EKS&H has consistently conducted high quality, cost-effective audits. In 2007, we engaged EKS&H to conduct an audit (the 2005 Re-audit ) for fiscal 2005, so that we did not have to obtain KPMG s consent to include KPMG s audit opinion for that year in the Company s 2007 10-K and any future SEC filings. We believe it was wise to incur the additional fees affiliated with the 2005 Re-audit due to the significant management time and distraction associated with obtaining KPMG s consent to include KPMG s audit opinion in the Company s SEC filings in the past and our concern over this recurring. KPMG was also our primary provider of tax compliance and return preparation services from July 2002 until February 2009. Based on our experience with KPMG and EKS&H and at management s request, we approved EKS&H as the Company s primary provider of tax compliance and return preparation service in February 2009.

KPMG served as Heska s independent auditors from July 30, 2002 to March 31, 2006. In connection with the audit of the fiscal year ended December 31, 2005, and during the subsequent interim period through March 31, 2006, the Company did not have any disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement. In addition, during the fiscal year ended December 31, 2005 and through March 31, 2006, the Company had no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K). During the year ended December 31, 2005 and the subsequent period through March 31, 2006, neither the Company nor anyone acting on the Company s behalf consulted EKS&H regarding: (1) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company s financial statements; or (2) any matter that was either the subject of a disagreement as defined in Item 304(a)(1)(iv) of Regulation S-K or a reportable event described in Item 304(a)(1)(v) of Regulation S-K.

Submitted by the Audit Committee of Heska s Board of Directors:

William A. Aylesworth, *Chairman*  
Peter Eio  
Louise L. McCormick

April 6, 2009

## ADDITIONAL INFORMATION

### Householding of Proxy Materials

The SEC has adopted rules that permit companies and intermediaries such as brokers to satisfy delivery requirements for proxy statements with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as householding, potentially provides extra convenience for stockholders and cost savings for companies. Heska and some brokers household proxy materials, delivering a single proxy statement to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker or us that they or we will be householding materials to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement, or if you are receiving multiple copies of the proxy statement and wish to receive only one, please notify your broker if your shares are held in a brokerage account or us if you hold registered shares. You can notify us by sending a written request to Investor Relations, Heska Corporation, 3760 Rocky Mountain Avenue, Loveland, Colorado 80538.

## OTHER MATTERS

Our Board knows of no other matters to be presented for stockholder action at our 2009 Annual Meeting. However, if other matters do properly come before our Annual Meeting or any adjournments or postponements thereof, our Board intends that the persons named in the proxies will vote upon such matters in accordance with their best judgment.

BY ORDER OF THE BOARD OF DIRECTORS

Jason A. Napolitano  
*Executive Vice President, Chief Financial Officer and Secretary,  
Heska Corporation*

Loveland, Colorado  
April 6, 2009

**HESKA CORPORATION**

**1997 STOCK INCENTIVE PLAN**

(AS AMENDED MARCH 6, 2007 AND MAY 5, 2009)

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**HESKA CORPORATION**

**1997 STOCK INCENTIVE PLAN**

**ARTICLE 1. INTRODUCTION ■**

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

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

**ARTICLE 2. ADMINISTRATION ■**

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

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

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

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

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

**ARTICLE 3. SHARES AVAILABLE FOR GRANTS.**

**3.1 Basic Limitation.** Common Shares issued pursuant to the Plan may be authorized but unissued shares or treasury shares. The aggregate number of Options and Restricted Shares awarded under the Plan shall not exceed (a) 1,350,000 plus (b) the aggregate number of Common Shares remaining available for grants under the Predecessor Plans on March 15, 1997, plus (c) the additional Common Shares described in Sections 3.2 and 3.3 less (d) 250,000. No additional grants shall be made under the Predecessor Plans after March 15, 1997. The limitation of this Section 3.1 shall be subject to adjustment pursuant to Article 9.

**3.2 Annual Increase in Shares.** As of January 1 of each year, commencing with the year 1998 and continuing through January 1, 2007, the aggregate number of Options and Restricted Shares that may be awarded under the Plan shall be increased by a number of Common Shares equal to the lesser of (a) 5% of the total number of Common Shares outstanding as of the next preceding December 31 or (b) 1,500,000. After the annual increase on January 1, 2007, there shall be no further annual increases under the Plan unless and until stockholder approval of such increase has been obtained.

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

#### **ARTICLE 4. ELIGIBILITY.**

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

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

#### **ARTICLE 5. OPTIONS.**

**5.1 Stock Option Agreement.** Each grant of an Option under the Plan shall be evidenced by a Stock Option Agreement between the Optionee and the Company. Such Option shall be subject to all applicable terms of the Plan and may be subject to any other terms that are not inconsistent with the Plan. The Stock Option Agreement shall specify whether the Option is an ISO or an NQO. The provisions of the various Stock Option Agreements entered into under the Plan need not be identical. Options may be granted in consideration of a cash payment or in consideration of a reduction in the Optionee's other compensation. A Stock Option Agreement may provide that a new Option will be granted automatically to the Optionee when he or she exercises a prior Option and pays the Exercise Price in the form described in Section 6.2.

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

**5.3 Exercise Price.** Each Stock Option Agreement shall specify the Exercise Price; provided that the Exercise Price under an ISO shall in no event be less than 100% of the Fair Market Value of a Common Share on the date of grant and the Exercise Price under an NQO shall in no

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event be less than 85% of the Fair Market Value of a Common Share on the date of grant. In the case of an NQO, a Stock Option Agreement may specify an Exercise Price that varies in accordance with a predetermined formula while the NQO is outstanding.

**5.4 Exercisability and Term.** Each Stock Option Agreement shall specify the date when all or any installment of the Option is to become exercisable. The Stock Option Agreement shall also

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

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

- (a) In the case of an ISO, the acceleration of exercisability shall not occur without the Optionee's written consent.
  
- (b) If the Company and the other party to the transaction constituting a Change in Control agree that such transaction is to be treated as a pooling of interests for financial reporting purposes, and if such transaction in fact is so treated, then the acceleration of exercisability shall not occur to the extent that the surviving entity's independent public accountants determine in good faith that such acceleration would preclude the use of pooling of interests accounting.

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

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

## **ARTICLE 6. PAYMENT FOR OPTION SHARES.**

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

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

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

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

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

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

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

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

**ARTICLE 7. [Reserved]**

**ARTICLE 8. RESTRICTED SHARES.**

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

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

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



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

**ARTICLE 9. PROTECTION AGAINST DILUTION.**

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

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

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

**ARTICLE 10. AWARDS UNDER OTHER PLANS.**

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

**ARTICLE 11. LIMITATION ON RIGHTS.**

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

**11.2 Stockholders Rights.** A Participant shall have no dividend rights, voting rights or other rights as a stockholder with respect to any Common Shares covered by his or her Award prior to the time when a stock certificate for such Common Shares is issued or, in the case of an Option, the time when he or she becomes entitled to receive such Common Shares by filing a notice of exercise and paying the Exercise Price. No adjustment shall be made for cash dividends or other rights for which the record date is prior to such time, except as expressly provided in the Plan.

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

Shares, to their registration, qualification or listing or to an exemption from registration, qualification or listing.

**ARTICLE 12. WITHHOLDING TAXES.**

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

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

**ARTICLE 13. FUTURE OF THE PLAN.**

**13.1 Term of the Plan.** The Plan, as set forth herein, shall become effective on March 14, 1997. The Plan shall remain in effect until it is terminated under Section 13.2, except that no ISOs shall be granted after May 4, 2019.

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

**ARTICLE 14. DEFINITIONS.**

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

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

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

**14.4 Change in Control** shall mean:

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

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

(c) A change in the composition of the Board, a result of which fewer than 50% of the incumbent directors are directors who either (i) had been directors of the Company on the date 24 months prior to the date of the event that may constitute a Change in Control (the "original directors") or (ii) were elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the aggregate of the original directors who were still

in office at the time of the election or nomination and the directors whose election or nomination was previously so approved; or

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



**ARTICLE 15. EXECUTION.**

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

HESKA CORPORATION

By: Jason A. Napolitano  
Executive Vice President and Chief Financial Officer

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**Heska Corporation**

**Holder Account Number**

**C 1234567890 J N T**

Mark this box with an X if you have made changes to your name or address details above.

**2009 Annual Meeting Proxy Card**

**A Election of Directors**

The Board of Directors recommends a vote *FOR* the listed nominees.

1. Election of two Directors to serve for a three-year term that expires at the 2012 Annual Meeting or until their respective successors have been elected and qualified.

	<b>For</b>	<b>Withhold</b>
01 William A. Aylesworth	<input type="radio"/>	<input type="radio"/>
02 Robert B. Grieve, Ph.D.	<input type="radio"/>	<input type="radio"/>

**B Issues**

The Board of Directors recommends a vote *FOR* each of the following:

	<b>For</b>	<b>Against</b>	<b>Abstain</b>
2. To approve an amendment to Heska Corporation's 1997 Stock Incentive Plan (the "1997 Stock Plan"), which would reduce the number of shares which could be issued and allow for the further issuance of incentive stock options under the 1997 Stock Plan.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. To ratify the appointment of Ehrhardt Keefe Steiner & Hottman PC as Heska Corporation's independent registered public accountant.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Proxy Heska Corporation

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned hereby appoints Robert B. Grieve, Ph.D., Jason A. Napolitano and Michael A. Bent, and each of them, as proxies, with full power of substitution, and hereby authorizes them to represent and vote, as designated below, all shares of the Common Stock of Heska Corporation, a Delaware corporation (the *Company*), held of record by the undersigned on March 26, 2009, at the 2009 Annual Meeting of Stockholders (the *Annual Meeting*) to be held at the corporate offices of the Company located at 3760 Rocky Mountain Avenue, Loveland, Colorado 80538 at 9:00 a.m., local time, on Tuesday, May 5, 2009, or at any adjournment or postponement thereof, with all the powers that the undersigned would have if personally present at the meeting.

The undersigned hereby acknowledges receipt of the Notice of Annual Meeting and Proxy Statement, dated April 6, 2009, and a copy of Heska Corporation's 2008 Annual Report on Form 10-K as filed with the Securities and Exchange Commission. The undersigned hereby expressly revokes any and all proxies heretofore given or executed by the undersigned with respect to the shares of stock represented by this proxy and, by filing this proxy with the Secretary of Heska Corporation, gives notice of such revocation. This proxy when properly executed will be voted in accordance with the specifications made by the undersigned stockholder.

**IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE NOMINEES FOR DIRECTOR, FOR APPROVAL OF THE AMENDMENT TO THE COMPANY'S 1997 STOCK INCENTIVE PLAN, FOR THE RATIFICATION OF EHRHARDT KEEFE STEINER & HOTTMAN PC AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTANT AND AT THE DISCRETION OF THE PROXIES ON ANY OTHER BUSINESS THAT MAY PROPERLY COME BEFORE THE ANNUAL MEETING. THIS PROXY MAY BE REVOKED AT ANY TIME PRIOR TO THE TIME IT IS VOTED.**

**PLEASE COMPLETE, DATE AND SIGN THIS PROXY AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING  
TO BE HELD ON MAY 5, 2009**

**The Proxy Statement, this Proxy Card and our 2008 Annual Report on Form 10-K are available at  
<https://materials.proxyvote.com/42805E>.**