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

FORM 10-Q

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

For the quarterly period ended June 30, 2021

☐ **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: **001-38163**

PetIQ, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**35-2554312**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
230 E. Riverside Dr. Eagle, Idaho (Address of principal executive offices)	83616 (Zip Code)

208-939-8900
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Class A Common Stock, $0.001 par value	**PETQ**	**The Nasdaq Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company☐
Emerging growth company ☐	

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

Indicate by check mark whether the registrant has filed a report on and attestation of its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

As of August 5, 2021, we had 28,919,941 shares of Class A common stock and 415,829 shares of Class B common stock outstanding.

PetIQ, Inc.

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PetIQ, Inc.

Condensed Consolidated Balance Sheets
(Unaudited, in 000's except for per share amounts)

	June 30, 2021	As adjusted (Note1) December 31, 2020
Current assets		
Cash and cash equivalents	$ 27,163	$ 33,456
Accounts receivable, net	159,800	102,755
Inventories	118,389	97,773
Other current assets	11,893	8,312
Total current assets	317,245	242,296
Property, plant and equipment, net	72,225	63,146
Operating lease right of use assets	20,231	20,122
Other non-current assets	2,181	1,870
Intangible assets, net	200,006	213,000
Goodwill	231,367	231,158
Total assets	$ 843,255	$ 771,592
Liabilities and equity		
Current liabilities		
Accounts payable	$ 61,653	$ 68,131
Accrued wages payable	10,045	10,540
Accrued interest payable	3,798	903
Other accrued expenses	9,105	8,815
Current portion of operating leases	5,431	4,915
Current portion of long-term debt and finance leases	9,143	7,763
Total current liabilities	99,175	101,067
Operating leases, less current installments	15,595	15,789
Long-term debt, less current installments	454,588	403,591
Finance leases, less current installments	2,555	3,338
Other non-current liabilities	1,718	1,397
Total non-current liabilities	474,456	424,115
Commitments and contingencies (Note 13)		
Equity		
Additional paid-in capital	358,506	319,642
Class A common stock, par value $0.001 per share, 125,000 shares authorized; 28,909 and 25,711 shares issued and outstanding, respectively	29	26
Class B common stock, par value $0.001 per share, 100,000 shares authorized; 425 and 3,040 shares issued and outstanding, respectively	—	3
Accumulated deficit	(92,499)	(98,558)
Accumulated other comprehensive loss	(126)	(686)
Total stockholders' equity	265,910	220,427
Non-controlling interest	3,714	25,983
Total equity	269,624	246,410
Total liabilities and equity	$ 843,255	$ 771,592

See accompanying notes to the condensed consolidated financial statements.

PetIQ, Inc.
Condensed Consolidated Statements of Operations
(Unaudited, in 000's except for per share amounts)

	For the Three Months Ended	As adjusted (Note1) For the Three Months Ended	For the Six Months Ended	As adjusted (Note1) For the Six Months Ended
	June 30, 2021	**June 30, 2020**	**June 30, 2021**	**June 30, 2020**
Product sales	$ 242,857	$ 264,307	$ 472,891	$ 430,587
Services revenue	28,154	2,675	52,467	23,173
Total net sales	271,011	266,982	525,358	453,760
Cost of products sold	185,837	217,469	368,664	352,248
Cost of services	25,546	7,329	49,267	27,174
Total cost of sales	211,383	224,798	417,931	379,422
Gross profit	59,628	42,184	107,427	74,338
Operating expenses				
General and administrative expenses	43,142	38,492	83,814	70,182
Operating income	16,486	3,692	23,613	4,156
Interest expense, net	(7,655)	(5,329)	(12,525)	(10,033)
Foreign currency (loss) income, net	9	52	(104)	125
Loss on debt extinguishment	(5,453)	—	(5,453)	—
Other income, net	442	324	759	689
Total other expense, net	(12,657)	(4,953)	(17,323)	(9,219)
Pretax net income (loss)	3,829	(1,261)	6,290	(5,063)
Income tax (expense) benefit	205	(188)	130	981
Net income (loss)	4,034	(1,449)	6,420	(4,082)
Net income (loss) attributable to non-controlling interest	8	27	361	(503)
Net income (loss) attributable to PetIQ, Inc.	$ 4,026	$ (1,476)	$ 6,059	$ (3,579)
Net income (loss) per share attributable to PetIQ, Inc. Class A common stock				
Basic	$ 0.14	$ (0.06)	$ 0.22	$ (0.15)
Diluted	$ 0.14	$ (0.06)	$ 0.22	$ (0.15)
Weighted Average shares of Class A common stock outstanding				
Basic	28,491	24,425	27,444	24,077
Diluted	29,156	24,425	28,059	24,077

See accompanying notes to the condensed consolidated financial statements.

PetIQ, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited, in 000’s)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Net income (loss)	$ 4,034	$ (1,449)	$ 6,420	$ (4,082)
Foreign currency translation adjustment	363	(104)	504	(678)
Comprehensive income (loss)	4,397	(1,553)	6,924	(4,760)
Comprehensive income (loss) attributable to non-controlling interest	10	25	368	(598)
Comprehensive income (loss) attributable to PetIQ	$ 4,387	$ (1,578)	$ 6,556	$ (4,162)

See accompanying notes to the condensed consolidated financial statements.

PetIQ, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited, in 000's)

	For the Six Months Ended June 30,	
	2021	As adjusted (Note1) **2020**
Cash flows from operating activities		
Net income (loss)	$ 6,420	$ (4,082)
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation and amortization of intangible assets and loan fees	20,405	11,159
Loss on debt extinguishment	5,453	—
Loss (gain) on disposition of property, plant, and equipment	167	(369)
Stock based compensation expense	4,561	4,402
Deferred tax adjustment	—	(982)
Other non-cash activity	176	65
Changes in assets and liabilities		
Accounts receivable	(57,011)	(74,138)
Inventories	(20,580)	(31,627)
Other assets	(2,166)	(1,073)
Accounts payable	(6,632)	39,528
Accrued wages payable	(482)	1,847
Other accrued expenses	3,493	12,766
Net cash used in operating activities	(46,196)	(42,504)
Cash flows from investing activities		
Proceeds from disposition of property, plant, and equipment	350	429
Purchase of property, plant, and equipment	(18,302)	(10,425)
Net cash used in investing activities	(17,952)	(9,996)
Cash flows from financing activities		
Proceeds from issuance of convertible notes	—	143,750
Payment for Capped Call options	—	(14,821)
Proceeds from issuance of long-term debt	630,568	457,200
Principal payments on long-term debt	(576,843)	(438,874)
Payment of financing fees on Convertible Notes	—	(5,819)
Tax distributions to LLC Owners	(72)	(46)
Principal payments on finance lease obligations	(1,226)	(761)
Payment of deferred financing fees and debt discount	(6,360)	(275)
Tax withholding payments on Restricted Stock Units	(852)	(186)
Exercise of options to purchase class A common stock	12,588	2,171
Net cash provided by financing activities	57,803	142,339
Net change in cash and cash equivalents	(6,345)	89,839
Effect of exchange rate changes on cash and cash equivalents	52	(88)
Cash and cash equivalents, beginning of period	33,456	27,272
Cash and cash equivalents, end of period	$ 27,163	$ 117,023

See accompanying notes to the condensed consolidated financial statements.

PetIQ, Inc.
Condensed Consolidated Statements of Cash Flows, Continued
(Unaudited, in 000's)

	For the Six Months Ended June 30,	
Supplemental cash flow information	**2021**	**2020**
Interest paid	$ 8,051	$ 8,106
Net change in property, plant, and equipment acquired through accounts payable	(358)	(160)
Finance lease additions	141	381
Net change of deferred tax asset from step-up in basis	—	5,786
Income taxes paid, net of refunds	214	(46)
Accrued tax distribution	7	310

See accompanying notes to the consolidated financial statements.

PetIQ, Inc.
Condensed Consolidated Statements of Equity
(Unaudited, in 000's)

	Three months ended June 30, 2021								
	Accumulated Deficit	Accumulated Other Comprehensive Loss	Class A Common		Class B Common		Additional Paid-in Capital	Non-controlling Interest	Total Equity
			Shares	Dollars	Shares	Dollars			
Balance - March 31, 2021	$ (96,525)	$ (500)	28,102	$ 28	941	$ 1	$ 345,386	$ 8,298	$ 256,688
Exchange of LLC Interests held by LLC Owners	—	13	516	1	(516)	(1)	4,793	(4,806)	—
Accrued tax distributions	—	—	—	—	—	—	—	141	141
Other comprehensive income	—	361	—	—	—	—	—	2	363
Stock based compensation expense	—	—	—	—	—	—	2,369	70	2,439
Exercise of Options to purchase Common Stock	—	—	289	—	—	—	6,008	—	6,008
Issuance of stock vesting of RSU's, net of tax withholdings	—	—	2	—	—	—	(50)	—	(50)
Net income	4,026	—	—	—	—	—	—	8	4,034
Balance - June 30, 2021	$ (92,499)	$ (126)	28,909	$ 29	425	$ —	$ 358,506	$ 3,714	$ 269,624

	Six months ended June 30, 2021								
	Accumulated Deficit	Accumulated Other Comprehensive Loss	Class A Common		Class B Common		Additional Paid-in Capital	Non-controlling Interest	Total Equity
			Shares	Dollars	Shares	Dollars			
Balance - January 1, 2021 As adjusted (Note 1)	$ (98,558)	$ (686)	25,711	$ 26	3,040	$ 3	$ 319,642	$ 25,983	$ 246,410
Exchange of LLC Interests held by LLC Owners	—	63	2,615	3	(2,615)	(3)	22,824	(22,887)	—
Accrued tax distributions	—	—	—	—	—	—	—	(7)	(7)
Other comprehensive income	—	497	—	—	—	—	—	7	504
Stock based compensation expense	—	—	—	—	—	—	4,304	257	4,561
Exercise of Options to purchase Common Stock	—	—	531	—	—	—	12,588	—	12,588
Issuance of stock vesting of RSU's, net of tax withholdings	—	—	52	—	—	—	(852)	—	(852)
Net income	6,059	—	—	—	—	—	—	361	6,420
Balance - June 30, 2021	$ (92,499)	$ (126)	28,909	$ 29	425	$ —	$ 358,506	$ 3,714	$ 269,624

	Three months ended June 30, 2020								
	Accumulated Deficit	Accumulated Other Comprehensive Loss	Class A Common		Class B Common		Additional Paid-in Capital	Non-controlling Interest	Total Equity
			Shares	Dollars	Shares	Dollars			
Balance - March 31, 2020	$ (18,006)	$ (1,655)	24,318	$ 24	4,049	$ 4	$ 312,874	$ 38,262	$ 331,503
Exchange of LLC Interests held by Continuing LLC Owners	—	(17)	279	—	(279)	—	2,067	(2,050)	—
Payment for capped call share options	—	—	—	—	—	—	(12,580)	(2,241)	(14,821)
Net increase in deferred tax asset from LLC Interest transactions	—	—	—	—	—	—	2,585	—	2,585
Accrued tax distributions	—	—	—	—	—	—	—	(206)	(206)
Other comprehensive loss	—	(102)	—	—	—	—	—	(2)	(104)
Stock based compensation expense	—	—	—	—	—	—	1,594	250	1,844
Exercise of Options to purchase Common Stock	—	—	54	—	—	—	1,169	—	1,169
Issuance of stock for vesting of RSU's	—	—	7	—	—	—	(37)	—	(37)
Net loss	(1,476)	—	—	—	—	—	—	27	(1,449)
Adjusted Balance - June 30, 2020	$ (19,482)	$ (1,774)	24,658	$ 24	3,770	$ 4	$ 307,672	$ 34,041	$ 320,484

	Six months ended June 30, 2020								
	Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Class A Common		Class B Common		Additional Paid-in Capital	Non-controlling Interest	Total Equity
			Shares	Dollars	Shares	Dollars			
Balance - January 1, 2020	$ (15,903)	$ (1,131)	23,554	$ 23	4,752	$ 5	$ 300,120	$ 45,196	$ 328,310
Exchange of LLC Interests held by Continuing LLC Owners	—	(60)	982	1	(982)	(1)	8,732	(8,672)	—
Payment for capped call share options	—	—	—	—	—	—	(12,580)	(2,241)	(14,821)
Net increase in deferred tax asset from LLC Interest transactions	—	—	—	—	—	—	5,786	—	5,786
Accrued tax distributions	—	—	—	—	—	—	—	(310)	(310)
Other comprehensive loss	—	(583)	—	—	—	—	—	(95)	(678)
Stock based compensation expense	—	—	—	—	—	—	3,736	666	4,402
Exercise of Options to purchase Common Stock	—	—	100	—	—	—	2,171	—	2,171
Issuance of stock for vesting of RSU's	—	—	22	—	—	—	(292)	—	(292)
Net loss	(3,579)	—	—	—	—	—	—	(503)	(4,082)
Adjusted Balance - June 30, 2020	$ (19,482)	$ (1,774)	24,658	$ 24	3,770	$ 4	$ 307,672	$ 34,041	$ 320,484

Note that certain figures shown in the tables above may not recalculate due to rounding.

See accompanying notes to the condensed consolidated financial statements.

PetIQ Inc.
Notes to the Condensed Consolidated Financial Statements (unaudited)

Note 1 – Principal Business Activity and Significant Accounting Policies

Principal Business Activity and Principles of Consolidation

PetIQ, Inc. (“PetIQ,” the “Company,” “we” or “us”) is a leading pet medication and wellness company delivering a smarter way for pet parents to help their pets live their best lives through convenient access to affordable veterinary products and services. We engage with customers through more than 60,000 points of distribution across retail, including veterinary, channels with our branded distributed medications, which is further supported by our own world-class medication manufacturing facility in Omaha, Nebraska. Our national service platform, VIP Petcare (“VIP”), operates in over 2,900 retail partner locations in 41 states, providing cost effective and convenient veterinary wellness services. PetIQ believes that pets are an important part of the family and deserve the best products and care we can give them.

We have two reporting segments: (i) Products; and (ii) Services. The Products segment consists of our manufacturing and distribution business. The Services segment consists of veterinary services and related product sales provided by the Company directly to consumers.

We are the sole managing member of PetIQ Holdings, LLC (“HoldCo”), a Delaware limited liability company, which is the sole member of PetIQ, LLC (“Opco”) and, through Holdco, operate and control all of the business and affairs of Opco.

The condensed consolidated financial statements as of June 30, 2021 and December 31, 2020 and for the three and six months ended June 30, 2021 and 2020 are unaudited. The condensed consolidated balance sheet as of December 31, 2020 has been derived from the audited financial statements at that date but does not include all of the disclosures required by U.S. GAAP. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements as of and for the year ended December 31, 2020 and related notes thereto included in the most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 1, 2021. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the full year.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of sales and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of property, plant, and equipment and intangible assets; the valuation of property, plant, and equipment, intangible assets and goodwill, the valuation of assets and liabilities in connection with acquisitions, the valuation of deferred tax assets, the valuation of inventories, and reserves for legal contingencies.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The categorization of a financial instrument within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The carrying amounts of the Company’s financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, are at cost, which approximates fair value due to their relatively short maturities. Our term loan and revolving credit facility bear interest at a variable interest rate plus an applicable margin and, therefore, carrying amounts approximate fair value.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with an original maturity of three months or less at the date of acquisition. All credit card, debit card and electronic transfer transactions that process in less than seven days are classified as cash and cash equivalents. The Company maintains its cash accounts in various deposit accounts, the balances of which at times exceeded federal deposit insurance limits during the periods presented.

Receivables and Credit Policy

Trade receivables due from customers are uncollateralized customer obligations due under normal trade terms requiring payment within 45 days from the invoice date. Accounts receivable are stated at the amount billed to the customer, net of discounts and estimated deductions. The Company does not have a policy for charging interest on overdue customer account balances. The Company provides an allowance for credit losses equal to expected losses. The Company’s estimate is based on historical collection experience, a review of the current status of trade accounts receivable and known current economic conditions including the current and expected impact of COVID-19. Payments of trade receivables are allocated to the specific invoices identified on the customer’s remittance advice.

Other receivables consists of various receivables due from vendors, banking partners, and other receivable from business partners.

Accounts receivable consists of the following as of:

$'s in 000's	June 30, 2021	December 31, 2020
Trade receivables	$ 148,906	$ 96,381
Other receivables	11,284	7,094
	160,190	103,475
Less: Allowance for doubtful accounts	(390)	(720)
Total accounts receivable, net	$ 159,800	$ 102,755

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on the first-in first-out (“FIFO”) method and includes estimated rebate amounts. The Company maintains reserves for estimated obsolete or unmarketable inventory based on the difference between the cost of inventory and its estimated net realizable value. In estimating the reserves, management considers factors such as excess or slow-moving inventories, product expiration dating, and market conditions. Changes in these conditions may result in additional reserves. Major components of inventories consist of the following as of:

$'s in 000's	June 30, 2021	December 31, 2020
Raw materials	$ 13,408	$ 15,761
Work in progress	1,482	2,273
Finished goods	103,499	79,739
Total inventories	$ 118,389	$ 97,773

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost. Expenditures for improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Depreciation and amortization is provided using the straight-line method, based on estimated useful lives of the assets, except for leasehold improvements and finance leased assets which are depreciated over the shorter of the expected useful life or the lease term. Depreciation and amortization expense is recorded in cost of sales and general and administrative expenses in the condensed consolidated statements of operations, depending on the use of the asset. The estimated useful lives of property, plant, and equipment are as follows:

Computer equipment and software	3 years
Vehicle and vehicle accessories	3-5 years
Buildings	33 years
Equipment	2-15 years
Leasehold improvements	2-15 years
Furniture and fixtures	5-10 years

Convertible Debt

On May 19, 2020, we issued $143.8 million aggregate principal amount of Convertible Notes due 2026 (the "Notes"). See Note 5 – "Debt." Simultaneously, with the issuance of the Notes, we bought capped call options from certain financial institutions to minimize the impact of potential dilution of our Class A common stock upon conversion of the Notes. The premium for the capped call options was recorded as additional paid-in capital in our condensed consolidated balance sheets as the options are settleable in our Class A common stock.

Effective January 1, 2021, we adopted ASU 2020-06 using the full retrospective approach. As a result of this adoption, we have de-recognized the debt discount on the Notes and therefore no longer recognize any amortization of debt discount on the Notes as interest expense (see below, *Adopted Accounting Standard Update).*

Revenue Recognition

When Performance Obligations Are Satisfied

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account for revenue recognition. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Company's performance obligations are product sales and the delivery of veterinary services.

Revenue is generally recognized for product sales on a point in time basis when product control is transferred to the customer. In general, control transfers to the customer when the product is shipped or delivered to the customer based upon applicable shipping terms, as the customer can direct the use and obtain substantially all of the remaining benefits from the asset at this point in time.

The Company determined that certain products manufactured to a customer's specifications do not have an alternative future use at a reasonable profit margin due to costs associated with reworking, transporting and repackaging these products. These products are produced subject to purchase orders that include an enforceable right to payment. Therefore, the Company determined that revenue on these products would be recognized over time, as the products are produced. This represents a minor subset of the products the Company manufactures.

Revenue for services is recognized over time as the service is delivered, typically over a single day. Payment is typically rendered at the time of service. Customer contracts generally do not include more than one performance obligation. When a contract does contain more than one performance obligation, we allocate the contract’s transaction price to each performance obligation based on its relative standalone selling price. The standalone selling price for each distinct good is generally determined by directly observable data.

The performance obligations in our contracts are satisfied within one year. As such, we have not disclosed the transaction price allocated to remaining performance obligations as of June 30, 2021.

Variable Consideration

In addition to fixed contract consideration, most contracts include some form of variable consideration. The most common forms of variable consideration include discounts, rebates, and sales returns and allowances. Variable consideration is treated as a reduction in revenue when product revenue is recognized. Depending on the specific type of variable consideration, we use either the expected value or most likely amount method to determine the variable consideration. We believe there will not be significant changes to our estimates of variable consideration when any related uncertainties are resolved with our customers. The Company reviews and updates its estimates and related accruals of variable consideration each period based on the terms of the agreements, historical experience, and any recent changes in the market. Any uncertainties in the ultimate resolution of variable consideration due to factors outside of the Company’s influence are typically resolved within a short timeframe therefore not requiring any additional constraint on the variable consideration.

Trade marketing expense, consisting primarily of customer pricing allowances and merchandising funds are offered through various programs to customers and are designed to promote our products. They include the cost of in-store product displays, feature pricing in retailers' advertisements and other temporary price reductions. These programs are offered to our customers both in fixed and variable (rate per case) amounts. The ultimate cost of these programs depends on retailer performance and is subject to management estimates.

Certain retailers require the payment of product introductory fees in order to obtain space for the Company's products on the retailer's store shelves. This cost is typically a lump sum and is determined using the expected value based on the contract between the two parties.

Both trade marketing expense and product introductory fees are recognized as reductions of revenue at the time the transfer of control of the associated products occurs. Accruals for expected payouts, or amounts paid in advance, under these programs are included as accounts payable or other current assets in the condensed consolidated balance sheets.

Significant Payment Terms

Our customer contracts identify the product, quantity, price, payment and final delivery terms. Payment terms usually include early pay discounts. We grant payment terms consistent with industry standards. Although some payment terms may be more extended, no terms beyond one year are granted at contract inception. As a result, we do not adjust the promised amount of consideration for the effects of a significant financing component because the period between our transfer of a promised good or service to a customer and the customer’s payment for that good or service will be one year or less.

Shipping

All shipping and handling costs associated with outbound freight are accounted for as fulfillment costs and are included in the cost of sales. This includes shipping and handling costs after control over a product has transferred to a customer.

Warranties & Returns

PetIQ provides all customers with a standard or assurance type warranty. Either stated or implied, the Company provides assurance the related products will comply with all agreed-upon specifications and other warranties provided under the law. No significant services beyond an assurance warranty are provided to customers.

The Company does not grant a general right of return. However, customers may return defective or non-conforming products. Customer remedies may include either a cash refund or an exchange of the product. As a result, the right of return and related refund liability is estimated and recorded as a reduction in revenue. This return estimate is reviewed and updated each period and is based on historical sales and return experience.

Contract balances

Contract asset and liability balances as of June 30, 2021 and 2020 are immaterial. The Company does not have significant deferred revenue or unbilled receivable balances.

Cost of Services

Cost of Services are comprised of all service and product costs related to the delivery of veterinary services, including but not limited to, salaries and contract costs of veterinarians, technicians and other clinic based personnel, transportation and delivery costs, rent, occupancy costs, supply costs, depreciation and amortization of clinic assets, certain marketing and promotional expenses and costs of goods sold.

Research and Development and Advertising Costs

Research and development and advertising costs are expensed as incurred and are included in general and administrative expenses. Research and development costs amounted to $0.9 million and $0.9 million for the three months ended June 30, 2021 and 2020, respectively, and $2.0 million and $1.9 million for the six months ended June 30, 2021 and 2020, respectively. Advertising costs were $5.1 million and $3.3 million for the three months ended June 30, 2021 and 2020, respectively, and $7.5 million and $5.8 million for the six months ended June 30, 2021 and 2020, respectively.

Collaboration Agreements

Through our acquisition of Perrigo Animal Health, we entered into a product development and asset purchase agreement with a third party for certain product formulations in development by the third party. During the six months ended June 30, 2021, the Company opted out of the arrangement for two of the product formulations, which reduced the amount of any potential payments under the agreement. The Company may make up to $5.8 million of payments over the course of the next several years contingent on achievement of certain development and regulatory approval milestones. Product development costs are expensed as incurred or as milestone payments become probable. There can be no assurance that these products will be approved by the U.S. Food and Drug Administration ("FDA") on the anticipated schedule or at all. Consideration paid after FDA approval will be capitalized and amortized to cost of goods sold over the economic life of each product. The expenses paid prior to FDA approval will be included in General and Administrative expenses on the condensed consolidated statements of operations. There were no expenses incurred under the agreement for the six months ended June 30, 2021 or 2020.

Accounting for Income Taxes

The Company uses the asset and liability approach for financial accounting and reporting of income taxes. Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred taxes are measured using rates expected to apply to taxable income in years in which those temporary differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The Company uses a two-step process for the measurement of uncertain tax positions that have been taken or are expected to be taken in a tax return. The first step is a determination of whether the tax position should be recognized in the consolidated financial statements. The second step determines the measurement of the tax position. The Company records potential interest and penalties on uncertain tax positions as a component of income tax expense.

Non-controlling interest

The non-controlling interests on the condensed consolidated statements of operations represents the portion of earnings or loss attributable to the economic interest in the Company's subsidiary, Holdco, held by the non-controlling holders of Class B common stock and limited liability company interests in Holdco. Non-controlling interests on the condensed consolidated balance sheet represents the portion of net assets of the Company attributable to the non-controlling holders of Class B common stock and Limited Liability Company interests in Holdco. As of June 30, 2021 and December 31, 2020 the non-controlling interest was approximately 1.5% and 10.6%, respectively of ownership of LLC Interests.

Litigation

The Company is subject to various legal proceedings, claims, litigation, investigations and contingencies arising out of the ordinary course of business. If the likelihood of an adverse legal outcome is determined to be probable and the amount of loss is estimable, then a liability is accrued in accordance with accounting guidance for Contingencies. If the assessment indicates a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. The Company consults with both internal and external legal counsel related to litigation.

Adopted Accounting Standard Updates

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. Under ASU 2020-06, embedded conversion features are no longer separated from the host contract for convertible instruments with conversion features that are not required to be accounted for as derivatives under Topic 815, or that do not result in substantial premiums accounted for as paid-in capital. Consequently, a convertible debt instrument will be accounted for as a single liability measured at its amortized cost, as long as no other features require bifurcation and recognition as derivatives. The ASU made amendments to the EPS guidance in Topic 260 for convertible debt instruments, the most significant of which is requiring the use of the if-converted method for diluted EPS calculation. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. Adoption of the ASU can either be on a modified retrospective or full retrospective basis.

On January 1, 2021, we adopted the ASU using the full retrospective method. Under the full retrospective method, the prior period condensed consolidated financial statements have been retrospectively adjusted to reflect the adoption of the accounting standard in those periods The following tables show the impact of the adoption on our condensed consolidated balance sheet and condensed consolidated statement of operations.

	December 31, 2020 As reported	ASU 2020-06 Adjustment	December 31, 2020 As adjusted
Liabilities			
Long-term debt, less current installments	$ 355,979	$ 47,612	$ 403,591
Stockholders' Equity			
Additional Paid-in Capital	356,442	(36,800)	319,642
Non-controlling Interest	31,614	(5,631)	25,983
Accumulated Deficit	(93,377)	(5,181)	(98,558)

	For the Three Months Ended		
	June 30, 2020 As reported	ASU 2020-06 Adjustment	June 30, 2020 As adjusted
Interest expense, net	$ (5,967)	$ 638	$ (5,329)
Tax (expense) benefit	(61)	(127)	(188)
Net Income (Loss)	(1,960)	511	(1,449)

	For the Six Months Ended		
	June 30, 2020 As reported	ASU 2020-06 Adjustment	June 30, 2020 As adjusted
Interest expense, net	$ (10,671)	$ 638	$ (10,033)
Tax (expense) benefit	1,108	(127)	981
Net Income (Loss)	(4,593)	511	(4,082)

Note 2 –Asset Acquisitions

Capstar Acquisition

On July 31, 2020 the Company completed the acquisition of Capstar® and CapAction® and related assets (the "Capstar Acquisition") from Elanco US Inc. for $95 million, plus the cost of certain outstanding finished goods inventory in saleable condition, using cash on hand as a result of the issuance of the Notes in May 2020.

The Capstar Acquisition was accounted for as an asset acquisition and certain transaction related costs of approximately $1.1 million were included in the cost of the acquired assets. The fair value assigned to trade names was based on the income approach using a relief from royalty methodology that assumes that the fair value of a trade name can be measured by estimating the cost of licensing and paying a royalty fee for the trade name that the owner of the trade name avoids. The estimated fair value of customer relationships was determined using an income approach, specifically a discounted cash flow analysis. The rate utilized to discount net cash flows to their present values was approximately 15% and was determined after consideration of the overall enterprise rate of return and the relative risk and importance of the assets to the generation of future cash flows. The fair value assigned to patents and processes was determined based on the income approach. The purchased assets are identified below:

$'s in 000's	Fair Value
Amortizable intangibles	
Customer relationships	$ 70,901
Patents and processes	9,895
Total amortizable intangibles	80,796
Non-amortizable intangibles	
Trademarks and other	15,276
Total purchased intangible assets	$ 96,072

The weighted average amortization period of the amortizable intangible assets is approximately 11.8 years.

Supplier Termination, Settlement and Asset Purchase Agreement:

During July 2020, the Company entered into a Termination, Settlement and Asset Purchase Agreement (the "Agreement") with a supplier who alleged PetIQ had breached its supply agreement due to the acquisition of Perrigo Animal Health. The Agreement called for PetIQ to pay $20.6 million, $2.6 million at signing and $1.0 million per quarter thereafter. The

Agreement terminated the supply agreement that was previously in place, settled all outstanding claims and operations, and allowed PetIQ to purchase certain intellectual property related assets. The Company estimated the fair value of the payment obligation as $17.5 million, and determined the fair value of the acquired assets to be $9.7 million. The assets acquired are included within the patents and processes intangible assets category and are amortized over 10 years. The assets were valued using the relief from royalty method. The remainder of the obligation was considered to be a payment to settle the alleged breach of the supply agreement, the termination expense is included in general and administrative expenses on the condensed consolidated statement of operations for the three months ended June 30, 2020. The obligation is considered debt and is included in debt on the condensed consolidated balance sheet. See Note 5 – “Debt” for additional information.

Note 3 – Property, Plant, and Equipment

Property, plant, and equipment consists of the following at:

$'s in 000's	June 30, 2021	December 31, 2020
Leasehold improvements	$ 22,844	$ 19,709
Equipment	25,943	25,664
Vehicles and accessories	6,978	7,110
Computer equipment and software	10,994	10,858
Buildings	8,653	10,168
Furniture and fixtures	2,396	2,347
Land	6,407	7,067
Construction in progress	22,510	11,331
	106,725	94,254
Less accumulated depreciation	(34,500)	(31,108)
Total property, plant, and equipment	$ 72,225	$ 63,146

Depreciation expense related to these assets was $3.1 million and $6.3 million for the three and six months ended June 30, 2021 and $3.0 million and $5.9 million for the three and six months ended June 30, 2020, respectively.

During the three months ended June 30, 2021, the Company entered into an agreement to sell its previous headquarters property. The related assets with a carrying value of $3.2 million have been reclassified to other current assets as held for sale.

Note 4 – Intangible Assets and Goodwill

Intangible assets consist of the following at:

$'s in 000's	Useful Lives	June 30, 2021	December 31, 2020
Amortizable intangibles			
Certification	7 years	$ 350	$ 350
Customer relationships	12-20 years	160,228	160,178
Patents and processes	5-10 years	14,993	14,905
Brand names	5-15 years	24,778	24,740
Total amortizable intangibles		200,349	200,173
Less accumulated amortization		(35,352)	(25,984)
Total net amortizable intangibles		164,997	174,189
Non-amortizable intangibles			
Trademarks and other		33,341	33,341
In-process research and development		1,668	5,470
Intangible assets, net of accumulated amortization		$ 200,006	$ 213,000

Certain intangible assets are denominated in currencies other than the U.S. Dollar; therefore, their gross and net carrying values are subject to foreign currency movements. Amortization expense for the three months ended June 30, 2021 and

2020 was $4.6 million and $2.3 million, respectively, and $13.1 million and $4.5 million for the six months ended June 30, 2021 and 2020, respectively.

The in-process research and development ("IPRD"), intangible assets represent the value assigned to three acquired R&D projects that principally represent rights to develop and sell products that the Company has acquired which has not yet been completed or approved. The IPRD acquired as part of the Perrigo Animal Health Acquisition is accounted for as an indefinite-lived asset until the product is available for sale and regulatory approval is obtained, or abandonment of the associated research and development efforts. If the research and development efforts are successfully completed, the IPRD would be amortized over its then estimated useful life. The fair value of the IPRD was estimated using the multi-period excess earnings income method. The projected cash flows estimates for the future products were based on certain key assumptions including estimates of future revenues and expenses, taking into account the stage of development at the acquisition date and the resources needed to complete development. In the event that the efforts are not successful, the Company will write off the relevant IPRD in the period in which it is no longer considered feasible. During the six months ended June 30, 2021, the Company opted out of two of the acquired projects, effectively abandoning the associated research and development efforts. Accordingly, the Company wrote off the associated IPRD assets of $3.8 million, the expense for which is included as amortization expense in General and administrative expenses on the condensed consolidated statement of operations for the six months ended June 30, 2021.

Estimated future amortization expense for each of the following years is as follows:

Years ending December 31, ***($'s in 000's)***		
Remainder of 2021	$	9,261
2022		17,984
2023		16,933
2024		14,562
2025		13,899
Thereafter		92,358

The following is a summary of the changes in the carrying value of goodwill for the period from January 1, 2020 to June 30, 2021:

	Reporting Unit		
($'s in 000's)	**Products**	**Services**	**Total**
Goodwill as of January 1, 2020	183,781	47,264	231,045
Foreign currency translation	113	—	113
Goodwill as of December 31, 2020	183,894	47,264	231,158
Foreign currency translation	209	—	209
Goodwill as of June 30, 2021	$ 184,103	$ 47,264	$ 231,367

Note 5 – Debt

On April 13, 2021, the Company entered into a new $300 million term loan ("Term Loan B") and a $125 million new asset-based revolving line of credit ("ABL"), collectively referred to as the ("credit facilities").

The credit facilities replace both the Amended Revolving Credit Agreement and A&R Term Loan Agreement as well as fully repay $27.5 million of the unsecured VIP Seller Notes.

As part of the termination of the Amended Revolving Credit Agreement, the A&R Term Loan Credit agreement, and the VIP Notes, the Company wrote off $5.5 million in deferred financing fees to loss on debt extinguishment and incurred an additional $0.9 million in costs related to the transaction which are included in General and Administrative expenses

Senior Secured Asset-Based Revolving Credit Facility

On April 13, 2021, Opco entered into an asset-based credit agreement with KeyBank National Association, as administrative agent and collateral agent, and the lenders' party thereto, that provides senior secured financing of $125.0 million (which may be increased by up to $50.0 million in certain circumstances), subject to a borrowing base limitation. The borrowing base for the ABL Facility at any time equals the sum of: (i) 90% of eligible investment-grade accounts; plus (ii) 85% of eligible other accounts; plus, (iii) 85% of the net orderly liquidation value of the cost of certain eligible on-hand and in-transit inventory; plus, (iv) at the option of Opco, 100% of qualified cash; minus (v) reserves. The ABL Facility bears interest at a variable rate plus a margin, with the variable rate being based on a base rate or LIBOR at the option of the Company. The rate at June 30, 2021 was 1.59%. The Company also pays a commitment fee on unused borrowings at a rate of 0.35%.

The ABL is secured by the assets of the Company including a first-priority security interest in personal property consisting of accounts receivable, inventory, cash, and deposit accounts. The ABL contains certain negative covenants that restrict the Company's ability to incur additional indebtedness, pay dividends, make investments, loans, and acquisitions, among other restrictions.

Senior Secured Term Loan Facility

On April 13, 2021, Opco entered into a term credit and guaranty agreement with Jefferies Finance LLC, as administrative agent and collateral agent, and the lenders' party thereto, that provides senior secured term loans of $300.0 million (which may be increased in certain circumstances). The Term Loan B bears interest at a variable rate of either prime, federal funds effective rate or LIBOR, plus an applicable margin of between 3.25% and 4.25% depending on the underlying base rate. LIBOR rates are subject to a 0.50% floor. The interest rate at June 30, 2021 was 4.75%. The Term Loan B requires quarterly payments of 0.25% of the original principal amount, with the balance due on the seventh anniversary of the closing date.

The credit agreement governing the Term Loan B does not require Opco to comply with any financial maintenance covenants but additionally contains certain customary representations and warranties, affirmative covenants and provisions relating to events of default.

Convertible Notes

On May 19, 2020, the Company issued $143.8 million in aggregate principal amount of 4.00% Convertible Senior Notes due 2026 (the "Notes") pursuant to the indenture (the "Indenture"), dated as of May 19, 2020. The total net proceeds from the Notes offering, after deducting debt issuance costs paid or payable by us, was $137.9 million. The Notes accrue interest at a rate of 4.00% per annum, payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2020. The Notes will mature on June 1, 2026, unless earlier repurchased, redeemed or converted. Before January 15, 2026, holders will have the right to convert their Notes only upon the occurrence of certain events. From and after January 15, 2026, holders may convert their Notes at any time at their election until the close of business on the scheduled trading day immediately before the maturity date. The Company will settle conversions by paying or delivering, as applicable, cash, shares of its Class A common stock, or a combination of cash and shares of its Class A common stock, at its election. The initial conversion rate is 33.7268 shares of Class A common stock per $1,000 principal amount of Notes. The conversion rate and conversion price will be subject to customary adjustments upon the occurrence of certain events. In addition, if certain corporate events that constitute a "Make-Whole Fundamental Change" (as defined in the Indenture) occur, then the conversion rate will, in certain circumstances, be increased for a specified period of time.

The Notes are redeemable, in whole or in part, at the Company's option at any time, and from time to time, on or after June 1, 2023 and on or before the 40th scheduled trading day immediately before the maturity date, at a cash redemption price equal to the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, but only if the last reported sale price per share of the Company's Class A common stock exceeds 130% of the conversion price on (i) each of at least 20 trading days, whether or not consecutive, during the 30 consecutive trading days ending on, and including, the trading day immediately before the date the Company sends the related redemption notice; and (2) the trading day immediately before the date the Company sends such notice. In addition, calling

any Notes will constitute a Make-Whole Fundamental Change with respect to such Notes, which will result in an increase to the conversion rate if such Notes are converted after they are called for redemption.

If certain corporate events that constitute a "Fundamental Change" (as defined in the Indenture) occur, then noteholders may require the Company to repurchase their Notes at a cash repurchase price equal to the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date. The definition of Fundamental Change includes certain business combination transactions involving the Company and certain de-listing events with respect to the Company's Class A common stock.

The Notes are the Company's senior, unsecured obligations and are (i) equal in right of payment with the Company's existing and future senior, unsecured indebtedness; (ii) senior in right of payment to the Company's existing and future indebtedness that is expressly subordinated to the Notes; (iii) effectively subordinated to the Company's existing and future secured indebtedness, to the extent of the value of the collateral securing that indebtedness; and (iv) structurally subordinated to all existing and future indebtedness and other liabilities, including trade payables, and (to the extent the Company is not a holder thereof) preferred equity, if any, of the Company's subsidiaries. The Notes contain customary events of default.

The fair value of the Notes was $217.1 million as of June 30, 2021. The estimated fair value of the Notes is based on market rates and the closing trading price of the Convertible Notes as of June 30, 2021 and is classified as Level 2 in the fair value hierarchy.

Amended & Restated Credit Agreement

The Amended Revolving Credit Agreement provides for a secured revolving credit facility of $125 million that matures on July 8, 2024. The borrowers under the Amended Revolving Credit Facility incur fees between 0.375% and 0.50% as unused facility fees, dependent on the aggregate amount borrowed. On May 14, 2020, the Company amended the Amended Revolving Credit Agreement to allow for the Notes described above. Additionally the amendment instituted a Eurodollar floor of 1% to the agreement.

All obligations under the Amended Revolving Credit Agreement are unconditionally guaranteed by HoldCo and, subject to certain exceptions, each of its material current and future domestic wholly-owned subsidiaries. All obligations under the Amended Revolving Credit Agreement, and the guarantees of those obligations, are secured by substantially all of the assets of each borrower and guarantor under the Amended Revolving Credit Agreement, subject to certain exceptions.

As of June 30, 2021 Amended Revolving Credit Agreement was fully repaid and terminated.

Amended & Restated Term Loan Credit Agreement

OpCo entered into an Amended and Restated Term Loan Credit Agreement on July 8, 2019 (the "A&R Term Loan Credit Agreement"). The $220.0 million A&R Term Loan Credit Agreement has an interest rate equal to the Eurodollar rate plus 5.00%. The A&R Term Loan Credit Agreement calls for 1% of the original loan balance to be paid annually via equal quarterly payments, with the balance of the loan due on the sixth anniversary of the agreement.

All obligations under the A&R Term Loan Credit Agreement are unconditionally guaranteed by PetIQ Holdings, LLC and each of its domestic wholly-owned subsidiaries and, subject to certain exceptions, each of its material current and future domestic wholly-owned subsidiaries. All obligations under the A&R Term Loan Credit Agreement, and the guarantees of those obligations, are secured by substantially all of the assets of PetIQ, LLC and each guarantor under the A&R Term Loan Credit Agreement, subject to certain exceptions.

As of June 30, 2021 the A&R Term Loan Credit Agreement was fully repaid and terminated.

General Other Debt

The Company entered into a mortgage with a local bank to finance a commercial building in Eagle, Idaho, in July 2017. The mortgage bears interest at a fixed rate of 4.35% and utilizes a 25 year amortization schedule with a 10 year balloon payment of the balance due at that time. As described in Note 3, the Company entered into an agreement to sell the commercial building in Eagle, Idaho, which closed in the third quarter of 2021. The Company used the proceeds from the sale to repay the mortgage on August 2, 2021, and has reclassified the mortgage to current maturities of long-term debt as of June 30, 2021.

In July 2020, the Company entered into the Agreement. See Note 2 – "Asset Acquisitions". The Agreement called for PetIQ to pay $20.6 million, $2.6 million at signing and $1.0 million per quarter thereafter with no interest. The Company discounted the payment stream using a market interest rate of 8.3%, resulting in an obligation of $17.5 million at the time it was entered into.

In connection with the acquisition of Community Veterinary Clinics, LLC d/b/a, VIP Petcare (the "VIP Acquisition"), the Company entered into a guarantee note of $10.0 million and contingent Notes that were subsequently earned. As of December 31, 2020 $7.5 million was payable pursuant to the 2018 Contingent Note and $10.0 million was payable pursuant to the 2019 Contingent Note. The guarantee note and the Contingent Notes, collectively, "Notes Payable – VIP Acquisition" of $27.5 million required quarterly interest payments of 6.75% with the balance payable July 17, 2023. These Notes Payable – VIP Acquisition were fully repaid in April 2021.

The following represents the Company's long-term debt as of:

$'s in 000's	June 30, 2021	December 31, 2020
Convertible Notes	$ 143,750	$ 143,750
Term loans	300,000	217,250
Revolving credit facility	15,000	15,000
Notes Payable - VIP Acquisition	—	27,500
Other Debt	14,761	16,257
Net discount on debt and deferred financing fees [1]	(11,091)	(9,947)
	$ 462,420	$ 409,810
Less current maturities of long-term debt	(7,832)	(6,219)
Total long-term debt	$ 454,588	$ 403,591

(1) – The net discount on debt and deferred financing fees were adjusted retrospectively for the adoption of ASU 2020-06 as discussed further in Note 1.

Future maturities of long-term debt, excluding the discount on debt and deferred financing fees, as of June 30, 2021, are as follows:

($'s in 000's)	
Remainder of 2021	$ 5,665
2022	6,246
2023	6,524
2024	6,827
2025	3,000
Thereafter	445,249

Note 6 – Leases

The Company leases certain real estate for commercial, production, and retail purposes, as well as equipment from third parties. Lease expiration dates are between 2021 and 2026. A portion of leases are denominated in foreign currencies.

For both operating and finance leases, the Company recognizes a right-of-use asset, which represents the right to use the underlying asset for the lease term, and a lease liability, which represents the present value of our obligation to make payments arising over the lease term.

We elected the short-term lease exemption for all leases that qualify. This means leases having an initial term of twelve months or less are not recorded on the balance sheet and the related lease expense is recognized on a straight-line basis over the term of the lease.

The Company's leases may include options to extend or terminate the lease. Renewal options generally range from one to ten years and the options to extend are included in the lease term when it is reasonably certain that we will exercise that option. Some leases have variable payments, however, because they are not based on an index or rate, they are not included in the ROU assets and liabilities. Variable payments for real estate leases primarily relate to common area maintenance, insurance, taxes and utilities. Variable payments for equipment and vehicles primarily relate to usage, repairs, and maintenance. As the implicit rate is not readily determinable for most of the Company's leases, the Company applies a portfolio approach using an estimated incremental borrowing rate, giving consideration to company specific information and publicly available interest rates for instruments with similar characteristics, to determine the initial present value of lease payments over the lease terms.

The components of lease expense consists of the following:

	For the Three Months Ended		For the Six Months Ended	
$'s in 000's	**June 30, 2021**	**June 30, 2020**	**June 30, 2021**	**June 30, 2020**
Finance lease cost				
Amortization of right-of-use assets	$ 803	$ 391	$ 1,369	$ 782
Interest on lease liabilities	123	77	214	159
Operating lease cost	1,332	1,279	2,624	3,110
Variable lease cost[1]	309	78	615	253
Short-term lease cost	2	14	6	19
Sublease income	(65)	(226)	(108)	(452)
Total lease cost	$ 2,504	$ 1,613	$ 4,720	$ 3,871

(1) Variable lease cost primarily relates to percentage rent, common area maintenance, property taxes and insurance on leased real estate.

Other information related to leases was as follows as of:

	June 30, 2021	**June 30, 2020**
Weighted-average remaining lease term (years)		
Operating leases	4.13	4.65
Finance leases	2.62	2.59
Weighted-average discount rate		
Operating leases	5.2%	5.3%
Finance leases	4.8%	5.8%

Annual future commitments under non-cancelable leases as of June 30, 2021, consist of the following:

	Lease Obligations	
$'s in 000's	**Operating Leases**	**Finance Leases**
Remainder of 2021	$ 3,221	$ 807
2022	6,336	1,528
2023	5,535	1,321
2024	3,981	445
2025	3,031	51
Thereafter	1,639	—
Total minimum future obligations	$ 23,743	$ 4,152
Less interest	(2,717)	(286)
Present value of net future minimum obligations	21,026	3,866
Less current lease obligations	(5,431)	(1,311)
Long-term lease obligations	$ 15,595	$ 2,555

Supplemental cash flow information:

$'s in 000's	**Six Months Ended June 30, 2021**	**Six Months Ended June 30, 2020**
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	$ 214	$ 159
Operating cash flows from operating leases	2,525	3,058
Financing cash flows from finance leases	1,226	761
(Noncash) right-of-use assets obtained in exchange for lease obligations		
Operating leases	2,810	2,106
Finance leases	141	381

Note 7 – Income Tax

As a result of the Company's initial public offering and related reorganization transactions completed in July 2017, the Company held a majority of the economic interest in Holdco and consolidates the financial position and results of Holdco. The remaining ownership of Holdco not held by the Company is considered a non-controlling interest. Holdco is treated as a partnership for income tax reporting. Holdco's members, including the Company, are liable for federal, state, and local income taxes based on their share of Holdco's taxable income.

Our effective tax rate (ETR) from continuing operations was (5.4)% and (2.1)% for the three and six months ended June 30, 2021, respectively, and (14.9)% and 19.4% for the three and six months ended June 30, 2020, respectively, including discrete items. Income tax expense for three and six months ended June 30, 2021 and 2020 was different than the U.S federal statutory income tax rate of 21% primarily due to the effects of a change in valuation allowance, state taxes, foreign rate changes and foreign GILTI income inclusion.

The Company has assessed the realizability of the net deferred tax assets as of June 30, 2021 and in that analysis has considered the relevant positive and negative evidence available to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The realization of the gross deferred tax assets is dependent on several factors, including the generation of sufficient taxable income to realize its deferred tax assets. The Company believes it is more likely than not that the benefit from recorded deferred tax assets will not be realized. The Company has recorded a valuation allowance for deferred tax assets of $94.0 million and $71.2 million as of June 30, 2021 and December 31, 2020, respectively. In future periods, if we conclude we have future taxable income sufficient to recognize the deferred tax assets, we may reduce or eliminate the valuation allowance.

HoldCo makes cash distributions to members to pay taxes attributable to their allocable share of income earned. Additionally, HoldCo accrues for distributions required to be made related to estimated income taxes. Tax distributions and accruals were immaterial for the periods presented.

Note 8 – Earnings per Share

Basic and Diluted Earnings (Loss) per Share

Basic earnings (loss) per share of Class A common stock is computed by dividing net income (loss) available to PetIQ, Inc. by the weighted-average number of shares of Class A common stock outstanding during the period. Diluted earnings per share of Class A common stock is computed by dividing net income (loss) available to PetIQ, Inc. by the weighted-average number of shares of Class A common stock outstanding adjusted to give effect to potentially dilutive securities.

On January 1, 2021, we adopted ASU 2020-06 using the full retrospective method. Following this adoption, we utilize the if-converted method for the diluted net income (loss) per share calculation of our convertible Notes (see Note 1 for more information on the adoption of ASU 2020-06).

The following table sets forth reconciliations of the numerators and denominators used to compute basic and diluted earnings (loss) per share of Class A common stock:

(in 000's, except for per share amounts)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Numerator:				
Net income (loss)	$ 4,034	$ (1,449)	$ 6,420	$ (4,082)
Less: net income (loss) attributable to non-controlling interests	8	27	361	(503)
Net income (loss) attributable to PetIQ, Inc. — basic and diluted	4,026	(1,476)	6,059	(3,579)
Denominator:				
Weighted-average shares of Class A common stock outstanding -- basic	28,491	24,425	27,444	24,077
Dilutive effects of stock options that are convertible into Class A common stock	518	—	470	—
Dilutive effect of RSUs	147	—	145	—
Dilutive effect for conversion of Notes	—	—	—	—
Weighted-average shares of Class A common stock outstanding -- diluted	29,156	24,425	28,059	24,077
Earnings (loss) per share of Class A common stock — basic	$ 0.14	$ (0.06)	$ 0.22	$ (0.15)
Earnings (loss) per share of Class A common stock — diluted	$ 0.14	$ (0.06)	$ 0.22	$ (0.15)

Shares of the Company's Class B common stock do not share in the earnings or losses of the Company and are therefore not participating securities. As such, separate presentation of basic and diluted earnings per share of Class B common stock under the two-class method has not been presented.

The computation of dilutive effect of other potential common shares excludes stock options of 480 thousand shares and 88 thousand restricted stock units for the three months ended June 30, 2021, as the inclusion under the treasury stock method would have been antidilutive.

The computation of dilutive effect of other potential common shares excludes stock options of 652 thousand shares and 88 thousand restricted stock units for the six months ended June 30, 2021, as the inclusion under the treasury stock method would have been antidilutive. The dilutive impact of the Notes have not been included in the dilutive earnings per share calculation for the three and six months ended June 30, 2021 as they would be antidilutive.

Additionally, all stock options and restricted stock units and convertible Notes have not been included in the diluted earnings per share calculation for the three and six months ended June 30, 2020, as they would have been anti-dilutive.

Note 9 – Stock Based Compensation

PetIQ, Inc. Omnibus Incentive Plan

The PetIQ, Inc. Omnibus Incentive Plan, as amended (the “Plan”), provides for the grant of various equity-based incentive awards to directors of the Company, employees, and consultants. The types of equity-based awards that may be granted under the Plan include: stock options, stock appreciation rights (SARs), restricted stock, restricted stock units (RSUs), and other stock-based awards. The Company has 3,914 thousand authorized shares under the Plan. As of June 30, 2021 and 2020, 698 thousand and 1,294 thousand shares were available for issuance under the Plan, respectively. All awards issued under the Plan may only be settled in shares of Class A common stock. Shares issued pursuant to awards under the incentive plans are from our authorized but unissued shares.

PetIQ, Inc. 2018 Inducement and Retention Stock Plan for CVC Employees

The PetIQ, Inc. 2018 Inducement and Retention Stock Plan for CVC Employees (the “Inducement Plan”) provides for the grant of stock options to employees hired in connection with the VIP Acquisition as employment inducement awards pursuant to NASDAQ Listing Rule 5635(c)(4). The Inducement Plan reserved 800 thousand shares of Class A Common Stock of the Company. As of June 30, 2021, no shares were available for issuance under the Inducement Plan. All awards issued under the Plan may only be settled in shares of Class A common stock.

Stock Options

The Company awards stock options to certain employees and directors under the Plan and previously issued stock options under the Inducement Plan, which are subject to time-based vesting conditions, typically 25% on each anniversary of the grant date until fully vested. Upon a termination of service relationship by the Company, all unvested options will be forfeited and the shares of common stock underlying such awards will become available for issuance under the Plan. The maximum contractual term for stock options is 10 years.

The fair value of these equity awards is amortized to equity based compensation expense over the vesting period, which totaled $1.4 million and $2.7 million for the three and six months ended June 30, 2021, respectively, and $1.3 million and $3.5 million for the three and six months ended June 30, 2020, respectively. All stock based compensation expense is included in general and administrative expenses based on the role of recipients. The fair value of the stock option awards was determined on the grant dates using the Black-Scholes valuation model based on the following weighted-average assumptions for the periods ended June 30, 2021 and 2020:

	June 30, 2021	June 30, 2020
Expected term (years) (1)	6.25	6.25
Expected volatility (2)	33.91 %	33.91 %
Risk-free interest rate (3)	0.90 %	0.72 %
Dividend yield (4)	0.00 %	0.00 %

(1) The Company utilized the simplified method to determine the expected term of the stock options since we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term.

(2) The expected volatility assumption was calculated based on a peer group analysis of stock price volatility with a look back period consistent with the expected option term.

(3) The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of grant, which corresponds to the expected term of the stock options.

(4) The Company has not paid and does not anticipate paying a cash dividend on our common stock.

The weighted average grant date fair value of stock options granted during the period ended June 30, 2021 was $12.39 per option. At June 30, 2021, total unrecognized compensation cost related to unvested stock options was $9.8 million and is expected to be recognized over a weighted-average period of 2.3 years.

	Stock Options (in 000's)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in 000's)	Weighted Average Remaining Contractual Life (years)
Outstanding at January 1, 2020	2,072	$ 24.63	$ 6,266	8.0
Granted	505	20.22		
Exercised	(395)	23.48	$ 4,468	
Forfeited	(96)	21.42		
Outstanding at December 31, 2020	2,086	$ 23.93	$ 30,302	7.2
Granted	354	35.66		
Exercised	(531)	23.72	$ 8,025	
Forfeited	(24)	22.61		
Cancelled	(1)	27.73		
Outstanding at June 30, 2021	1,884	$ 26.21	$ 23,369	7.8
Options exercisable at June 30, 2021	646			

Restricted Stock Units

The Company awards RSUs to certain employees and directors under the Plan, which are subject to time-based vesting conditions. Upon a termination of service relationship by the Company, all unvested RSUs will be forfeited and the shares of common stock underlying such awards will become available for issuance under the Plan. The fair value of RSUs are measured based on the closing fair market value of the Company's common stock on the date of grant. At June 30, 2021, total unrecognized compensation cost related to unvested RSUs was $13.9 million and is expected to vest over a weighted average 3.2 years.

The fair value of these equity awards is amortized to equity based compensation expense over the vesting period, which totaled $1.0 million and $1.8 million for the three and six months ended June 30, 2021, respectively, and $0.5 million and $0.9 million for the three and six months ended June 30, 2020, respectively. All stock based compensation expense is included in general and administrative expenses based on the role of recipients.

The following table summarizes the activity of the Company's RSUs for the period ended June 30, 2021.

	Number of Shares (in 000's)	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2020	133	$ 28.85
Granted	271	20.73
Settled	(70)	25.65
Forfeited	(17)	23.34
Outstanding at December 31, 2020	317	$ 22.91
Granted	268	37.92
Settled	(75)	21.87
Forfeited	(9)	23.09
Nonvested RSUs at June 30, 2021	501	$ 31.08

Note 10 – Stockholders' Equity

Exchanges

During the six months ended June 30, 2021 holders of Class B common stock and LLC Interests exercised exchange rights and exchanged 2,615 thousand Class B common shares and corresponding LLC Interests for newly issued Class A Common Stock. The LLC Agreement generally allows for exchanges on the last day of each calendar month.

Note 11 – Non-Controlling Interests

The following table presents the outstanding LLC Interests and changes in LLC Interests for the periods presented.

	LLC Interests held			% of Total	
$'s in 000's	**LLC Owners**	**PetIQ, Inc.**	**Total**	**LLC Owners**	**PetIQ, Inc.**
As of January 1, 2020	4,752	23,554	28,306	16.8%	83.2%
Stock based compensation transactions	—	445	445		
Exchange transactions	(1,712)	1,712	—		
As of December 31, 2020	3,040	25,711	28,751	10.6%	89.4%
Stock based compensation transactions		583	583		
Exchange transactions	(2,615)	2,615	—		
As of June 30, 2021	425	28,909	29,334	1.5%	98.5%

Note that certain figures shown in the table above may not recalculate due to rounding.

For the three and six months ended June 30, 2021 the Company owned a weighted average of 97.5% and 94.4%, respectively, and 86.0% and 84.9% for the three and six months ended June 30, 2020, respectively, of Holdco.

Note 12 – Customer Concentration

The Company has significant exposure to customer concentration. During the three and six months ended June 30, 2021, two and one customers individually accounted for more than 10% of sales, comprising 33% and 26% of net sales, respectively for such periods. During the three and six months ended June 30, 2020 three customers individually accounted for more than 10% of sales, comprising 54% and 51% of net sales in both such periods.

At June 30, 2021 one Products segment customer individually accounted for more than 10% of outstanding trade receivables, and accounted for 38% of outstanding trade receivables, net. At December 31, 2020 one Products segment customers individually accounted for more than 10% of outstanding trade receivables, and accounted for 52% of outstanding trade receivables, net.

Note 13 – Commitments and Contingencies

Litigation Contingencies

The Company records a liability when a particular contingency is probable and estimable and provides disclosure for contingencies that are at least reasonably possible of resulting in a loss including an estimate which we currently cannot make. The Company has not accrued for any contingency at June 30, 2021 and December 31, 2020 as the Company does not consider any contingency to be probable or estimable. The Company expenses legal costs as incurred within general and administrative expenses on the condensed consolidated statements of operations.

Commitments

We have commitments for leases and long-term debt that are discussed further in Note 5, Debt, and Note 6, Leases. In addition, we have purchase obligations for goods and services, capital expenditures, and raw materials entered into in the normal course of business.

Note 14 – Segments

The Company has two operating segments: Products and Services. The Products segment consists of the Company's manufacturing and distribution business. The Services segment consists of the Company's veterinary services, and related product sales, provided by the Company directly to consumers.

The segments are based on the discrete financial information reviewed by the Chief Operating Decision Maker ("CODM") to make resource allocation decisions and to evaluate performance. We measure and evaluate our reportable segments based on net sales and segment Adjusted EBITDA. We exclude from our segments certain corporate costs and expenses, such as accounting, legal, human resources, information technology and corporate headquarters expenses as our corporate functions do not meet the definition of a segment as defined in the accounting guidance related to segment reporting.

Financial information relating to the Company's operating segments for the three months ended:

$'s in 000's **June 30, 2021**	**Products**	**Services**	**Unallocated Corporate**	**Consolidated**
Net Sales	$ 242,857	$ 28,154	$ —	$ 271,011
Adjusted EBITDA	48,187	3,028	(16,856)	34,359
Depreciation expense	991	1,288	864	3,143
Capital expenditures	685	4,254	5,038	9,977

$'s in 000's **June 30, 2020**	**Products**	**Services**	**Unallocated Corporate**	**Consolidated**
Net Sales	$ 264,307	$ 2,675	$ —	$ 266,982
Adjusted EBITDA	41,851	1,112	(14,657)	28,306
Depreciation expense	1,167	890	926	2,983
Capital expenditures	3,593	940	817	5,350

Financial information relating to the Company's operating segments for the six months ended:

$'s in 000's **June 30, 2021**	**Products**	**Services**	**Unallocated Corporate**	**Consolidated**
Net Sales	$ 472,891	$ 52,467	$ —	$ 525,358
Adjusted EBITDA	86,979	5,124	(30,883)	61,220
Depreciation expense	1,931	2,470	1,873	6,274
Capital expenditures	955	6,633	10,714	18,302

$'s in 000's **June 30, 2020**	**Products**	**Services**	**Unallocated Corporate**	**Consolidated**
Net Sales	$ 430,587	$ 23,173	$ —	$ 453,760
Adjusted EBITDA	66,130	3,101	(26,467)	42,764
Depreciation expense	2,484	1,737	1,635	5,856
Capital expenditures	5,266	3,773	1,386	10,425

The following table reconciles Segment Adjusted EBITDA to Net income (loss) for the periods presented.

	For the three months ended		For the six months ended	
$'s in 000's	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Adjusted EBITDA:				
Product	$ 48,187	$ 41,851	$ 86,979	$ 66,130
Services	3,028	1,112	5,124	3,101
Unallocated Corporate	(16,856)	(14,657)	(30,883)	(26,467)
Total Consolidated	34,359	28,306	61,220	42,764
Adjustments:				
Depreciation	(3,143)	(2,983)	(6,274)	(5,856)
Amortization	(4,627)	(2,250)	(13,055)	(4,492)
Interest	(7,655)	(5,329)	(12,525)	(10,033)
Acquisition costs[(1)]	(86)	(146)	(92)	(732)
Stock based compensation expense	(2,439)	(1,844)	(4,561)	(4,402)
Integration costs and costs of discontinued clinics[(2)]	(735)	(8,850)	(687)	(9,304)
Non same-store revenue[(3)]	5,982	953	10,377	3,235
Non same-store costs[(3)]	(10,493)	(3,698)	(19,832)	(10,098)
Clinic launch expenses[(4)]	(576)	(603)	(1,280)	(1,279)
Loss on extinguishment and related costs	(6,438)	—	(6,438)	—
Litigation expenses	(320)	(384)	(563)	(433)
COVID-19 related costs[(5)]	—	(4,433)	—	(4,433)
Pretax net income (loss)	$ 3,829	$ (1,261)	$ 6,290	$ (5,063)
Income tax benefit (expense)	205	(188)	130	981
Net loss	$ 4,034	$ (1,449)	$ 6,420	$ (4,082)

(1) Acquisition costs include legal, accounting, banking, consulting, diligence, and other out-of-pocket costs related to completed and contemplated acquisitions.

(2) Integration costs and costs of discontinued clinics represent costs related to integrating the acquired businesses, such as personnel costs like severance and signing bonuses, consulting work, contract termination, and IT conversion costs. These costs are primarily in the Products segment and the corporate segment for personnel costs, legal and consulting expenses, and IT costs.

(3) Non same-store revenue and costs relate to our Services segment and are from wellness centers, host partners, and regions with less than six full trailing quarters of operating results.

(4) Clinic launch expenses relate to our Services segment and represent the nonrecurring costs to open new veterinary wellness centers, primarily employee costs, training, marketing, and rent prior to opening for business.

(5) Costs related to maintaining service segment infrastructure, staffing, and overhead related clinics and wellness centers closed due to COVID-19 related health and safety initiatives. Product segment and unallocated corporate costs related to incremental wages paid to essential workers and sanitation costs due to COVID.

Supplemental geographic disclosures are below.

	Six months ended June 30, 2021		
$'s in 000's	U.S.	Foreign	Total
Product sales	$ 469,473	$ 3,418	$ 472,891
Service revenue	52,467	—	52,467
Total net sales	$ 521,940	$ 3,418	$ 525,358

$'s in 000's	Six months ended June 30, 2020		
	U.S.	Foreign	Total
Product sales	$ 428,332	$ 2,255	$ 430,587
Service revenue	23,173	—	23,173
Total net sales	$ 451,505	$ 2,255	$ 453,760

$'s in 000's	Three months ended June 30, 2021		
	U.S.	Foreign	Total
Product sales	$ 240,897	$ 1,960	$ 242,857
Service revenue	28,154	—	28,154
Total net sales	$ 269,051	$ 1,960	$ 271,011

$'s in 000's	Three months ended June 30, 2020		
	U.S.	Foreign	Total
Product sales	$ 263,260	$ 1,047	$ 264,307
Service revenue	2,675	—	2,675
Total net sales	$ 265,935	$ 1,047	$ 266,982

Property, plant, and equipment by geographic location is below.

	June 30, 2021	December 31, 2020
United States	$ 70,942	$ 61,807
Europe	1,283	1,339
Total	$ 72,225	$ 63,146

Note 15 – Related Parties

Chris Christensen, the brother of CEO, McCord Christensen, acts as the Company's agent at Moreton Insurance ("Moreton"), which acts as a broker for a number of the Company's insurance policies. The Company's premium expense, paid to Moreton and subsequently transferred to insurance providers, was $0.3 million for the three and six months ended June 30, 2021, and $0 million and $0.3 million for the three and six months ended June 30, 2020, respectively. Mr. Chris Christensen was paid a commission of approximately $15 thousand for the three and six months ended June 30, 2021, and $0 thousand and $18 thousand for the three and six months ended June 30, 2020, respectively, for the sale of such insurance policies to the Company.

Katie Turner, the spouse of CEO, McCord Christensen, is the owner of Acadia Investor Relations LLC, ("Acadia") which acts as the Company's investor relations consultant. Acadia has been paid $0.06 million and $0.1 million for the three and six months ended June 30, 2021.

Note 16 – Subsequent Events

On August 2, 2021, the Company closed on the sale of its previous headquarters in Eagle, Idaho. As part of the closing the Company received approximately $4.5 million, net of selling expenses, repaid the mortgage related to the building, and recorded a gain of approximately $1.3 million in the three months ended September 30, 2021.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following is a discussion of our results of operations and current financial condition. This should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements for the year ended December 31, 2020 and related notes included in the annual report for PetIQ, Inc., filed with the Securities and Exchange Commission (the "SEC") on Form 10-K for the year ended December 31, 2020. This discussion contains forward-looking statements that reflect our plans, estimates, and beliefs and involve numerous risks and uncertainties. Actual results may differ materially from those contained in any forward-looking statements. See "Cautionary Note Regarding Forward-Looking Statements."

Business Overview

PetIQ is a leading pet medication and wellness company delivering a smarter way for pet parents to help their pets live their best lives through convenient access to affordable veterinary products and services. We engage with customers through more than 60,000 points of distribution across retail, including veterinary, channels with our branded distributed medications, which is further supported by our own world-class medication manufacturing facility in Omaha, Nebraska. Our national service platform, VIP Petcare ("VIP"), operates in over 2,900 retail partner locations in 41 states, providing cost effective and convenient veterinary wellness services. PetIQ believes that pets are an important part of the family and deserve the best products and care we can give them.

We have two reporting segments: (i) Products; and (ii) Services. The Products segment consists of our manufacturing and distribution business. The Services segments consists of veterinary services and related product sales provided by the Company directly to consumers.

We are the sole managing member of PetIQ Holdings, LLC ("HoldCo"), a Delaware limited liability company, which is the sole member of PetIQ, LLC ("Opco") and, through Holdco, operate and control all of the business and affairs of Opco.

Coronavirus Disease (COVID-19) Considerations

The global COVID-19 pandemic has created significant volatility, disruption and uncertainty. It has resulted in government restrictions, such as "stay-at-home" or "shelter-in-place" directives, quarantines, travel advisories and the implementation of social distancing measures, leading to the closure of businesses and causing weakened economic conditions and an economic slowdown and recession.

With the anticipated gradual receding of the pandemic, as well as COVID-19 vaccinations becoming more widespread and various restrictions continuing to ease, consumers have started to resume normal activities, including seeking in person veterinary care for their companion animals, and more businesses have commenced resuming operations. The Company has continued to experience absenteeism in excess of historical averages. There can be no assurance that such positive trends will continue or that there will not be any increases of new infections or new variants that may impede or reverse recovery and such positive trends.

Since the beginning of the pandemic in the first quarter of 2020, the Company has implemented various policies and procedures designed to ensure the safety of our customers and team members. With COVID-19 hospitalizations and deaths declining through the United States, as well as expanded access to vaccines, we have begun to roll back certain policies that incurred additional costs, such as incremental team members at veterinary services clinics and wellness centers to ensure social distancing and enhanced sanitation.

Results of Operations

The following tables set forth our consolidated statements of operations in dollars and as a percentage of net sales for the periods presented:

	For the Three Months Ended		% of Net Sales	
$'s in 000's	**June 30, 2021**	**June 30, 2020**	**June 30, 2021**	**June 30, 2020**
Product sales	$ 242,857	$ 264,307	89.6 %	99.0 %
Services revenue	28,154	2,675	10.4 %	1.0 %
Total net sales	271,011	266,982	100.0 %	100.0 %
Cost of products sold	185,837	217,469	68.6 %	81.5 %
Cost of services	25,546	7,329	9.4 %	2.7 %
Total cost of sales	211,383	224,798	78.0 %	84.2 %
Gross profit	59,628	42,184	22.0 %	15.8 %
General and administrative expenses	43,142	38,492	15.9 %	14.4 %
Operating income	16,486	3,692	6.1 %	1.4 %
Interest expense, net	(7,655)	(5,329)	(2.8)%	(2.0)%
Foreign currency (loss) income, net	9	52	0.0 %	0.0 %
Loss on debt extinguishment	(5,453)	—	(2.0)%	— %
Other income, net	442	324	0.2 %	0.1 %
Total other expense, net	12,657	4,953	4.7 %	1.9 %
Pretax net income (loss)	3,829	(1,261)	1.4 %	(0.5)%
(Provision) benefit for income taxes	205	(188)	0.1 %	(0.1)%
Net income (loss)	$ 4,034	$ (1,449)	1.5 %	(0.5)%

	For the Six Months Ended		% of Net Sales	
$'s in 000's	**June 30, 2021**	**June 30, 2020**	**June 30, 2021**	**June 30, 2020**
Product sales	$ 472,891	$ 430,587	90.0 %	94.9 %
Services revenue	52,467	23,173	10.0 %	5.1 %
Total net sales	525,358	453,760	100.0 %	100.0 %
Cost of products sold	368,664	352,248	70.2 %	77.6 %
Cost of services	49,267	27,174	9.4 %	6.0 %
Total cost of sales	417,931	379,422	79.6 %	83.6 %
Gross profit	107,427	74,338	20.4 %	16.4 %
General and administrative expenses	83,814	70,182	16.0 %	15.5 %
Operating income	23,613	4,156	4.5 %	0.9 %
Interest expense, net	(12,525)	(10,033)	(2.4)%	(2.2)%
Foreign currency (loss) income, net	(104)	125	(0.0)%	0.0 %
Loss on debt extinguishment	(5,453)	—	(1.0)%	— %
Other income, net	759	689	0.1 %	0.2 %
Total other expense, net	17,323	9,219	3.3 %	2.0 %
Pretax net loss	6,290	(5,063)	1.2 %	(1.1)%
(Provision) benefit for income taxes	130	981	0.0 %	0.2 %
Net income (loss)	$ 6,420	$ (4,082)	1.2 %	(0.9)%

The following tables set forth financial information relating to the Company's operating segments for the periods presented:

	For the three months ended		For the six months ended	
$'s in 000's	**June 30, 2021**	**June 30, 2020**	**June 30, 2021**	**June 30, 2020**
Services segment sales:				
Same-store sales	$ 22,172	$ 1,722	$ 42,090	$ 19,938
Non same-store sales	5,982	953	10,377	3,235
Net services segment sales	28,154	2,675	52,467	23,173
Products segment sales	242,857	264,307	472,891	430,587
Total net sales	271,011	266,982	525,358	453,760
Adjusted EBITDA				
Products	48,187	41,851	86,979	66,130
Services	3,028	1,112	5,124	3,101
Unallocated Corporate	(16,856)	(14,657)	(30,883)	(26,467)
Total Adjusted EBITDA	$ 34,359	$ 28,306	$ 61,220	$ 42,764

Three Months Ended June 30, 2021 Compared With Three Months Ended June 30, 2020

Net sales

Consolidated Net Sales

Consolidated net sales increased $4.0 million, or 1.5%, to $271.0 for the three months ended June 30, 2021, compared to $267.0 million for the three months ended June 30, 2020. This increase was driven by reopening and expansion in the Services Segment. Growth in the Services segment is related to more days open and newly opened wellness centers, compared to the closures related to COVID-19 that heavily impacted the comparable periods. This growth was partially offset by lower sales in the Products segment discussed below.

Products Segment

Product sales decreased $21.4 million, or 8.1%, to $242.9 million for the three months ended June 30, 2021, compared to $264.3 million for the three months ended June 30, 2020. This decrease was driven by timing of orders as well as an overall softness in the consumer demand for certain flea and tick products at our customers.

Services Segment

Services revenues increased $25.5 million, or 952%, from $2.7 million to $28.2 million for the three months ended June 30, 2021, compared to the three months ended June 30, 2020. Same-store sales increased $20.5 million, or 1188%, to $22.2 million for the three months ended June 30, 2021, compared to $1.7 million for the three months ended June 30, 2020. The increase in same-store sales was driven by relaxation of COVID-19 related closures. Non same-store sales increased $5.0 million or 527%, to $6.0 million for the three months ended June 30, 2021, compared to $1.0 million for the three months ended June 30, 2020. The increase in non same-store sales was a result of opening approximately 30 additional wellness centers in 2021, as well as the rollback of COVID protocols.

Gross profit

Gross profit increased by $17.4 million, or 41.4%, to $59.6 million for the three months ended June 30, 2021, compared to $42.2 million for the three months ended June 30, 2020. This increase is due to margin improvement on Capstar products now that it is owned by PetIQ as well as improvements in the Services segment related to relaxation of COVID-19 related restrictions and policies and procedures.

Gross margin increased to 22.0% for the three months ended June 30, 2021, compared to 15.8% for the three months ended June 30, 2020. This increase was driven by growth in manufactured product sales including higher margin items such as Capstar, in addition to improvements in services margin due to reopening operations.

General and administrative expenses

Consolidated general and administrative expenses (“G&A”) increased by $4.7 million, or 12.1%, to $43.1 million for the three months ended June 30, 2021, compared to $38.5 million for the three months ended June 30, 2020. As a percentage of net sales, G&A increased from 14.4% for the three months ended June 30, 2020 to 15.9% for the second quarter of 2021. The increase was driven by higher selling and marketing costs for both Products and Services segment as well as increased amortization on both the newly acquired assets and the accelerated IPRD assets increased G&A expenses in the current period.

Products Segment

Products segment G&A increased $4.3 million or approximately 61.4% to $11.3 million for the three months ended June 30, 2021, compared to $7.0 million for the three months ended June 30, 2020. This increase was due to higher marketing and selling costs related to the Capstar brand, offset slightly by efficiencies gained through centralizing our OTC distribution to our Omaha, Nebraska distribution facility.

Services Segment

Services segment G&A increased $3.8 million, or 152.0%, to $6.3 million for the three months ended June 30, 2021, compared to $2.5 million for the three months ended June 30, 2020. This increase was driven by increased wages and marketing related to new clinic rollouts, as well as increased variable costs on higher sales driven by reopening.

Unallocated Corporate

Unallocated corporate G&A decreased $3.3 million, or 11.4%, to $25.6 million for the three months ended June 30, 2021, from $28.9 million for the three months ended June 30, 2020. The decrease was related to the following:

- Additional corporate compensation (wages/bonus) of approximately $1.5 million, driven by corporate growth in headcount and wage rates;
- Increased amortization of $2.4 million resulting from the new acquisitions; and
- The lack of the contract termination costs that occurred in the three months ended June 30, 2020 of $7.8 million.

Interest expense, net

Interest expense, net, increased $2.3 million to $7.7 million for the three months ended June 30, 2021, compared to $5.3 million for the three months ended June 30, 2020. This increase was driven by the Notes issued in May 2020 to finance the Capstar Acquisition, as well as the interest on incremental debt.

Provision for income taxes

Our effective tax rate was (5.4)% and (14.9)% for the three months ended June 30, 2021 and 2020, respectively, with a tax benefit of $0.2 million and a tax expense of $0.2 million, respectively. The tax rate is different than the U.S federal statutory income tax rate of 21% primarily due to the effects of a change in valuation allowance, state taxes, and foreign Global Intangible Low-Taxed Income (“GILTI “) income inclusion. The Company’s tax rate is also impacted by the ownership structure of Holdco, which changes over time.

Segment Adjusted EBITDA

Products Segment

Products segment Adjusted EBITDA increased $6.3 million, or 15.1% to $48.2 million for the three months ended June 30, 2021, compared to $41.9 million for the three months ended June 30, 2020. Products segment Adjusted EBITDA fluctuates based on the quantity and mix of products sold, specifically whether the products are produced by PetIQ, or are distributed for other manufacturers. The significant growth in Products segment Adjusted EBITDA relates primarily to expanded margins related to the purchase of the Capstar branded products.

Services Segment

Services segment Adjusted EBITDA increased $1.9 million, to $3.0 million for the three months ended June 30, 2021, compared to $1.1 million for the three months ended June 30, 2020. Services segment Adjusted EBITDA can fluctuate considerably for the Services segment based on the volume of pets seen in clinics, due to the relatively fixed cost nature of a clinic. Additionally, Services segment earnings are impacted by the Company's growth strategy of opening new wellness centers and the impact of the Company's same store portfolio. Services segment Adjusted EBITDA was significantly impacted by the COVID-19, with the impact lessening throughout the three months ended June 30, 2021.

Unallocated Corporate

Unallocated corporate expenses consist of expenses incurred by centrally-managed departments, including accounting, legal, human resources information technology and headquarters expenses, as well as executive and incentive compensation expenses, and other miscellaneous costs. Unallocated corporate costs have primarily grown due to the growth in the size of the Company, including adding to administrative headcount through acquisitions, as well as headquarters growth to support the larger Company. Adjustments to unallocated corporate include expenses related to specific events, such as the acquisition expenses and integration costs. Adjustments also include non-cash expenses, such as depreciation, amortization, and stock based compensation.

The following tables reconcile Segment pre-tax net income to Adjusted EBITDA for the periods presented.

	Three months ended June 30, 2021			
$'s in 000's	**Products**	**Services**	**Unallocated Corporate**	**Consolidated**
Pretax net income (loss)	$ 46,462	$ (3,347)	$ (39,286)	$ 3,829
Adjustments:				
Depreciation	991	1,288	864	3,143
Interest	—	—	7,655	7,655
Amortization	—	—	4,627	4,627
Acquisition costs[1]	—	—	86	86
Stock based compensation expense	—	—	2,439	2,439
Non same-store revenue[2]	—	(5,982)	—	(5,982)
Non same-store costs[2]	—	10,493	—	10,493
Integration costs and costs of discontinued clinics[3]	734	—	1	735
Clinic launch expense[4]	—	576	—	576
Litigation expenses	—	—	320	320
Loss on extinguishment and related costs	—	—	6,438	6,438
Adjusted EBITDA	**$ 48,187**	**$ 3,028**	**$ (16,856)**	**$ 34,359**

$'s in 000's	Three months ended June 30, 2020			
	Products	Services	Unallocated Corporate	Consolidated
Pretax net income (loss)	$ 40,305	$ (7,180)	$ (34,386)	$ (1,261)
Adjustments:				
Depreciation	1,167	890	926	2,983
Interest, net	—	—	5,329	5,329
Amortization	—	—	2,250	2,250
Acquisition costs[1]	—	—	146	146
Stock based compensation expense	—	—	1,844	1,844
Non same-store revenue[2]	—	(953)	—	(953)
Non same-store costs[2]	—	3,698	—	3,698
Integration costs and costs of discontinued clinics[3]	—	—	8,850	8,850
Clinic launch expense[4]	—	603	—	603
Litigation expenses	—	—	384	384
COVID-19 related costs[5]	379	4,054	—	4,433
Adjusted EBITDA	**$ 41,851**	**$ 1,112**	**$ (14,657)**	**$ 28,306**

(1) Acquisition costs include legal, accounting, banking, consulting, diligence, and other out-of-pocket costs related to completed and contemplated acquisitions.

(2) Non same-store revenue and costs relate to our Services segment and are from wellness centers, host partners, and regions with less than six full trailing quarters of operating results.

(3) Integration costs and costs of discontinued clinics represent costs related to integrating the acquired businesses, such as personnel costs like severance and signing bonuses, consulting work, contract termination, and IT conversion costs. These costs are primarily in the Products segment and the corporate segment for personnel costs, legal and consulting expenses, and IT costs.

(4) Clinic launch expenses relate to our Services segment and represent the nonrecurring costs to open new veterinary wellness centers, primarily employee costs, training, marketing, and rent prior to opening for business.

(5) Costs related to maintaining service segment infrastructure, staffing, and overhead related clinics and wellness centers closed due to COVID-19 related health and safety initiatives. Product segment and unallocated corporate costs related to incremental wages paid to essential workers and sanitation costs due to COVID.

Six Months Ended June 30, 2021 Compared With Six Months Ended June 30, 2020

Net sales

Consolidated Net Sales

Consolidated net sales increased $71.6 million, or 15.8%, to $525.4 for the six months ended June 30, 2021, compared to $453.8 million for the six months ended June 30, 2020. This increase was driven by the acceleration of sales of distributed items, both OTC and Rx. Large gains occurred within both the online channel and brick and mortar. Manufactured items as a result of the Capstar acquisition added some sales growth, as well growth of health and wellness items. Growth in the Services segment is related to more days open and newly opened wellness centers, compared to the closures related to COVID-19 that started during the three months ended March 31, 2020.

Products Segment

Product sales increased $42.3 million, or 9.8%, to $472.9 million for the six months ended June 30, 2021, compared to $430.6 million for the six months ended June 30, 2020. This increase was driven by velocity growth within current customers of distributed products, as well as modest sales growth as a result of the Capstar acquisition. This includes a

program change at a major partner who moved from a manufactured offering to a distributed offering which increased net sales.

Services Segment

Services revenues increased $29.3 million, or 126.4%, from $23.2 million to $52.5 million for the six months ended June 30, 2021, compared to the six months ended June 30, 2020. Same-store sales increased $22.2 million, or 111.1%, to $42.1 million for the six months ended June 30, 2021, compared to $19.9 million for the six months ended June 30, 2020. The increase in same-store sales was driven by relaxation of COVID-19 related closures. Non same-store sales increased $7.1 million or 220.8%, to $10.4 million for the six months ended June 30, 2021, compared to $3.2 million for the six months ended June 30, 2020. The increase in non same-store sales was a result of opening approximately 30 additional wellness centers in 2021, as well as the maturation of clinics opened in the past six trailing quarters and operational improvements with the relaxation of COVID-19 restrictions.

Gross profit

Gross profit increased by $33.1 million, or 44.5%, to $107.4 million for the six months ended June 30, 2021, compared to $74.3 million for the six months ended June 30, 2020. This increase is due to margin improvement on Capstar products now that it is owned by PetIQ as well as improvements in the Services Segment.

Gross margin increased to 20.4% for the six months ended June 30, 2021, compared to 16.4% for the six months ended June 30, 2020. This increase was driven by product sales growth in higher margin items such as Capstar and the improvements in the Services segment.

General and administrative expenses

Consolidated general and administrative expenses (“G&A”) increased by $13.6 million, or 19.4%, to $83.8 million for the six months ended June 30, 2021, compared to $70.2 million for the six months ended June 30, 2020. As a percentage of net sales, G&A increased from 15.5% for the six months ended June 30, 2020 to 16.0% for the second quarter of 2021, primarily on the increase in amortization expense related to acquisitions and costs to support higher operations.

Products Segment

Products segment G&A increased $4.9 million or approximately 31.0% to $20.7 million for the six months ended June 30, 2021, compared to $15.8 million for the six months ended June 30, 2020. This increase was driven due to higher sales resulting in higher selling costs, as well as marketing and selling costs related to the Capstar products.

Services Segment

Services segment G&A increased $4.8 million, or 71.6%, to $11.5 million for the six months ended June 30, 2021, compared to $6.7 million for the six months ended June 30, 2020. This increase was driven by increased wages and marketing related to new clinic rollouts, as well as increased variable costs on higher sales.

Unallocated Corporate

Unallocated corporate G&A increased $3.9 million, or 8.2%, to $51.6 million for the six months ended June 30, 2021, from $47.7 million for the six months ended June 30, 2020. The increase was related to the following:

- Additional corporate compensation (wages/bonus) of approximately $1.7 million, driven by corporate growth in headcount and wage rates;
- Increased amortization of $7.2 million resulting from the new acquisitions the acceleration of in-process research and development assets; offset by
- The lack of the contract termination costs that occurred in the three months ended June 30, 2020 of $7.8 million.

Interest expense, net

Interest expense, net, increased $2.3 million to $12.5 million for the six months ended June 30, 2021, compared to $10.7 million for the six months ended June 30, 2020. This increase was driven by the Notes issued in May 2020 to finance the Capstar Acquisition and the increase in total debt outstanding.

Provision for income taxes

Our effective tax rate was (2.1)% and 19.4% for the six months ended June 30, 2021 and 2020, respectively, with a tax benefit of $0.1 million of $1.0 million, respectively. The tax rate is different than the U.S federal statutory income tax rate of 21% primarily due to the effects of a change in valuation allowance, state taxes, and foreign GILTI income inclusion. The Company’s tax rate is also impacted by the ownership structure of Holdco, which changes over time.

Segment Adjusted EBITDA

Products Segment

Products segment Adjusted EBITDA increased $20.9 million, or 31.6% to $87.0 million for the six months ended June 30, 2021, compared to $66.1 million for the six months ended June 30, 2020. Products segment Adjusted EBITDA fluctuates based on the quantity and mix of products sold, specifically whether the products are produced by PetIQ, or are distributed for other manufacturers. The significant growth in Products segment Adjusted EBITDA relates to significant sales growth as well as expanded margins related to the purchase of the Capstar branded products.

Services Segment

Services segment Adjusted EBITDA increased $2.0 million, or 65.2% to $5.1 million for the six months ended June 30, 2021, compared to $3.1 million for the six months ended June 30, 2020. Services segment Adjusted EBITDA can fluctuate considerably for the Services segment based on the volume of pets seen in clinics, due to the relatively fixed cost nature of a clinic. Additionally, Services segment earnings are impacted by the Company’s growth strategy of opening new wellness centers and the impact of the Company’s same store portfolio, discussed further below. Services segment Adjusted EBITDA was significantly impacted by the COVID-19, with the impact lessening throughout the six months ended June 30, 2021.

Unallocated Corporate

Unallocated corporate expenses consist of expenses incurred by centrally-managed departments, including accounting, legal, human resources information technology and headquarters expenses, as well as executive and incentive compensation expenses, and other miscellaneous costs. Unallocated corporate costs have primarily grown due to the growth in the size of the Company, including adding to administrative headcount through acquisitions, as well as headquarters growth to support the larger Company. Adjustments to unallocated corporate include expenses related to specific events, such as the acquisition expenses and integration costs. Adjustments also include non-cash expenses, such as depreciation, amortization, and stock based compensation.

The following tables reconcile Segment pre-tax net income to Adjusted EBITDA for the periods presented.

	Six months ended June 30, 2021			
$'s in 000's	**Products**	**Services**	**Unallocated Corporate**	**Consolidated**
Pretax net income (loss)	$ 84,314	$ (8,081)	$ (69,943)	$ 6,290
Adjustments:				
Depreciation	1,931	2,470	1,873	6,274
Interest, net	—	—	12,525	12,525
Amortization	—	—	13,055	13,055
Acquisition costs(1)	—	—	92	92
Stock based compensation expense	—	—	4,561	4,561
Non same-store revenue(2)	—	(10,377)	—	(10,377)
Non same-store costs(2)	—	19,832	—	19,832
Integration costs and costs of discontinued clinics(3)	734	—	(47)	687
Clinic launch expense(4)	—	1,280	—	1,280
Litigation expenses	—	—	563	563
Loss on extinguishment and related costs	—	—	6,438	6,438
Adjusted EBITDA	**$ 86,979**	**$ 5,124**	**$ (30,883)**	**$ 61,220**

$'s in 000's	Six months ended June 30, 2020			
June 30, 2020	**Products**	**Services**	**Unallocated Corporate**	**Consolidated**
Pretax net income (loss)	$ 63,267	$ (10,832)	$ (57,498)	$ (5,063)
Adjustments:				
Depreciation	2,484	1,737	1,635	5,856
Interest, net	—	—	10,033	10,033
Amortization	—	—	4,492	4,492
Acquisition costs(1)	—	—	732	732
Stock based compensation expense	—	—	4,402	4,402
Non same-store revenue(2)	—	(3,235)	—	(3,235)
Non same-store costs(2)	—	10,098	—	10,098
Integration costs and costs of discontinued clinics(3)	—	—	9,304	9,304
Clinic launch expense(4)	—	1,279	—	1,279
Litigation expenses	—	—	433	433
COVID-19 related costs(5)	379	4,054	—	4,433
Adjusted EBITDA	**$ 66,130**	**$ 3,101**	**$ (26,467)**	**$ 42,764**

(1) Acquisition costs include legal, accounting, banking, consulting, diligence, and other out-of-pocket costs related to completed and contemplated acquisitions.

(2) Non same-store revenue and costs relate to our Services segment and are from wellness centers, host partners, and regions with less than six full trailing quarters of operating results.

(3) Integration costs and costs of discontinued clinics represent costs related to integrating the acquired businesses, such as personnel costs like severance and signing bonuses, consulting work, contract termination, and IT conversion costs. These costs are primarily in the Products segment and the corporate segment for personnel costs, legal and consulting expenses, and IT costs.

(4) Clinic launch expenses relate to our Services segment and represent the nonrecurring costs to open new veterinary wellness centers, primarily employee costs, training, marketing, and rent prior to opening for business.

(5) Costs related to maintaining service segment infrastructure, staffing, and overhead related clinics and wellness centers closed due to COVID-19 related health and safety initiatives. Product segment and unallocated corporate costs related to incremental wages paid to essential workers and sanitation costs due to COVID.

Consolidated Non-GAAP Financial Measures

EBITDA and Adjusted EBITDA are non-GAAP financial measures. EBITDA represents net income before interest, income taxes and depreciation and amortization. Adjusted EBITDA represents EBITDA plus adjustments for transactions that management does not believe are representative of our core ongoing business. Adjusted EBITDA is utilized by management: (i) as a factor in evaluating management's performance when determining incentive compensation and (ii) to evaluate the effectiveness of our business strategies. The Company presents EBITDA because it is a necessary component for computing Adjusted EBITDA.

We believe that the use of EBITDA and Adjusted EBITDA provides an additional tool for investors to use in evaluating ongoing operating results and trends. In addition, you should be aware when evaluating EBITDA and Adjusted EBITDA that in the future we may incur expenses similar to those excluded when calculating these measures. Our presentation of these measures should not be construed as an inference that our future results will be unaffected by these or other unusual or non-recurring items. Our computation of EBITDA and Adjusted EBITDA may not be comparable to other similarly titled measures computed by other companies, because all companies do not calculate EBITDA and Adjusted EBITDA in the same manner.

Our management does not, and you should not, consider EBITDA or Adjusted EBITDA in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitation of EBITDA and Adjusted EBITDA is that they exclude significant expenses and income that are required by GAAP to be recorded in our financial statements. Some of these limitations are:

- EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- EBITDA does not reflect the interest expenses, or the cash requirements necessary to service interest or principal payments, on our debts;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- Adjusted EBITDA does not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing core operations; and
- Other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using EBITDA and Adjusted EBITDA only supplementally. You should review the reconciliations of net income (loss) to EBITDA and Adjusted EBITDA below and not rely on any single financial measure to evaluate our business.

The following table reconciles net income (loss) to EBITDA and Adjusted EBITDA for the periods presented.

	For the three months ended		For the six months ended	
	June 30, 2021	June 30, 2020	June 30, 2021	June 30, 2020
Net income (loss)	$ 4,034	$ (1,449)	$ 6,420	$ (4,082)
Plus:				
Tax expense (benefit)	(205)	188	(130)	(981)
Depreciation	3,143	2,983	6,274	5,856
Amortization	4,627	2,250	13,055	4,492
Interest	7,655	5,329	12,525	10,033
EBITDA	$ 19,254	$ 9,301	$ 38,144	$ 15,318
Acquisition costs[1]	86	146	92	732
Loss on extinguishment and related costs[2]	6,438	—	6,438	—
Stock based compensation expense	2,439	1,844	4,561	4,402
Non same-store revenue[3]	(5,982)	(953)	(10,377)	(3,235)
Non same-store costs[3]	10,493	3,698	19,832	10,098
Integration costs[4]	735	8,850	687	9,304
Clinic launch expenses[5]	576	603	1,280	1,279
Litigation expenses	320	384	563	433
COVID-19 related costs[6]	—	4,433	—	4,433
Adjusted EBITDA	$ 34,359	$ 28,306	$ 61,220	$ 42,764
Adjusted EBITDA Margin	***12.7%***	*10.6%*	***11.9%***	*9.5%*

(1) Acquisition costs include legal, accounting, banking, consulting, diligence, and other out-of-pocket costs related to completed and contemplated acquisitions.

(2) Non same-store revenue and costs relate to our Services segment and are from wellness centers, host partners, and regions with less than six full trailing quarters of operating results.

(3) Integration costs and costs of discontinued clinics represent costs related to integrating the acquired businesses, such as personnel costs like severance and signing bonuses, consulting work, contract termination, and IT conversion costs. These costs are primarily in the Products segment and the corporate segment for personnel costs, legal and consulting expenses, and IT costs.

(4) Clinic launch expenses relate to our Services segment and represent the nonrecurring costs to open new veterinary wellness centers, primarily employee costs, training, marketing, and rent prior to opening for business.

(5) Costs related to maintaining service segment infrastructure, staffing, and overhead related clinics and wellness centers closed due to COVID-19 related health and safety initiatives. Product segment and unallocated corporate costs related to incremental wages paid to essential workers and sanitation costs due to COVID.

Financial Condition, Liquidity, and Capital Resources

Historically, our primary sources of liquidity have been cash flows from operations, borrowings, and equity capital. As of June 30, 2021 and December 31, 2020, our cash and cash equivalents were $27.2 million and $33.5 million, respectively. As of June 30, 2021, we had $15.0 million outstanding under a revolving credit facility, $300.0 million under a term loan, $143.8 million of outstanding Notes, and $14.8 million in other debt. Our debt agreements bear interest at rates between 1.6% and 4.75%.

Our primary cash needs are for working capital. Our maintenance capital expenditures have typically been less than 1.0% of net sales, but we may make additional capital expenditures as necessary to support our growth, such as the investment in additional veterinary clinics. Our primary working capital requirements are to carry inventory and receivable levels necessary to support our increasing net sales. Fluctuations in working capital are primarily driven by the timing of new product launches and seasonal retailer demand. As of June 30, 2021 and December 31, 2020, we had working capital (current assets less current liabilities) of $218.1 million and $141.2 million, respectively.

We believe that our operating cash flow, cash on hand, and debt proceeds from our borrowings under our credit facilities will be adequate to meet our operating, investing, and financing needs for the foreseeable future. To the extent additional funds are necessary to meet long-term liquidity needs as we continue to execute our business strategy, we anticipate that

they will be obtained through the incurrence of additional indebtedness, additional equity financings or a combination of these potential sources of funds, although we can provide no assurance that these sources of funding will be available on reasonable terms.

Cash Flows

Cash used in Operating Activities

Net cash used in operating activities was $46.2 million for the six months ended June 30, 2021, compared to cash used in operating activities of $42.4 million for the six months ended June 30, 2020. The change in operating cash flows primarily reflects higher earnings offset by significant growth in working capital items. Working capital changes are driven primarily by accounts receivable growth on both sales growth and seasonality. Net changes in assets and liabilities accounted for $83.4 million in cash used in operating activities for the six months ended June 30, 2021 compared to $52.7 million of cash used in operating activities for the six months ended June 30, 2020.

Cash used in Investing Activities

Net cash used in investing activities was $18.0 million for the six months ended June 30, 2021, compared to $10.0 million for the six months ended June 30, 2020. The increase in net cash used in investing activities is a result of continued investment in new wellness centers as well as construction of a new corporate headquarters.

Cash provided by Financing Activities

Net cash provided by financing activities was $57.8 million for the six months ended June 30, 2021, compared to $142.4 million for the six months ended June 30, 2020. The change in cash provided by financing activities is primarily driven improved profitability allowing for less use of debt financing and no significant asset acquisition related financing taking place.

Description of Indebtedness

Senior Secured Asset-Based Revolving Credit Facility

On April 13, 2021, Opco entered into an asset-based credit agreement with KeyBank National Association, as administrative agent and collateral agent, and the lenders' party thereto, that provides senior secured financing of $125.0 million (which may be increased by up to $50.0 million in certain circumstances), subject to a borrowing base limitation. The borrowing base for the ABL Facility at any time equals the sum of: (i) 90% of eligible investment-grade accounts; plus (ii) 85% of eligible other accounts; plus, (iii) 85% of the net orderly liquidation value of the cost of certain eligible on-hand and in-transit inventory; plus, (iv) at the option of Opco, 100% of qualified cash; minus (v) reserves. The ABL Facility bears interest at a variable rate plus a margin, with the variable rate being based on a base rate or LIBOR at the option of the Company. The rate at June 30, 2021 was 1.59%. The Company also pays a commitment fee on unused borrowings at a rate of 0.35%.

The ABL is secured by the assets of the Company including a first-priority security interest in personal property consisting of accounts receivable, inventory, cash, and deposit accounts. The ABL contains certain negative covenants that restrict the Company's ability to incur additional indebtedness, pay dividends, make investments, loans, and acquisitions, among other restrictions.

Senior Secured Term Loan Facility

On April 13, 2021, Opco entered into a term credit and guaranty agreement with Jefferies Finance LLC, as administrative agent and collateral agent, and the lenders' party thereto, that provides senior secured term loans of $300.0 million (which may be increased in certain circumstances). The Term Loan B bears interest at a variable rate of either prime, federal funds effective rate or LIBOR, plus an applicable margin of between 3.25% and 4.25% depending on the underlying base rate. LIBOR rates are subject to a 0.50% floor. The interest rate at June 30, 2021 was 4.75%. The Term Loan B requires quarterly payments of 0.25% of the original principal amount, with the balance due on the seventh anniversary of the closing date.

The credit agreement governing the Term Loan B does not require Opco to comply with any financial maintenance covenants but additionally contains certain customary representations and warranties, affirmative covenants and provisions relating to events of default.

Convertible Notes

On May 19, 2020, the Company issued $143.8 million in aggregate principal amount of 4.00% Convertible Senior Notes due 2026 (the "Notes") pursuant to the indenture (the "Indenture"), dated as of May 19, 2020. The total net proceeds from the Notes offering, after deducting debt issuance costs paid or payable by us, was $137.9 million. The Notes accrue interest at a rate of 4.00% per annum, payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2020. The Notes will mature on June 1, 2026, unless earlier repurchased, redeemed or converted. Before January 15, 2026, holders will have the right to convert their Notes only upon the occurrence of certain events. From and after January 15, 2026, holders may convert their Notes at any time at their election until the close of business on the scheduled trading day immediately before the maturity date. The Company will settle conversions by paying or delivering, as applicable, cash, shares of its Class A common stock, or a combination of cash and shares of its Class A common stock, at its election. The initial conversion rate is 33.7268 shares of Class A common stock per $1,000 principal amount of Notes. The conversion rate and conversion price will be subject to customary adjustments upon the occurrence of certain events. In addition, if certain corporate events that constitute a "Make-Whole Fundamental Change" (as defined in the Indenture) occur, then the conversion rate will, in certain circumstances, be increased for a specified period of time.

The Notes are redeemable, in whole or in part, at the Company's option at any time, and from time to time, on or after June 1, 2023 and on or before the 40th scheduled trading day immediately before the maturity date, at a cash redemption price equal to the principal amount of the Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, but only if the last reported sale price per share of the Company's Class A common stock exceeds 130% of the conversion price on (i) each of at least 20 trading days, whether or not consecutive, during the 30 consecutive

trading days ending on, and including, the trading day immediately before the date the Company sends the related redemption notice; and (2) the trading day immediately before the date the Company sends such notice. In addition, calling any Notes will constitute a Make-Whole Fundamental Change with respect to such Notes, which will result in an increase to the conversion rate if such Notes are converted after they are called for redemption.

If certain corporate events that constitute a “Fundamental Change” (as defined in the Indenture) occur, then noteholders may require the Company to repurchase their Notes at a cash repurchase price equal to the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date. The definition of Fundamental Change includes certain business combination transactions involving the Company and certain de-listing events with respect to the Company’s Class A common stock.

The Notes are the Company’s senior, unsecured obligations and are (i) equal in right of payment with the Company’s existing and future senior, unsecured indebtedness; (ii) senior in right of payment to the Company’s existing and future indebtedness that is expressly subordinated to the Notes; (iii) effectively subordinated to the Company’s existing and future secured indebtedness, to the extent of the value of the collateral securing that indebtedness; and (iv) structurally subordinated to all existing and future indebtedness and other liabilities, including trade payables, and (to the extent the Company is not a holder thereof) preferred equity, if any, of the Company’s subsidiaries. The Notes contain customary events of default.

The fair value of the Notes was $217.1 million as of June 30, 2021. The estimated fair value of the Notes is based on market rates and the closing trading price of the Convertible Notes as of June 30, 2021 and is classified as Level 2 in the fair value hierarchy.

Amended & Restated Credit Agreement

The Amended Revolving Credit Agreement provides for a secured revolving credit facility of $125 million that matures on July 8, 2024. The borrowers under the Amended Revolving Credit Facility incur fees between 0.375% and 0.50% as unused facility fees, dependent on the aggregate amount borrowed. On May 14, 2020, the Company amended the Amended Revolving Credit Agreement to allow for the Notes described above. Additionally the amendment instituted a Eurodollar floor of 1% to the agreement.

All obligations under the Amended Revolving Credit Agreement are unconditionally guaranteed by HoldCo and, subject to certain exceptions, each of its material current and future domestic wholly-owned subsidiaries. All obligations under the Amended Revolving Credit Agreement, and the guarantees of those obligations, are secured by substantially all of the assets of each borrower and guarantor under the Amended Revolving Credit Agreement, subject to certain exceptions.

As of June 30, 2021 Amended Revolving Credit Agreement was fully repaid and terminated.

Amended & Restated Term Loan Credit Agreement

OpCo entered into an Amended and Restated Term Loan Credit Agreement on July 8, 2019 (the “A&R Term Loan Credit Agreement”). The $220.0 million A&R Term Loan Credit Agreement has an interest rate equal to the Eurodollar rate plus 5.00%. The A&R Term Loan Credit Agreement calls for 1% of the original loan balance to be paid annually via equal quarterly payments, with the balance of the loan due on the sixth anniversary of the agreement.

All obligations under the A&R Term Loan Credit Agreement are unconditionally guaranteed by PetIQ Holdings, LLC and each of its domestic wholly-owned subsidiaries and, subject to certain exceptions, each of its material current and future domestic wholly-owned subsidiaries. All obligations under the A&R Term Loan Credit Agreement, and the guarantees of those obligations, are secured by substantially all of the assets of PetIQ, LLC and each guarantor under the A&R Term Loan Credit Agreement, subject to certain exceptions.

As of June 30, 2021 the A&R Term Loan Credit Agreement was fully repaid and terminated.

General Other Debt

The Company entered into a mortgage with a local bank to finance a commercial building in Eagle, Idaho, in July 2017. The mortgage bears interest at a fixed rate of 4.35% and utilizes a 25 year amortization schedule with a 10 year balloon payment of the balance due at that time. As described in Note 3, the Company entered into an agreement to sell the commercial building in Eagle, Idaho, which closed in the third quarter of 2021. The Company used the proceeds from the sale to repay the mortgage on August 2, 2021, and has reclassified the mortgage to current maturities of long-term debt as of June 30, 2021.

In July 2020, the Company entered into the Agreement. See Note 2 – “Asset Acquisitions”. The Agreement called for PetIQ to pay $20.6 million, $2.6 million at signing and $1.0 million per quarter thereafter with no interest. The Company discounted the payment stream using a market interest rate of 8.3%, resulting in an obligation of $17.5 million at the time it was entered into.

In connection with the acquisition of Community Veterinary Clinics, LLC d/b/a, VIP Petcare (the “VIP Acquisition”), the Company entered into a guarantee note of $10.0 million and contingent Notes that were subsequently earned. As of December 31, 2020 $7.5 million was payable pursuant to the 2018 Contingent Note and $10.0 million was payable pursuant to the 2019 Contingent Note. The guarantee note and the Contingent Notes, collectively, “Notes Payable – VIP Acquisition” of $27.5 million required quarterly interest payments of 6.75% with the balance payable July 17, 2023. These Notes Payable – VIP Acquisition were fully repaid in April 2021.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to certain market risks arising from transactions in the normal course of our business. Such risk is principally associated with interest rates. We currently do not enter into derivatives or other financial instruments for trading or speculative purposes.

Interest Rate Risk

We are exposed to changes in interest rates because the indebtedness incurred under our A&R Credit Agreement and A&R Term Loan Credit Agreement are variable rate debt. Interest rate changes generally do not affect the recorded value of our credit agreements but do affect the amount of our interest payments and, therefore, our future earnings and cash flows. As of June 30, 2021, we had variable rate debt of approximately $315.0 million under our Revolver and Term Loan. An increase of 1% would have increased our interest expense for the three months ended June 30, 2021 by approximately $0.8 million.

Item 4. Controls and Procedures.

Internal Control over Financing Reporting

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during our fiscal quarter ended June 30, 2021, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that some of our corporate employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the impact of COVID-19 on our internal controls to minimize the impact on their design and operating effectiveness.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, such as statements about our plans, objectives, expectations, assumptions or future events. In some cases, you can identify forward-looking statements by terminology such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend,” “may,” “will,” “should,” “could” and similar expressions. Examples of forward-looking statements include, without limitation:

- statements regarding our strategies, results of operations or liquidity;
- statements concerning projections, predictions, expectations, estimates or forecasts as to our business, financial and operational results and future economic performance;
- statements of management’s goals and objectives; and
- assumptions underlying statements regarding us or our business.

Forward-looking statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from any future results, performances, or achievements expressed or implied by the forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made or management’s good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to, factors discussed under the headings “Management’s Discussion and Analysis of Financial Condition and Results of Operations”; the impact of COVID-19 on our business and the global economy; our ability to successfully grow our business through acquisitions; our dependency on a limited number of customers; our ability to implement our growth strategy effectively; disruptions in our manufacturing and distribution chains; competition from veterinarians and others in our industry; reputational damage to our brands; economic trends and spending on pets; the effectiveness of our marketing and trade promotion programs; recalls or withdrawals of our products or product liability claims; our ability to manage our manufacturing and supply chain effectively; disruptions in our manufacturing and distribution chains; our ability to introduce new products and improve existing products; our failure to protect our intellectual property; costs associated with governmental regulation; our ability to keep and retain key employees; our ability to sustain profitability; and the risks set forth under the “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2020, and other reports filed from time to time with the Securities and Exchange Commission.

Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or operating results. The forward-looking statements speak only as of the date on which they are made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In addition, we cannot assess the impact of each factor on our business or the

extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Consequently, you should not place undue reliance on forward-looking statements.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are from time to time subject to, and are presently involved in, litigation and other proceedings. We believe that there are no pending lawsuits or claims that, individually or in the aggregate, may have a material adverse effect on our business, financial condition or results of operations.

The Company records a liability when a particular contingency is probable and estimable and provides disclosure for contingencies that are at least reasonably possible of resulting in a loss including an estimate which we currently cannot make. The Company has not accrued for any contingency at June 30, 2021, as the Company does not consider any contingency to be probable or estimable. The Company expenses legal costs as incurred within general and administrative expenses on the condensed consolidated statements of operations.

Item 1A. Risk Factors.

There have been no material changes to the risk factors disclosed in our annual report on Form 10-K for the year ended December 31, 2020,

Item 6. Exhibits. –

10.1	ABL Credit and Guaranty Agreement, dated as of April 13, 2021, among PetIQ Holdings, LLC, PetIQ, the guarantor subsidiaries party thereto, the lenders party thereto and Keybank National Association, as administrative and collateral agent (incorporated by reference to Exhibit 10.1 of the Company's Form 8-k filed April 19, 2021).
10.2	Term Credit and Guaranty Agreement, dated as of April 13, 2021, among PetIQ Holdings, LLC, PetIQ, LLC, the guarantor subsidiaries party thereto, the lenders party thereto and Jefferies Finance LLC, as administrative and collateral agent (incorporated by reference to Exhibit 10.2 of the Company's Form 8-k filed April 19, 2021).
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.)

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	PETIQ, INC.
August 5, 2021	/s/ John Newland
	John Newland
	Chief Financial Officer

Exhibit 31.1

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, McCord Christensen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PetIQ, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2021

/s/ McCord Christensen
McCord Christensen
Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, John Newland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PetIQ, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2021

/s/ John Newland
John Newland
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of PetIQ, Inc. (the "Company") for the period ended June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, McCord Christensen, Chief Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ McCord Christensen

McCord Christensen
Chief Executive Officer

Date: August 5, 2021

Exhibit 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of PetIQ, Inc. (the “Company”) for the period ended June 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John Newland, Chief Financial Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John Newland

John Newland
Chief Financial Officer

Date: August 5, 2021