JONES LANG LASALLE INC
Form 10-Q
November 07, 2018

United States
Securities and Exchange Commission
Washington, D.C. 20549
Form 10-Q
x 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
o 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 1-13145
Jones Lang LaSalle Incorporated
(Exact name of registrant as specified in its charter)

Maryland	36-4150422
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 East Randolph Drive, Chicago, IL	60601
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 312-782-5800
Former name, former address and former fiscal year, if changed since last report: Not Applicable

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 x No o

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 period that the registrant was required to submit and post such files). Yes x No o

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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
Emerging growth company o	

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. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
The number of shares outstanding of the registrant's common stock (par value $0.01) as of the close of business on November 2, 2018 was 45,566,557.

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Part I. Financial Information
Item 1. Financial Statements
JONES LANG LASALLE INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share and per share data) (unaudited)	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 327.0	268.0
Trade receivables, net of allowances of $57.6 and $51.3	1,610.0	1,739.4
Notes and other receivables	297.6	385.3
Reimbursable receivables	1,400.8	1,263.3
Warehouse receivables	617.7	317.5
Short-term contract assets	293.0	178.4
Prepaid & other	315.2	389.1
Total current assets	4,861.3	4,541.0
Property and equipment, net of accumulated depreciation of $583.7 and $514.9	540.8	543.9
Goodwill	2,689.7	2,709.3
Identified intangibles, net of accumulated amortization of $161.1 and $165.9	291.5	305.0
Investments in real estate ventures, including $246.0 and $242.3 at fair value	371.5	376.2
Long-term receivables	179.6	164.7
Deferred tax assets, net	242.5	229.1
Deferred compensation plan	277.8	229.7
Other	164.4	155.5
Total assets	$ 9,619.1	9,254.4
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 995.1	993.1
Reimbursable payables	1,012.2	1,022.6
Accrued compensation & benefits	1,205.7	1,419.1
Short-term borrowings	83.7	77.4
Short-term contract liabilities and deferred income	170.9	155.4
Short-term acquisition-related obligations	60.0	80.1
Warehouse facilities	611.9	309.2
Other	195.2	256.8
Total current liabilities	4,334.7	4,313.7
Credit facility, net of debt issuance costs of $16.8 and $15.3	223.2	(15.3)
Long-term debt, net of debt issuance costs of $3.9 and $4.3	677.3	690.6
Deferred tax liabilities, net	24.5	63.2
Deferred compensation	290.2	259.0
Long-term acquisition-related obligations	168.1	228.9
Other	328.3	332.3
Total liabilities	6,046.3	5,872.4
Redeemable noncontrolling interest	—	3.8
Company shareholders' equity:		
Common stock, $0.01 par value per share, 100,000,000 shares authorized; 45,560,315 and 45,373,817 shares issued and outstanding	0.5	0.5
Additional paid-in capital	1,049.5	1,037.3

Retained earnings	2,913.3	2,649.0
Shares held in trust	(6.0)	(5.9)
Accumulated other comprehensive loss	(425.3)	(340.8)
Total Company shareholders’ equity	3,532.0	3,340.1
Noncontrolling interest	40.8	38.1
Total equity	3,572.8	3,378.2
Total liabilities and equity	$9,619.1	9,254.4

See accompanying notes to Condensed Consolidated Financial Statements.

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JONES LANG LASALLE INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions, except share and per share data) (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue:				
Revenue before reimbursements	$2,213.7	1,980.7	$6,268.1	5,471.5
Reimbursements	1,756.1	1,541.5	5,160.6	4,638.7
Total revenue	$3,969.8	3,522.2	$11,428.7	10,110.2
Operating expenses:				
Compensation and benefits	1,287.0	1,155.4	3,624.7	3,199.4
Operating, administrative and other	689.4	642.3	2,124.5	1,852.5
Reimbursed expenses	1,756.1	1,541.5	5,160.6	4,638.7
Depreciation and amortization	42.7	41.8	131.1	122.3
Restructuring and acquisition charges (credits)	3.7	3.4	(6.7)	13.3
Total operating expenses	3,778.9	3,384.4	11,034.2	9,826.2
Operating income	190.9	137.8	394.5	284.0
Interest expense, net of interest income	12.3	14.9	40.4	42.5
Equity earnings from real estate ventures	3.4	12.6	27.2	32.7
Other (expense) income	(0.3)	(0.3)	3.9	0.7
Income before income taxes and noncontrolling interest	181.7	135.2	385.2	274.9
Provision for income taxes	45.6	36.0	96.7	73.1
Net income	136.1	99.2	288.5	201.8
Net income attributable to noncontrolling interest	1.2	0.9	5.3	1.8
Net income attributable to the Company	134.9	98.3	283.2	200.0
Dividends on unvested common stock, net of tax benefit	—	—	0.2	0.2
Net income attributable to common shareholders	$134.9	98.3	$283.0	199.8
Basic earnings per common share	$2.96	2.17	$6.22	4.41
Basic weighted average shares outstanding (in 000's)	45,549	45,349	45,495	45,299
Diluted earnings per common share	$2.93	2.15	$6.16	4.37
Diluted weighted average shares outstanding (in 000's)	45,965	45,814	45,930	45,729
Dividends declared per share	$—	—	$0.41	0.35
Net income attributable to the Company	$134.9	98.3	$283.2	200.0
Change in pension liabilities, net of tax	1.2	1.2	1.2	2.0
Foreign currency translation adjustments	(34.9)	46.0	(85.7)	175.5
Comprehensive income attributable to the Company	$101.2	145.5	$198.7	377.5

See accompanying notes to Condensed Consolidated Financial Statements.

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JONES LANG LASALLE INCORPORATED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018

(in millions, except share and per share data) (unaudited)	Company Shareholders' Equity							
	Common Stock		Additional Paid-In	Retained	Shares Held in	Accumulated Other Comprehensive	Noncontrolling	Total
	Shares	Amount	Capital	Earnings	Trust	Loss	Interest	Equity
December 31, 2017	45,373,817	$ 0.5	1,037.3	2,649.0	(5.9)	(340.8)	38.1	$3,378.2
Net income	—	—	—	283.2	—	—	5.3	288.5
Shares issued under stock-based compensation programs	261,048	—	0.8	—	—	—	—	0.8
Shares repurchased for payment of taxes on stock-based compensation	(74,550)	—	(11.9)	—	—	—	—	(11.9)
Amortization of stock-based compensation	—	—	21.0	—	—	—	—	21.0
Dividends paid, $0.41 per share	—	—	—	(18.9)	—	—	—	(18.9)
Shares held in trust	—	—	—	—	(0.1)	—	—	(0.1)
Change in pension liabilities, net of tax	—	—	—	—	—	1.2	—	1.2
Foreign currency translation adjustments	—	—	—	—	—	(85.7)	—	(85.7)
Decrease in amounts attributable to noncontrolling interest	—	—	—	—	—	—	(2.6)	(2.6)
Acquisition of redeemable noncontrolling interest	—	—	2.3	—	—	—	—	2.3
September 30, 2018	45,560,315	$ 0.5	1,049.5	2,913.3	(6.0)	(425.3)	40.8	$3,572.8

See accompanying notes to Condensed Consolidated Financial Statements.

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JONES LANG LASALLE INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
(in millions) (unaudited)	2018	2017
Cash flows (used in) provided by operating activities:		
Net income	$288.5	201.8
Adjustments to reconcile net income to net cash used in operating activities:		
Distributions of earnings from real estate ventures	30.2	24.2
Other adjustments, net	114.3	122.4
Changes in working capital, net	(433.3)	(70.7)
Net cash (used in) provided by operating activities	(0.3)	277.7
Cash flows used in investing activities:		
Net capital additions – property and equipment	(110.1)	(98.1)
Acquisition of investment properties (less than wholly-owned)	(34.9)	—
Proceeds from the sale of assets (less than wholly-owned)	24.3	—
Business acquisitions, net of cash acquired	(31.7)	(18.7)
Capital contributions to real estate ventures	(38.3)	(27.0)
Distributions of capital from real estate ventures	40.4	24.9
Other, net	3.1	(3.1)
Net cash used in investing activities	(147.2)	(122.0)
Cash flows provided by (used in) financing activities:		
Proceeds from issuance of senior notes	—	395.7
Proceeds from borrowings under credit facility	2,511.0	2,478.0
Repayments of borrowings under credit facility	(2,271.0)	(2,953.0)
Payments of deferred business acquisition obligations and earn-outs	(47.8)	(41.2)
Payment of dividends	(18.9)	(16.1)
Other, net	(0.8)	(28.8)
Net cash provided by (used in) financing activities	172.5	(165.4)
Effect of currency exchange rate changes on cash and cash equivalents	(20.9)	11.4
Net change in cash, cash equivalents and restricted cash	4.1	1.7
Cash, cash equivalents and restricted cash, beginning of the period	471.7	454.0
Cash, cash equivalents and restricted cash, end of the period	$475.8	455.7
Supplemental disclosure of cash flow information:		
Restricted cash, end of the period	$148.8	177.9
Cash paid during the period for:		
Interest	$33.1	33.6
Income taxes, net of refunds	108.0	112.6
Non-cash activities:		
Business acquisitions, including contingent consideration	$2.7	11.5
Deferred business acquisition obligations	1.9	1.8

See accompanying notes to Condensed Consolidated Financial Statements.

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JONES LANG LASALLE INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. INTERIM INFORMATION

Readers of this quarterly report should refer to the audited financial statements of Jones Lang LaSalle Incorporated ("JLL," which may also be referred to as "the Company" or as "we," "us" or "our") for the year ended December 31, 2017, which are included in our 2017 Annual Report on Form 10-K, filed with the United States Securities and Exchange Commission ("SEC") and also available on our website (www.jll.com), since we have omitted from this quarterly report certain footnote disclosures which would substantially duplicate those contained in such audited financial statements. You should also refer to the "Summary of Critical Accounting Policies and Estimates" section within Item 7. Management's Discussion and Analysis of Financial Condition and Result of Operations and to Note 2, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements in our 2017 Annual Report on Form 10-K for further discussion of our significant accounting policies and estimates.

Our Condensed Consolidated Financial Statements as of September 30, 2018 and December 31, 2017, and for the periods ended September 30, 2018 and 2017, are unaudited. In the opinion of management, we have included all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of the Condensed Consolidated Financial Statements for these interim periods. We have reclassified or recast certain prior-year amounts in conjunction with the adoption of new accounting standards and to conform to the current year presentation. Refer to Note 2, New Accounting Standards, for additional information.

Historically, our quarterly revenue and profits have tended to increase from quarter to quarter as the year progresses. This is the result of a general focus in the real estate industry on completing transactions by calendar year end, while certain expenses are recognized evenly throughout the year. Our LaSalle Investment Management ("LaSalle") segment generally earns investment-generated performance fees on clients' real estate investment returns when assets are sold, the timing of which is geared toward the benefit of our clients, as well as co-investment equity gains and losses, primarily dependent on underlying valuations. Within our Real Estate Services ("RES") segments, revenue from capital markets activities is driven by the size and timing of our clients' transactions and can fluctuate significantly from period to period.

A significant portion of our compensation and benefits expense is from incentive compensation plans, which we generally accrue throughout the year based on progress toward annual performance targets. This process can result in significant fluctuations in quarterly compensation and benefits expense from period to period. Non-variable operating expenses, which we recognize when incurred during the year, are relatively constant on a quarterly basis.

We provide for the effects of income taxes on interim financial statements based on our estimate of the effective tax rate for the full year, which we base on forecasted income by country and expected enacted tax rates; as required, we adjust for the impact of discrete items in the quarters in which they occur. Changes in the geographic mix of income can impact our estimated effective tax rate.

As a result of the items mentioned above, the results for the periods ended September 30, 2018 and 2017 are not fully indicative of what our results will be for the full fiscal year.

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2. NEW ACCOUNTING STANDARDS

Recently adopted accounting guidance

Effective January 1, 2018, we adopted Accounting Standards Update ("ASU") No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires an employer to disaggregate the employer service cost component from the other components of net periodic pension cost. The primary impact for JLL is the requirement to present the components of net periodic pension cost that do not represent the employer service cost outside of the subtotal "Operating income" on the Condensed Consolidated Statements of Comprehensive Income. As full retrospective application is required, we recast our comparative information, reclassifying the components of net periodic pension cost, other than the employer service cost component, from Compensation and benefits expense to Other income on the Condensed Consolidated Statements of Comprehensive Income. For the three and nine months ended September 30, 2017, the amount reclassified was a cost of $0.3 million and a benefit of $0.7 million, respectively. The adoption of ASU 2017-07 had no impact on our Condensed Consolidated Balance Sheets or Condensed Consolidated Statements of Cash Flows. Refer to the table below for the impact of adopting this ASU on our comparative Condensed Consolidated Statement of Comprehensive Income.

Effective January 1, 2018, we adopted ASU No. 2016-18, Restricted Cash, which addresses classification and presentation of changes in restricted cash on the statement of cash flows. Specifically, this ASU requires a statement of cash flows to explain the changes during the period in cash, cash equivalents, and amounts reported as restricted cash or restricted cash equivalents. The primary effect of the adoption was the inclusion of restricted cash along with cash and cash equivalents in reconciling the beginning and ending total amounts shown on the Condensed Consolidated Statements of Cash Flows. We adopted this ASU on a full retrospective basis. Restricted cash is included in Prepaid and other current assets on the Condensed Consolidated Balance Sheets.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers; in March 2016, the FASB issued ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations and together with ASU No. 2014-09 (collectively the "ASUs"), amends and comprises ASC Topic 606, Revenue from Contracts with Customers. These ASUs, and other related ASUs, replaced most existing revenue recognition guidance in U.S. generally accepted accounting principles ("U.S. GAAP"). Effective January 1, 2018, we adopted ASC Topic 606 on a full retrospective basis.

The adoption of ASC Topic 606 resulted in an acceleration of the timing of revenue recognition for certain brokerage-related transaction commissions and advisory services. These items include variable consideration or other aspects, such as contingencies, that precluded revenue recognition contemporaneous with the satisfaction of our performance obligations within the previous revenue recognition framework. The acceleration of the timing of revenue recognition also resulted in the acceleration of expense recognition relating to direct commissions expense payable to brokers.

Implementation of the updated principal versus agent considerations in ASC Topic 606 resulted in a significant increase to the proportion of our Property & Facility Management and Project & Development Services contracts presented on a gross basis (hereafter “gross contracts”). Under the previous principal versus agent framework, our evaluations for presentation of a service contract contemplated both performance and payment risk. Contractual provisions with clients and third-party vendors and subcontractors, such as “pay-when-paid”, that substantially mitigate our payment risk with respect to on-site personnel and other expenses incurred on our clients’ behalf have historically resulted in the majority of our service contracts being presented on a net basis. However, within ASC Topic 606, payment risk is not an evaluation factor; instead, control of the service before transfer to the customer is the focal point of current principal versus agent assessments. As a result, we determined that costs associated with all client-dedicated JLL personnel, even when directly reimbursed by clients, and arrangements where we control the services provided by a third-party prior to the transfer to the customer will now be presented on a gross basis. The incremental expenses and corresponding revenue recognized as a result of the adoption of the new principal versus agent framework are presented in new financial statement captions, Reimbursed expenses and Reimbursements, respectively, in our Condensed Consolidated Statements of Comprehensive Income. We have reclassified

reimbursable activity in our comparative financial statements.

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Finally, the adoption of ASC Topic 606 resulted in a material increase to total assets and total liabilities to reflect (i) contract assets and accrued commissions payable recognized upon acceleration of the timing of revenue recognition for certain transactions commissions and advisory services and (ii) assets and liabilities relating to service contracts now reported on a gross basis. Balance sheet activity associated with contracts now reported on a gross basis is most prominently reflected within Reimbursable receivables and Reimbursable payables, new financial statement captions established in conjunction with our adoption of ASC Topic 606. We have reclassified reimbursable balances in our comparative financial statements.

The impact of adopting new accounting pronouncements on a retrospective basis to the Consolidated Balance Sheet as of December 31, 2017, and Condensed Consolidated Statement of Comprehensive Income for the three and nine months ended September 30, 2017, were as follows (for impacted financial statement captions):

(in millions)	Published December 31, 2017 (audited)	Adjustment due to ASC Topic 606	As Restated December 31, 2017 (unaudited)
Assets			
Trade receivables, net of allowances[1]	$2,118.1	(378.7)	$ 1,739.4
Note and other receivables[1]	393.6	(8.3)	385.3
Reimbursable receivables	n/a	1,263.3	1,263.3
Short-term contract assets	n/a	178.4	178.4
Prepaid & other current assets[2]	257.7	131.4	389.1
Long-term receivables	168.6	(3.9)	164.7
Other assets	97.8	57.7	155.5
Liabilities and equity			
Accounts payable and accrued liabilities[1]	$1,011.6	(18.5)	$ 993.1
Reimbursable payables	n/a	1,022.6	1,022.6
Accrued compensation & benefits	1,309.0	110.1	1,419.1
Short-term contract liabilities and deferred income[1]	158.9	(3.5)	155.4
Other current liabilities[1]	263.8	(7.0)	256.8
Deferred tax liabilities, net	23.9	39.3	63.2
Retained earnings	2,552.8	96.2	2,649.0
Accumulated other comprehensive (loss) income	(341.8)	1.0	(340.8)

(1) Adjustments in these captions reflect reclassifications to new financial statement captions, Reimbursable receivables and Reimbursable payables.

(2) Adjustments in this caption reflect an increase to restricted cash held on behalf of clients for contracts now presented on a gross basis.

(in millions)	Published Three months ended September 30, 2017 (unaudited)	Adjustment due to ASC Topic 606	Adjustment due to ASU 2017-07	As Restated Three months ended September 30, 2017 (unaudited)
Revenue				
Revenue before reimbursements[1]	$ 1,947.0	33.7	—	$ 1,980.7
Reimbursements[1]	n/a	1,541.5	—	1,541.5
Total revenue	1,947.0	1,575.2	—	3,522.2
Operating expenses				
Compensation and benefits[1]	1,132.3	23.4	(0.3)	1,155.4

Operating, administrative and other[1]	651.4	(9.1)	—	642.3
Reimbursed expenses[1]	n/a	1,541.5	—	1,541.5
Operating income	118.1	19.4	0.3	137.8
Other income	—	—	(0.3)	(0.3)
Provision for income taxes	28.2	7.8	—	36.0
Net income	87.5	11.7	—	99.2
Basic earnings per common share	$ 1.91	0.26	—	$ 2.17
Diluted earnings per common share	$ 1.89	0.26	—	$ 2.15

(1) Included in "Adjustments due to ASC Topic 606" is $13.3 million representing the reclassification of historical reimbursed expenses and the corresponding reimbursement revenue into new financial statement captions, Reimbursements and Reimbursed expenses.

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(in millions)	Published Nine months ended September 30, 2017 (unaudited)	Adjustment due to ASC Topic 606	Adjustment due to ASU 2017-07	As Restated Nine months ended September 30, 2017 (unaudited)
Revenue				
Revenue before reimbursements[1]	$ 5,396.9	74.6	—	$ 5,471.5
Reimbursements[1]	n/a	4,638.7	—	4,638.7
Total revenue	5,396.9	4,713.3	—	10,110.2
Operating expenses				
Compensation and benefits[1]	3,146.6	52.1	0.7	3,199.4
Operating, administrative and other[1]	1,870.0	(17.5)	—	1,852.5
Reimbursed expenses[1]	n/a	4,638.7	—	4,638.7
Operating income	244.7	40.0	(0.7)	284.0
Other income	—	—	0.7	0.7
Provision for income taxes	57.3	15.8	—	73.1
Net income	177.5	24.3	—	201.8
Basic earnings per common share	$ 3.88	0.53	—	$ 4.41
Diluted earnings per common share	$ 3.84	0.53	—	$ 4.37

(1) Included in "Adjustments due to ASC Topic 606" is $43.5 million representing the reclassification of historical reimbursed expenses and the corresponding reimbursement revenue into new financial statement captions, Reimbursements and Reimbursed expenses.

The cumulative impact to our retained earnings and Condensed Consolidated Statement of Comprehensive Income includes certain direct expenses, such as accrued commissions and deferred income taxes, resulting from the changes in accounting principle in accordance with ASC Topic 250, which partially offset the impact of the acceleration of revenue. The cumulative impact to our retained earnings from the adoption of ASC Topic 606, as of January 1, 2016, was $62.6 million.

Recently issued accounting guidance, not yet adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which increases transparency and comparability by requiring the recognition of lease assets and lease liabilities on the balance sheet as well as requiring the disclosure of key information about leasing arrangements. This ASU is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. In July 2018, the FASB codified an alternative (and optional) transition method via ASU No. 2018-11, Leases (Topic 842): Targeted Improvements; we will elect the use of this optional transition method.

The adoption of ASC Topic 842 will result in the recognition of additional balances on the Condensed Consolidated Balance Sheet to reflect right-of-use assets and lease liabilities primarily associated with the leases for the corporate real estate we occupy around the globe. We expect the balance of our lease population to comprise vehicle and other equipment leases. As of September 30, 2018, we have substantially completed the identification of our real estate and non-real estate leases population. Our efforts are now directed to compiling and calculating the relevant inputs to derive ASC Topic 842's impact along with designing post-implementation processes and associated internal controls. Based upon current evaluations, we expect to recognize additional assets and liabilities upon implementation of ASC Topic 842 ranging from $500 million to $750 million to reflect right-of-use assets and lease liabilities as of January 1, 2019. However, because our evaluations are ongoing, the expected impact associated with the implementation of ASC Topic 842 is subject to change. Our disclosures related to leases will expand to comply with the requirements of ASC Topic 842; we continue to evaluate other effects ASC Topic 842 will have on our financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326), which creates a new framework to evaluate financial instruments, such as trade receivables, for expected credit losses. This new framework replaces the existing incurred loss approach and is expected to result in more timely recognition of credit losses. ASU No. 2016-13 is effective for annual and interim periods beginning after December 15, 2019 and early adoption is not permitted until years beginning after December 15, 2018. We are evaluating the effect this guidance will have on our financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment, which eliminates Step 2 from the goodwill impairment test. The annual goodwill impairment test will require companies to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge when the carrying amount exceeds the fair

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value of the reporting unit. This ASU is effective for annual and interim goodwill impairment tests beginning after December 15, 2019, with early adoption permitted. We do not believe this guidance will have a material impact on our financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract, which requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-40 when determining which implementation costs to capitalize as intangible assets. This ASU is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. We do not believe this guidance will have a material impact on our financial statements and related disclosures.

3. REVENUE RECOGNITION

We earn revenue from the following:

- Leasing;
- Capital Markets;
- Property & Facility Management;
- Project & Development Services;
- Advisory, Consulting and Other; and
- LaSalle.

Leasing

Leasing revenue is earned from brokerage commissions as we represent tenants and/or landlords in connection with real estate leases. Our performance obligation is to facilitate the execution of a lease agreement, which is satisfied at a point in time, upon lease execution. Generally, we are either entitled to the full consideration upon lease execution or in part upon lease execution with the remainder upon the occurrence of a future event outside of our control (e.g. tenant occupancy, lease commencement, or rent commencement). The majority of the events that preclude our entitlement to the full consideration upon lease execution are considered to be “normal course of business” and, as a result, do not result in a constraint upon the recognition of revenue. In the infrequent instance our fee entitlement in a contract with a customer is predicated on the occurrence of future events that are uncertain of occurring, we constrain the recognition of revenue until the uncertainty is resolved or the future event occurs. Generally, less than 5% of our Leasing revenue recognized in a period had previously been constrained.

Capital Markets

Capital Markets provides brokerage and other services for capital transactions, such as real estate sales or loan originations and refinancings. Our performance obligation is to facilitate the execution of capital transactions and we are generally entitled to the full consideration at the point in time upon which our performance obligation is satisfied, at which time we recognize revenue. Our mortgage banking and servicing operations - such as MSR-related activity, loan origination fees, and servicing income - are excluded from the scope of ASC Topic 606. Such out-of-scope revenue was $35.5 million and $101.8 million for the three and nine months ended September 30, 2018, respectively, and $41.2 million and $91.9 million for the three and nine months ended September 30, 2017, respectively.

Property & Facility Management

Property Management provides on-site day-to-day real estate management services for owners of office, industrial, retail, multifamily residential and various other types of properties, representing a series of daily performance obligations delivered over time. Pricing is generally in the form of a monthly management fee based upon property-level cash receipts, square footage under management or some other variable metric.

Although we are principal in limited situations, we generally act as agent on behalf of our Property Management clients in relation to third-party vendors and subcontractors engaged to deliver operational services to our clients' properties. In these situations, we arrange, but do not control, the services provided by third-party vendors and subcontractors prior to the transfer of the services to the client. As a result, the costs incurred on behalf of clients, along with the corresponding revenue, are presented net on our Condensed Consolidated Statements of Comprehensive Income.

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Facilities Management primarily provides comprehensive, on-site day-to-day real estate management services to corporations and institutions across a broad range of industries that outsource the management of the real estate they occupy, representing a series of daily performance obligations delivered over time. Pricing generally includes a management fee and, in many instances, an incentive fee or other form of variable consideration.

Although we may act as agent on behalf of our clients with respect to certain mandates, we generally act as principal for our Facilities Management contracts with respect to third-party vendors and subcontractors engaged to deliver operational services to our clients' facilities. In these situations, we control the services provided by such third-party vendors and subcontractors prior to the transfer of the services to the client. As a result, the costs incurred on behalf of our clients, along with the corresponding reimbursement revenue, are presented gross on our Condensed Consolidated Statements of Comprehensive Income.

Project & Development Services

Project & Development Services provides short-term construction-related services ranging from general contracting to project management for owners and occupiers of real estate. Depending on the terms of our engagement, our performance obligation is either to arrange for the completion of a project or to assume responsibility for completing a project on behalf of a client. Our obligations to clients are satisfied over time due to the continuous transfer of control of the underlying asset. Therefore, we recognize revenue over time, primarily using input measures (e.g. to-date costs incurred relative to total estimated costs at completion). Typically, we are entitled to consideration at distinct milestones over the term of an engagement.

For certain contracts where we assume responsibility for completing a project, we control the services provided by third-party vendors and subcontractors prior to transfer of the assets to the client. In these situations, the costs incurred on behalf of clients, along with the associated reimbursement revenue are presented gross on our Condensed Consolidated Statements of Comprehensive Income. For situations in which we act as agent on behalf of clients, costs incurred and the associated revenue are presented net on our Condensed Consolidated Statements of Comprehensive Income.

Advisory, Consulting and Other

Advisory, Consulting and Other includes a variety of different service offerings, whereby our performance obligation is to provide services as specified in the contract. Occasionally, our entitlement to consideration is predicated on the occurrence of an event such as the delivery of a report for which client acceptance is required. However, except for event-driven point-in-time transactions, the majority of services provided within this service line are delivered over time due to the continuous transfer of control to our clients.

LaSalle

LaSalle provides real estate investment management services to clients and earns consideration in the form of advisory fees, transaction fees, and incentive fees. Typically, our performance obligation is to manage clients’ capital for a specified period of time and is delivered as a series of daily performance obligations over time. Revenue recognition for transaction and incentive fees is generally constrained until all contingencies have cleared due to the possibility of a significant reversal until completion of the events necessary to realize the associated consideration. Substantially all incentive fees recognized as revenue were previously constrained.

Contract Assets - Contract assets include amounts recognized as revenue for which we are not yet entitled to payment for reasons other than the passage of time, but that do not constrain revenue recognition. As of September 30, 2018 and December 31, 2017, we had $345.5 million and $236.0 million of contract assets, respectively, which are included in Short-term contract assets and Other assets on the Condensed Consolidated Balance Sheets.

Contract Liabilities - Contract liabilities include advance payments related to performance obligations that have not yet been satisfied. As of September 30, 2018 and December 31, 2017, we had $90.4 million and $73.7 million of contract liabilities, respectively, which are included in Short-term contract liabilities and deferred income on our Condensed Consolidated Balance Sheets. The majority of contract liabilities are recognized as revenue within 90 days.

Deferred Income - Deferred income includes payments received from customers for which we have satisfied our performance obligations but are not yet able to recognize the related revenue because of contractual requirements.

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Remaining Performance Obligations - Remaining performance obligations represent the aggregate transaction price for contracts where our performance obligations have not yet been satisfied. As of September 30, 2018, the aggregate amount of transaction price allocated to remaining performance obligations represented approximately 5% of our total revenue. In accordance with ASC Topic 606, excluded from the aforementioned remaining performance obligations are (i) amounts attributable to contracts expected to be completed within 12 months and (ii) variable consideration for services performed as a series of daily performance obligations, such as facilities management, property management, and LaSalle contracts. Contracts within these businesses represent a significant portion of our contracts with customers not expected to be completed within 12 months.

4. BUSINESS SEGMENTS

We manage and report our operations as four business segments:

The three geographic regions of RES including:

(1) Americas,

(2) Europe, Middle East and Africa ("EMEA"), and

(3) Asia Pacific;

and

(4) LaSalle, which offers investment management services on a global basis.

Each geographic region offers our full range of real estate services, including agency leasing and tenant representation, capital markets, property and facility management, project and development management, energy management and sustainability, construction management, and advisory, consulting and valuation services. LaSalle provides investment management services to institutional investors and high-net-worth individuals.

Operating income represents total revenue less direct and allocated indirect expenses. We allocate all indirect expenses to our segments, other than interest and income taxes, as nearly all expenses incurred benefit one or more of the segments. Allocated expenses primarily consist of corporate global overhead, which we allocate to the business segments based on the budgeted operating expenses of each segment.

For segment reporting, (a) gross contract costs and (b) net non-cash mortgage servicing rights ("MSR") and mortgage banking derivative activity are both excluded from revenue in determining "fee revenue". Gross contract costs are excluded from operating expenses in determining "fee-based operating expenses." Excluding these costs from revenue and expenses results in a net presentation which we believe more accurately reflects how we manage our expense base, operating margins, and performance. Refer to Results of Operations, included in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, for a full description of gross contract costs. In addition, our measure of segment results excludes Restructuring and acquisition charges.

Effective January 1, 2018, management expanded the types of costs we include within gross contract costs. Most notably, this refinement includes the compensation and benefits associated with client-dedicated employees. Comparative periods were recast for consistency. This change in gross contract costs resulted in a decrease to fee revenue and was prompted by (i) the increase in compensation and benefits associated with client-dedicated personnel presented on a gross basis as a result of the adoption of ASC Topic 606 and (ii) the continued changes in our business mix, reflecting expansion of businesses that most commonly incorporate client-dedicated employees in the delivery of services. The most significant impacts are within Property & Facility Management and Project & Development Services.

The Chief Operating Decision Maker of JLL measures and evaluates the segment results excluding (a) gross contract costs, (b) net non-cash MSR and mortgage banking derivative activity, and (c) Restructuring and acquisition charges. As of September 30, 2018, we define the Chief Operating Decision Maker collectively as our Global Executive Board, which comprises the following:

- Global Chief Executive Officer
- Global Chief Financial Officer
- Chief Executive Officers of each of our four business segments
- Global Chief Executive Officer of Corporate Solutions
- Global Chief Executive Officer of Capital Markets
- Global Chief Administrative Officer

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Summarized financial information by business segment is as follows.

(in millions)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Americas - Real Estate Services				
Leasing	$424.0	370.1	$1,151.4	1,057.5
Capital Markets	115.6	115.4	344.4	319.2
Property & Facility Management	1,271.5	1,077.0	3,713.4	3,230.7
Project & Development Services	304.7	288.2	848.8	843.7
Advisory, Consulting and Other	85.8	69.9	237.1	201.9
Revenue	2,201.6	1,920.6	6,295.1	5,653.0
Reimbursements	(1,251.5)	(1,094.9)	(3,659.6)	(3,283.4)
Revenue before reimbursements	950.1	825.7	2,635.5	2,369.6
Gross contract costs	(170.7)	(124.9)	(460.4)	(387.1)
Net non-cash MSR and mortgage banking derivative activity	(5.3)	(7.1)	(9.3)	(11.1)
Fee revenue	774.1	693.7	2,165.8	1,971.4
Operating expenses, excluding reimbursed expenses:				
Compensation, operating and administrative expenses	821.2	710.2	2,306.8	2,078.2
Depreciation and amortization	24.5	24.2	77.1	71.4
Segment operating expenses, excluding reimbursed expenses	845.7	734.4	2,383.9	2,149.6
Gross contract costs	(170.7)	(124.9)	(460.4)	(387.1)
Fee-based segment operating expenses	675.0	609.5	1,923.5	1,762.5
Segment operating income	$104.4	91.3	$251.6	220.0
Equity earnings	0.1	0.1	0.6	0.5
Segment income	$104.5	91.4	$252.2	220.5
EMEA - Real Estate Services				
Leasing	$80.1	71.0	$211.9	186.6
Capital Markets	108.9	107.2	288.1	263.7
Property & Facility Management	336.3	335.9	1,078.9	975.0
Project & Development Services	220.1	170.3	663.5	472.0
Advisory, Consulting and Other	60.2	65.6	193.4	177.1
Revenue	805.6	750.0	2,435.8	2,074.4
Reimbursements	(171.0)	(108.5)	(480.0)	(335.9)
Revenue before reimbursements	634.6	641.5	1,955.8	1,738.5
Gross contract costs	(237.9)	(258.9)	(820.4)	(739.2)
Fee revenue	396.7	382.6	1,135.4	999.3
Operating expenses, excluding reimbursed expenses:				
Compensation, operating and administrative expenses	611.7	625.9	1,931.4	1,723.5
Depreciation and amortization	11.8	11.6	34.7	33.0
Segment operating expenses, excluding reimbursed expenses	623.5	637.5	1,966.1	1,756.5
Gross contract costs	(237.9)	(258.9)	(820.4)	(739.2)
Fee-based segment operating expenses	385.6	378.6	1,145.7	1,017.3
Segment operating income (loss)	$11.1	4.0	$(10.3)	(18.0)
Equity earnings	—	—	—	—
Segment income (loss)	$11.1	4.0	$(10.3)	(18.0)

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Continued: Summarized financial information by business segment is as follows.

(in millions)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Asia Pacific - Real Estate Services				
Leasing	$69.3	51.9	$165.2	133.7
Capital Markets	39.5	55.7	122.2	121.5
Property & Facility Management	529.2	490.0	1,590.6	1,449.4
Project & Development Services	108.7	109.5	309.8	297.4
Advisory, Consulting and Other	43.3	42.3	126.4	117.4
Revenue	790.0	749.4	2,314.2	2,119.4
Reimbursements	(330.0)	(333.5)	(1,007.8)	(1,005.9)
Revenue before reimbursements	460.0	415.9	1,306.4	1,113.5
Gross contract costs	(207.7)	(169.1)	(608.4)	(462.5)
Fee revenue	252.3	246.8	698.0	651.0
Operating expenses, excluding reimbursed expenses:				
Compensation, operating and administrative expenses	432.6	386.5	1,245.1	1,047.2
Depreciation and amortization	5.6	5.2	17.0	15.7
Segment operating expenses, excluding reimbursed expenses	438.2	391.7	1,262.1	1,062.9
Gross contract costs	(207.7)	(169.1)	(608.4)	(462.5)
Fee-based segment operating expenses	230.5	222.6	653.7	600.4
Segment operating income	$21.8	24.2	$44.3	50.6
Equity earnings	1.0	0.9	2.0	2.3
Segment income	$22.8	25.1	$46.3	52.9
LaSalle				
Advisory fees	$68.0	63.4	$205.0	190.0
Transaction fees & other	9.8	5.6	33.2	24.9
Incentive fees	94.8	33.2	145.4	48.5
Revenue	172.6	102.2	383.6	263.4
Reimbursements	(3.6)	(4.6)	(13.2)	(13.5)
Revenue before reimbursements	169.0	97.6	370.4	249.9
Gross contract costs	(0.7)	(1.2)	(3.2)	(3.8)
Fee revenue	168.3	96.4	367.2	246.1
Operating expenses, excluding reimbursed expenses:				
Compensation, operating and administrative expenses	110.9	75.1	265.9	203.0
Depreciation and amortization	0.8	0.8	2.3	2.2
Segment operating expenses, excluding reimbursed expenses	111.7	75.9	268.2	205.2
Gross contract costs	(0.7)	(1.2)	(3.2)	(3.8)
Fee-based segment operating expenses	111.0	74.7	265.0	201.4
Segment operating income	$57.3	21.7	$102.2	44.7
Equity earnings	2.3	11.6	24.6	29.9
Segment income	$59.6	33.3	$126.8	74.6

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(in millions)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Segment Reconciling Items				
Fee revenue	$1,591.4	1,419.5	$4,366.4	3,867.8
Gross contract costs	617.0	554.1	1,892.4	1,592.6
Net non-cash MSR and mortgage banking derivative activity	5.3	7.1	9.3	11.1
Revenue before reimbursements	2,213.7	1,980.7	6,268.1	5,471.5
Reimbursements	1,756.1	1,541.5	5,160.6	4,638.7
Revenue	$3,969.8	3,522.2	$11,428.7	10,110.2
Total segment operating expenses, excluding reimbursed expenses & before restructuring and acquisition charges	$2,019.1	1,839.5	$5,880.3	5,174.2
Reimbursed expenses	1,756.1	1,541.5	5,160.6	4,638.7
Total segment operating expenses before restructuring and acquisition charges	$3,775.2	3,381.0	$11,040.9	9,812.9
Operating income before restructuring and acquisition charges	$194.6	141.2	$387.8	297.3
Restructuring and acquisition charges (credits)	3.7	3.4	(6.7)	13.3
Operating income	$190.9	137.8	$394.5	284.0

The following table reconciles segment identifiable assets to consolidated amounts.

(in millions)	September 30, 2018	December 31, 2017
Real Estate Services:		
Americas	$ 5,292.8	4,745.4
EMEA	2,168.3	2,367.5
Asia Pacific	1,287.9	1,305.0
LaSalle	584.3	548.6
Corporate	285.8	287.9
Consolidated	$ 9,619.1	9,254.4

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5. BUSINESS COMBINATIONS, GOODWILL AND OTHER INTANGIBLE ASSETS

2018 Business Combinations Activity

Aggregate terms of our acquisitions included: (1) cash paid at closing of $31.7 million, (2) guaranteed deferred consideration of $1.9 million, and (3) contingent earn-out consideration of $2.7 million, which we will pay upon satisfaction of certain performance conditions and which we have initially recorded at their respective acquisition date fair value.

A preliminary allocation of purchase consideration resulted in goodwill of $30.1 million, identifiable intangibles of $5.7 million, and other net assets (acquired assets less assumed liabilities) of $0.5 million. As of September 30, 2018, we have not completed our analysis to assign fair values to all of the identifiable intangible and tangible assets acquired and, therefore, we may further refine the purchase price allocations for our 2018 acquisitions during their open measurement periods.

During the nine months ended September 30, 2018, we paid $63.3 million for deferred business acquisition and earn-out obligations for acquisitions completed in prior years. We also paid $1.5 million to acquire the final portion of the redeemable noncontrolling interest related to our 2014 acquisition of Tenzing AB, a Swedish real estate services provider.

Within the 2018 acquisition activity, we completed four new strategic acquisitions, expanding our capabilities and increasing our presence in key regional markets. These strategic acquisitions are presented below.

Acquired Company	Quarter of Acquisition	Country	Primary Service Line
Stessa Inc.	Q1	United States	Advisory, Consulting and Other
Raymond Chabot Grant Thornton & Co. LLP	Q1	Canada	Advisory, Consulting and Other
JCL International Inc.	Q1	Philippines	Project & Development Services
Northwest Atlantic	Q3	Canada	Leasing

2017 Business Combination Activity

During the nine months ended September 30, 2018, we made no adjustments to our preliminary allocation of the purchase consideration for certain acquisitions completed in 2017. As of September 30, 2018, we have completed our analysis to assign fair values to all the identifiable intangible and tangible assets acquired for our 2017 acquisitions.

Earn-Out Payments

($ in millions)	September 30, 2018	December 31, 2017
Number of acquisitions with earn-out payments subject to the achievement of certain performance criteria	55	56
Maximum earn-out payments (undiscounted)	$ 382.9	436.2
Short-term earn-out liabilities (fair value)[1]	32.6	49.6
Long-term earn-out liabilities (fair value)[1]	130.7	177.5

[1] Included in Short-term and Long-term acquisition obligations on the Condensed Consolidated Balance Sheets

Assuming the achievement of the applicable performance criteria, we anticipate making these earn-out payments over the next six years. Refer to Note 8, Fair Value Measurements, and Note 11, Restructuring and Acquisition Charges, for additional discussion of our earn-out liabilities.

Goodwill and Other Intangible Assets

Goodwill and unamortized intangibles as of September 30, 2018 consisted of: (1) goodwill of $2,689.7 million, (2) identifiable intangibles of $282.7 million amortized over their remaining finite useful lives, and (3) $8.8 million of identifiable intangibles with indefinite useful lives that are not amortized. Significant portions of our goodwill and unamortized intangibles are denominated in currencies other than the U.S. dollar, which means a portion of the movements in the reported book value of these balances is attributable to movements in foreign currency exchange rates.

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The following tables detail, by reporting segment, movements in goodwill.

	Real Estate Services				
(in millions)	Americas	EMEA	Asia Pacific	LaSalle	Consolidated
Balance as of December 31, 2017	$ 1,412.2	957.6	323.0	16.5	$ 2,709.3
Additions, net of adjustments	21.0	—	9.1	—	30.1
Impact of exchange rate movements	(0.5)	(39.5)	(9.2)	(0.5)	(49.7)
Balance as of September 30, 2018	$ 1,432.7	918.1	322.9	16.0	$ 2,689.7

	Real Estate Services				
(in millions)	Americas	EMEA	Asia Pacific	LaSalle	Consolidated
Balance as of December 31, 2016	$ 1,406.1	851.7	306.1	15.4	$ 2,579.3
Additions, net of adjustments	5.2	17.9	6.5	—	29.6
Impact of exchange rate movements	0.9	80.5	10.0	1.0	92.4
Balance as of September 30, 2017	$ 1,412.2	950.1	322.6	16.4	$ 2,701.3

The following tables detail, by reporting segment, movements in the gross carrying amount and accumulated amortization of our identifiable intangibles.

	MSRs	Other Intangibles				
(in millions)	Americas	Americas	EMEA	Asia Pacific	LaSalle	Consolidated
Gross Carrying Amount						
Balance as of December 31, 2017	$ 241.8	117.0	88.8	23.3	—	$ 470.9
Additions, net of adjustments [1]	36.8	3.6	—	2.1	—	42.5
Adjustment for fully amortized intangibles	(17.2)	(36.2)	(1.7)	(0.7)	—	(55.8)
Impact of exchange rate movements	—	0.3	(3.3)	(2.0)	—	(5.0)
Balance as of September 30, 2018	$ 261.4	84.7	83.8	22.7	—	$ 452.6
Accumulated Amortization						
Balance as of December 31, 2017	$ (55.1)	(61.3)	(43.1)	(6.4)	—	$ (165.9)
Amortization, net [2]	(32.2)	(10.2)	(9.5)	(1.9)	—	(53.8)
Adjustment for fully amortized intangibles	17.2	36.2	1.7	0.7	—	55.8
Impact of exchange rate movements	—	—	1.8	1.0	—	2.8
Balance as of September 30, 2018	$ (70.1)	(35.3)	(49.1)	(6.6)	—	$ (161.1)
Net book value as of September 30, 2018	$ 191.3	49.4	34.7	16.1	—	$ 291.5

(1) Included in this amount for MSRs was $8.7 million relating to prepayments/write-offs due to prepayments of sold warehouse receivables for which we retained the servicing rights.

(2) Amortization of MSRs is included in Revenue before reimbursements within the Condensed Consolidated Statements of Comprehensive Income.

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	MSRs	Other Intangibles				
(in millions)	Americas	Americas	EMEA	Asia Pacific	LaSalle	Consolidated
Gross Carrying Amount						
Balance as of December 31, 2016	$ 193.1	167.1	91.1	24.2	0.1	$ 475.6
Additions, net of adjustments [1]	50.7	0.4	3.1	5.8	—	60.0
Adjustment for fully amortized intangibles	(12.5)	(50.0)	(7.7)	(8.0)	(0.1)	(78.3)
Impact of exchange rate movements	—	0.2	7.6	1.3	—	9.1
Balance as of September 30, 2017	$ 231.3	117.7	94.1	23.3	—	$ 466.4
Accumulated Amortization						
Balance as of December 31, 2016	$ (32.3)	(98.7)	(38.0)	(11.5)	(0.1)	$ (180.6)
Amortization, net [2]	(29.8)	(10.3)	(11.2)	(1.9)	—	(53.2)
Adjustment for fully amortized intangibles	12.5	50.0	7.7	8.0	0.1	78.3
Impact of exchange rate movements	—	0.3	(3.6)	(0.2)	—	(3.5)
Balance as of September 30, 2017	$ (49.6)	(58.7)	(45.1)	(5.6)	—	$ (159.0)
Net book value as of September 30, 2017	$ 181.7	59.0	49.0	17.7	—	$ 307.4

(1) Included in this amount for MSRs was $7.7 million relating to prepayments/write-offs due to prepayments of sold warehouse receivables for which we retained the servicing rights.
(2) Amortization of MSRs is included in Revenue before reimbursements within the Condensed Consolidated Statements of Comprehensive Income.

The remaining estimated future amortization expense of MSRs and other identifiable intangible assets, by year, as of September 30, 2018, is presented in the following table.

(in millions)	MSRs	Other Intangibles	Total
2018 (3 months)	$ 6.7	9.7	$ 16.4
2019	30.3	23.7	54.0
2020	28.4	19.2	47.6
2021	25.4	12.4	37.8
2022	22.5	6.5	29.0
2023	19.1	4.3	23.4
Thereafter	58.9	15.6	74.5
Total	$ 191.3	91.4	$ 282.7

6. INVESTMENTS IN REAL ESTATE VENTURES

As of September 30, 2018 and December 31, 2017, we had Investments in real estate ventures of $371.5 million and $376.2 million, respectively.

Approximately 75% of our investments are in 45 separate property or commingled funds, where we co-invest alongside our clients and for which we also have an advisory agreement. Our investment ownership percentages in these funds generally range from less than 1% to 10%. The remaining 25% of our Investments in real estate ventures, as of September 30, 2018, were attributable to investment vehicles that use our capital and outside capital primarily provided by institutional investors to invest in certain real estate ventures that own and operate real estate. Of our investments attributable to investment vehicles, the majority was invested in LaSalle Investment Company II ("LIC II"), in which we held an effective ownership interest of 48.78%.

We have maximum potential unfunded commitments to direct investments or investment vehicles of $212.5 million as of September 30, 2018, of which $60.4 million relates to our commitment to LIC II.

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We evaluate our less-than-wholly-owned investments to determine whether the underlying entities are classified as variable interest entities ("VIEs"); we assess each identified VIE to determine whether we are the primary beneficiary. We have determined that we are the primary beneficiary of certain VIEs and accordingly, we have consolidated such entities. The assets of the consolidated VIEs are available only for the settlement of the obligations of the respective entities and the mortgage loans of the consolidated VIEs are non-recourse to JLL.

Summarized financial information for our consolidated VIEs is presented in the following tables.

(in millions)	September 30, 2018	December 31, 2017
Property and equipment, net	$ 36.6	15.7
Investments in real estate ventures	13.9	12.6
Other assets [(1)]	11.1	44.4
Total assets	$ 61.6	72.7
Other current liabilities [(1)]	$ 1.0	30.9
Mortgage indebtedness (included in Other liabilities)	26.0	9.2
Total liabilities	27.0	40.1
Members' equity (included in Noncontrolling interest)	34.6	32.6
Total liabilities and members' equity	$ 61.6	72.7

(1) Balances as of December 31, 2017, primarily represent investment properties and their corresponding liabilities, classified as held for sale.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2018	2017	2018	2017
Revenue	$1.6	1.8	$4.3	4.4
Operating and other expenses	(1.4)	(1.6)	(3.8)	(3.6)
Net gains on sale of investments	—	—	2.0	—
Net income	$0.2	0.2	$2.5	0.8

We allocate the members' equity and net income of the consolidated VIEs to the noncontrolling interest holders as Noncontrolling interest on our Condensed Consolidated Balance Sheets and as Net income attributable to noncontrolling interest in our Condensed Consolidated Statements of Comprehensive Income, respectively.

Impairment

There were no significant other-than-temporary impairment charges on Investments in real estate ventures for the nine months ended September 30, 2018 and 2017.

Fair Value

We report a majority of our investments in real estate ventures at fair value. For such investments, we increase or decrease our investment each reporting period by the change in the fair value and we report these fair value adjustments in our Condensed Consolidated Statements of Comprehensive Income within Equity earnings from real estate ventures. The table below shows the movement in our investments in real estate ventures reported at fair value.

(in millions)	2018	2017
Fair value investments as of January 1,	$242.3	212.7
Investments	27.7	21.2
Distributions	(31.0)	(22.5)
Change in fair value	8.2	17.9
Foreign currency translation adjustments, net	(1.2)	4.9
Fair value investments as of September 30,	$246.0	234.2

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7. STOCK-BASED COMPENSATION

Stock Unit Awards

Along with cash-based salaries and performance-based annual cash incentive awards, stock unit awards represent an important element of compensation to our employees. During the second quarter of 2018, we issued performance stock unit ("PSU") awards to certain employees under the Jones Lang LaSalle 2017 Stock Award and Incentive Plan, a supplement to the continued issuance of restricted stock unit ("RSU") awards. RSU and PSU activity is presented in the following tables.

	Shares (thousands)	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (in years)
Unvested as of June 30, 2018	750.3	$ 131.09	2.36
Granted	5.8	144.43	
Vested	(81.2)	123.08	
Forfeited	(35.5)	136.07	
Unvested as of September 30, 2018	639.4	$ 131.93	2.21
Unvested as of June 30, 2017	775.9	$ 117.74	1.61
Granted	5.1	115.47	
Vested	(70.9)	112.64	
Forfeited	(0.8)	130.32	
Unvested as of September 30, 2017	709.3	$ 118.22	1.43

	Shares (thousands)	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (in years)
Unvested as of December 31, 2017	727.7	$ 118.96	1.24
Granted	225.8	161.87	
Vested	(259.3)	122.63	
Forfeited	(54.8)	132.64	
Unvested as of September 30, 2018	639.4	$ 131.93	2.21
Unvested as of December 31, 2016	750.9	$ 113.97	1.71
Granted	157.0	116.50	
Vested	(177.3)	99.24	
Forfeited	(21.3)	113.18	
Unvested as of September 30, 2017	709.3	$ 118.22	1.43

We determine the fair value of RSUs, subject only to service requirements, based on the closing market price of our common stock on the grant date. PSUs are subject to service requirements and one or more performance measures, including (i) performance conditions (e.g. achievement against earnings per share targets) and (ii) for certain awards, a market condition (e.g. total shareholder return performance against a peer group). We determine the fair value of PSUs based on the closing market price of our common stock on the grant date taking into consideration the likelihood of achieving each performance condition and the market condition valuation, as applicable, based on the output of a Monte Carlo simulation.

As of September 30, 2018, we had $34.7 million of unamortized deferred compensation related to unvested restricted stock units, which we anticipate recognizing over varying periods into 2022.

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8. FAIR VALUE MEASUREMENTS

We measure certain assets and liabilities in accordance with ASC 820, Fair Value Measurements and Disclosures, which defines fair value as the price that would be received for an asset, or paid to transfer a liability, in an orderly transaction between market participants on the measurement date. In addition, it establishes a framework for measuring fair value according to the following three-tier fair value hierarchy:

- Level 1 - Quoted prices for identical assets or liabilities in active markets accessible as of the measurement date;
- Level 2 - Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 - Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

We had no transfers among levels of the fair value hierarchy during the nine months ended September 30, 2018 and 2017. Our policy is to recognize transfers at the end of quarterly reporting periods.

Financial Instruments

Our financial instruments include Cash and cash equivalents, Trade receivables, Notes and other receivables, Reimbursable receivables, Warehouse receivables, restricted cash, contract assets, Accounts payable, Reimbursable payables, Short-term borrowings, contract liabilities, Warehouse facilities, Credit facility, Long-term debt, and foreign currency forward contracts. The carrying amounts of Cash and cash equivalents, Trade receivables, Notes and other receivables, Reimbursable receivables, restricted cash, contract assets, Accounts payable, Reimbursable payables, contract liabilities, and the Warehouse facilities approximate their estimated fair values due to the short-term nature of these instruments. The carrying values of our Credit facility and Short-term borrowings approximate their estimated fair values given the variable interest rate terms and market spreads.

We estimated the fair value of our Long-term debt as $686.2 million and $712.6 million as of September 30, 2018 and December 31, 2017, respectively, using dealer quotes that are Level 2 inputs in the fair value hierarchy. The carrying value of our Long-term debt was $677.3 million and $690.6 million as of September 30, 2018 and December 31, 2017, respectively, and included debt issuance costs of $3.9 million and $4.3 million, respectively.

Investments in Real Estate Ventures at Fair Value - Net Asset Value ("NAV")

We report a majority of our investments in real estate ventures at fair value. For such investments, we increase or decrease our investment each reporting period by the change in the fair value and we report these fair value adjustments in our Condensed Consolidated Statements of Comprehensive Income within Equity earnings from real estate ventures.

Of our investments reported at fair value, we generally estimate the fair value using the NAV per share (or its equivalent) our investees provide. Critical inputs to NAV estimates included valuations of the underlying real estate assets and borrowings, which incorporate investment-specific assumptions such as discount rates, capitalization rates, rental and expense growth rates, and asset-specific market borrowing rates. We did not consider adjustments to NAV estimates provided by investees, including adjustments for any restrictions to the transferability of ownership interests embedded within investment agreements to which we are a party, to be necessary based upon (1) our understanding of the methodology utilized and inputs incorporated to estimate NAV at the investee level derived through LaSalle's role as advisor or manager of these ventures, (2) consideration of market demand for the specific types of real estate assets held by each venture, and (3) contemplation of real estate and capital markets conditions in the localities in which these ventures operate. As of September 30, 2018 and December 31, 2017, investments in real estate ventures at fair value using NAV were $203.6 million and $195.0 million, respectively. As these investments are not required to be classified in the fair value hierarchy, they have been excluded from the following table.

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Recurring Fair Value Measurements

The following table categorizes by level in the fair value hierarchy the estimated fair value of our assets and liabilities measured at fair value on a recurring basis.

	September 30, 2018			December 31, 2017		
(in millions)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Investments in real estate ventures - fair value	$42.4	—	—	47.3	—	—
Foreign currency forward contracts receivable	—	5.8	—	—	13.2	—
Warehouse receivables	—	617.7	—	—	317.5	—
Deferred compensation plan assets	—	277.8	—	—	229.7	—
Mortgage banking derivative assets	—	—	47.2	—	—	19.0
Total assets at fair value	$42.4	901.3	47.2	47.3	560.4	19.0
Liabilities						
Foreign currency forward contracts payable	$—	3.7	—	—	1.9	—
Deferred compensation plan liabilities	—	268.3	—	—	228.4	—
Earn-out liabilities	—	—	163.3	—	—	227.1
Mortgage banking derivative liabilities	—	—	28.5	—	—	10.3
Total liabilities at fair value	$—	272.0	191.8	—	230.3	237.4

Investments in Real Estate Ventures

We classify one investment as Level 1 in the fair value hierarchy as quoted prices are readily available. We increase or decrease our investment each reporting period by the change in the fair value of the investment. We report these fair value adjustments in our Condensed Consolidated Statements of Comprehensive Income within Equity earnings from real estate ventures.

Foreign Currency Forward Contracts

We regularly use foreign currency forward contracts to manage our currency exchange rate risk related to intercompany lending and cash management practices. These contracts are on our Condensed Consolidated Balance Sheets as current assets and current liabilities. We determine the fair values of these contracts based on current market rates. The inputs for these valuations are Level 2 inputs in the fair value hierarchy. As of September 30, 2018 and December 31, 2017, these contracts had a gross notional value of $2.07 billion ($0.91 billion on a net basis) and $2.43 billion ($1.82 billion on a net basis), respectively.

We recognize gains and losses from revaluation of these contracts as a component of Operating, administrative and other expense. They are offset by the gains and losses we recognize on the revaluation of intercompany loans and other foreign currency balances. The impact to net income was not significant for either of the three or nine months ended September 30, 2018 or 2017.

We record the asset and liability positions for our foreign currency forward contracts based on the net payable or net receivable position with the financial institutions from which we purchase these contracts. The $5.8 million asset as of September 30, 2018, was composed of gross contracts with receivable positions of $7.5 million and payable positions of $1.7 million. The $3.7 million liability as of September 30, 2018, was composed of gross contracts with receivable positions of $1.1 million and payable positions of $4.8 million. As of December 31, 2017, the $13.2 million asset was composed of gross contracts with receivable positions of $14.4 million and payable positions of $1.2 million. The $1.9 million liability as of December 31, 2017, was composed of gross contracts with receivable positions of $2.3 million and payable positions of $4.2 million.

Warehouse Receivables

The fair value of the Warehouse receivables is based on already locked-in security-buy prices. As of September 30, 2018 and December 31, 2017, all of our Warehouse receivables included in our Condensed Consolidated Balance Sheet were under commitment to be purchased by government-sponsored enterprises ("GSEs") or by a qualifying investor as part of a U.S. government or GSE mortgage-backed security program. The Warehouse receivables are classified as Level 2 in the fair value hierarchy as all significant inputs are readily observable.

Deferred Compensation Plan

We maintain a deferred compensation plan for certain of our U.S. employees that allows them to defer portions of their compensation. We invest directly in insurance contracts which yield returns to fund these deferred compensation obligations. We recognize an asset for the amount that could be realized under these insurance contracts as of the balance sheet date, and we adjust the deferred compensation obligation to reflect the changes in the fair value of the amount owed to the employees. The inputs for this valuation are Level 2 inputs in the fair value hierarchy. We recorded this plan on our Condensed Consolidated Balance Sheet as of September 30, 2018, as Deferred compensation plan assets of $277.8 million, long-term deferred compensation plan liabilities of $268.3 million, included in Deferred compensation, and as a reduction of equity, Shares held in trust, of $6.0 million. We recorded this plan on our Condensed Consolidated Balance Sheet as of December 31, 2017, as Deferred compensation plan assets of $229.7 million, long-term deferred compensation plan liabilities of $228.4 million, included in Deferred compensation, and as a reduction of equity, Shares held in trust, of $5.9 million.

Earn-Out Liabilities

We classify our earn-out liabilities within Level 3 in the fair value hierarchy because the inputs we use to develop the estimated fair value include unobservable inputs. We base the fair value of our earn-out liabilities on the present value of probability-weighted future cash flows related to the earn-out performance criteria on each reporting date. We determine the probability of achievement we assign to the performance criteria based on the due diligence we performed at the time of acquisition as well as actual performance achieved subsequent to acquisition. An increase to the probability of achievement would result in a higher fair value measurement. See Note 5, Business Combinations, Goodwill and Intangibles, for additional discussion of our earn-out liabilities.

Mortgage Banking Derivatives

The fair value of our rate lock commitments to prospective borrowers and the related inputs primarily include, as applicable, the expected net cash flows associated with closing and servicing the loan and the effects of interest rate movements between the date of the interest rate lock commitment ("IRLC") and the balance sheet date based on applicable published U.S. Treasury rates.

The fair value of our forward sales contracts with prospective investors considers the market price movement of a similar security between the trade date and the balance sheet date. The market price changes are multiplied by the notional amount of the forward sales contracts to measure the fair value.

Both the rate lock commitments to prospective borrowers and the forward sale contracts with prospective investors are undesignated derivatives and considered Level 3 valuations due to significant unobservable inputs related to counterparty credit risk. An increase in counterparty credit risk assumptions would result in a lower fair value measurement. The fair valuation is determined using discounted cash flow techniques, and the derivatives are marked to fair value through Revenue before reimbursements in the Condensed Consolidated Statements on Comprehensive Income.

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The tables below present a reconciliation for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

(in millions)	Balance as of June 30, 2018	Net change in fair value	Foreign CTA[1]	Purchases / Additions	Settlements[2]	Balance as of September 30, 2018
Mortgage banking derivative assets and liabilities, net	$ 8.1	8.0	—	18.7	(16.1)	$ 18.7
Earn-out liabilities	179.6	(2.7)	(1.1)	1.1	(13.6)	163.3

(in millions)	Balance as of June 30, 2017	Net change in fair value	Foreign CTA[1]	Purchases / Additions	Settlements	Balance as of September 30, 2017
Mortgage banking derivative assets and liabilities, net	$ 14.1	3.4	—	25.5	(31.5)	$ 11.5
Earn-out liabilities	225.6	(0.6)	2.9	0.7	(5.1)	223.5

(in millions)	Balance as of December 31, 2017	Net change in fair value	Foreign CTA[1]	Purchases / Additions	Settlements[2]	Balance as of September 30, 2018
Mortgage banking derivative assets and liabilities, net	$ 8.7	4.6	—	53.4	(48.0)	$ 18.7
Earn-out liabilities	227.1	(17.5)	(3.6)	2.7	(45.4)	163.3

(in millions)	Balance as of December 31, 2016	Net change in fair value	Foreign CTA[1]	Purchases / Additions	Settlements	Balance as of September 30, 2017
Mortgage banking derivative assets and liabilities, net	$ 15.5	11.8	—	56.6	(72.4)	$ 11.5
Earn-out liabilities	229.6	(2.7)	7.4	11.4	(22.2)	223.5

[1] CTA: Currency translation adjustments

[2] In the third quarter of 2018, earn-out liabilities of $9.1 million were reclassified to guaranteed deferred acquisition obligations.

Net change in fair value, included in the tables above, is reported in Net income as follows.

Category of Assets/Liabilities using Unobservable Inputs	Condensed Consolidated Statements of Comprehensive Income Account Caption
Earn-out liabilities (Short-term and Long-term)	Restructuring and acquisition charges
Other current assets - Mortgage banking derivative assets	Revenue before reimbursements
Other current liabilities - Mortgage banking derivative liabilities	Revenue before reimbursements

Non-Recurring Fair Value Measurements

We review our investments in real estate ventures, except those investments otherwise reported at fair value, on a quarterly basis, or as otherwise deemed necessary, for indications of whether we may be unable to recover the carrying value of our investments and whether such investments are other-than-temporarily impaired. When the carrying amount of the investment is in excess of the estimated future undiscounted cash flows, we use a discounted cash flow approach or other acceptable method to determine the fair value of the investment in computing the amount of the impairment. Our determination of fair value primarily relies on Level 3 inputs. We did not recognize any significant investment-level impairment losses during either of the three or nine months ended September 30, 2018 or 2017. See Note 6, Investments in Real Estate Ventures, for additional information, including information related to impairment charges recorded at the investee level.

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9. DEBT

Short-term borrowings and long-term debt obligations are composed of the following.

(in millions)	September 30, 2018	December 31, 2017
Short-term borrowings:		
Local overdraft facilities	$ 35.4	45.4
Other short-term borrowings	48.3	32.0
Total short-term borrowings	$ 83.7	77.4
Credit facility, net of debt issuance costs of $16.8 and $15.3	223.2	(15.3)
Long-term senior notes, 4.4%, face amount of $275.0, due November 2022, net of debt issuance costs of $1.7 and $2.0	273.3	273.0
Long-term senior notes, 1.96%, face amount of €175.0, due June 2027, net of debt issuance costs of $1.1 and $1.2	202.0	208.8
Long-term senior notes, 2.21%, face amount of €175.0, due June 2029, net of debt issuance costs of $1.1 and $1.1	202.0	208.8
Total debt	$ 984.2	752.7

Credit Facility

On May 17, 2018, we amended our $2.75 billion unsecured revolving credit facility (the "Facility"), which improved pricing and extended the maturity date from June 21, 2021 to May 17, 2023. Pricing on the Facility ranges from LIBOR plus 0.875% to 1.35%, with pricing as of September 30, 2018, at LIBOR plus 1.00%. In addition to outstanding borrowings under the Facility presented in the above table, we had outstanding letters of credit under the Facility of $8.6 million and $9.0 million as of September 30, 2018 and December 31, 2017, respectively.

The following tables provides additional information on our Facility.

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in millions)	2018	2017	2018	2017
Average outstanding borrowings under the Facility	$461.5	712.3	$396.5	1,042.7
Effective interest rate on the Facility	3.0 %	2.3 %	2.8 %	2.0 %

We will continue to use the Facility for, but not limited to, business acquisitions, working capital needs (including payment of accrued incentive compensation), co-investment activities, dividend payments, share repurchases and capital expenditures.

Short-Term Borrowings and Long-Term Debt

In addition to our Facility, we have the capacity to borrow up to an additional $61.5 million under local overdraft facilities. Amounts outstanding are presented in the debt table above.

As of September 30, 2018, our issuer and senior unsecured ratings are investment grade: BBB+ (stable outlook) from Standard & Poor’s Ratings Services and Baa1 (stable outlook) from Moody’s Investors Service, Inc.

Covenants

Our Facility and senior notes are subject to customary financial and other covenants, including cash interest coverage ratios and leverage ratios, as well as event of default conditions. We remained in compliance with all covenants as of September 30, 2018.

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Warehouse Facilities

($ in millions)	September 30, 2018		December 31, 2017	
	Outstanding Balance	Maximum Capacity	Outstanding Balance	Maximum Capacity
Warehouse Facilities:				
LIBOR plus 1.3%, expires September 23, 2019[1]	$292.5	375.0	156.4	375.0
LIBOR plus 1.25%, expires September 20, 2019[2]	226.3	775.0	74.8	375.0
LIBOR plus 1.3%, expires August 31, 2019[3]	54.0	100.0	—	100.0
Fannie Mae ASAP program, LIBOR plus 1.30% to 1.45%	40.7	n/a	79.2	n/a
Gross warehouse facilities	$613.5	1,250.0	310.4	850.0
Debt issuance costs	(1.6)	n/a	(1.2)	n/a
Total warehouse facilities	$611.9	1,250.0	309.2	850.0

[1] In the third quarter of 2018, JLL extended the Warehouse facility; previously, the facility had a maturity date of September 29, 2018.

[2] In the third quarter of 2018, JLL extended the Warehouse facility, increased the maximum capacity, and negotiated a decrease to the interest rate; previously, the facility had a maturity date of September 24, 2018, a maximum capacity of $375.0 million, and an interest rate of LIBOR plus 1.35%.

[3] In the third quarter of 2018, JLL extended the Warehouse facility and negotiated a decrease to the interest rate; previously, the facility had a maturity date of August 31, 2018 and an interest rate of LIBOR plus 1.5%.

We have lines of credit established for the sole purpose of funding our Warehouse receivables. These lines of credit exist with financial institutions and are secured by the related warehouse receivables. Pursuant to these warehouse facilities, we are required to comply with certain financial covenants regarding (1) minimum net worth, (2) minimum servicing-related loans, and (3) minimum adjusted leverage ratios. We remained in compliance with all covenants under our Warehouse facilities as of September 30, 2018.

As a supplement to our lines of credit, we have an uncommitted facility with Fannie Mae under its As Soon As Pooled ("ASAP") funding program. After origination, we sell certain warehouse receivables to Fannie Mae; the proceeds are used to repay the original lines of credit used to fund the loan. The ASAP funding program requires us to repurchase these loans, generally within 45 days, followed by an immediate, ultimate, sale back to Fannie Mae. The difference between the price paid upon the original sale to Fannie Mae and the ultimate sale reflects borrowing costs.

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10. COMMITMENTS AND CONTINGENCIES

We are a defendant in various litigation matters arising in the ordinary course of business, some of which involve claims for damages that are substantial in amount. Many of these litigation matters are covered by insurance (including insurance provided through a consolidated captive insurance company as further discussed below), but they may nevertheless be subject to large deductibles and the amounts being claimed may exceed the available insurance. Although we cannot determine the ultimate liability for these matters, based upon information currently available, we believe the ultimate resolution of such claims and litigation will not have a material adverse effect on our financial position, results of operations or liquidity.

In order to better manage our global insurance program and support our risk management efforts, we supplement our traditional insurance coverage for certain types of claims by using a wholly-owned captive insurance company. The level of risk retained by our captive insurance company, with respect to professional indemnity claims, is up to $2.5 million per claim, inclusive of the deductible. We contract third-party insurance companies to provide coverage of risk in excess of this amount. When a potential loss event occurs, we estimate the ultimate cost of the claim and accrue the amount in Other current and long-term liabilities on our Condensed Consolidated Balance Sheets when probable and estimable. In addition, we have established receivables from third-party insurance providers for claim amounts in excess of the risk retained by our captive insurance company. In total, these receivables were $32.1 million and $22.0 million as of September 30, 2018 and December 31, 2017, respectively, and are included in Notes and other receivables and Long-term receivables on our Condensed Consolidated Balance Sheets.

The following table shows the professional indemnity accrual activity and related payments.

(in millions)	
December 31, 2017	$26.7
New claims	2.3
Prior year claims adjustments	12.3
Claims paid	(7.3)
September 30, 2018	$34.0
December 31, 2016	$7.3
New claims	0.7
Prior year claims adjustments	1.5
Claims paid	(3.0)
September 30, 2017	$6.5

As a lender in the Fannie Mae Delegated Underwriting and Servicing ("DUS") program, we retain a portion of the risk of loss for loans we originate and sell under the DUS program. The net loss on defaulted loans are shared with Fannie Mae based upon established loss-sharing ratios. Generally, our share of losses is capped at 20% of the principal balance of the mortgage at origination. As of September 30, 2018 and December 31, 2017, we had loans, funded and sold, subject to such loss-sharing arrangements with an aggregate unpaid principal balance of $8.4 billion and $8.0 billion, respectively.

For all DUS program loans with loss-sharing obligations, we record a loan loss accrual equal to the estimated fair value of the guarantee obligations undertaken upon sale of the loan, which reduces our gain on sale of the loan. Subsequently, this accrual is amortized over the life of the loan and recorded as an increase in Revenue before reimbursements on the Statements of Comprehensive Income. At least semi-annually, we perform an analysis of the servicing portfolio with loss-sharing obligations to determine estimated probable losses. If estimated probable losses exceed the existing unamortized guarantee obligation, we record an expense to increase the loan loss accrual for this difference. As of September 30, 2018 and December 31, 2017, loan loss accruals were $17.2 million and $16.0 million, respectively, and are included in Other liabilities on our Condensed Consolidated Balance Sheets.

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11. RESTRUCTURING AND ACQUISITION CHARGES

For the three and nine months ended September 30, 2018, we recognized Restructuring and acquisition charges of $3.7 million and credits of $6.7 million, respectively. For the three and nine months ended September 30, 2017, we recognized Restructuring and acquisition charges of $3.4 million and $13.3 million, respectively.

For the three and nine months ended September 30, 2018, we recognized $2.7 million and $17.5 million, respectively, related to net decreases to earn-out liabilities that arose from prior period acquisition activity, reflecting changes to our expectations of performance against contracted earn-out payment criteria. For the three and nine months ended September 30, 2017, we recognized $0.6 million and $2.7 million, respectively, related to net decreases to earn-out liabilities that arose from prior period acquisition activity.

In all periods, the remaining charges primarily consist of (1) severance and employment-related charges, including those related to external service providers, incurred in conjunction with a structural business shift, which can be represented by a notable change in headcount, change in leadership, or transformation of business processes, (2) lease exit charges, and (3) other acquisition and integration-related charges. The following tables show the restructuring and acquisition accrual activity and related payments, which are exclusive of the adjustments individually noted above.

(in millions)	Severance & Employment-Related	Lease Exit	Other Acquisition	Total
December 31, 2017	$ 14.2	5.7	1.4	$21.3
Accruals	9.8	0.2	0.8	10.8
Payments made	(16.1)	(0.5)	(2.2)	(18.8)
September 30, 2018	$ 7.9	5.4	—	$13.3

(in millions)	Severance & Employment-Related	Lease Exit	Other Acquisition	Total
December 31, 2016	$ 19.7	5.5	5.8	$31.0
Accruals	10.6	0.7	4.7	16.0
Payments made	(19.0)	(0.6)	(6.5)	(26.1)
September 30, 2017	$ 11.3	5.6	4.0	$20.9

We expect the majority of accrued severance and other accrued acquisition costs as of September 30, 2018 will be paid during the next twelve months. Lease exit payments depend on the terms of various leases, which extend as far out as 2022.

12. NONCONTROLLING INTEREST

We reflect changes in amounts attributable to noncontrolling interests in the Condensed Consolidated Statement of Changes in Equity. We present changes in amounts attributable to redeemable noncontrolling interests in the following table.

(in millions)	
Redeemable noncontrolling interests as of December 31, 2017	$3.8
Acquisition of redeemable noncontrolling interest [1]	(3.8)
Redeemable noncontrolling interests as of September 30, 2018	$—

(1) Reflects our redemption of the final portion of the redeemable noncontrolling interest related to our 2014 acquisition of Tenzing AB and includes $2.3 million representing the difference between the redemption value and the carrying value of the acquired interest.

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13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT

The tables below present the changes in Accumulated other comprehensive income (loss) ("AOCI") by component. For pension and postretirement benefits, we report amounts reclassified from AOCI relating to employer service cost in Compensation and benefits within the Condensed Consolidated Statements of Comprehensive Income. All other reclassifications relating to pension and postretirement benefits are reported within Other income.

(in millions)	Pension and postretirement benefit	Cumulative foreign currency translation adjustment	Total
Balance as of June 30, 2018	$ (60.5)	(331.1)	$ (391.6)
Other comprehensive loss before reclassification	—	(34.9)	(34.9)
Amounts reclassified from AOCI after tax expense of $ - , $ - and $ -	1.2	—	1.2
Other comprehensive loss after tax expense of $ - , $ - and $ -	1.2	(34.9)	(33.7)
Balance as of September 30, 2018	$ (59.3)	(366.0)	$ (425.3)

(in millions)	Pension and postretirement benefit	

A. Authorized Stock. The total authorized stock of the Corporation, which shall be an aggregate of 19,500,000 shares, shall consist of three classes: (i) a first class consisting of 8,500,000 shares of Traditional Common Stock having a par value of $0.01 per share (the "Original Common Stock"); (ii) a second class consisting of 8,500,000 shares of Public Common Stock having a par value of $0.01 per share (the "Common Stock" or "NOL Restricted Common Stock" and, together with the Original Common Stock, the "Common Stock Securities"); and (iii) a third class consisting of 2,500,000 shares of Preferred Stock having a par value of $0.01 per share (the "Preferred Stock").

3. This Certificate of Amendment shall become effective at the time this Certificate of Amendment to the Restated Certificate of Incorporation, as amended, is filed with the Secretary of State of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be executed by a duly authorized officer on this [•] day of [•], 2016.

Heska Corporation

By:
Name:
Title:

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APPENDIX B

FINANCIAL AND OTHER INFORMATION FOR
CUATTRO VETERINARY, LLC

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CUATTRO VETERINARY, LLC

Financial Statements and
Independent Auditors' Report
December 31, 2015, 2014 (Unaudited),
and 2013 (Unaudited)

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CUATTRO VETERINARY, LLC

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Cuattro Veterinary, LLC
Loveland, Colorado

We have audited the balance sheet of Cuattro Veterinary, LLC as of December 31, 2015, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of

accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Board of Directors and Members
Cuattro Veterinary, LLC
Page Two

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cuattro Veterinary, LLC as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTER

The accompanying balance sheets of Cuattro Veterinary, LLC as of December 31, 2014 and 2013, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.

/s/ EKS&H LLLP

March 31, 2016
Boulder, Colorado

CUATTRO VETERINARY, LLC

Balance Sheets

	December 31,		
	2013	2014	2015
	(unaudited)	(unaudited)	
ASSETS			
Current Assets:			
Cash	$95,248	$27,486	$—
Accounts receivable	1,085,753	1,774,694	1,243,626
Inventories	296,826	5,125	39,891
Other current assets	259,806	85,720	8,333
Total current assets	1,737,633	1,893,025	1,291,850
Property and equipment, net	94,876	103,075	87,496
Intangible assets, net	114,852	19,844	14,174
Accounts receivable, long-term	—	—	29,022
Deferred tax asset	—	—	55,912
Related party receivable (Note 4)	4,058,090	3,674,807	2,242,339
Total assets	$6,005,451	$5,690,751	$3,720,793
LIABILITIES AND MEMBERS' EQUITY			
Current liabilities:			
Accounts payable	$—	$—	$64,000
Other accrued liabilities	197,248	3,138	59,086
Current income taxes payable	—	—	70,613
Current portion of deferred revenue	139,507	145,108	140,925
Current portion of long-term debt	193,378	216,779	231,974
Due to Heska Imaging US, LLC (Notes 4,5)	1,407,320	1,465,430	1,516,384

Total current liabilities	1,937,453	1,830,455	2,082,982
Deferred revenue, net of current portion	279,555	216,617	135,619
Long-term note payable, net of current portion (Note 5)	828,933	600,714	368,740
Related party payable (Notes 4, 5)	2,334,674	2,334,675	—
Total liabilities	$5,380,615	$4,982,461	$2,587,341
Members' equity:			
1,440,743 total member units issued and outstanding: 620,000 Class A units, 555,000 Class B units, 101,750 Class C units, and 163,993 Class D units.			
Capital contributions	417,982	418,886	418,886
Accumulated earnings	206,854	289,404	714,566
Total members' equity	624,836	708,290	1,133,452
Total liabilities and members' equity	$6,005,451	$5,690,751	$3,720,793

See notes to financial statements.

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CUATTRO VETERINARY, LLC

Statements of Operations

	Year ended December 31,		
	2013	2014	2015
	(unaudited)	(unaudited)	
Revenue	$4,499,523	$6,214,215	$5,299,570
Cost of revenue	3,444,472	4,487,362	3,713,035
Gross profit	1,055,051	1,726,853	1,586,535
Operating expenses:			
Selling and marketing	254,108	289,097	131,475
Research and development	35,212	17,067	33,494
General and administrative	1,081,301	1,111,003	801,184
Total operating expenses	1,370,621	1,417,167	966,153
Operating (loss) income	(315,570)	309,686	620,382
Interest and other (income) expense, net (Note 6)	209,316	227,136	60,518
(Loss) income before income taxes	(524,886)	82,550	559,864
Income tax expense (benefit):			
Current income tax expense	—	—	190,613
Deferred income tax (benefit)	—	—	(55,911)
Total income tax expense (benefit)	—	—	134,702
Net (loss) income	(524,886)	82,550	425,162

See notes to financial statements.

CUATTRO VETERINARY, LLC

Statements of Members' Equity and Accumulated Earnings

	Member units	Capital contributions	Accumulated earnings	Total
Balances, January 1, 2013 (unaudited)	1,440,743	$416,435	$731,740	$1,148,175
Net loss		—	(524,886)	(524,886)
Membership units	—	1,547	—	1,547
Balances, December 31, 2013 (unaudited)	1,440,743	417,982	206,854	624,836
Net income		—	82,550	82,550
Membership units	—	904	—	904
Balances, December 31, 2014 (unaudited)	1,440,743	418,886	289,404	708,290
Net income		—	425,162	425,162
Balances, December 31, 2015	1,440,743	$418,886	$714,566	$1,133,452

See notes to financial statements.

CUATTRO VETERINARY, LLC

Statements of Cash Flows

	Year ended December 31,		
	2013 (unaudited)	2014 (unaudited)	2015
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Net (loss) income	$(524,886)	$ 82,550	$425,162
Adjustments to reconcile net income to cash provided by (used in) operating activities:			
Depreciation	80,627	198,924	89,038
Amortization	35,212	35,123	5,670
(Gain) loss on sale of property and equipment	—	102,854	(33,506)
Deferred tax asset	—	—	(55,912)
Changes in operating assets and liabilities:			
Accounts receivable	683,388	(688,941)	502,046
Inventories	1,448,921	291,701	(34,766)
Other current assets	689,249	174,087	77,387
Accounts payable	(1,882,865)	—	64,000
Other accrued expenses	87,074	(194,110)	55,948
Income taxes payable	—	—	70,613
Deferred revenue	76,053	(57,337)	(85,181)
Net cash provided by (used in) operating activities	692,773	(55,149)	1,080,499
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:			

Related party receivable, net	(822,011)	383,284	(902,207)
Purchases of property and equipment	(65,063)	(250,093)	(96,853)
Proceeds from sale of property and equipment	—	—	56,900
Net cash provided by (used in) investing activities	(887,074)	133,191	(942,160)
CASH FLOWS USED IN FINANCING ACTIVITIES:			
Capital contributions	1,547	904	—
Proceeds from (repayments of) long-term borrowings, net	(212,291)	(204,818)	(216,779)
Due to Heska Imaging US, LLC	47,320	58,110	50,954
Net cash used in financing activities	(163,424)	(145,804)	(165,825)
DECREASE IN CASH	(357,725)	(67,762)	(27,486)
CASH, BEGINNING OF YEAR	452,973	95,248	27,486
CASH, END OF YEAR	$95,248	$ 27,486	$—
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	$162,808	$ 54,881	$41,422
Cash paid for income taxes	$—	$ —	$120,000

See notes to financial statements.

CUATTRO VETERINARY, LLC

Notes to Financial Statements

Note 1 - Organization and Business

Cuattro Veterinary, LLC (the "Company") was organized on January 1, 2009 in the state of Delaware. The Company is Cuattro, LLC's exclusive international market provider of digital radiography, picture archiving and communication systems and other imaging technologies for veterinarians. Cuattro Veterinary, LLC is a majority owned subsidiary of Cuattro, LLC. The Company moved from its location in Illinois to its present location in Loveland, Colorado in May, 2013.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The accompanying financial statements consist of balance sheets as of December 31, 2013 (unaudited), December 31, 2014 (unaudited) and December 31, 2015, and the statements of operations, members' equity, and cash flows for the years ended December 31, 2013 (unaudited), 2014 (unaudited) and 2015, and related note information. The balance sheet as of December 31, 2015, and the statements of operations, members' equity, and cash flows for the year ended December 31, 2015 are audited. The financial data and the other information disclosed in these notes to the financial statements, as they relate to 2013 and 2014, are unaudited.

Use of Estimates

The preparation of the Company's financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, as well as related disclosures of contingent assets and liabilities. Actual results could differ from the Company's estimates. To the extent that there are material differences between these estimates and actual results, the Company's financial position or operating

results will be materially affected. The Company bases its estimates on past experience and other assumptions that the Company believes are reasonable under the circumstances, and the Company evaluates these estimates on an ongoing basis.

Significant estimates, judgments and assumptions in these financial statements include those related to provisions for uncollectible receivables, excess/obsolete inventory, in determining the period over which the Company's obligations are fulfilled under agreements to license product rights and/or technology rights, valuation of long lived assets, valuation of deferred tax assets, and provisions for uncertain tax positions.

Fair Value of Financial Instruments

The Company's financial instruments consist of cash, receivables and payables, and debt. The carrying values of all financial instruments approximate fair value.

CUATTRO VETERINARY, LLC

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (continued)
Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and accounts receivable. The Company has no off-balance-sheet concentrations of credit risk such as foreign exchange contracts, options contracts or other foreign currency hedging arrangements.

Three customers accounted for 77%, 78% and 68% of net revenues for the years ended December 31, 2013, (unaudited), 2014 (unaudited) and 2015, respectively. At December 31, 2013 (unaudited), 2014 (unaudited) and 2015, three customers accounted for 83%, 89% and 96% of total accounts receivable, respectively.

Cash

The Company maintains its cash in the form of checking accounts with financial institutions that management believes are creditworthy. At times, balances in these accounts exceed federally insured limits.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount, which, since July 2014, has generally been in U.S. dollars. Receivables are uncollateralized customer obligations that generally require payment within thirty days from the invoice date. Account balances with invoices over ninety days old are considered delinquent. Payments of accounts receivable are applied to the specific invoices identified on the customer's remittance advice or, if unspecified, to the earliest unpaid invoices.

No valuation allowance was considered necessary at December 31, 2013 (unaudited), 2014 (unaudited) or 2015. The Company has had no historical issues collecting the funds owed from its major customers. If there is a deterioration of a major customer's credit worthiness or actual defaults are higher than the historical experience, management's estimates of the recoverability of amounts due the Company could be

adversely affected. The Company does not have any off-balance-sheet credit exposure related to its customers.

Inventories

Inventory is stated at the lower of cost or market based on the weighted average cost. Inventory is comprised of finished goods. If the cost of inventories exceeds estimated fair value, provisions are made to reduce the carrying value to estimated fair value.

Impairment of Long-Lived Assets

The Company evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of property and equipment and other assets, including identifiable intangible assets with definite lives, may warrant revision, or that the remaining balance of these assets may not be recoverable. The Company has not recorded any impairment charges during the periods presented in these financial statements.

CUATTRO VETERINARY, LLC

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are recorded at historical cost less accumulated depreciation, which is computed on a straight-line basis over the asset's estimated useful life. The estimated useful lives of property and equipment are described below:

Property and Equipment	Useful Life
Equipment and tools	Three - seven years
Furniture and fixtures	Five years
Rental assets	Two - three years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from their respective accounts, and any gain or loss on such sale or disposal is reflected in operating expenses. Maintenance and repairs are charged to expense when incurred.

Revenue Recognition

The Company generates its revenues through sale of products and services. The Company's policy is to recognize revenue when the applicable revenue recognition criteria have been met, which generally include the following:

Persuasive evidence of an arrangement exists;
Delivery has occurred or services rendered;
Price is fixed or determinable; and
Collectability is reasonably assured.

Revenue from the sale of products is generally recognized after both the goods are shipped to the customer and acceptance has been received, if required. The terms of the customer arrangements generally pass title and risk of ownership to the customer at the time of shipment. Certain customer arrangements provide for acceptance provisions. Revenue for these arrangements is not recognized until the acceptance has been received or the acceptance period has lapsed. Shipping and handling costs charged to customers are included as revenue, and the related costs are recorded as a

component of cost of products sold.

CUATTRO VETERINARY, LLC

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Software license revenue is recognized when a non-cancelable license agreement has been executed, delivery has occurred, fees are fixed and determinable, and collection of the resulting receivable is deemed probable by management. Extended warranty revenue includes support revenue, which is recognized ratably over the support period (generally a one-year term), and revenue from consulting and training services, which is recognized as services are performed. The Company's hardware warranty period extends from one to five years from the date of sale. These revenues are billed in advance and categorized as deferred revenue until recognized over the life of the warranty. The components of the Company's products are normally covered by a one-year to three-year original component manufacturer's warranty that is designed to cover warranty-type expenses associated with the Company's product during the particular warranty period. In many cases this warranty from the original component supplier is longer, or it may be extended at the Company's request. The Company expects its additional expenses related to third party components, if any, relating to the warranties will be minimal. Therefore, all expenses associated with warranties are expensed as incurred.

The Company utilizes distributors to sell its products. Distributors purchase goods from the Company, take title to those goods and resell them to their customers in the distributors' territory.

Marketing Costs

The Company expenses marketing costs as incurred. Total marketing costs for the years ended December 31, 2013 (unaudited), 2014 (unaudited) and 2015 were $13,568, $20,941 and $9,089, respectively.

Income Taxes

The Company elected to be taxed as a partnership from its inception through January 16, 2015. During that period, the Company was not liable for income taxes. Instead, all items of income and deduction were reportable by the individual partners. Accordingly, these statements do not include a provision for income taxes prior to the period ended on or before December 31, 2014.

Beginning on January 17, 2015, the Company records a current provision for income taxes based on estimated amounts due on tax returns to be filed for that period. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax amounts are determined by using the enacted tax rates expected to be in effect when the temporary differences are expected to be recovered or settled.

The Company follows the guidance of Accounting Standards Codification ("ASC") Topic 740, Accounting for Uncertainty in Income Taxes. ASC Topic 740 prescribes a more-likely-than-not measurement methodology to reflect the financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. As of December 31, 2015, the Company has not recorded a liability for uncertain tax positions because none is deemed necessary. The Company would recognize interest and penalties related to uncertain tax positions in income tax (benefit) expense. No interest and penalties related to uncertain tax positions were accrued at December 31, 2015.

CUATTRO VETERINARY, LLC

Notes to Financial Statements

Note 2 - Summary of Significant Accounting Policies (continued)
Foreign Currency Remeasurement

The Company sells its products in foreign countries and denominates substantially all its sales only in U.S. dollars. Sales that are denominated in foreign currency can result in an exchange rate gain or loss when converted to US dollars. Such gains or losses were nominal during each period.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, providing guidance for revenue recognition that supersedes existing revenue recognition guidance. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. This update deferred for one year the effective date of ASU No. 2014-09. Under ASU No. 2015-14, this guidance will be now be effective for annual reporting periods beginning after December 15, 2018 with early adoption permitted. The Company has not evaluated the impact of adopting this new standard on its financial statements.

In August 2014, the FASB issued ASU No. 2014-15 Presentation of Financial Statements-Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The new standard provides guidance on management's responsibility to evaluate whether there is substantial doubt about a company's ability to continue as a going concern and about related footnote disclosures. The new guidance is effective for annual periods ending after December 15, 2016, with early adoption permitted. The Company has not evaluated the impact of adopting this new standard on its financial statements.

In 2015 the FASB issued ASU No. 2015-05, Intangibles-Goodwill and Other-Internal-Use Software (April 2015), and ASU No. 2015-11, Simplifying the Measurement of Inventory

(July 2015). These updates are effective for financial statements issued for annual or fiscal years beginning after December 15, 2015 and December 15, 2016, respectively, with early adoption permitted for each. The Company has not evaluated the impact the adoption of these new standards may have on its financial statements.

Also during 2015 the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes (November 2015). ASU 2015-17 is effective for years beginning after December 15, 2017 with early adoption permitted. The Company adopted ASU 2015-17 as of January 17, 2015 and has presented the required amounts in the balance sheet and footnote disclosures (see Note 7).

CUATTRO VETERINARY, LLC

Notes to Financial Statements

Note 3 - Property and Equipment

The following is a summary of property and equipment, at cost, less accumulated depreciation and amortization:

	December 31,		
	2013 (unaudited)	2014 (unaudited)	2015
Equipment and tools	$336,461	$117,703	$91,054
Furniture and fixtures	55,493	53,736	—
Rental assets	37,602	77,205	99,306
Total	429,556	248,644	190,360
Less: Accumulated depreciation and amortization	(334,680)	(145,569)	(102,864)
Property and equipment, net	$94,876	$103,075	$87,496

Note 4 - Related Party Transactions

The Company's principal office is located in Loveland, Colorado in premises controlled by related parties. The Company is a party to a Supply Agreement with Cuattro, LLC that also affects certain other affiliates of Cuattro, LLC. Pursuant to this Supply Agreement, the Company purchases all its inventory items from Cuattro, LLC at prices stipulated in the agreement. The Supply Agreement includes annual inventory purchase minimums which have not been enforced as of December 31, 2015. Under the current agreement the future minimum purchase commitments for the next three years would be 366 units in 2016, 402 units in 2017, and 442 in 2018. In addition, the Supply Agreement provides that Cuattro, LLC is to furnish certain general support services to the Company and affected Cuattro, LLC affiliates. The costs of such services are incurred by Cuattro, LLC and allocated among the affected parties on a monthly basis based on a formula. Such allocations were approximately $810,000, $960,000 and $479,000 for the years ended December 31, 2013 (unaudited), 2014 (unaudited) and 2015, respectively.

Cuattro, LLC charges an annual $50,000 management fee to the Company and the fee is included in operating expenses for the years 2013 (unaudited), 2014 (unaudited), and 2015.

CUATTRO VETERINARY, LLC

Notes to Financial Statements

Note 4 - Related Party Transactions (continued)
From time to time, the Company advances funds to Cuattro, LLC and to Cuattro-related parties. This has resulted in large receivable amounts due from such parties. Also, from time to time the Company has borrowed amounts from related parties. At December 31, 2013, 2014 and 2015, these related party balances on the books of the Company were as follows:

	December 31,		
	2013 (unaudited)	2014 (unaudited)	2015
Related party receivable:			
Due from Cuattro, LLC	$3,164,557	$2,781,273	$2,242,339
Due from Cuattro Software, LLC	261,195	261,195	—
Due from Cuattro Medical, LLC	632,338	632,338	—
Total	4,058,090	3,674,806	2,242,339
Related party payable:			
Note payable to Cuattro, LLC	1,306,918	1,306,918	—
Due to former members of a related party	1,027,756	1,027,756	—
Total	2,334,674	2,334,674	—
Net due from related parties	$1,723,416	$1,340,132	$2,242,339

At December 31, 2013 (unaudited), 2014 (unaudited) and 2015, the Company also had a note payable, including accrued interest, to Heska Imaging US, LLC, a related party, totaling $1,407,320, $1,465,430 and $1,516,384, respectively. See Note 5. The due date of the note has been extended to June 15, 2016. As a condition of the closing of the Pending Transaction, the due date must be extended to the third anniversary of the closing date. See Note 10.

The Company is also affiliated with Heska Corporation, a related party, as the CEO and majority member of the Company is also the CEO and a stockholder of Heska Corporation. The Company does not have receivables

from or payables to Heska Corporation at December 31, 2013 (unaudited), 2014 (unaudited), or 2015.

CUATTRO VETERINARY, LLC

Notes to Financial Statements

Note 5 - Long-Term Debt

Long-term debt consists of the following:

	December 31,		
	2013 (unaudited)	2014 (unaudited)	2015
Loan with a financial entity, secured by substantially all of the Company's assets; monthly payments of $21,734 including interest accruing at the Wall Street Journal prime lending rate plus 2.5%; final payment due June 27, 2018.	$1,022,311	$817,493	$600,714
Less current portion of long-term debt	(193,378)	(216,779)	(231,974)
Long-term debt, net of current portion	$828,933	$600,714	$368,740

Debt due to related parties consists of the following:

	December 31,		
	2013 (unaudited)	2014 (unaudited)	2015
Note payable to Cuattro, LLC, due on demand, no interest accrued. Secured by substantially all of the Company's assets, subordinated to debt with a financial entity.	$1,306,918	$1,306,918	$—
Due to former members of a related party	1,027,756	1,027,756	—
Total debt due to Cuattro-related parties	2,334,674	2,334,674	—
	1,407,320	1,465,430	1,516,384

Note payable to Heska Imaging US, LLC, including accrued interest, due March 15, 2016.			
Total debt due to related parties	$3,741,994	$3,800,104	$1,516,384

Maturities of long-term debt as of December 31, 2015 were as follows:

Year ending December 31,	
2016	$1,748,358
2017	246,058
2018	122,682
	$2,117,098

CUATTRO VETERINARY, LLC

Notes to Financial Statements

Note 6 - Supplemental Disclosure of Interest and Other Expense (Income) Information

Interest and other income and expense consisted of the following:

	December 31,		
	2013	2014	2015
	(unaudited)	(unaudited)	
Interest (income) expense:			
Interest income	$(492)	$(1,491)	$(2,442)
Interest expense	209,808	112,881	92,376
Total net interest	209,316	111,390	89,935
(Gain) loss on foreign currency exchange	(31,152)	12,892	4,089
(Gain) loss on disposal of assets	—	102,854	(33,506)
Interest and other (income) expense, net	$178,164	$227,136	$60,518

Note 7 - Income Taxes

The Company elected to be taxed as a partnership from its inception through January 16, 2015. During that period, the Company was not liable for income taxes. Instead, all items of income and deduction were reportable by the individual partners. As of January 17, 2015, the Company elected to be taxed as a taxable corporation. Accordingly, starting with that date, the Company has provided for federal and state income taxes relating to its operations. The Company believes it is not subject to foreign income taxes. The Company has not yet filed corporate income tax returns.

The Company early adopted ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, effective January 17, 2015. The adoption had no impact on the Company's unaudited financial statements as of December 31, 2013 and December 31, 2014, or for the years then ended because the Company was then not a taxable entity. The amendments included in ASU 2015-17 require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position

and eliminates the prior requirement of separating deferred tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position.

The components of the income tax expense for the year ended December 31, 2015 are as follows:

Current income tax expense:	
Federal	$ 167,394
State	23,219
Total current expense	190,613
Deferred income tax benefit:	
Federal	(49,100)
State	(6,811)
Total deferred expense	(55,911)
Total income tax expense	$ 134,702

CUATTRO VETERINARY, LLC

Notes to Financial Statements

Note 7 - Income Taxes (continued)
The Company's income tax expense relating to income before income taxes differs from the amounts that would result from applying the federal statutory rate to that income as follows:

Income taxes at statutory Federal tax rate	$190,354
State income taxes, net of Federal benefit	22,066
Effect of electing to be taxed as a corporation after January 16, 2015	(77,718)
Total income tax expense	$134,702

As of January 16, 2015, the partners had reported income for income tax purposes in excess of income reported for book purposes. This created temporary differences. A deferred tax asset/liability is recognized for temporary differences in existence on the date a nontaxable entity (e.g., a partnership) becomes a taxable entity. The tax effects of the net difference are reported as income from continuing operations in the entity's income statement as of the beginning of the year of change in tax status.
As a result of its election to be treated as a taxable corporation on January 17, 2015, the Company recorded a deferred tax asset of $77,718, which was recorded as a deferred tax benefit.

Temporary differences that give rise to the components of deferred taxes are as follows:

Deferred revenues	$66,944
Property and equipment	(11,033)
Total	$55,911

Note 8 - Commitments and Contingencies

From time to time, the Company may be involved in litigation relating to claims arising out of its operations. At December 31, 2013 (unaudited), 2014 (unaudited) and 2015, the Company was not a party to any legal proceedings that were expected, individually or in the aggregate, to have a material adverse effect on its business, financial position or operating results.

The Company's current terms and conditions of sale include a limited warranty that its products and services will conform to published specifications at the time of shipment and a more extensive warranty related to certain of its products. The Company also sells an

extended warranty for certain of its products.

The typical remedy for breach of warranty is to correct or replace any defective product, and if not possible or practical, the Company will accept the return of the defective product and refund the amount paid. Historically, the Company has incurred minimal warranty costs. Key components of the Company's products are covered under warranty by the Company's suppliers, from one to three years from receipt by the Company. The Company's main customers are dealers, who are responsible for provision of warranty labor and technical support to the end user customers. The Company did not have a warranty reserve recorded at December 31, 2013 (unaudited), 2014 (unaudited) or 2015.

CUATTRO VETERINARY, LLC

Notes to Financial Statements

Note 9 - Members' Equity

At December 31, 2015 the Company has a total of 1,440,743 member units issued and outstanding as follows:

Class A units	620,000
Class B units	555,000
Class C units	101,750
Class D units	163,993
Total	1,440,743

Regardless of class, all units have the same voting rights, privileges and liquidation preferences.

Note 10 - Pending Transaction

On November 10, 2015, the Company and its members entered into a Unit Purchase Agreement ("Agreement") with Heska Corporation ("Heska"), whereby Heska would acquire all the outstanding units of the Company. On March 14, 2016, the agreement was terminated and superseded by an Agreement and Plan of Merger ("Merger)" between the Company and its members and Heska and Heska's wholly-owned subsidiary, Cuattro International Merger Subsidiary, Inc. Closing of the Merger is contingent on several factors beyond the control of the Company. The parties to the Merger may terminate it for failure of a closing condition. May 31, 2016 is the earliest date on which the parties may so terminate the Merger.

The majority owner of the Company is deemed to directly or indirectly own approximately 7% of Heska Corporation's outstanding shares at March 31, 2016.

Prior to the consummation of the Merger, all related party balances will be reserved for. At December 31, 2015 such net amount was $2,242,339 due from Cuattro, LLC. See Note 4.

Note 11 - Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through March 31, 2016, the date at

which the financial statements were prepared. There were no material subsequent events that would require recognition or disclosure in the financial statements.

CUATTRO VETERINARY, LLC

Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Cuattro Veterinary, LLC (the "Company") was organized on January 1, 2009 in the state of Delaware. It is a 70% owned affiliate of Cuattro, LLC.
The Company distributes digital imaging products, software and services for the companion animal (i.e., small animals and equines) health market outside the United States. Product sales and services are provided through a network of independent distributors. All products are ultimately sold to veterinarians.
The principal products and services are digital radiography ("DR") equipment and software, primarily under the UNO, CloudDR, and Slate product names, picture archiving and communication systems ("PACS") and other imaging technologies for veterinarians. The Company also provides extended service warranty contracts to its customers. In some instances, the Company provides DR detectors and acquisition software for private branding and OEM incorporation by a Distributor that in turn sells its own products that incorporate the Company products.

RECENT DEVELOPMENTS
The continuing uncertainty surrounding worldwide financial markets and macroeconomic conditions has caused and may continue to cause the purchasers of the Company's equipment to decrease or delay their procurement activities. If the current adverse macroeconomic conditions continue, the Company's business and prospects may be negatively impacted.
Over the last few years, there have been periodic significant fluctuations in foreign currencies relative to the U.S. dollar. In 2015, there was a significant strengthening of the U.S. dollar versus the Euro, UK Pound and other currencies in which the Company has transacted business. The ongoing fluctuations of the value of the U.S. dollar may cause the Company's products to be less competitive in international markets and may impact sales and profitability over time. Prior to July 2014, a majority of international sales were denominated in foreign currencies. Commencing in July 2014, to minimize its exposure to foreign currency fluctuations, the Company commenced selling

substantially all its products only in U.S. dollars. Regardless, when currencies shift, the products may or may not become more or less price appropriate for the ex-USA markets in which they are sold.
The Company sells products primarily through distribution partners that specialize in the market of veterinary diagnostics and imaging sales. These partners may be based in Germany, France, the United Kingdom, Canada, and Latin America. Shifts in local currency values, access to capital, and competitiveness of the distributors' other products and services may positively or negatively affect the sales prospects for the Company's products.

RESULTS OF OPERATIONS

Revenue

Revenue decreased 15% to $5.3 million in 2015, compared to $6.2 million in 2014. Competitive pricing pressures was the biggest factor in the change. Revenue increased 38% in 2014 to $6.2 million, as compared to $4.5 million in 2013. Increased sales of equipment was the biggest factor in the change.

Gross Profit

Gross profit decreased 8% to $1.6 million in 2015, compared to $1.7 million in 2014, however, Gross Margin, i.e. gross profit divided by total revenue, improved to 30% in 2015 from 28% in 2014. Gross profit increased 64% to $1.7 million in 2014, compared to $1.1 million in 2013. Gross Margin improved to 28% in 2014 from 23% in 2013. Favorable pricing negotiations with primary equipment suppliers was the biggest factor in the changes.

The Company is a party to a Supply Agreement with Cuattro, LLC that also affects certain other affiliates of Cuattro, LLC. Pursuant to that Supply Agreement, the Company purchases all its inventory items from Cuattro, LLC at prices stipulated in the agreement.

Operating expenses

Among other matters, the Supply Agreement provides that Cuattro, LLC is to furnish certain general support services to the Company and affected affiliates. The costs of such services are incurred by Cuattro, LLC and allocated among the affected parties on a monthly basis based on a formula.

Such allocations were approximately $810,000, $960,000 and $479,000 for the years 2013, 2014 and 2015, respectively.

The allocations reflect the gross amounts incurred by Cuattro, LLC and the effects of the allocation formulas, which in general are based on the relative monthly sales of the related parties. During the year ended December 31, 2015, the sales of another party to the Supply Agreement increased significantly in relation to sales of the Company, a result of which was that proportionately lower costs were allocated to the Company than in other periods.

Operating expenses declined as a percentage of revenues from 30% in 2013, to 23% in 2014 and to 18% in 2015. This reflects better cost controls by the Company, especially in selling and marketing, in addition to the decrease in allocations.

Payroll and related costs, as a percentage of revenues, were 16%, 10% and 9% for the years in the period, respectively. This reflects a more precise identification of employees assignable to the Company and the effects of the Supply Agreement allocations noted above.

Interest and other expenses

Net interest expense reflects interest on the debt due a financial entity and interest to a related party, net of insignificant amounts of miscellaneous income. Such interest to a related party was $ 47,320, $58,110 and $50,954 during the 2013-2015 years, respectively.

As a result of an analysis of assets currently in use that relate to products that are currently being sold, write-offs and sales of unneeded assets occurred. This is reflected in reported losses (gains) from disposals of assets of $102,854 and $(33,506) for 2014 and 2015, respectively.

Income taxes

The Company elected to be taxed as a partnership from its inception through January 16, 2015. During that period, the Company was not liable for income taxes. Instead, all items of income and deduction were reportable by the individual partners. Accordingly, these statements do not include a provision for income taxes for periods ended on or before December 31, 2014.

As of January 17, 2015, the partners had reported income for income tax purposes in excess of income reported for book purposes. This change in tax status created temporary differences, the deferred tax effects of which, $77,718, were included as income in 2015.
Beginning January 17, 2015, the Company records a current provision for income taxes based on estimated amounts due on tax returns to be filed for each period. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax amounts are determined by using the enacted tax rates expected to be in effect when the temporary differences are expected to be recovered or settled.
For the period ended December 31, 2015, the effective rate for income taxes was less than the combined statutory rates for federal and net state income taxes due to the effect of the Company changing its tax status.
The Company believes it is not subject to foreign income taxes. The Company has not yet filed corporate income tax returns.

Related party transactions
The Company's principal office is located in Loveland, Colorado in premises controlled by related parties. The Company is a party to a Supply Agreement with Cuattro, LLC, its 70% owner that also affects certain other affiliates of Cuattro, LLC. The effects of this agreement on Cost of revenues and Operating expenses are discussed in the appropriate paragraphs above.
From time to time, the Company advances funds to Cuattro, LLC and to other related persons. This has resulted in large receivable amounts due from related parties. Also, from time to time the Company has borrowed amounts from related persons. At December 31, 2015 these related party balances on the books of the Company constituted a net receivable balance of $2,242,339.
At December 31, 2015, the Company also had a note payable, including accrued interest, to Heska Imaging US, LLC, a related party, totaling $1,516,384. The note is due on June 15, 2016.

Pending transaction
On November 10, 2015, the Company and its members entered into a Unit Purchase Agreement ("Agreement") with Heska Corporation ("Heska"), whereby Heska would acquire all the outstanding units of the Company.

On March 14, 2016, the Agreement was terminated and superseded by an Agreement and Plan of Merger ("Merger") between the Company and its members and Heska and Heska's wholly-owned subsidiary, Cuattro International Merger Subsidiary, Inc. Closing of the Merger is contingent on several factors beyond the control of the Company. The parties to the Merger may terminate it for failure of a closing condition. May 31, 2016 is the earliest date on which the parties may so terminate the Merger.

Prior to the consummation of the Merger, all related party balances will be reserved for. At December 31, 2015 such net amount was $2,242,339 due from Cuattro, LLC.
The majority owner of the Company is deemed to directly or indirectly own approximately 7% of Heska Corporation's outstanding shares at March 31, 2016.

Liquidity and resources
As of January 1, 2013, the Company transferred substantially all its net working capital items to Cuattro, LLC. This was reflected on the Company's books by an increase in the net intercompany receivable due from

Cuattro, LLC. Since that time, the Company has purchased substantially all its inventory and certain support services from Cuattro, LLC pursuant to a Supply Agreement. Such items are paid regularly by the Company to Cuattro, LLC. In addition, from time to time, the Company has advanced funds to Cuattro, LLC. The existence of this arrangement does not adversely affect the Company's ability to conduct its operations.
At December 31, 2013, 2014 and 2015, three customers accounted for 83%, 89% and 96% of total accounts receivable, respectively. One customer accounted for 56%, 68% and 83% of the total accounts receivable at the respective dates.
At December 31, 2015, the Company had a note payable, including accrued interest, to Heska Imaging, US, LLC, a related party for $1,516,384. The note is due on June 15, 2016. As a condition of the closing of the Pending Transaction, the due date must be extended to the third anniversary of the closing date.
Geographic segments
All the Company's sales are to customers in foreign countries. Sales to German and French customers, as a percentage of total revenues, approximated 47%, 53% and 46%, respectively, for 2013, 2014 and 2015. Sales to the United Kingdom were 30%, 25% and 22% for the respective periods. The Company also serves distributors based in Singapore, Australia, and other countries.

HESKA CORPORATION AND CUATTRO VETERINARY, LLC.
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

On March 14, 2016, Heska Corporation (the "Company") entered into an Agreement and Plan of Merger (the "Merger Agreement") with Cuattro Veterinary, LLC ("Cuattro International"), Cuattro International Merger Subsidiary, Inc., a wholly-owned subsidiary of the Company ("Merger Sub"), Kevin S. Wilson, and all of the members of Cuattro International (the "Members"). The Merger Agreement terminates and supersedes, effective as of March 14, 2016, the previously disclosed Unit Purchase Agreement, dated as of November 10, 2015, as amended (the "Purchase Agreement"), among the Company, Mr. Wilson, Cuattro International and the Members. Under the Merger Agreement, Merger Sub will be merged with and into Cuattro International, with Cuattro International surviving the merger as a wholly-owned subsidiary of the Company. Mr. Wilson is a founder of Cuattro International, Cuattro, LLC, Cuattro Software, LLC and Cuattro Medical, LLC. Mr. Wilson, Mrs. Wilson and trusts for the benefit of Mr. and Mrs. Wilson's children and family own a 100% interest in Cuattro, LLC and a majority interest in Cuattro Medical, LLC. Cuattro, LLC owns a 100% interest in Cuattro Software, LLC and a majority interest in Cuattro International.

Cuattro International is a provider to international markets of digital radiography, picture archiving and communication systems ("PACS") and other imaging technologies for veterinarians. As a leading provider of advanced veterinary diagnostic and specialty products, our acquisition of Cuattro International is to combine Cuattro International's international reach with our domestic success in the imaging and blood testing space in the United States. International markets represent a significant portion of worldwide veterinary revenues for which the Company intends to compete.

As consideration for the Acquisition, the Company will issue an aggregate number of between 175,000 shares and 200,000 shares of the Company's common stock, $.01 par value per share (the "Common Stock"), to the Members, which number of shares is intended to equal in value to $6.0 million. The actual aggregate number of shares to be issued within the range in the acquisition will be determined by reference to the average per share price of the Common Stock as reported on the Nasdaq Stock Market for the ten trading days ending on the trading day prior to the closing date of the Merger. The

Company may also be required to pay, as additional contingent consideration in the Acquisition, cash to the Members under the Merger Agreement to the extent any liabilities or obligations to Cuattro International that have been fully reserved as uncollectable (the "Reserved Assets") from Cuattro, LLC, Cuattro Software, LLC and Cuattro Medical, LLC are recovered by the Company or Cuattro International. The Reserved Assets consisted solely of liabilities from Cuattro, LLC with a face value of approximately $2.2 million on December 31, 2015. Cuattro, LLC Cuattro Software, LLC and Cuattro Medical, LLC are affiliates of Cuattro International, Mr. Wilson or the Members. While the contingent consideration is required to be paid within 30 days after the recovery, the Company does not expect to recover any of these liabilities or obligations.

The unaudited pro forma condensed combined balance sheet assumes that the Merger took place January 1, 2015 and combines Heska's audit condensed consolidated balance sheet with Cuattro International's audited balance sheet as of December 31, 2015.

The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2015 assumes that the Merger took place on January 1, 2015, the first day of Heska Corporation's fiscal year 2015. As such, Heska Corporation's audited condensed consolidated statement of operations for the year ended December 31, 2015 has been combined with Cuattro International's audited statement of operations for the year ended December 31, 2015.

The historical consolidated financial information of Heska Corporation and Cuattro International have been adjusted in the unaudited pro forma condensed combined financial statements to give effect to pro forma

events that are (1) directly attributable to the Merger, (2) factually supportable, and (3) with respect to the statement of operations, expected to have a continuing impact on the combined results.

The unaudited pro forma condensed combined financial information should be read in conjunction with the accompanying notes thereto. In addition, the unaudited pro forma condensed combined financial information was based on and should be read in conjunction with the:

Separate historical audited financial statements of Heska Corporation as of and for the year ended December 31, 2015 and the related notes included in Heska Corporation's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission ("SEC") on March 15, 2016; and

Separate historical audited financial statements and related notes of Cuattro International as of and for the year ended December 31, 2015 included in this Appendix B to this Schedule 14A; and

Separate historical unaudited financial statements and related notes of Cuattro International as of and for the year ended December 31, 2014 and 2013 included in this Appendix B to this Schedule 14A.

The unaudited pro forma condensed combined financial information has been presented for informational purposes only and is not necessarily indicative of what the combined Company's financial position or results of operations actually would have been had the Merger been completed as of the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the combined Company.

The unaudited pro forma combined financial information does not reflect any cost savings, operating synergies or revenue enhancements that the combined Company may achieve as a result of the Merger or the costs necessary to achieve these cost savings, operating synergies and potential revenue enhancements or the costs to combine the operations of Heska Corporation and Cuattro International.

Certain balances were reclassified from the financial statements of Cuattro International so their presentation would be consistent with that of Heska Corporation.

HESKA CORPORATION AND CUATTRO VETERINARY, LLC.
Pro Forma Condensed Combined Balance Sheet
(Unaudited)
As of December 31, 2015
(In thousands)

	Historical		Pro Forma		
	Heska	Cuattro International	Pro Forma Adjustments	Notes	Pro Forma Combined
ASSETS					
Current assets:					
Cash and cash equivalents	$6,890	—	—		$6,890
Accounts receivable, net	16,136	1,244	—		17,380
Due from - related parties	308	—	—		308
Inventories, net	16,101	40	—		16,141
Other current assets	1,827	8	—		1,835
Total current assets	41,262	1,292	—		42,554
Property and equipment, net	17,020	88	—		17,108
Note receivable - related party	1,516	2,242	(3,758)	a, b	—
Goodwill and other intangibles	20,966	14	4,735	c	25,715
Deferred tax asset	25,883	56	—		25,939
Other long-term assets	3,072	29	—		3,101
Total assets	$109,719	$3,721	$977		$114,417
LIABILITIES AND STOCKHOLDERS' EQUITY					

Current liabilities:					
Accounts payable	$7,624	$64	—		$7,688
Due to-related party	—	1,516	(1,516)	b	—
Accrued liabilities	5,416	130	—		5,546
Current portion of deferred revenue	5,461	141	—		5,602
Line of credit	143	—	—		143
Other short-term borrowings, including current portion of long-term note payable	159	232	—		391
Total current liabilities	18,803	2,083	(1,516)		19,370
Long-term note payable, net of current portion	69	369	—		438
Deferred revenue, net of current portion, and other	11,572	136	—		11,708
Total liabilities	30,444	2,588	(1,516)		31,516
Non-controlling interest	15,747	—	—		15,747
Stockholders' equity	63,528	1,133	2,493	d, e	67,154
Total liabilities and stockholders' equity	$109,719	$3,721	$977		$114,417

The accompanying note is an integral part of these Unaudited Pro Forma Condensed Combined Financial Statements.

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HESKA CORPORATION AND CUATTRO VETERINARY, LLC.
Pro Forma Condensed Combined Statement of Operations (Unaudited)
For the Year Ended December 31, 2015
(In thousands, except per share amounts)

	Historical		Pro Forma		
	Heska	Cuattro International	Pro Forma Adjustments	Notes	Pro Forma Combined
Revenue:					
Core companion animal health	$84,249	$5,300	—		$89,549
Other vaccines, pharmaceuticals and products	20,348	—	—		20,348
Total revenue, net	104,597	5,300	—		109,897
Cost of revenue	60,384	3,713			64,097
Gross profit	44,213	1,587	—		45,800
Operating expenses					
Selling and marketing	21,339	131	—		21,470
Research and development	1,658	34	—		1,692
General and administrative	12,659	801	—		13,460
Total operating expenses	35,656	966	—		36,622
Operating income	8,557	621	—		9,178
Interest and other expense, net	130	61	—		191
Income before income taxes	8,427	560	—		8,987
Income tax expense (benefit):					
Current income tax expense	1,581	191	—		1,772
Deferred income tax expense (benefit)	1,327	(56)	—		1,271

Total income tax expense	2,908	135	—		3,043
Net income	5,519	425	—		5,944
Net income attributable to non-controlling interest	280	—	—		280
Net income attributable to Heska	$5,239	$425	—		$5,664
Basic earnings per share attributable to Heska	$0.80	—	—		$0.84
Diluted earnings per share attributable to Heska	$0.74	—	—		$0.78
Basic weighted-average common shares outstanding	6,509	—	200	e	6,709
Diluted weighted-average common shares outstanding	7,074	—	200	e	7,274

The accompanying note is an integral part of these Unaudited Pro Forma Condensed Combined Financial Statements.

HESKA CORPORATION AND CUATTRO VETERINARY, LLC.

Notes to Pro Forma Condensed Combined Financial Statements (Unaudited)

NOTE 1. ADJUSTMENTS TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS:

Item (a): Reflects a non-recurring adjustment to fully reserve liabilities and obligations to Cuattro International with a net face value of approximately $2.2 million, all of which was due from Cuattro, LLC, which will be reserved prior to the consummation of the Merger.

Item (b): Reflects an adjustment to eliminate in consolidation a note receivable of approximately $1.5 million due to the Company from Cuattro International. This note is due and payable on June 30, 2016, but is not likely to be collected at that time as its maturity is to be extended as part of the Merger Agreement.

Item (c): Reflects estimated indefinite lived intangible assets, which are calculated as the difference between the value of the consideration transferred (see Item (e)) and the values assigned to the identifiable assets acquired and liabilities assumed, as if the Merger occurred on January 1, 2015. The estimate of indefinite lived intangible assets may change based upon a formal valuation conducted following consummation of the Merger.

Item (d): Elimination of Cuattro International's historical stockholder's equity in the amount of approximately $1.5 million.

Item (e): Reflects a maximum of 200,000 shares and approximately $3.6 million estimated value of consideration transfered as if the Merger occurred on January 1, 2015. Since the consideration transferred will be entirely in the form of Heska publicly-traded common stock, the value of the consideration could be materially different based on the market value of the stock on the day the Merger is consummated.

APPENDIX C

AMENDED AND RESTATED 1997 STOCK INCENTIVE PLAN

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Heska Corporation
1997 Stock Incentive Plan
Most Recently Amended and Restated effective March 28, 2016
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HESKA CORPORATION
1997 STOCK INCENTIVE PLAN
Most Recently Amended and Restated Effective March 28, 2016

ARTICLE 1.
INTRODUCTION

The Plan was originally adopted by the Board effective March 15, 1997, and was subsequently amended and/or restated as of March 6, 2007, May 5, 2009, February 22, 2012, March 25, 2014, and May 6, 2014. The number of Common Shares available for issuance and subject to Awards under the Plan was adjusted in connection with completion of the Company's 1-for-10 Reverse Stock Split on December 30, 2010. Effective March 28, 2016, the Board hereby adopts this amended and restated plan subject to stockholder approval. If stockholder approval is not obtained within 12 months, this amended and restated plan will be of no further effect and the form of the Plan as of May 6, 2014 will be effective in accordance with its terms.

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 its 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 may amend or modify any outstanding Awards in any manner to the extent the Committee would have had the authority under the Plan initially to make such Awards as so amended or modified. 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, or shares reacquired by the Company in any manner. The number of shares stated in this Section 3.1 as available for the grant of Awards is subject to adjustment in accordance with Article 9. As of March 27, 2016, the aggregate number of Common Shares cumulatively authorized by the Company's stockholders for issuance as Options and Restricted Shares under the Plan was 2,135,130. Of that total, as of March 27, 2016, Previously Issued Awards have been issued covering 2,103,899 Common Shares, leaving 31,231 Common Shares for the issuance of Options and Restricted Shares. Common Shares underlying Previously Issued Awards as of March 27, 2016 consisted of 316,666 Restricted Shares which were not subject to further vesting conditions, 370,625 Common Shares issued pursuant to the exercise of ISOs, 480,517 Common Shares issued pursuant to the exercise of NQOs, 117,677 Restricted Shares subject to further vesting conditions, 572,234 Common Shares underlying outstanding ISOs and 246,180 Common Shares underlying outstanding NQOs. With this amendment and restatement of the Plan, the Company's Board and stockholders have approved an increase of 500,000 in the aggregate number of Common Shares available for Awards under the Plan, to a new total of 2,635,130. Assuming no

Unexercised/Unvested Awards outstanding as of March 27, 2016 are exercised, if applicable, or vest, the total number of Common Shares that may be granted underlying ISOs is 1,467,322. Assuming all Unexercised/Unvested Awards outstanding as of March 27, 2016 vest and are exercised, if applicable, the total number Common Shares that may be granted underlying ISOs is 531,231.

3.3 ADDITIONAL SHARES. Any shares of Common Stock subject to an Award that is canceled, forfeited or expires prior to exercise or realization, either in full or in part, shall again become available for issuance under the Plan as ISOs or any type of Award. Notwithstanding anything to the contrary contained herein: shares subject to an Award under the Plan shall not again be made available for issuance or delivery under the Plan if such shares are (a) shares tendered in payment of an Option, or (b) shares delivered or withheld by the Company to satisfy any tax withholding obligation.

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.

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 50,000 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 100,000 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 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 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, provided, however, that in the case of an ISO, the acceleration of exercisability shall not occur without the Optionee's written consent.

5.6 MODIFICATION OR ASSUMPTION OF OPTIONS.. 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 (except that the Committee has the authority to amend any outstanding Option without the Optionee's consent if the Committee deems it necessary or advisable to comply with Code Section 409A). In addition, to the extent the Committee's modification of the purchase price or the exercise price of any outstanding Award effects a repricing, shareholder approval shall be required before the repricing is effective.

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 could cause the Company to recognize additional compensation expense with respect to the Option for financial reporting purposes under GAAP accounting at the time of such proposed surrender.

6.3 EXERCISE/SALE. To the extent that this Section 6.3 is applicable, all or any part of the Exercise Price 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 [RESERVED]

6.5 [RESERVED]

6.6 OTHER FORMS OF PAYMENT. To the extent that this Section 6.6 is applicable, all or any part of the Exercise Price may be paid in any other form that is consistent with applicable laws, regulations and rules.

ARTICLE 7.
CLAWBACK.

Notwithstanding any other provisions in this Plan to the contrary, any Award received by a Subject Participant, and/or any Common Share issued upon exercise of any Award received by a Subject Participant hereunder, and/or any amount received with respect to any sale of any such Award or Common Share, will be subject to potential cancellation, recoupment, rescission, payback or other action to the extent required pursuant to applicable law, government regulation or national securities exchange listing requirement (or any clawback policy adopted by the Company pursuant to any such law, government regulation or national securities exchange listing requirement). Each Subject Participant agrees and consents to the Company's application, implementation and enforcement of any policy established by the Company that may apply to the Subject Participant and any provision of applicable law, government regulation or national securities exchange listing requirement relating to cancellation, rescission, payback or recoupment of compensation, and expressly agrees that the Company may take such actions as are necessary to effectuate any such policy (as applicable to the Subject Participant) or applicable law, government regulation or national securities exchange listing requirement without further consent or action being required by the Subject Participant.

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. The maximum aggregate number of Common Shares that may be granted in the form of Restricted Shares in any one calendar year to any one Participant is 45,000, except a new Employee may receive a grant of up to 75,000 Restricted Shares in

the fiscal year of the Company in which his or her service with the Company begins.

8.2 PAYMENT OF 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, cash equivalents or any other form of legal consideration acceptable to the Company, including but not limited to future services, 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.

8.3 VESTING CONDITIONS. Each Award of Restricted Shares shall 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. Notwithstanding any other provision of the Plan to the contrary, 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.

8.4 VOTING AND DIVIDEND RIGHTS. Unless otherwise provided in the Stock Award Agreement, the holder of Restricted Shares awarded under the Plan shall have the same voting, dividend and other rights as the Company's other stockholders. Without limitation, a Stock Award Agreement may require that the holders of Restricted Shares invest any cash dividends received in additional Restricted Shares (in which case such additional Restricted Shares shall be subject to the same conditions and restrictions as the Award with respect to which the dividends were paid), or may defer payment of any dividends until vesting of the Award.

8.5 SECTION 162(M) PERFORMANCE RESTRICTIONS

(a) In General. For purposes of qualifying grants of Restricted Shares as "performance-based compensation" under Code Section 162(m), the Committee, in its discretion, may make Restricted Shares subject to vesting based on the achievement of performance goals, in which case the Committee will specify in writing, by resolution or otherwise, the Participants eligible to receive such an Award (which may be expressed in terms of a class of individuals) and the performance goals applicable to such Awards within 90 days after the commencement of the period to which the performance goals relate, or such earlier time as required to comply with Section 162(m) of the Code. No such Award shall be payable unless the Committee certifies in writing, by resolution or otherwise, that the performance goals applicable to the Award were satisfied. In no case may the Committee increase the value of an Award granted under this Section 8.5 above the maximum value determined under the performance formula by the attainment of the applicable performance goals, but the Committee retains the discretion to reduce the value below such maximum.

(b) Performance Goals. Unless and until the Committee proposes for stockholder vote and the stockholders approve a change in the general performance measures applicable to Awards, the performance goals upon which the payment or vesting of an Award that is intended to qualify as performance based compensation are limited to the following

Performance Measures:

(1) operating income or operating profit (including but not limited to operating income and any affiliated growth measure);

(2) net earnings or net income (before or after taxes, including but not limited to deferred taxes, and any affiliated growth measure);

(3) basic or diluted earnings per share (before or after taxes, including but not limited to deferred taxes, and any affiliated growth measure);

(4) revenues (including but not limited to revenue, gross revenue, net revenue, and any affiliated growth measure);

(5) gross profit or gross profit growth;

(6) return on assets, capital, invested capital, equity or sales;

(7) cash flow (including, but not limited to, operating cash flow, free cash flow, and cash flow return on capital);

(8) earnings before or after taxes, interest, depreciation and/or amortization (including but not limited to changes in this measure);
(9) improvements or changes in capital structure (including but not limited to debt balances or debt issuance);
(10) budget management;
(11) productivity targets;
(12) economic value added or other value added measurements;
(13) share price (including, but not limited to, growth measures and total shareholder return);
(14) expense targets;
(15) margins (including but not limited to gross or operating margins);
(16) efficiency measurements (including but not limited to availability measurements, call wait times, call, meeting, shipping or other volume measurements, turnaround times and error rates);
(17) working capital targets (including but not limited to items reported on the Company's balance sheet and time-based or similar measures such as days inventory, days receivable and days payable);
(18) equity or market value measures;
(19) enterprise or adjusted market value measures;
(20) safety record;
(21) completion of business acquisition, divestment or expansion;
(22) book value or changes in book value (including but not limited to tangible book value and net asset measures);
(23) assets or changes in assets;
(24) cash position or changes in cash position;
(25) employee retention or recruiting measures;
(26) milestones related to filings with government entities or related approvals (including but not limited to filings with the Securities and Exchange Commission which may require stockholder approval);
(27) changes in location or the opening or closing of facilities;

(28) contract or other development of relationship with identified suppliers, distributors or other business partners; and

(29) new product development (including but not limited to third-party collaborations or contracts, and with milestones that may include but are not limited to contract execution, proof of concept, regulatory approval, product launch and targets such as unit volume and revenue following product launch).

Any performance measures may be used to measure the performance of the Company as a whole and/or any one or more business segments, regional operations, products and/or Affiliates of the Company or any combination thereof, as the Committee may deem appropriate, and any performance measures may be used in comparison to the performance of a group of peer companies, or a published or special index that the Committee, in its sole discretion, deems appropriate. The Committee also has the authority to provide in an Award for accelerated vesting of an Award based on the achievement of performance goals.

The Committee may provide in any Award that any evaluation of attainment of a performance goal may include or exclude any of the following events that occurs during the relevant period: (a) asset write downs; (b) litigation judgments or settlements; (c) the effect of changes in tax laws, accounting principles, or other laws or regulations affecting reported results; (d) any reorganization and/or restructuring transactions or programs; (e) extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's Annual Report on Form 10-K for the applicable year; and (f) acquisitions or divestitures and associated costs; (g) any other specific unusual or nonrecurring events, or objectively determinable category thereof; (h) foreign currency gains and losses; and (i) a change in the Company's fiscal year.

In the event that applicable tax and/or securities laws change to permit discretion by the Committee to alter the governing performance measures without obtaining stockholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining stockholder approval. In addition, in the event that the Committee determines that it is advisable to grant Awards that do not qualify as performance based compensation, the Committee may make such grants

without satisfying the requirements of Section 162(m) of the Code.

8.6 MINIMUM VESTING REQUIREMENT. The minimum period for Restricted Shares granted under the Plan to vest shall be one year.

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 and Section 8.1, (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; Parachute payments.

12.1 GENERAL. To the extent provided by the terms of an Award Agreement and subject to the discretion of the Committee, the Participant may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of Common Stock under an Award by any of the following means (in addition to the Company's right to withhold from any compensation paid to the Participant by the Company) or by a combination of such means: (a) tendering a cash payment; (b) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Participant as a result of the exercise or acquisition of Common Stock under the Award, provided, however, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law; or (c) delivering to the Company previously owned and unencumbered shares of Common Stock of the Company. 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 SECTION 280G. To the extent that any of the payments and benefits provided for under the Plan or any other agreement or arrangement between the Company or its Affiliates and a Participant (collectively, the "Payments") (i) constitute a "parachute payment" within the meaning of Code Section 280G and (ii) but for this paragraph would be subject to the excise tax imposed by Section 4999

of the Code, then the Payments shall be payable either (i) in full or (ii) as to such lesser amount which would result in no portion of such Payments being subject to excise tax under Section 4999 of the Code (determined in accordance with the reduction of payments and benefits paragraph set forth below); whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the participant's receipt on an after-tax basis, of the greatest amount of benefits under this Plan, notwithstanding that all or some portion of such benefits may be taxable under Section 4999 of the Code. Any determination required under this provision will be made by accountants chosen by the Company, whose determination shall be conclusive and binding upon the participant and the Company for all purposes.

Except to the extent, if any, otherwise agreed in writing between a participant and the Company, reduction of payments and benefits hereunder, if applicable, will be made by reducing, first, payments or benefits to be paid in cash in the order in which such payment or benefit would be paid or provided (beginning with such payment or benefit that would be made last in time and continuing, to the extent necessary, through to such payment or benefit that would be made first in time) and, then, reducing any benefit to be provided in-kind hereunder in a similar order; provided, however, that any reduction or elimination of accelerated vesting of any equity award will first be accomplished by reducing or eliminating

the vesting of such awards that are valued in full for purposes of Section 280G of the Code, then the reduction or elimination of vesting of other equity awards.
ARTICLE 13.
FUTURE OF THE PLAN.

13.1 TERM OF THE PLAN. The Plan was initially effective on March 14, 1997. The Board may, at any time and for any reason, amend, suspend or terminate the Plan (subject to the approval of the Company's stockholders only to the extent required by applicable law, regulations or rules). The Committee may issue ISOs under the Plan until the tenth anniversary of the date of its most recent amendment or restatement. The Committee may issue any Award other than ISOs at any time prior to the date, if any, that the Board suspends or terminates the Plan. No Award may be granted pursuant to the Plan after such date, but Awards granted before such date may extend beyond that date.

13.2 PERFORMANCE AWARDS. Unless the Company determines to submit the Plan to the Company's stockholders at the first stockholder meeting that occurs in the fifth year following the year in which the Plan was last approved by stockholders (or any earlier meeting designated by the Board), in accordance with the requirements of Code Section 162(m), and unless such stockholder approval is obtained, then no further Awards made under Section 8.5 will qualify as performance-based compensation for purposes of Code Section 162(m).

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 of 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; or

(c) A majority of the members of the Board are replaced during any eighteen month period by directors whose appointment or election is not endorsed by a majority of the Board before the date of appointment or election.

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, as may be applicable, one share of Traditional Common Stock, par value $0.01 per share, of the Company to the extent any remains outstanding at the time of determination, or one share of Public Common Stock, par value $0.01 per share, of the Company, to the extent any remains outstanding at the time of determination.

14.8 Company means Heska Corporation, a Delaware corporation.

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, for so long as the Common Stock is listed on any established stock exchange or a national market system, the value of the Common Stock as determined by reference to the most recent reported sale price of a share of Common Stock (or if no sales were reported, the most recent closing price) as quoted on such exchange or system at the time of determination. In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Committee and 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 Previously Issued Awards means Restricted Shares which were not subject to further vesting conditions, Common Shares issued pursuant to the exercise of ISOs, Common Shares issued pursuant to the exercise of NQOs, Restricted Shares subject to further vesting conditions, outstanding ISOs and outstanding NQOs.

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.

14.27 Subject Participant means a Participant who is designated by the Board as an "executive officer" under the Exchange Act.

14.28 Unexercised/Unvested Awards means Restricted Shares subject to further vesting conditions, as well as outstanding ISOs and outstanding NQOs.

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: /s/ Jason A. Napolitano
Chief Operating Officer,
Chief
Financial Officer,
Executive Vice
President and Secretary

APPENDIX D

FORM OF
CERTIFICATE OF AMENDMENT
TO THE
RESTATED CERTIFICATE OF INCORPORATION,
AS AMENDED,
OF
HESKA CORPORATION

Heska Corporation (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "DGCL"), does hereby certify:

1. This Certificate of Amendment to the Corporation's Restated Certificate of Incorporation, as amended (the "Certificate"), has been duly adopted in accordance with the provisions of Section 242 of the DGCL.

2. This Certificate of Amendment to the Certificate amends Article IV of the Certificate by deleting the existing Paragraph A of Article IV in its entirety and substituting therefore a new Paragraph A of Article IV, to read in its entirety as follows:

A. Authorized Stock. The total authorized stock of the Corporation, which shall be an aggregate of 20,500,000 shares, shall consist of three classes: (i) a first class consisting of 9,000,000 shares of Traditional Common Stock having a par value of $0.01 per share (the "Original Common Stock"); (ii) a second class consisting of 9,000,000 shares of Public Common Stock having a par value of $0.01 per share (the "Common Stock" or "NOL Restricted Common Stock" and, together with the Original Common Stock, the "Common Stock Securities"); and (iii) a third class consisting of 2,500,000 shares of Preferred Stock having a par value of $0.01 per share (the "Preferred Stock").

3. This Certificate of Amendment shall become effective at the time this Certificate of Amendment to the Restated Certificate of Incorporation, as amended, is filed with the Secretary of State of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be executed by a duly

authorized officer on this [•] day of [•], 2016.

Heska Corporation

By:
Name:
Title:

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APPENDIX E

FORM OF
CERTIFICATE OF AMENDMENT
TO THE
RESTATED CERTIFICATE OF INCORPORATION,
AS AMENDED,
OF
HESKA CORPORATION

Heska Corporation (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "DGCL"), does hereby certify:

1. This Certificate of Amendment to the Corporation's Restated Certificate of Incorporation, as amended (the "Certificate"), has been duly adopted in accordance with the provisions of Section 242 of the DGCL.

2. This Certificate of Amendment to the Certificate amends Article IV of the Certificate by deleting the existing Paragraph A of Article IV in its entirety and substituting therefore a new Paragraph A of Article IV, to read in its entirety as follows:

A. Authorized Stock. The total authorized stock of the Corporation, which shall be an aggregate of 18,500,000 shares, shall consist of three classes: (i) a first class consisting of 8,000,000 shares of Traditional Common Stock having a par value of $0.01 per share (the "Original Common Stock"); (ii) a second class consisting of 8,000,000 shares of Public Common Stock having a par value of $0.01 per share (the "Common Stock" or "NOL Restricted Common Stock" and, together with the Original Common Stock, the "Common Stock Securities"); and (iii) a third class consisting of 2,500,000 shares of Preferred Stock having a par value of $0.01 per share (the "Preferred Stock").

3. This Certificate of Amendment shall become effective at the time this Certificate of Amendment to the Restated Certificate of Incorporation, as amended, is filed with the Secretary of State of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be executed by a duly authorized officer on this [•] day of [•], 2016.

Heska Corporation

By:
Name:
Title:

E-1

PRELIMINARY COPY

PROXY CARD

MAY 13, 2016 ANNUAL MEETING OF STOCKHOLDERS

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Jason A. Napolitano, John McMahon, and Daniel J. Pollack, 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 Public Common Stock of Heska Corporation, a Delaware corporation (the "Company"), held of record by the undersigned on April 1, 2016, at the Annual Meeting of Stockholders (the "Annual Meeting") to be held at the Hilton Hotel, 425 West Prospect Road, Fort Collins, CO 80526 at 9:00 a.m., local time, on Friday, May 13, 2016, or at any adjournment or postponement thereof, with all the powers that the undersigned would have if personally present at the meeting. The undersigned represents that the undersigned is a Stockholder entitled to vote at the Annual Meeting. The Company's Restated Certificate of Incorporation, as amended, defines two classes of stock as "Common Stock Securities"; this proxy card will refer to these two classes of stock collectively as "Common Stock" .

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The undersigned hereby acknowledges receipt of the Notice of Annual Meeting and Proxy Statement, dated [•]. 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 along with a copy of proper identification with the Secretary of Heska Corporation on May 13, 2016 at the Annual Meeting of Stockholders location, gives notice of such revocation. This proxy, when properly executed and properly filed along with a copy of proper identification, will be voted in accordance with the specifications made by the undersigned stockholder on the matter(s) specified, and grant discretionary authority as to any and all other matters that may properly come before the meeting. A proxy marked "abstain" on a given matter or a proxy that

does not indicate a single preference other than "abstain" on a given matter will not be treated as present and entitled to vote on such matter and will be interpreted as a forfeiture of the right to vote such matter regardless of the direction made, if any.

THIS PROXY MAY BE REVOKED AT ANY TIME PRIOR TO THE TIME IT IS VOTED.

A. Proposal

The Board of Directors recommends a vote "FOR" the following:

		For	Against	Abstain
1.	The amendment to the Restated Certificate of Incorporation, as amended, to increase by 1,000,000 the number of authorized shares of Common Stock.	¨	¨	¨

B. Election of Directors

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

2. The election of two Directors to serve for a three-year term that expires at the 2019 Annual Meeting or until their respective successors have been elected and qualified.

	For	Withhold
01- G. Irwin Gordon	01 - ¨	01 - ¨
02- Carol A. Wrenn	02 - ¨	02 - ¨

C. Proposals/Potential Votes

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

		For	Against	Abstain
3.	The amendment and restatement of the 1997 Stock Incentive Plan to, among other things, increase by 500,000 the number of shares of Common Stock authorized for issuance thereunder.	¨	¨	¨
4.	Subject to approval of Proposal No. 3, the amendment to the Restated Certificate of Incorporation, as amended, to increase by 500,000 the number of authorized shares of Common Stock to make available the shares contemplated for issuance under Proposal No. 3.	¨	¨	¨
5.	The ratification of the appointment of EKS&H LLLP as Heska Corporation's independent registered public accountant.	¨	¨	¨
6.	The offering of approval of executive compensation in a non-binding advisory vote.	¨	¨	¨
7.	The adjournment of the Annual Meeting, if necessary or appropriate, to solicit additional proxies for the foregoing proposals.	¨	¨	¨
8.	Your preference, in a non-binding advisory vote, is that our proxyholders should consider other unanticipated business that may be in the interest of our stockholders, and vote accordingly if such business properly comes before the Annual Meeting.	¨	¨	¨

PLEASE COMPLETE AND SIGN THIS PROXY AND FILE WITH THE SECRETARY OF HESKA CORPORATION ON THE DATE AND AT THE

LOCATION SPECIFIED ABOVE ON THIS PROXY CARD.

Number of Shares	
Account/Identifier Number	Name(s)
Signature(s) of Stockholder(s)	Address

Date: May 13, 2016

Please complete and sign exactly as your name appears on the shares with the address at which the shares are registered with Heska Corporation's registrar, Computershare Trust Company, Inc. If acting as executor, administrator, trustee, guardian, etc., you should so indicate when signing. If the signer is a corporation, please sign the full corporate name, by duly authorized officer. If shares are held jointly, each stockholder named should sign.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 13, 2016

The Proxy Statement and this Proxy Card are available at https://www.heska.com/proxyvote.