

HESKA CORP
Form 10-Q
August 10, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from _____ to _____

Commission file number: 000-22427

HESKA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

77-0192527

(I.R.S. Employer Identification Number)

3760 Rocky Mountain Avenue

Loveland, Colorado

(Address of principal executive offices)

80538

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of the Registrant's Common Stock outstanding at August 7, 2009 was 52,122,944.

TABLE OF CONTENTS

	<u>Page</u>
PART I - FINANCIAL INFORMATION	
Item 1.	
Financial Statements:	
<u>Condensed Consolidated Balance Sheets (Unaudited) as of December 31, 2008 and June 30, 2009</u>	2
<u>Condensed Consolidated Statements of Operations (Unaudited) for the three months and six months ended June 30, 2008 and 2009</u>	3
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the six months ended June 30, 2008 and 2009</u>	4
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	5
Item 2.	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
Item 3.	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	19
Item 4.	
<u>Controls and Procedures</u>	20
PART II - OTHER INFORMATION	
Item 1.	
<u>Legal Proceedings</u>	21
Item 1A.	
<u>Risk Factors</u>	21
Item 2.	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
Item 3.	
<u>Defaults Upon Senior Securities</u>	32
Item 4.	
<u>Submission of Matters to a Vote of Security Holders</u>	33
Item 5.	
<u>Other Information</u>	33
Item 6.	
<u>Exhibits</u>	33
<u>Signatures</u>	34

DRI-CHEM is a registered trademark of FUJIFILM Corporation. i-STAT is a registered trademark of Abbott Laboratories. SPOTCHEM is a trademark of Arkray, Inc. TRI-HEART is a registered trademark of Schering-Plough Animal Health Corporation ("SPAH") in the United States and is a trademark of Heska Corporation in other countries. HESKA, ALLERCEPT, AVERT, E.R.D.-HEALTHSCREEN, E-SCREEN, FELINE ULTRANASAL, HEMATRUUE, SOLO STEP, THYROMED and VET/OX are registered trademarks and CBC-DIFF, G2 DIGITAL and VET/IV are registered trademarks of Heska Corporation in the United States and/or other countries. This Form 10-Q also refers to trademarks and trade names of other organizations.

HESKA CORPORATION AND SUBSIDIARIES**CONDENSED CONSOLIDATED BALANCE SHEETS**

(dollars in thousands except per share amounts)

(unaudited)

ASSETS

	December 31, 2008	June 30, 2009
Current assets:		
Cash and cash equivalents	\$ 4,705	\$ 5,324
Accounts receivable, net of allowance for doubtful accounts of \$209 and \$227, respectively	9,514	8,698
Inventories, net	15,249	13,013
Deferred tax asset, current	869	747
Other current assets	953	809
Total current assets	31,290	28,591
Property and equipment, net	8,509	7,374
Goodwill	890	865
Deferred tax asset, net of current portion	29,749	29,144
Total assets	\$ 70,438	\$ 65,974

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 3,904	\$ 4,139
Accrued liabilities	3,128	2,866
Accrued restructuring	578	38
Current portion of deferred revenue	2,806	2,337
Line of credit	11,042	6,985
Current portion of long-term debt	770	719
Total current liabilities	22,228	17,084
Long-term debt, net of current portion	381	46
Deferred revenue, net of current portion, and other	5,306	5,151
Total liabilities	27,915	22,281

Commitments and contingencies

Stockholders' equity:

Preferred stock, \$.001 par value, 25,000,000 shares authorized; none issued or outstanding	—	—
Common stock, \$.001 par value, 75,000,000 shares authorized; 52,010,928 and 52,122,944 shares issued and outstanding, respectively	52	52
Additional paid-in capital	216,463	216,674
Accumulated other comprehensive income (loss)	46	(34)

Edgar Filing: HESKA CORP - Form 10-Q

Accumulated deficit	(174,038)	(172,999)
Total stockholders' equity	42,523	43,693
Total liabilities and stockholders' equity	\$ 70,438	\$ 65,974

See accompanying notes to condensed consolidated financial statements.

-2-

HESKA CORPORATION AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2008	2009	June 30, 2008	2009
Revenue, net:				
Core companion animal health	\$ 17,596	\$ 16,879	\$ 35,233	\$ 35,016
Other vaccines, pharmaceuticals and products	5,019	1,750	9,300	3,754
Total revenue, net	22,615	18,629	44,533	38,770
Cost of revenue	14,044	11,598	28,226	24,366
Gross profit	8,571	7,031	16,307	14,404
Operating expenses:				
Selling and marketing	4,644	3,622	9,566	7,380
Research and development	417	405	956	851
General and administrative	2,124	1,994	4,622	4,146
Total operating expenses	7,185	6,021	15,144	12,377
Operating income	1,386	1,010	1,163	2,027
Interest and other expense, net	181	41	347	206
Income before income taxes	1,205	969	816	1,821
Income tax expense	539	390	376	782
Net income	\$ 666	\$ 579	\$ 440	\$ 1,039
Basic net income per share	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.02
Diluted net income per share	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.02
Weighted average outstanding shares used to compute basic net				
income per share	51,595	52,012	51,538	52,012
Weighted average outstanding shares used to compute diluted net income per				
share	53,961	52,035	54,401	52,013

See accompanying notes to condensed consolidated financial statements.

HESKA CORPORATION AND SUBSIDIARIES**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

	Six Months Ended	
	June 30, 2008	2009
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net income	\$ 440	\$ 1,039
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	1,586	1,324
Deferred tax expense (benefit)	295	727
Stock-based compensation	205	175
Unrealized (gain) loss on foreign currency translation	29	13
Changes in operating assets and liabilities:		
Accounts receivable	845	816
Inventories	694	2,169
Other current assets	193	131
Accounts payable	(2,437)	235
Accrued liabilities	669	(802)
Deferred revenue and other liabilities	(1,289)	(622)
Net cash provided by (used in) operating activities	1,230	5,205