

HESKA CORP
Form 10-Q
November 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2018
OR

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

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

HESKA CORPORATION

(Exact name of registrant as specified in its charter)

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

3760 Rocky Mountain Avenue
Loveland, Colorado 80538
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller Reporting Company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

7,589,249 shares of the Registrant's Public Common Stock, \$.01 par value, were outstanding at November 6, 2018.

TABLE OF CONTENTS

	Page
PART I - FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>1</u>
<u>Condensed Consolidated Statements of Income</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>3</u>
<u>Condensed Consolidated Statements of Stockholders' Equity</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>38</u>
Item 4. <u>Controls and Procedures</u>	<u>38</u>
PART II - OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>38</u>
Item 1A. <u>Risk Factors</u>	<u>38</u>
Item 6. <u>Exhibits</u>	<u>39</u>
<u>Signatures</u>	<u>40</u>

HESKA, ALLERCEPT, HEMATRUE, SOLO STEP, Element DC, Element HT5, Element POC, Element i, Element COAG and Element DC5x are registered trademarks and SonoSlate is a trademark of Heska Corporation. DRI-CHEM is a registered trademark of FUJIFILM Corporation. TRI-HEART is a registered trademark of Intervet Inc., d/b/a Merck Animal Health, formerly known as Schering-Plough Animal Health Corporation ("Merck Animal Health"), which is a unit of Merck & Co., Inc., in the United States and is a registered trademark of Heska Corporation in other countries. This quarterly report on Form 10-Q also refers to trademarks and trade names of other organizations.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HESKA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$9,236	\$9,659
Accounts receivable, net of allowance for doubtful accounts of \$234 and \$215, respectively	13,647	15,710
Due from – related parties	—	1
Inventories, net	27,639	32,596
Lease receivable, current, net of allowance for doubtful accounts of \$36 and \$0, respectively	2,777	2,069
Contract acquisition costs, current	840	30
Other current assets	3,904	3,066
Total current assets	58,043	63,131
Property and equipment, net	16,284	17,331
Goodwill and intangible assets, net	28,349	28,645
Deferred tax asset, net	13,851	11,877
Lease receivable, non-current	11,521	9,615
Investments in unconsolidated affiliates	8,089	—
Contract acquisition costs, non-current	1,623	3
Other non-current assets	6,360	5,185
Total assets	\$ 144,120	\$ 135,787
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$4,545	\$9,489
Due to – related parties	280	1,828
Accrued liabilities	10,518	4,417
Current portion of deferred revenue	2,766	3,992
Line of credit and other short-term borrowings	6,019	6,000
Total current liabilities	24,128	25,726
Deferred revenue, net of current portion, and other	8,391	9,621
Total liabilities	32,519	35,347
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, \$.01 par value, 2,500,000 shares authorized, none issued or outstanding	—	—
Common stock, \$.01 par value, 10,250,000 and 10,000,000 shares authorized, respectively, none issued or outstanding	—	—
	76	73

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Public common stock, \$.01 par value, 10,250,000 and 10,000,000 shares authorized, 7,552,596 and 7,302,954 shares issued and outstanding, respectively

Additional paid-in capital	249,755	243,598
Accumulated other comprehensive income	216	232
Accumulated deficit	(138,446)	(143,463)
Total stockholders' equity	111,601	100,440
Total liabilities and stockholders' equity	\$ 144,120	\$ 135,787

See accompanying notes to condensed consolidated financial statements.

-1-

HESKA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)
(unaudited)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Revenue:				
Core companion animal health	\$27,190	\$25,578	\$80,652	\$75,453
Other vaccines, pharmaceuticals and products	3,765	4,758	12,729	17,847
Total revenue, net	30,955	30,336	93,381	93,300
Cost of revenue	16,161	16,783	52,215	51,609
Gross profit	14,794	13,553	41,166	41,691
Operating expenses:				
Selling and marketing	6,215	5,815	18,299	17,908
Research and development	935	601	2,165	1,576
General and administrative	11,239	3,359	20,223	11,081
Total operating expenses	18,389	9,775	40,687	30,565
Operating (loss) income	(3,595)	3,778	479	11,126
Interest and other (income) expense, net	(50)	(6)	37	(186)
(Loss) income before income taxes	(3,545)	3,784	442	11,312
Income tax expense (benefit):				
Current income tax expense	27	8	56	25
Deferred income tax (benefit) expense	(1,902)	693	(1,997)	762
Total income tax (benefit) expense	(1,875)	701	(1,941)	787
Net (loss) income	(1,670)	3,083	2,383	10,525
Net loss attributable to non-controlling interest	—	—	—	(498)
Net (loss) income attributable to Heska Corporation	\$(1,670)	\$3,083	\$2,383	\$11,023
Basic (loss) earnings per share attributable to Heska Corporation	\$(0.23)	\$0.43	\$0.33	\$1.58
Diluted (loss) earnings per share attributable to Heska Corporation	\$(0.23)	\$0.40	\$0.30	\$1.45
Weighted average outstanding shares used to compute basic (loss) earnings per share attributable to Heska Corporation	7,289	7,139	7,194	6,985
Weighted average outstanding shares used to compute diluted (loss) earnings per share attributable to Heska Corporation	7,289	7,668	7,820	7,580

See accompanying notes to condensed consolidated financial statements.

HESKA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Net (loss) income	\$(1,670)	\$3,083	\$2,383	\$10,525
Other comprehensive income (loss):				
Foreign currency translation	15	(45)	(16)	125
Comprehensive (loss) income	(1,655)	3,038	2,367	10,650
Comprehensive loss attributable to non-controlling interest	—	—	—	(498)
Comprehensive (loss) income attributable to Heska Corporation	\$(1,655)	\$3,038	\$2,367	\$11,148

See accompanying notes to condensed consolidated financial statements.

HESKA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

(unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income		Total Stockholders' Equity
	Shares	Amount		Accumulated	Deficit	
Three Months Ended September 30, 2017 and 2018						
Balances, June 30, 2017	7,196	\$ 72	\$ 241,575	\$ 267	\$(145,339)	\$ 96,575
Net income	—	—	—	—	3,083	3,083
Issuance of common stock, net of shares withheld for employee taxes	48	—	716	—	—	716
Stock-based compensation	—	—	707	—	—	707
Distribution for Heska Imaging minority interest	—	—	—	—	(9)	(9)
Other comprehensive loss	—	—	—	(45)	—	(45)
Balances, September 30, 2017	7,244	\$ 72	\$ 242,998	\$ 222	\$(142,265)	\$ 101,027
Balances, June 30, 2018						
Balances, June 30, 2018	7,498	\$ 75	\$ 246,422	\$ 201	\$(136,776)	\$ 109,922
Net loss	—	—	—	—	(1,670)	(1,670)
Issuance of common stock, net of shares withheld for employee taxes	55	1	1,927	—	—	1,928
Stock-based compensation	—	—	1,406	—	—	1,406
Other comprehensive income	—	—	—	15	—	15
Balances, September 30, 2018	7,553	\$ 76	\$ 249,755	\$ 216	\$(138,446)	\$ 111,601
Nine Months Ended September 30, 2017 and 2018						
Balances, December 31, 2016	7,026	\$ 70	\$ 238,635	\$ 97	\$(151,827)	\$ 86,975
Net income	—	—	—	—	10,525	10,525
Issuance of common stock, net of shares withheld for employee taxes	218	2	1,425	—	—	1,427
Stock-based compensation	—	—	2,093	—	—	2,093
Accretion of non-controlling interest	—	—	845	—	—	845
Distribution for Heska Imaging minority interest	—	—	—	—	(963)	(963)
Other comprehensive income	—	—	—	125	—	125
Balances, September 30, 2017	7,244	\$ 72	\$ 242,998	\$ 222	\$(142,265)	\$ 101,027
Balances, December 31, 2017						
Balances, December 31, 2017	7,303	\$ 73	\$ 243,598	\$ 232	\$(143,463)	\$ 100,440
Adoption of accounting standards	—	—	—	—	2,634	2,634
Balances, January 1, 2018, as adjusted	7,303	73	243,598	232	(140,829)	103,074
Net income	—	—	—	—	2,383	2,383
	250	3	2,383	—	—	2,386

Issuance of common stock, net of shares withheld
for employee taxes

Stock-based compensation	—	—	3,774	—	—	3,774
Other comprehensive loss	—	—	—	(16)	(16
Balances, September 30, 2018	7,553	\$ 76	\$ 249,755	\$ 216	\$(138,446) \$ 111,601

See accompanying notes to condensed consolidated financial statements.

-4-

HESKA CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

Nine Months
Ended
September 30,
2018 2017

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income