HESKA CORP
Form DEF 14A
April 25, 2003

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE

SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ PreliminaryProxy Statement
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Under Rule 14a-12

¨ Confidential, For Use of the Commission Only(as permitted by Rule 14a-6(e)(2))

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):

x No fee required.

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(3) Filing Party:
(4) Date Filed:

HESKA CORPORATION

1613 Prospect Parkway

Fort Collins, Colorado 80525

(970) 493-7272

Notice of Annual Meeting of Stockholders

TIME	9:00 a.m. on Thursday, May 29, 2003
PLACE	Heska Corporation 1613 Prospect Parkway Fort Collins, Colorado
ITEMS OF BUSINESS	1. To elect three directors to a three year term. 2. To ratify the appointment of KPMG LLP as Heska s independent auditors. 3. To approve the Heska Corporation 2003 Equity Incentive Plan. 4. To consider such other business as may properly come before the Annual Meeting.
RECORD DATE	You can vote if you were a stockholder of record at the close of business on April 9, 2003.
ANNUAL REPORT	Our 2002 Annual Report, 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 Annual Meeting in accordance with your instructions. For specific instructions on voting, please refer to the instructions on the proxy card.

April 28, 2003

By Order of the Board of Directors

Jason A. Napolitano

Executive Vice President, Chief Financial Officer and Secretary

This proxy statement and accompanying proxy card are being distributed on or about April 28, 2003.

QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS

AND THE 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, which will take place on May 29, 2003. As a stockholder, you are invited to attend the 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 Annual Meeting, the voting process, the compensation of our directors and most highly paid executive officers, and certain other required information. Our 2002 Annual Report to Stockholders is also enclosed.

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

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

(1) The election of three nominees to serve on our Board of Directors for a three year term;

(2) The ratification of independent auditors for fiscal 2003; and

(3) The approval of the Heska Corporation 2003 Equity Incentive Plan.

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

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

A: The Board recommends a vote FOR each of the director nominees, FOR the ratification of independent auditors for fiscal 2003 and FOR the approval of the Heska Corporation 2003 Equity Incentive Plan.

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

A:

Stockholders as of the close of business on April 9, 2003 (the Record Date) are entitled to vote at the Annual Meeting. As of the Record Date, 47,813,740 shares of the Company s 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 Annual Meeting will be available at the Annual Meeting and for ten days prior to the meeting during normal business hours at our offices at 1613 Prospect Parkway, Fort Collins, Colorado 80525, by contacting the Secretary of the Company.

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 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 Annual Meeting, you must contact your broker, bank or other nominee to obtain the proper documentation and bring it with you to the 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 the Company s 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 annual meeting or how to vote or revoke your proxy, you should contact:

Morrow & Co. Inc.

445 Park Avenue, 5th Floor

New York, New York 10022

E-mail: Heska.info@morrowco.com

Stockholders: (800) 607-0088

Banks and Brokerage Firms: (800) 654-2468

If you need additional copies of this proxy statement or voting materials, please contact Morrow & Co., Inc. 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 Investor Services, LLC, the Company s transfer agent.

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

A: The quorum requirement for holding the Annual Meeting and transacting business is that holders of a majority of the outstanding shares of Heska common stock entitled to vote must be present in person at the meeting or represented by proxy. Both abstentions and broker non-votes are counted for the purposes of determining the presence of a quorum. Broker non-votes are not counted as shares present and entitled to be voted with respect to matters on which the broker has not received voting instructions. Thus, broker non-votes will not affect the outcome of any of the matters being voted upon at the meeting, assuming that a quorum is obtained. Broker non-votes generally occur on a matter when a broker is not permitted to vote on that matter without instructions from the beneficial owner and instructions are not given.

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

A: All stockholders as of the Record Date can attend. If you wish to vote your shares at the 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 Annual Meeting.

Q: ***What happens if additional matters are presented at the 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 Annual Meeting. If you grant a proxy, the persons named as proxyholders, Robert B. Grieve, Heska s Chairman and Chief Executive Officer, and Jason A. Napolitano, Heska s Executive Vice President and Chief Financial Officer, 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 will vote your proxy for such other candidate or candidates as 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 Annual Meeting and publish final results in our quarterly report on Form 10-Q for our second fiscal quarter of 2003.

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: Corporate Secretary, Heska Corporation, 1613 Prospect Parkway, Fort Collins, Colorado 80525.

Stockholder Proposals: For a stockholder proposal to be considered for inclusion in Heska s proxy statement for the annual meeting next year, the written proposal must be received by our corporate secretary at our principal executive offices no later than December 30, 2003. 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 Heska s proxy statement is instead a reasonable period of time before Heska begins to print and mail its 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 stockholder proposal that is not intended to be included in Heska s proxy statement under Rule 14a-8, the stockholder must deliver a written notice of intent to propose such action in accordance with the bylaws of Heska, 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. For the 2004 Annual Meeting, this means that any such proposal must be submitted no earlier than January 29, 2004 and no later than February 28, 2004.

Director Nominees: You may propose director candidates for consideration by the Board s Corporate Governance Committee. Any such recommendations should be directed to our corporate secretary at our principal executive offices. In addition, you must give timely notice to the corporate secretary of Heska of your intention to make such nomination in accordance with the bylaws of Heska, which require that the notice be received by the corporate secretary within the time periods described above under Stockholder Proposals.

Copy of Bylaw Provisions: You may contact our corporate 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.

Q: ***Who bears the costs of soliciting votes for the 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. We also have hired Morrow & Co., Inc. (Morrow) to assist us in the distribution of proxy materials and the solicitation of votes described above. We will pay Morrow a fee of $4,500 plus customary costs and expenses for these services. Heska has agreed to indemnify Morrow against certain liabilities arising out of or in connection with its agreement. 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

The Board is divided into three classes serving staggered three-year terms. The Board currently has eight directors and the following three standing committees, each of which is chaired by an outside director: (1) Audit, (2) Compensation and (3) Corporate Governance. The membership during 2002 and the function of each committee are described below. The Board held six meetings during 2002. Each incumbent director attended at least 75% of all Board and applicable committee meetings, except for Dr. Hohnke, who was unable to attend two meetings. On October 3, 2002, the Board appointed Peter Eio to the Board. On November 11, 2002, Edith W. Martin, Ph.D. resigned from the Board.

Audit Committee

The Audit Committee has the following responsibilities:

- appoint and replace the Company s independent auditors;
- oversee and monitor the integrity of the annual and quarterly financial statements of the Company;
- review and discuss with management and the Company s independent auditors significant financial reporting issues and critical accounting policies and practices;
- oversee and monitor the qualifications, independence and performance of the Company s independent auditors;
- oversee and monitor the Company s internal accounting and financial controls; and
- provide the results of examinations and recommendations derived therefrom to the Board.

The Audit Committee has a written charter, which was revised by the Board in January 2003 in light of the additional responsibilities resulting from the Sarbanes-Oxley Act of 2002. The revised charter is posted on our website at *www.heska.com* and is attached to this proxy statement as Appendix A. The Board will reassess the adequacy of the Audit Committee charter following the final adoption of new corporate governance standards currently proposed by the National Association of Securities Dealers and the new rules regarding audit committee responsibility contemplated by the Sarbanes-Oxley Act of 2002.

During 2002, the Committee, which consisted of Mr. Gordon, as Chairman, Mr. Aylesworth, Mr. Dolan and Dr. Martin, until her resignation, met eight times. In January 2003, the Audit Committee was reconstituted and currently consists of Mr. Gordon, as Chairman, Mr. Aylesworth, Mr. Eio and Dr. Stevenson. The Board has determined all of the current members of the Audit Committee meet 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 Securities and Exchange Commission and Rule 4200(a)(14) of the National Association of Securities Dealers listing standards.

Compensation Committee

The Compensation Committee has the following responsibilities:

- discharge the Board s responsibilities relating to compensation of the Company s executive officers, including the CEO;
- oversee all compensation programs involving the use of the Company s stock; and
- produce an annual report on executive compensation for inclusion in the Company s proxy statement for its annual meeting of stockholders.

In January 2003, the Board adopted a new Compensation Committee Charter, which is posted on our website at *www.heska.com*.

During 2002, the Compensation Committee, which consisted of Mr. Sasen, as Chairman, Mr. Dolan, Dr. Hohnke and Dr. Martin, until her resignation, met five times. In January 2003, the Compensation Committee was reconstituted and currently consists of Mr. Sasen as Chairman, Mr. Dolan, Mr. Eio and Dr. Hohnke. All members of the Compensation Committee in 2002 and all current members of the Compensation Committee are independent as defined by Rule 4200(a)(14) of the National Association of Securities Dealers listing standards.

Corporate Governance Committee

The Corporate Governance Committee has the following responsibilities:

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

Heska established a Corporate Governance Committee in August 2001, and in January 2003 the Board adopted a new Corporate Governance Committee charter, which is posted on our website at *www.heska.com*. In January 2003, the Corporate Governance Committee prepared, and the full Board approved, Corporate Governance Guidelines outlining the qualifications, responsibilities and other issues related to the Board s governance role and functions. A copy of such guidelines is posted on our website at *www.heska.com* and is attached to this proxy statement as Appendix B.

During 2002, the Corporate Governance Committee, which consisted of Mr. Aylesworth, as Chairman, Mr. Gordon, Mr. Sasen and Dr. Hohnke, met four times. In January 2003, the Committee was reconstituted and currently consists of Mr. Aylesworth, as Chairman, Mr. Dolan, Mr. Gordon and Dr. Hohnke. All members of the Corporate Governance Committee in 2002 and all current members of the Compensation Committee are independent as defined by Rule 4200(a)(14) of the National Association of Securities Dealers listing standards. The Corporate Governance Committee will consider nominees recommended by security holders provided such recommendations are made in accordance with the procedures described in this proxy statement under Questions and Answers About the Proxy Materials and the Annual Meeting.

DIRECTOR COMPENSATION

Each new non-employee director elected to the Board is automatically granted, as of the date he or she is elected, an option to purchase 40,000 shares of our common stock, at an exercise price equal to the fair market value of our common stock on the date of grant. Currently, these initial grants vest in four equal installments at annual intervals over a four-year period commencing on the date of grant. Further, (i) each non-employee director who continues to serve as a director following any annual meeting of stockholders is automatically granted an option, as of the date of such meeting, to purchase 40,000 shares of our common stock at an exercise price equal to the fair market value of our common stock on the date of grant and (ii) each non-employee director who will serve as chairperson of a committee of the Board, following any annual meeting of stockholders, is automatically granted an additional option to purchase 2,000 shares of our common stock at an exercise price equal to the fair market value of our common stock on the date of grant. These annual grants vest on the first anniversary of the date of grant. No director is eligible to receive the initial 40,000-share grant and the annual 40,000-share grant in the same calendar year.

In addition, during 2002, non-employee directors received an option to purchase 200 shares of our common stock for attendance at each meeting of the Board, or Board committee, which was less than four hours, and an option to purchase 1,000 shares of our common stock for attendance at each meeting of the Board, or Board committee, which was four hours or more. These options were immediately exercisable and the exercise price was equal to the fair market value of our common stock on the date of grant.

In January 2003, upon a recommendation by the Corporate Governance Committee, the Board revised its policy regarding the award of options to directors for attendance at Board and committee meetings. Commencing February 1, 2003, non-employee directors will receive the following:

- for each in-person Board meeting attended, an automatic, fully vested, grant of options to purchase a number of shares of common stock of the Company equal to $2,000 divided by the fair market value of the Company s common stock, with an exercise price equal to such fair market value;

- for each in-person Board committee meeting attended, an automatic, fully vested, grant of options to purchase a number of shares of common stock of the Company equal to $2,000 divided by the fair market value of the Company s common stock, with an exercise price equal to such fair market value; and

- for each telephonic Board meeting or Board committee meeting attended, an automatic, fully vested, grant of options to purchase a number of shares of common stock of the Company equal to $500 divided by the fair market value of the Company s common stock, with an exercise price equal to such fair market value.

Directors are also reimbursed for customary and usual travel expenses. Employee directors receive no compensation for serving on the Board other than their employee compensation.

PROPOSALS TO BE VOTED ON

PROPOSAL NO. 1

ELECTION OF DIRECTORS

Heska s Board is divided into three classes serving staggered three-year terms. 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 three directors will expire at this 2003 Annual Meeting. Votes cannot be cast and proxies cannot be voted other than for the three nominees named below. Directors elected at the 2003 Annual Meeting will hold office for a three-year term expiring at the annual meeting in 2006 (or until their respective successors are elected and qualified, or until their earlier death, resignation, or removal). All of the nominees are currently directors of Heska. There are no family relationships among Heska s executive officers and directors.

Nominees for Three-Year Terms That Will Expire in 2006

William A. Aylesworth, age 60, has served us as a director since June 2000. Mr. Aylesworth has served as Senior Vice President since 1988 and Chief Financial Officer of Texas Instruments Incorporated since 1984. 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. Mr. Aylesworth is also a director of Factory Mutual Insurance Company and various private organizations. He holds an M.S. in industrial administration from Carnegie Mellon University and a B.E.E. in electrical engineering from Cornell University.

Lyle A. Hohnke, Ph.D., age 60, has served as a director since April 1996. Dr. Hohnke is a general partner of Tullis Dickerson Company (formerly Javelin Capital Fund, L.P.), a venture capital firm, a position he has held since 1994. Dr. Hohnke was a co-founder of Diamond Animal Health, Inc. and served as Chairman and CEO from 1994 until its acquisition by us in April 1996. From January 1991 to October 1993 he was a general partner of Heart Land Seed Capital Fund. Dr. Hohnke is also a director of several private companies and he is a member of the audit and compensation committees of several of these companies. He holds Ph.D. and M.A. degrees from the University of Oregon, an M.B.A. from the Hartford Graduate Institute and a B.A. degree from Western Michigan University.

Lynnor B. Stevenson, Ph.D., age 60, is one of our founders and has served us as a director since March 1988. Dr. Stevenson served us as President and Chief Executive Officer from March 1988 to March 1992. She currently is President of Alta Biomedical Group LLC. Dr. Stevenson was President and Chief Executive Officer of Cascade Oncogenics, Inc. from December 1992 until December 2000. From July 1992 to April 1997, she was Director, Technology Transfer at the University of Oregon. She holds a Ph.D. degree from Monash University, Australia and B.Sc. and B.Ed. degrees from the University of Melbourne, Australia.

The Board of Directors unanimously recommends a vote FOR the election of Mr. Aylesworth, Dr. Hohnke and Dr. Stevenson 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 Heska s bylaws. Information regarding the business experience of each of such directors is provided below.

Directors Whose Terms Will Expire in 2004

G. Irwin Gordon, age 52, has served us as a director since May 2001. Mr. Gordon is the founder and Managing Partner of The Trion Group LP, a consulting and interim management firm. From July 2000 until August 2001, Mr. Gordon served as President and Chief Executive Officer of Gruma Corporation. He also served as President and Chief Operating Officer of Suiza Foods Corporation 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., 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. He currently is a director and chairman of the Audit Committee of Horizon Organic Holding Corp. Mr. Gordon holds an Education degree from the University of British Columbia and a Management Certificate from Stanford University.

Peter Eio, age 61, 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 holds an honorary degree from Rensslear 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. Mr. Eio is also a director of several private companies and serves on the board of several charitable and educational organizations.

Directors Whose Terms Will Expire in 2005

A. Barr Dolan, age 53, has served us as a director since March 1988, and was Chairman of the Board of Directors from 1988 to January 1999. Mr. Dolan has been the President of Charter Venture Capital, a venture capital management firm, since 1982, a general partner of Charter Ventures since 1982, a general partner of Charter Ventures II, L.P. since 1994 and managing director of Charter Ventures III, L.P. since 1998. Mr. Dolan is also a director of several private companies. He holds M.S. and B.A. degrees from Cornell University, an M.A. degree from Harvard University and an M.B.A. from Stanford University.

Robert B. Grieve, Ph.D., age 51, 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.

John F. Sasen, Sr., age 60, 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., and from December 1993, he held various other senior executive positions at PSS. From July 1993 to April 1998, Mr. Sasen served as a Director of PSS. Prior to joining PSS in 1993, 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 a director of various private organizations.

PROPOSAL NO. 2

RATIFICATION OF INDEPENDENT AUDITORS

On July 30, 2002, the Audit Committee of the Board approved a change in the Company s independent auditors for the fiscal year ended December 31, 2002, from Arthur Andersen LLP to KPMG LLP.

The report of Arthur Andersen LLP for the fiscal years ended December 31, 2000 and 2001 contained no adverse opinions, disclaimer of opinion or qualification or modification as to uncertainty, audit scope or accounting principles. During the fiscal years ended December 31, 2000 and 2001, and the interim period from December 31, 2001 through July 30, 2002, there were no disagreements between the Company and Arthur Andersen LLP on any accounting principles or practices, financial statement disclosure or auditing scope or procedure, which, if not resolved to the satisfaction of Arthur Andersen LLP, would have caused it to make reference to the subject matter of the disagreement in connection with its report. No event described in paragraph (a)(1)(v) of Item 304 of Regulation S-K has occurred within the Company s fiscal years ended December 31, 2000 and 2001, or the period from December 31, 2001 through July 30, 2002.

The Company did not consult with KPMG LLP during the fiscal years ended December 31, 2000 and 2001, and the interim period from December 31, 2001 through July 30, 2002, with respect to 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 any other matters or reportable events listed in paragraphs (a)(2)(i) and (ii) of Item 304 of Regulation S-K.

The Audit Committee has approved the appointment of KPMG LLP as our independent auditors for fiscal 2003, subject to your approval. KPMG has served as our independent auditors since July 30, 2002. Representatives of KPMG LLP will attend the Annual Meeting to answer appropriate questions and, if they desire, to make a statement.

Vote Required; Recommendation of the Board of Directors

Approval by the stockholders of the selection of independent auditors is not required, but the Audit Committee believes that it is desirable to submit this matter to the stockholders. If holders of a majority of the common stock present and entitled to vote on the matter do not ratify the appointment of KPMG LLP, the Audit Committee will consider whether it should select other independent auditors. Abstentions will be considered a vote against this proposal and broker non-votes will have no effect on such matter since these votes will not be considered present and entitled to vote.

The Audit Committee of the Board of Directors unanimously recommends a vote FOR the approval of KPMG LLP as our independent auditors for 2003.

PROPOSAL NO. 3

APPROVAL OF HESKA CORPORATION

2003 EQUITY INCENTIVE PLAN

We are asking our stockholders to approve our 2003 Equity Incentive Plan so that we can use it to achieve the Company s goals. The Board has approved the Equity Incentive Plan, and is seeking approval from our stockholders at the Annual Meeting. Approval of the Equity Incentive Plan requires the affirmative vote of the holders of a majority of the shares of the Company s common stock that are present in person or by proxy and entitled to vote at the Annual Meeting. Our named executive officers and directors have an interest in this proposal.

A total of 2,390,500 shares of our common stock have initially been reserved for issuance under the Equity Incentive Plan. As of the date of this proxy statement no awards have been granted under the Equity Incentive Plan.

We believe strongly that the approval of the Equity Incentive Plan is essential to our continued success. Our employees are our most valuable asset. Stock options and other awards such as those provided under the Equity Incentive Plan are vital to our ability to attract and retain outstanding and highly skilled individuals in the extremely competitive labor markets in which we must compete. Such awards also are crucial to our ability to motivate employees to achieve the Company s goals.

Summary of the Equity Incentive Plan

The following paragraphs provide a summary of the principal features of the Equity Incentive Plan (the Plan) and its operation. The following summary is qualified in its entirety by reference to Plan as set forth in Appendix C.

Background and Purpose of the Plan

The Plan permits the grant of the following types of incentive awards: (1) stock options, (2) stock appreciation rights, (3) restricted stock, (4) performance units, and (5) performance shares (individually, an Award). The Plan is intended to attract, motivate, and retain employees, consultants, and non-employee directors who provide significant services to us. The Plan also is intended to further our growth and profitability.

Administration of the Plan

The Board or a committee appointed by the Board (the Committee) administers the Plan. The members of the Committee must qualify as non-employee directors under Rule 16b-3 of the Securities Exchange Act of 1934, and as outside directors under Section 162(m) of the Internal Revenue Code (so that the Company can receive a federal tax deduction for certain compensation paid under the Plan). In adopting the Plan, the

Board designated the Compensation Committee, which is comprised solely of independent directors, as the administrator of the Plan.

Subject to the terms of the Plan, the Committee has the sole discretion to select the employees and consultants who will receive Awards, determine the terms and conditions of Awards (for example, the exercise price and vesting schedule), and interpret the provisions of the Plan and outstanding Awards. The Committee may delegate any part of its authority and powers under the Plan to one or more directors and/or officers of the Company, but only the Committee itself can make Awards to participants who are executive officers of the Company.

If an Award expires or is cancelled without having been fully exercised or vested, the unvested or cancelled shares of the Company s common stock (the Shares) generally will be returned to the available pool of Shares reserved for issuance under the Plan. Also, if we experience a stock dividend, reorganization or other change in our capital structure, the Committee has discretion to adjust the number of Shares available for issuance under the Plan, the outstanding Awards, and the per-person limits on Awards, as appropriate to reflect the stock dividend or other change.

Eligibility to Receive Awards

The Committee selects the employees, directors and consultants who will be granted Awards under the Plan. The actual number of individuals who will receive an Award under the Plan cannot be determined in advance because the Committee has the discretion to select the participants.

Stock Options

A stock option is the right to acquire Shares at a fixed exercise price for a fixed period of time. Under the Plan, the Committee may grant nonqualified stock options and/or incentive stock options (which entitle employees, but not the Company, to more favorable tax treatment). The Committee will determine the number of Shares covered by each option, but during any fiscal year of the Company, no participant may be granted options covering more than 500,000 Shares, except an additional 500,000 Shares may be granted to a participant in connection with his or her initial employment.

The exercise price of the Shares subject to each option is set by the Committee but cannot be less than 100% of the fair market value of the Shares (on the date of grant).

In addition, the exercise price of an incentive stock option must be at least 110% of fair market value of the Shares if (on the grant date) the participant owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any of its subsidiaries. The aggregate fair market value of the Shares (determined on the grant date) covered by incentive stock options which first become exercisable by any participant during any calendar year also may not exceed $100,000.

An option granted under the Plan cannot generally be exercised until it becomes vested. The Committee establishes the vesting schedule of each option at the time of grant. Options become exercisable at the times and on the terms established by the Committee. Options granted under the Plan expire at the times established by the Committee, but not later than 10 years after the grant date.

The exercise price of each option granted under the Plan must be paid in full at the time of exercise. The Committee also may permit payment through the tender of Shares that are already owned by the participant, or by any other means that the Committee determines to be consistent with the purpose of the Plan. The participant must pay any taxes the Company is required to withhold at the time of exercise.

Stock Appreciation Rights

Awards of stock appreciation rights may be granted in connection with all or any part of an option, either concurrently with the grant of an option or at any time thereafter during the term of the option, or may be granted independently of options. No participant may be granted stock appreciation rights covering more than 500,000 Shares in any fiscal year of the Company, except additional stock appreciation rights covering up to an additional 500,000 Shares may be granted to a participant in connection with his or her initial employment.

The Committee determines the terms of stock appreciation rights, except that the exercise price of a stock appreciation right may not be less than 100% of the fair market value of the Shares on the date of grant.

A stock appreciation right in connection with an option will entitle the participant to exercise the stock appreciation right by surrendering to the Company a portion of the unexercised related option. The participant will receive in exchange from the Company an amount equal to the excess of the fair market value of the Shares on the date of exercise of the stock appreciation right covered by the surrendered portion of the related option over the exercise price of the Shares covered by the surrendered portion of the related option. When a stock appreciation right granted in connection with an option is exercised, the related option, to the extent surrendered, will cease to be exercisable. A stock appreciation right granted in connection with an option will be exercisable until, and will expire no later than, the date on which the related option ceases to be exercisable or expires.

Stock appreciation rights may also be granted independently of options. Such a stock appreciation right will entitle the participant, upon exercise, to receive from the Company an amount equal to the excess of the fair market value of the Shares on the date of exercise over the fair market value of the Shares covered by the exercised portion of the stock appreciation right on the date of grant. A stock appreciation right granted without a related option will be exercisable, in whole or in part, at such time as the Committee will specify in the stock appreciation right agreement.

The Company s obligation arising upon the exercise of a stock appreciation right may be paid in Shares or in cash, or any combination thereof, as the Committee may determine.

Restricted Stock

Awards of restricted stock are Shares that vest in accordance with the terms and conditions established by the Committee. The Committee will determine the number of Shares of restricted stock granted to any employee or consultant, but during any fiscal year of the Company, no participant may be granted more than 100,000 Shares of restricted stock and no more than 500,000 of the Shares available for grant under the Plan may be issued pursuant to Shares of restricted stock with a purchase price that is less than 100% of the fair market value of the Shares.

In determining whether an Award of restricted stock should be made, and/or the vesting schedule for any such Award, the Committee may impose whatever conditions to vesting as it determines to be appropriate. For example, the Committee may determine to grant an Award of restricted stock only if the participant satisfies performance goals established by the Committee.

Performance Units and Performance Shares

Performance units and performance shares are Awards that will result in a payment to a participant only if performance goals established by the Committee are achieved or the Awards otherwise vest. The applicable performance goals will be determined by the Committee, and may be applied on a Company-wide or an individual business unit basis, as deemed appropriate in light of the participant s specific responsibilities (see Performance Goals below for more information).

During any fiscal year of the Company, no participant may receive performance units with an initial value of more than $1,000,000 and no participant will receive more than 500,000 performance shares, except the initial value may be up to $2,000,000 and an additional 500,000 performance shares may be granted to a participant in connection with his or her initial employment.

Change of Control

In the event of a change of control of the Company, the successor corporation will either assume or provide a substitute award for each outstanding stock option and stock appreciation right. In the event the successor corporation refuses to assume or provide a substitute award, the Committee will provide at least 15 days notice that the option or stock appreciation right will immediately vest and become exercisable as to all of the Shares subject to such Award and that such Award will terminate upon the expiration of such notice period.

In the event of a change of control of the Company, any Company repurchase or reacquisition right with respect to restricted stock will be assigned to the successor corporation. In the event any such Company repurchase or reacquisition right is not assigned to the successor corporation, such Company repurchase or reacquisition right will lapse and the participant will be fully vested in such Shares of restricted stock.

In the event of a change of control of the Company, the Committee or the Board may provide that the Performance Units or Shares are assumed, terminated prior to the change of control and/or immediately vested prior to the change of control. In the event Performance Units or Shares are assumed, then the successor shall have the ability to reasonably and equitably adjust the applicable performance goals.

Performance Goals

The Committee (in its discretion) may make performance goals applicable to a participant with respect to an Award. At the Committee s discretion, one or more of the following performance goals may apply: cash flow, earnings per share, market share, profit after tax, profit before tax, return on capital, return on equity, return on sales, revenue and total stockholder return.

Awards to be Granted to Certain Individuals and Groups

The number of Awards that an employee or consultant may receive under the Plan is in the discretion of the Committee and therefore cannot be determined in advance. The following table sets forth (a) the aggregate number of Shares subject to options granted under our 1997 Stock Incentive Plan during the last fiscal year and (b) the average per Share exercise price of such options.

Name	Number of Options Granted (#)	Average Per Share Exercise Price ($)
Robert B. Grieve	275,000	$ 1.21
Jason A. Napolitano	645,802	$ 0.71
Dan T. Stinchcomb	90,000	$ 1.21
Carol T. Verser	125,000	$ 1.21
Michael A. Bent	58,000	$ 1.03
James H. Fuller	100,000	$ 1.21
Ronald L. Hendrick	100,000	$ 1.21
All executive officers, as a group	1,493,802	$ 0.93
All directors who are not executive officers, as a group	333,800	$ 0.68
All employees who are not executive officers, as a group	1,617,625	$ 1.04

Limited Transferability of Awards

Awards granted under the Plan generally may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the applicable laws of descent and distribution. However, participants may, in a manner specified by the Committee, transfer nonqualified stock options (a) pursuant to a court-approved domestic relations order, and (b) by bona fide gift to (1) a member of the participant s immediate family, (2) a trust or other entity for the sole benefit of the member(s) of the participant s and/or his or her immediate family, (3) a partnership, limited liability company or other entity whose members are the participant and/or his or her immediate family, or (4) certain tax-qualified charities.

Federal Tax Aspects

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

Nonqualified Stock Options

No taxable income is reportable when 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.

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 taxation is the same as for nonqualified 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.

Stock Appreciation Rights

No taxable income is reportable when a stock appreciation right is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the amount of cash received and the fair market value of any Shares received. Any additional gain or loss recognized upon any later disposition of the Shares would be capital gain or loss.

Restricted Stock, Performance Units and Performance Shares

A participant will not hav