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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

☐ **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.)
923 S. Bridgeway Pl. Eagle, Idaho (Address of principal executive offices)	83616 (Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 ☒ (Do not check if a smaller reporting company)	Smaller reporting company☐
Emerging growth company ☒	

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

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

As of August 14, 2018, we had 16,856,379 shares of Class A common stock and 8,834,389 shares of Class B common stock outstanding.

PetIQ, Inc.

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PetIQ, Inc.

Condensed Consolidated Balance Sheets

(Unaudited, $'s in 000's except for share and per share amounts)

	June 30, 2018	December 31, 2017
Current assets		
Cash and cash equivalents	$ 11,672	$ 37,896
Accounts receivable, net	50,910	21,759
Inventories	81,208	44,056
Supplier prepayments	1,692	3,173
Other current assets	1,967	1,991
Total current assets	147,449	108,875
Property, plant and equipment, net	25,833	15,000
Deferred tax assets	18,595	5,994
Other non-current assets	2,933	2,646
Intangible assets, net	86,714	3,266
Goodwill	118,335	5,064
Total assets	$ 399,859	$ 140,845
Liabilities and equity		
Current liabilities		
Accounts payable	$ 65,291	$ 14,234
Accrued wages payable	3,423	1,811
Accrued interest payable	926	115
Other accrued expenses	2,225	1,880
Current portion of long-term debt and capital leases	2,033	151
Total current liabilities	73,898	18,191
Long-term debt	107,404	17,183
Capital leases, less current installments	1,646	389
Contingent notes	7,500	—
Other non-current liabilities	403	238
Total non-current liabilities	116,953	17,810
Commitments and contingencies		
Equity		
Additional paid-in capital	146,054	70,873
Class A common stock, par value $0.001 per share, 125,000,000 shares authorized, 16,647,998 and 13,222,583 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	16	13
Class B common stock, par value $0.001 per share, 100,000,000 shares authorized, 9,042,773 and 8,268,188 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	9	8
Accumulated deficit	(3,197)	(3,493)
Accumulated other comprehensive loss	(913)	(687)
Total stockholders' equity	141,969	66,714
Non-controlling interest	67,039	38,130
Total equity	209,008	104,844
Total liabilities and equity	$ 399,859	$ 140,845

See accompanying notes to the condensed consolidated financial statements

PetIQ, Inc.
Condensed Consolidated Statements of Income
(Unaudited, $’s in 000’s, except for per share amounts)

	For the three months ended June 30, 2018	For the three months ended June 30, 2017	For the six months ended June 30, 2018	For the six months ended June 30, 2017
Product sales	$ 148,713	$ 87,178	$ 246,564	$ 154,207
Services revenue	22,429	—	39,644	—
Total net sales	171,142	87,178	286,208	154,207
Cost of products sold	127,583	71,227	212,169	126,056
Cost of services	17,241	—	31,838	—
Total cost of sales	144,824	71,227	244,007	126,056
Gross profit	26,318	15,951	42,201	28,151
Operating expenses				
General and administrative expenses	16,943	9,277	35,911	16,682
Operating income	9,375	6,674	6,290	11,469
Interest expense, net	(2,216)	(535)	(3,981)	(999)
Foreign currency gain (loss), net	136	(72)	58	(121)
Other (expense) income, net	(877)	3	(973)	—
Total other expense, net	(2,957)	(604)	(4,896)	(1,120)
Pretax net income	6,418	6,070	1,394	10,349
Income tax (expense) benefit	(1,020)	—	47	—
Net income	5,398	6,070	1,441	10,349
Net income attributable to non-controlling interest	2,899	6,070	970	10,349
Net income attributable to PetIQ, Inc.	$ 2,499	$ —	$ 471	$ —
Net income per share attributable to PetIQ, Inc. Class A common stock[(1)]				
Basic	$ 0.16	—	$ 0.03	—
Diluted	$ 0.16	—	$ 0.03	—
Weighted average shares of Class A common stock outstanding[(1)]				
Basic	15,980,111	—	15,285,138	—
Diluted	16,008,046	—	15,328,596	—

(1) Basic and Diluted earnings per share is applicable only for periods after the Company’s IPO. See Note 8 – Earnings Per Share.

See accompanying notes to the condensed consolidated financial statements

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

	For the three months ended		For the six months ended	
	June 30, 2018	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
Net income	$ **5,398**	$ 6,070	$ **1,441**	$ 10,349
Foreign currency translation adjustment	**(725)**	374	**(289)**	515
Comprehensive income	**4,673**	6,444	**1,152**	10,864
Comprehensive income attributable to non-controlling interest	**2,668**	6,444	**901**	10,864
Comprehensive income attributable to PetIQ	$ **2,005**	$ —	$ **251**	$ —

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

	For the six months ended	
	June 30, 2018	**June 30, 2017**
Cash flows from operating activities		
Net income	**$ 1,441**	$ 10,349
Adjustments to reconcile net income to net cash (used in) operating activities		
Depreciation and amortization of intangible assets and loan fees	**5,714**	1,687
Foreign exchange (gain) loss on liabilities	**(41)**	14
(Gain) loss on disposition of property	**(49)**	149
Stock based compensation expense	**1,454**	—
Deferred tax adjustment	**(47)**	—
Other non-cash activity	**266**	—
Changes in assets and liabilities		
Accounts receivable	**(20,820)**	(14,175)
Inventories	**(29,384)**	(8,473)
Prepaid expenses and other assets	**2,080**	(574)
Accounts payable	**31,859**	3,603
Accrued wages payable	**410**	377
Other accrued expenses	**(2,304)**	54
Net cash used in operating activities	**(9,421)**	(6,989)
Cash flows from investing activities		
Proceeds from disposition of property, plant, and equipment	**103**	—
Purchase of property, plant, and equipment	**(4,732)**	(681)
Business acquisition (net of cash acquired)	**(92,083)**	—
Net cash used in investing activities	**(96,712)**	(681)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	**299,078**	150,000
Principal payments on long-term debt	**(215,964)**	(141,962)
Principal payments on capital lease obligations	**(561)**	(56)
Payment of deferred financing fees and debt discount	**(2,613)**	(25)
Net cash provided by financing activities	**79,940**	7,957
Net change in cash and cash equivalents	**(26,193)**	287
Effect of exchange rate changes on cash and cash equivalents	**(31)**	(6)
Cash and cash equivalents, beginning of period	**37,896**	767
Cash and cash equivalents, end of period	**$ 11,672**	$ 1,048

See accompanying notes to the condensed consolidated financial statements

PetIQ, Inc.

Condensed Consolidated Statements of Cash Flows, Continued

(Unaudited, $’s in 000’s)

	For the six months ended	
Supplemental cash flow information	**June 30, 2018**	**June 30, 2017**
Interest paid	$ 3,104	$ 799
Property, plant, and equipment acquired through accounts payable	(433)	(121)
Capital lease additions	34	17
Net change of deferred tax asset from step-up in basis	12,505	—
Income taxes paid	400	—
Accrued tax distribution	693	—
Non cash consideration - Contingent notes	6,900	—
Non cash consideration - Guarantee note	10,000	—
Non cash consideration - Issuance of Class B common stock and LLC Interests	90,031	—

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

	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Class A Common Shares	Class A Common Dollars	Class B Common Shares	Class B Common Dollars	Additional Paid-in Capital	Non-controlling Interest	Total Equity
Balance - December 31, 2017	$ (3,493)	$ (687)	13,222,583	$ 13	8,268,188	$ 8	$ 70,873	$ 38,130	$ 104,844
ASC 606 adoption, net of tax	(175)	—	—	—	—	—	—	(110)	(285)
Issuance of equity for business combination	—	112	—	—	4,200,000	4	36,280	53,635	90,031
Exchange of LLC Interests held by Continuing LLC Owners	—	(118)	3,425,415	3	(3,425,415)	(3)	25,517	(25,399)	—
Net increase in deferred tax asset from LLC Interest transactions	—	—	—	—	—	—	12,505	—	12,505
Accrued tax distributions	—	—	—	—	—	—	—	(693)	(693)
Other comprehensive income	—	(220)	—	—	—	—	—	(69)	(289)
Stock based compensation expense	—	—	—	—	—	—	879	575	1,454
Net income	471	—	—	—	—	—	—	970	1,441
Balance - June 30, 2018	$ (3,197)	$ (913)	16,647,998	$ 16	9,042,773	$ 9	$146,054	$ 67,039	$ 209,008

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. (the “Company”, or “PetIQ”) was formed as a Delaware corporation on February 29, 2016. The Company was formed for the purpose of completing a public offering and related transactions in order to carry on the business of PetIQ, LLC, an Idaho limited liability company. The Company is 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, will operate and control all of the business and affairs of Opco and continue to conduct the business now conducted by Opco and its subsidiaries.

The Company’s principal asset is the Holdco LLC Interests that it holds. As the sole managing member of Holdco, the Company operates and controls all of the business and affairs of Holdco and, through Holdco and its subsidiaries, conducts the Company’s business. In addition, the Company controls the management of, and has a controlling interest in, Holdco and, therefore, is the primary beneficiary of Holdco. As a result, the Company consolidates the financial results of Holdco pursuant to the variable-interest entity (“VIE”) accounting model, and a portion of the Company’s net income (loss) will be allocated to the non-controlling interest to reflect the entitlement of Continuing LLC Owners (defined as all owners of Holdco other than PetIQ) to a portion of Holdco’s net (loss) income. Holdco’s assets may be used only to settle Holdco’s obligations and Holdco’s beneficial interest holders have no recourse to the general credit to the Company. Through Holdco and its subsidiaries, the Company is a manufacturer and wholesale distributor of over-the-counter and prescription pet medications and pet wellness products to various retail customers and distributors throughout the United States and Europe. The Company also provides veterinary services to retail consumers through a network of community clinics and wellness centers. The Company is headquartered in Eagle, Idaho and manufactures and distributes products from facilities in Florida, Texas, Utah, and Europe. The Company provides veterinary services in the United States through a network of 34 district offices.

PetIQ, Inc. consolidates Holdco and Opco; Opco is considered to be the predecessor to PetIQ, Inc. for accounting and reporting purposes. The accompanying unaudited condensed consolidated financial statements include the accounts of the Company, all majority-owned subsidiaries and certain veterinary medical groups to which we provide services. The unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial statements and pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, these interim financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. All intercompany transactions and balances have been eliminated in consolidation.

The condensed consolidated financial statements as of June 30, 2018 and December 31, 2017 and for the three and six months ended June 30, 2018 and 2017 are unaudited. The condensed consolidated balance sheet as of December 31, 2017 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, 2017 and related notes thereto included in most recent annual report and filed with the Securities and Exchange Commission (“SEC”) on Form 10-K on March 13, 2018. 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 and liabilities, the valuation of inventories, and reserves for legal contingencies

Foreign Currencies

The Company operates subsidiaries in foreign countries who use the local currency as the functional currency. The Company translates its foreign subsidiaries' assets and liabilities denominated in foreign currencies into U.S. dollars at current rates of exchange as of the balance sheet date and income and expense items at the average exchange rate for the reporting period. Translation adjustments resulting from exchange rate fluctuations are recorded in the cumulative translation account, a component of accumulated other comprehensive income. The Company records gains and losses from changes in exchange rates on transactions denominated in currencies other than each reporting location's functional currency in net income for each period.

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, accounts receivable, accounts payable and accrued liabilities, are at cost, which approximates fair value due to their relatively short maturities. The guarantee note is carried at cost, which approximates fair value due to the recent issuance of the note. 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.

The following table presents liabilities measured at fair value on a recurring basis:

$'s in 000's	June 30, 2018	December 31, 2017
Liabilities:		
Contingent notes	$ 7,500	$ —

In connection with the acquisition of Community Veterinary Clinics, LLC d/b/a VIP Petcare ("VIP" and such acquisition, the "VIP Acquisition") a payment of a portion of the purchase price is structured in the form of Contingent Notes (the "Contingent Notes") that vest based on the adjusted EBITDA for the years ending December 31, 2018 and 2019 ("Measurement Dates"). See Note 2 – "Business Combinations" for more information regarding the VIP Acquisition. The Company is required to reassess the fair value of the Contingent Notes at each reporting period.

A Monte Carlo simulation method was utilized in estimating the fair value (Level 3) of the Contingent Notes. The simulation model is a numerical algorithm that generates thousands of scenarios for the future EBITDA in order to assess the probability of achieving the EBITDA hurdles. The valuation model simulates the last twelve months EBITDA from the Valuation Date to the end of each Measurement Date in one 'jump'. The Contingent Notes were valued within a risk-neutral option pricing framework with the real growth rate adjusted for the market price of EBITDA risk. The Company used the WACC less risk-free rate as a proxy for the EBITDA risk premium.

Although the Company believes its estimates and assumptions are reasonable, different assumptions, including those regarding the operating results of the Company, or changes in the future may result in different estimated amounts.

The contingent consideration is included in Contingent Notes in the accompanying condensed consolidated balance sheets. The Company will satisfy this obligation with a cash payment to the sellers due in July 2023 upon the achievement of the respective milestones discussed above. The Contingent Notes will bear interest at a fixed rate of 6.75%, beginning upon the achievement of the respective milestones discussed above.

The following table summarizes the Level 3 activity related to the contingent consideration:

$'s in 000's	**June 30, 2018**	**December 31, 2017**
Balance at beginning of the period	$ —	$ —
Fair value of contingent consideration at VIP Acquisition date	6,900	—
Loss on change in fair value of contingent consideration	600	—
Balance at the end of the period	$ 7,500	$ —

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. 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 generally 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 doubtful accounts equal to estimated uncollectible amounts. The Company's estimate is based on historical collection experience and a review of the current status of trade accounts receivable. 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 notes receivable from suppliers. Non-current portions of these other receivables are included in other non-current assets on the consolidated balance sheets.

Accounts receivable consists of the following as of:

$'s in 000's	**June 30, 2018**	**December 31, 2017**
Trade receivables	**$ 48,449**	$ 22,189
Other receivables	**3,182**	297
	51,631	22,486
Less: Allowance for doubtful accounts	**(400)**	(343)
Non-current portion of receivables	**(321)**	(384)
Total accounts receivable, net	**$ 50,910**	$ 21,759

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is typically determined using the first-in first-out ("FIFO") method. 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, 2018**		**December 31, 2017**
Raw materials and work in progress	$	**4,422**	$	4,004
Finished goods		**76,786**		40,052
Total inventories	$	**81,208**	$	44,056

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.

Depreciation and amortization is provided using the straight-line method, based on useful lives of the assets, except for leasehold improvements and capital 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 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	3-15 years
Leasehold improvements	3-15 years
Furniture and fixtures	5-10 years

Deferred Acquisition Liability

The Company has a deferred acquisition liability related to an acquisition that occurred in 2013. The liability is denominated in Euros and requires annual payments based on a percentage of gross profit from the sales of certain products, and any amounts not repaid by the annual payments will be due in 2018. The note was fully repaid in July 2018. The current balance recorded as of June 30, 2018, and December 31, 2017 was $1,525 thousand and $1,575 thousand, respectively, and is included in other accrued expenses on the condensed consolidated balance sheets. The note was fully repaid in July 2018.

Revenue Recognition

On January 1, 2018, we adopted Asscounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("Topic 606") using the modified retrospective method as described under Adopted Accounting Standard Updates below. As a result of the adoption of Topic 606, we have updated our accounting policy for revenue recognition as follows:

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 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.

Revenue is recognized for services over time when the service is delivered.

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, 2018.

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.

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 other current assets or accounts payable in the Condensed Consolidated Balance Sheet.

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, 2018 are immaterial. The Company does not have significant deferred revenue or unbilled receivable balances because of transactions with customers.

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 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 $48 thousand and $118 thousand for the three months ended June 30, 2018 and 2017, respectively, and $97 thousand and $313 thousand for the six months ended June 30, 2018 and 2017, respectively. Advertising costs were $1,418 thousand and $1,134 thousand for the three months ended June 30, 2018 and 2017, respectively, and $2,013 thousand and $1,592 thousand for the six months ended June 30, 2018 and 2017, respectively. Advertising costs do not include trade marketing programs which are part of net sales.

Income taxes

The Company records a tax provision for the anticipated tax consequences of the reported results of operations. The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. The Company may record a valuation allowance, if conditions are applicable, to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

Non-controlling interest

The non-controlling interests on the condensed consolidated statements of income represents the portion of earnings or loss attributable to the economic interest in the Company’s subsidiary, PetIQ Holdings, LLC, held by the non-controlling Continuing LLC Owners. Non-controlling interests on the condensed consolidated balance sheet represents the portion of net assets of the Company attributable to the non-controlling Continuing LLC Owners, based on the portion of the LLC Interests owned by such LLC interest holders. All operations were considered owned by non-controlling interest for the three months ended June 30, 2017 or the remaining period prior to the IPO on July 20, 2017 because the Company operated as Opco during those periods. As of June 30, 2018 and December 31, 2017 the non-controlling interest was approximately 35.2% and 38.5%, respectively.

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. The company consults with both internal and external legal counsel related to litigation.

Adopted Accounting Standard Updates

ASU 2014-09, Revenue from Contracts with Customers (Topic 606)

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective approach. Under the modified retrospective approach, the Company is required to recognize the cumulative effect of initially applying Topic 606 as an adjustment to the opening balance of retained earnings as of January 1, 2018, the date of initial application. The cumulative effect of initially applying Topic 606 was immaterial to the Condensed Consolidated Financial Statements.

In conjunction with adoption of Topic 606, the Company updated its significant accounting policy related to revenue recognition. The Company's previous revenue recognition policy was disclosed in Note 1 "Summary of Significant Accounting Policies" of the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Results for the three and six month period ended June 30, 2018 is presented under Topic 606. Prior periods are not adjusted and will continue to be reported in accordance with ASC 605 *Revenue Recognition* ("ASC 605"). The following tables summarize the impacts of adopting Topic 606 on the Company's Condensed Consolidated Financial Statements as of and for the three and six month periods ended June 30, 2018.

Condensed Consolidated Statements of Income for the three months ended June 30, 2018

$'s in 000's	**As Reported**	**Adjustments**	**Balance Without Adoption of Topic 606**
Revenues	$ 171,142	$ 5,349	$ 176,491
Cost of sales	144,824	3,748	148,572
General and Administrative expenses	16,943	345	17,288
(Provision) benefit for income taxes	(1,020)	(202)	(1,222)
Net Income	5,398	1,054	6,452

Condensed Consolidated Statements of Income for the six months ended June 30, 2018

$'s in 000's	**As Reported**	**Adjustments**	**Balance Without Adoption of Topic 606**
Revenues	$ 286,208	$ 5,965	$ 292,173
Cost of sales	244,007	3,734	247,741
General and Administrative expenses	35,911	444	36,355
(Provision) benefit for income taxes	47	(286)	(239)
Net Income	1,441	1,501	2,942

Condensed Consolidated Balance Sheets

$'s in 000's	As Reported	Adjustments	Balance Without Adoption of Topic 606
Assets			
Accounts receivable	$ 50,910	$ 5,296	$ 56,206
Inventories	81,208	(4,962)	76,246
Other current assets	1,967	426	2,393
Liabilities and Stockholders' Equity			
Accounts payable	65,291	(1,099)	64,192
Accumulated deficit	(3,197)	1,216	(1,981)

The following tables represent the disaggregation of revenue by contract type for each of our reportable segments:

	Three months ended June 30, 2018		
$'s in 000's	U.S.	Foreign	Total
Product sales	$ 147,278	$ 1,435	$ 148,713
Service revenue	22,429	—	22,429
Total net sales	$ 169,707	$ 1,435	$ 171,142

	Three months ended June 30, 2017		
$'s in 000's	U.S.	Foreign	Total
Product sales	$ 85,857	$ 1,321	$ 87,178
Service revenue	—	—	—
Total net sales	$ 85,857	$ 1,321	$ 87,178

	Six months ended June 30, 2018		
$'s in 000's	U.S.	Foreign	Total
Product sales	$ 243,534	$ 3,030	$ 246,564
Service revenue	39,644	—	39,644
Total net sales	$ 283,178	$ 3,030	$ 286,208

	Six months ended June 30, 2017		
$'s in 000's	U.S.	Foreign	Total
Product sales	$ 151,767	$ 2,440	$ 154,207
Service revenue	—	—	—
Total net sales	$ 151,767	$ 2,440	$ 154,207

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU is a comprehensive new lease standard that was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. This standard requires adoption based upon a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with optional practical expedients. Based on a preliminary assessment, the Company expects that most of its operating lease commitments will be subject to the new guidance and recognized as operating lease liabilities and right-of-use assets upon adoption, resulting in an increase in the assets and liabilities on our consolidated balance sheet. The Company is continuing its assessment, which may identify additional impacts this standard will have on its consolidated financial statements and related disclosures.

In March 2018, the FASB issued ASU No. 2018-05, *Income Taxes (Topic 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*. The amendments add various SEC paragraphs pursuant to the issuance of SEC Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act* ("Act") ("SAB 118"). The SEC issued SAB 118 to address concerns about reporting entities' ability to timely comply with the accounting requirements to recognize all of the effects of the Act in the period of enactment. SAB 118 allows disclosure that timely determination of some or all of the income tax effects from the Act are incomplete by the due date of the financial statements and if possible to provide a reasonable estimate. The Company has provided a reasonable estimate in the notes to the condensed consolidated financial statements.

Note 2 – Business Combination

On January 17, 2018 PetIQ, Inc. completed the acquisition of VIP from VIP Holdings, LLC ("VIPH" or the "Sellers"). VIP is a provider of veterinary wellness and pet preventive services as well as a distributor of pet wellness products and medications. The total purchase price was approximately $198 million, net of cash acquired and the effective settlement of pre-existing payables between the Company and VIP at cost which approximates fair value, and was funded through a combination of cash on hand, borrowings under a new $75 million term loan, a $10 million note payable, two $10 million contingent notes, payable upon the achievement of certain combined Company EBITDA targets, and equity consideration consisting of 4.2 million LLC interests of PetIQ Holdings, LLC (the "LLC Interests") and 4.2 million shares of Class B common stock of the Company.

The estimate of fair value and purchase price allocation were based on information available at the time of closing the VIP Acquisition and the Company continues to evaluate the underlying inputs and assumptions that are being used in fair value estimates. In addition, the Company is in process of finalizing the net working capital adjustment. Accordingly, these preliminary estimates are subject to retrospective adjustments during the measurement period, not to exceed one year, based upon new information obtained about facts and circumstances that existed as of the date of closing the VIP Acquisition. The preliminary estimated fair value of the consideration is summarized as follows:

$'s in 000's	Preliminary Estimated Fair Value	Adjustments	As Retrospectively Adjusted
Current assets	$ 15,755	$ —	$ 15,755
Property, plant, and equipment	8,857	—	8,857
Other assets, net	295	—	295
Intangible assets - Customer relationships (20 year useful life)	80,200	(3,900)	76,300
Intangible assets - Brand names (10 year useful life)	9,600	—	9,600
Goodwill	112,109	1,300	113,409
Total assets	226,816	(2,600)	224,216
Current liabilities	22,886	75	22,961
Capital lease obligations	3,032	—	3,032
Total liabilities	25,918	75	25,993
Estimated purchase price	$ 200,898	$ (2,675)	$ 198,223
Cash paid, net of cash acquired	$ 91,987	$ 96	$ 92,083
LLC Interests and shares of Class B common stock	90,031	—	90,031
Guarantee note	10,000	—	10,000
Contingent notes	9,500	(2,600)	6,900
Preliminary post-closing working capital adjustment	(620)	(171)	(791)
Estimated fair value of total consideration transferred	$ 200,898	$ (2,675)	$ 198,223

During the period we adjusted purchase price allocation as a result of receiving certain information, which existed as of the date of acquisition. This information impacted our working capital adjustment as well as the projected operating results used in estimating the fair value of intangible assets and contingent notes. We are currently waiting for a final valuation report and other information needed to finalize our purchase price allocation. Additionally, we are waiting for information needed to finalize our working capital adjustment which could affect the recorded purchase consideration and goodwill

The definite-lived intangibles primarily relate to customer relationships and brand names. The $85.9 million represents the fair value and will be amortized on a straight-line basis through January 2038. Amortization expense for these definite-lived intangible assets for the three and six months ended June 30, 2018 was $1.2 million and $2.2 million, respectively. The estimated future amortization expense is approximately $2.4 million for the remainder of 2018, and $4.8 million annually thereafter.

Goodwill represents the future economic benefits that do not qualify for separate recognition and primarily includes the assembled workforce and other non-contractual relationships, as well as expected future synergies. Approximately $54 million of the $113.4 million of goodwill will not be tax deductible, and the remaining balance is expected to be deductible for tax purposes. Goodwill was allocated to the Products and Services segments and as shown in Note 4.

Pro Forma Combined Statements of Operations (Unaudited)

The following unaudited pro forma combined statements of operations presents the Company's operations as if the VIP Acquisition and related financing activities had occurred on January 1, 2017. The pro forma information includes the following adjustments (i) amortization of acquired definite-lived intangible assets; (ii) depreciation based on the fair value of acquired property and equipment; (iii) costs of goods sold based on the fair value of acquired inventory; (iv) interest expense incurred in connection with the term loan and guaranteed note borrowings used to finance the acquisition; (v) inclusion of equity-based compensation expense associated with equity awards granted to certain VIP employees in connection with the acquisition; (vi) elimination of acquisition expenses; and (vii) VIP’s operations for the periods from January 1, 2017 to June 30, 2017 and January 1, 2018 to January 16, 2018. The pro forma combined statements of operations are not necessarily indicative of the results of operations as they would have been had the VIP Acquisition been effected on the assumed date and are not intended to be a projection of future results:

	Three months ended June 30,		Six months ended June 30,	
($'s in 000's, except per share data)	**2018**	**2017**	**2018**	**2017**
Net sales	$ 171,142	$ 141,622	$ 289,305	$ 240,614
Net income	$ 5,549	$ 7,718	$ 4,531	$ 13,166
Earnings per share:				
Basic[(1)]	$ 0.36	$ —	$ 0.30	$ —
Diluted[(1)]	$ 0.36	$ —	$ 0.30	$ —

Basic and Diluted earnings per share is applicable only for periods after the Company’s IPO. See Note 8 – Earnings Per Share.

Note 3 – Property, Plant, and Equipment

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

$'s in 000's	**June 30, 2018**	**December 31, 2017**
Leasehold improvements	$ 10,499	$ 6,616
Equipment	11,959	10,665
Vehicles and accessories	3,718	—
Computer equipment and software	5,196	927
Buildings	2,488	771
Furniture and fixtures	1,369	407
Land	660	660
Construction in progress	264	2,344
	36,153	22,390
Less accumulated depreciation	(10,320)	(7,390)
Total property, plant, and equipment	$ 25,833	$ 15,000

Depreciation and amortization expense related to these assets was $1.8 million and $0.6 million for the three months ended June 30, 2018, and 2017, respectively, and $3.0 million and $1.1 million for the six months ended June 30, 2018 and 2017, respectively.

Note 4 – Intangible Assets and Goodwilll

Intangible assets consist of the following at:

$'s in 000's	Useful Lives	June 30, 2018	December 31, 2017
Amortizable intangibles			
Distribution agreement	2 years	$ 3,021	$ 3,021
Certification	7 years	350	350
Customer relationships	12-20 years	77,459	1,191
Patents and processes	10 years	1,947	1,998
Brand names	10-15 years	10,497	923
Total amortizable intangibles		93,274	7,483
Less accumulated amortization		(7,076)	(4,733)
Total net amortizable intangibles		86,198	2,750
Non-amortizable intangibles			
Trademarks and other		516	516
Intangible assets, net of accumulated amortization		$ 86,714	$ 3,266

Certain intangible assets are denominated in currencies other than the U.S. Dollar; therefore, their gross and net carrying values are subject foreign currency movements. Amortization expense for three months ended June 30, 2018, and 2017, was $1,257 thousand and $261 thousand, respectively, and $2,397 thousand and $521 thousand for the six months ended June 30, 2018 and 2017, respectively.

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

Years ending December 31, **($'s in 000's)**	
Remainder of 2018	$ 2,586
2019	5,173
2020	5,173
2021	5,172
2022	5,167
Thereafter	62,927

The following is a summary of the changes in the carrying value of goodwill for the period from January 1, 2018 to June 30, 2018:

	Reporting Unit		
($'s in 000's)	**Products**	**Services**	**Total**
Goodwill as of January 1, 2018	$ 5,064	$ —	$ 5,064
Foreign currency translation	(138)	—	(138)
Acquisition	65,119	48,290	113,409
Goodwill as of June 30, 2018	$ 70,045	$ 48,290	$ 118,335

Note 5 – Debt

A&R Credit Agreement

In connection with the VIP Acquisition, the Company amended and restated its existing revolving credit agreement (the “A&R Credit Agreement”) on January 17, 2018. The A&R Credit Agreement provides for a secured revolving credit facility of $50 million in the aggregate, at either LIBOR or Base (prime) interest rates plus an applicable margin. The A&R Credit Agreement matures on January 17, 2023.

All obligations under the A&R Credit Agreement are unconditionally guaranteed by Holdco 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 Credit Agreement, and the guarantees of those obligations, are secured by substantially all of the assets of each borrower and guarantor under the A&R Credit Agreement, subject to certain exceptions.

Also in connection with the closing of the VIP Acquisition, the Company entered into a term loan credit agreement (the “Term Loan Credit Agreement”). The Term Loan Credit Agreement provides for a secured term loan credit facility of $75 million in aggregate at either LIBOR or Base (prime) interest rates plus an applicable margin. The Term Loan Credit Agreement requires quarterly principal payments, with the full balance due on January 17, 2023.

As of June 30, 2018, the Company had $23 million outstanding under the A&R Credit Agreement and $75 million under the Term Loan Credit Agreement. The interest rate on the A&R Credit Agreement was 5.00% as a Base Rate loan, the interest rate on the Term Loan Credit Agreement was 7.23% as a LIBOR rate loan. The A&R Credit Agreement contains a lockbox mechanism.

The A&R Credit Agreement and Term Loan Credit Agreement contain certain covenants and restrictions including a fixed charge coverage ratio and a minimum EBITDA target and is secured by collateral consisting of a percentage of eligible accounts receivable, inventories, and machinery and equipment. As of June 30, 2018, the Company was in compliance with these covenants.

Prior Credit Agreement

The Company entered into a previous credit agreement (“Prior Credit Agreement”) on December 21, 2016. The Prior Credit Agreement provided for secured financing of $50.0 million in aggregate at either LIBOR or Base (prime) interest rates plus an applicable margin, consisting of:

(i) $45.0 million revolving credit facility (“Prior Revolver”) maturing on December 16, 2019; and
(ii) $5.0 million term loan (“Prior Term Loans”), requiring equal amortizing payments for 24 months.

As of December 31, 2017, the Company had fully repaid the Prior Term Loans and had $15.3 million outstanding under the Prior Revolver. The interest rate on the Prior Revolver was 5.00% as a Base Rate loan. All amounts outstanding under the Prior Revolver were repaid in connection with the A&R Credit Agreement.

Other Debt

The Company entered into a mortgage with a local bank to finance $1.9 million of the purchase price of 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.

In connection with the VIP Acquisition, the Company entered into a guarantee note which requires the Company to pay $10.0 million on July 17, 2023. The note bears interest at a fixed 6.75% and requires quarterly interest payments.

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

$'s in 000's	June 30, 2018	December 31, 2017
Term loans	**$ 75,000**	$ —
Revolving credit facility	**23,461**	15,325
Mortgage	**1,881**	1,902
Guaranteed note	**10,000**	—
Net discount on debt and deferred financing fees	**(2,143)**	—
	$ 108,199	$ 17,227
Less current maturities of long-term debt	**(795)**	(44)
Total long-term debt	**$ 107,404**	$ 17,183

Future maturities of long-term debt, excluding the net discount on debt and deferred financing fees, as of June 30, 2018, are as follows:

($'s in 000's)	
Remainder of 2018	$ 397
2019	796
2020	798
2021	800
2022	802
Thereafter	106,749

The Company incurred debt issuance costs of $0.3 million related to the A&R Credit Agreement and $2.4 million related to the Term Loan during the six months ended June 30, 2018.

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 2018 and 2025. A portion of capital leases are denominated in foreign currencies. Many of these leases include renewal options and in some cases options to purchase.

Annual future commitments under non-cancelable leases as of June 30, 2018, consist of the following:

	Lease Obligations	
$'s in 000's	Operating Leases	Capital Leases
Remainder of 2018	$ 1,756	$ 705
2019	2,269	1,244
2020	1,571	815
2021	724	188
2022	549	78
Thereafter	247	20
Total minimum future obligations	$ 7,116	$ 3,050
Less interest		(166)
Present value of net future minimum obligations		2,884
Less current capital lease obligations		(1,238)
Long-term capital lease obligations		$ 1,646

The net book value of assets under capital lease was $4.3 million and $0.9 million as of June 30, 2018 and December 31, 2017, respectively. Total operating lease expense for the three months ended June 30, 2018 and 2017 totaled $0.9 million and $0.4 million, respectively, and $1.7 million and $0.9 million for the six months ended June 30, 2018 and 2017, respectively.

Note 7 – Income Tax

As a result of the IPO 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.

On December 22, 2017, Tax Cuts and Jobs Act ("TCJA") was signed into law. The TCJA includes a number of provisions, including (1) the lowering of the U.S. corporate tax rate from 35 percent to 21 percent; (2) elimination of the corporate alternative minimum tax (AMT); (3) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (4) a new provision designed to tax global intangible low-taxed income (GILTI), which allows for the possibility of using foreign tax credits (FTCs) and a deduction of up to 50 percent to offset the income tax liability (subject to some limitations); (5) a new limitation on deductible interest expense; (6) the repeal of the domestic production activity deduction; and (7) limitations on the deductibility of certain executive compensation.

Our effective tax rate (ETR) from continuing operations was 16% and (3.3)% for the three and six months ended June 30, 2018, respectively, and zero percent and zero percent for the quarter and six months ended September 30, 2017, respectively. Income tax expense for the six months of 2018 was different than the U.S federal statutory income tax rate of 21% primarily due to the impact of the non-controlling interest income that is not taxable. In 2017, the income expense was different than the U.S Federal statutory income tax rate of 35% due to Holdco being a partnership and not being taxed.

As noted at year-end, the Company was able to reasonably estimate certain TCJA effects and, therefore, recorded provisional adjustments associated with the deemed repatriation transition tax and remeasurement of certain deferred tax asset and liabilities. As of June 30, 2018, our accounting for the TCJA is incomplete and the previously disclosed provisional amounts (transition tax and remeasurement of deferred taxes) continue to be provisional. The Company has not made any additional measurement-period adjustments related to transition tax during 2018, because the Company has not yet completed the calculation of the total post-1986 Earnings and Profits ("E&P") for these foreign subsidiaries. This amount may change when the Company finalizes the calculation of post-1986 foreign E&P previously deferred from U.S. federal taxation and finalize the amounts held in cash or other specified assets. The Company is continuing to gather additional information to complete our accounting for these items and expect to complete our accounting within the prescribed measurement period.

HoldCo makes cash distributions to members to pay taxes attributable to the income earned. In the three and six months ended June 30, 2018, the Company made cash distributions of $32 thousand and $574 thousand, respectively. In the three and six months ended June 30, 2017, the Company did not make cash distributions.

Due to the complexity of the new Global Intangible Low Taxed Income ("GILTI") tax rules, the Company is continuing to evaluate this provision of the TCJA and the application of ASC 740. Under U.S. GAAP, we are allowed to make an accounting policy choice of either (1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method") or (2) factoring such amounts into a company's measurement of its deferred taxes (the "deferred method"). Our selection of an accounting policy related to the new GILTI tax rules will depend on a number of different aspects of the estimated long-term effects of this provision under the TCJA. Therefore, we have not recorded any potential deferred tax effects related to GILTI in our financial statements and have not made a policy decision regarding whether to record deferred taxes on GILTI or use the period cost method. We have, however, included an estimate of the estimated 2018 current GILTI impact in our average effective tax rate for 2018.

Note 8 – Earnings per Share

Basic and Diluted Earnings per Share

Basic earnings per share of Class A common stock is computed by dividing net income 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 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.

As described in Note 10 — Stockholders' Equity, on July 20, 2017, the PetIQ Holdings, LLC Agreement ("LLC Agreement") was amended and restated to, among other things, (i) provide for a new single class of common membership interests, the LLC Interests of Holdco, and (ii) exchange all of the then-existing membership interests of the Continuing LLC Owners for common units of Holdco. This recapitalization changed the relative membership rights of the Continuing LLC Owners such that retroactive application of the recapitalization to periods prior to the IPO for the purposes of calculating earnings per share would not be appropriate.

Prior to the IPO, the PetIQ, LLC membership structure included several different types of LLC interests including ownership interests and profits interests. The Company analyzed the calculation of earnings per unit for periods prior to the IPO using the two-class method and determined that it resulted in values that would not be meaningful to the users of these consolidated financial statements. Therefore, earnings per share information has not been presented for periods prior to the IPO on July 20, 2017.

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

	Three months ended		Six months ended	
($'s in 000's, except for per share amounts)	**June 30, 2018**	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
Numerator:				
Net income	$ 5,398	$ 6,070	$ 1,441	$ 10,349
Less: net income attributable to non-controlling interests	(2,899)	(6,070)	(970)	(10,349)
Net income attributable to PetIQ, Inc. — basic	2,499	—	471	—
Denominator:				
Weighted-average shares of Class A common stock outstanding (in 000's)-- basic	15,980	—	15,285	—
Dilutive effects of stock options that are convertible into Class A common stock	28	—	43	—
Dilutive effect of RSUs	—		—	
Weighted-average shares of Class A common stock outstanding (in 000's)-- diluted	16,008	—	15,329	—
Earnings per share of Class A common stock — basic	$ 0.16	$ —	$ 0.03	$ —
Earnings per share of Class A common stock — diluted	$ 0.16	$ —	$ 0.03	$ —

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.

For the three and six months ended June 30, 2018, shares of the Company's Class B common stock as well as 1,039,004 stock options and restricted stock units have not been included in the diluted earnings per share calculation as they have been determined to be anti-dilutive under the if-converted method and treasury stock method, respectively.

Note 9 – Stock Based Compensation

PetIQ, Inc. Omnibus Incentive Plan

The PetIQ, Inc. Omnibus Incentive Plan (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 initially reserved 1,914,047 registered shares of Class A common stock for issuance under the Plan. As of June 30, 2018, 880,129 shares were available for issuance under the Plan. All awards issued under the Plan may only be settled in shares of Class A common stock.

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 800,000 shares of Class A Common Stock of the Company. As of June 30, 2018, 610,000 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 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 $736 thousand and $1,434 thousand for the three and six months ended June 30, 2018. 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 were determined on the grant dates using the Black-Scholes valuation model based on the following weighted-average assumptions for the period ended June 30, 2018:

	2018
Expected term (years) (1)	6.25
Expected volatility (2)	35.00 %
Risk-free interest rate (3)	2.53 %
Dividend yield (4)	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

There were no grants issued during the three and six months ended June 30, 2017.

The following table summarizes the activity of the Company's unvested stock options for the period ended June 30, 2018

	Stock Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life (years)
Outstanding at December 31, 2017	598,644	$ 16.00		
Granted	1,190,000	22.35		
Exercised	—			
Forfeited	(155,000)	21.37		
Cancelled	—			
Outstanding at June 30, 2018	1,633,644	$ 20.12	$ 11,013	9.39
Options exercisable at June 30, 2018	—			

The weighted average grant date fair value of stock options granted during the period ended June 30, 2018 was $10.02 per option. At June 30, 2018, total unrecognized compensation cost related to unvested stock options was $10.9 million and is expected to be recognized over a weighted-average period of 3.3 years.

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, 2018, total unrecognized compensation cost related to unvested RSUs was $190 thousand and is expected to vest over a weighted average 1.6 years.

The fair value of these equity awards is amortized to equity based compensation expense over the vesting period, which totaled $18 thousand and $20 thousand for the three and six months ended June 30, 2018. 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, 2018.

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2017	—	—
Granted	10,274	21.42
Settled	—	
Forfeited	—	
Non-vested RSUs at June 30, 2018	10,274	$ 21.42

There were no grants of RSUs for the three or six months months ended June 30, 2017.

Note 10 – Stockholders' Equity

Acquisition

During the six months ended June 30, 2018, Holdco issued 4,200,000 LLC Interests and Class B common shares as consideration for a business combination.

Exchanges

During the six months ended June 30, 2018, Continuing LLC Owners exercised exchange rights and exchanged 3,425,415 Class B common shares and corresponding LLC Interests for newly issued Class A Common Stock. The LLC Agreement generally allows for conversions 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	
	Continuing LLC Owners	PetIQ, Inc.	Total	Continuing LLC Owners	PetIQ, Inc.
As of December 31, 2017	8,268,188	13,222,583	21,490,771	38.5%	61.5%
Issuance of LLC Interests for acquisition	4,200,000	—	4,200,000		
Exchange transactions	(3,425,415)	3,425,415	—		
As of June 30, 2018	9,042,773	16,647,998	25,690,771	35.2%	64.8%

For the three and six months ended June 30, 2018, the Company owned a weighted average of 61.6% and 60.4%, respectively, of Holdco.

Note 12 – Customer Concentration

The Company has significant exposure to customer concentration. During the three months ended June 30, 2018 one customer individually accounted for more than 10% of sales at 19% of net sales. During the three months ended June 30, 2017, three customers individually accounted for more than 10% of sales at 62% of net sales. In total for the six months ended June 30, 2018 and 2017, three customers accounted for 41% and 60% of net sales, respectively.

At June 30, 2018 four customers individually accounted for more than 10% of outstanding trade receivables, and in aggregate accounted for 48% of outstanding trade receivaables, net. At December 31, 2017 three customers, individually accounted for more than 10% of outstanding trade receivables, and in aggregate accounted for 48%, of outstanding trade receivables, net. The customers are customers of the Products segment.

Note 13 – Commitments and Contingencies

Litigation Contingencies

In May 2017, Bayer Healthcare LLC and its affiliates (collectively "Bayer") filed suit in the United States District Court for the District of Delaware, against CAP IM Supply, Inc. ("CAP IM"), our supplier of Advecta 3 and PetLock MAX, which we began to sell in 2017 as our value-branded alternatives to Bayer's K9 Advantix II. Bayer alleges that Advecta 3 and PetLock MAX infringe a patent relating to K9 Advantix II. Bayer seeks unspecified monetary damages and an injunction against future sales by CAP IM of Advecta 3 and PetLock MAX to the Company. Bayer sought, and was denied, a preliminary injunction. Although we have not been named in the suit, our license and supply agreement with CAP IM requires us to share with CAP IM the payment of defense and settlement costs of such litigation and allows us to control the defense of the proceeding. CAP IM intends to vigorously defend this case and we believe that CAP IM has meritorious defenses. However, because of the inherent uncertainties of litigation, we can provide no assurance of an outcome favorable to CAP IM and to us.

In April 2018, Med Vets, Inc. and Bay Medical Solutions Inc., filed suit in the United States District Court for the Northern District of California against PetIQ, Inc. and VIP Petcare Holdings, Inc. for alleged unlawful merger and other antitrust violations. The plaintiffs' sought unspecified monetary damages, and various injunctive relief, including an order to require PetIQ to divest its interests in VIP. We filed a Motion to Dismiss the Complaint for failure to state a claim upon which relief could be granted. On August 3, 2018 the Court granted our Motion to Dismiss the Complaint.

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, 2018 and December 31, 2017, 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 consolidated condensed statements of operations.

Note 14 – Segments

Prior to January 17, 2018, The Company had two operating segments, and thus two reportable segments, which were the procurement, packaging, and distribution of pet health and wellness products in the Domestic markets (U.S. and Canada) and in the International markets (primarily Europe). The determination of the operating segments was based on the level at which the Chief Operating Decision Maker reviews discrete financial information to assess performance and make resource allocation decisions, which was done based on these two geographic areas.

In connection with our acquisition of VIP, the Company reorganized operations to correspond with the structure of the Company. The Company now operates the Product and Service segments. The Product segment consists of legacy PetIQ Domestic and International segments plus VIP's product distribution business. Services represents all 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 to make resource allocation decisions and to evaluate performance. Certain corporate costs are not included in this analysis, such as accounting, legal, human resources, information technology and corporate headquarters expenses. Additionally certain expense types are allocated to the corporate portion of the Company, such as stock based compensation, amortization expense on intangible assets, interest expense, foreign currency exchange adjustments, and income taxes. All prior period disclosures have been restated to reflect these new reportable operating segments.

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

$'s in 000's **June 30, 2018**	**Products**	**Services**	**Corporate**	**Consolidated**
Net Sales	**$ 148,713**	**$ 22,429**	**$ —**	**$ 171,142**
Operating income (loss)	**16,156**	**1,951**	**(8,732)**	**9,375**
Interest expense	**—**	**—**	**(2,216)**	**(2,216)**
Foreign currency loss, net	**—**	**—**	**136**	**136**
Other income, net	**—**	**—**	**(877)**	**(877)**
Depreciation expense	**688**	**702**	**390**	**1,780**
Amortization expense	**$ —**	**$ —**	**$ 1,257**	**$ 1,257**

$'s in 000's **June 30, 2017**	**Products**	**Services**	**Corporate**	**Consolidated**
Net Sales	$ 87,178	$ —	$ —	$ 87,178
Operating income (loss)	9,880	—	(3,206)	6,674
Interest expense	—	—	(535)	(535)
Other income, net	—	—	3	3
Foreign currency loss, net	—	—	(72)	(72)
Depreciation expense	539	—	36	575
Amortization expense	$ —	$ —	$ 261	$ 261

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

$'s in 000's **June 30, 2018**	**Products**	**Services**	**Corporate**	**Consolidated**
Net Sales	**$ 246,564**	**$ 39,644**	**$ —**	**$ 286,208**
Operating income (loss)	**25,105**	**1,595**	**(20,410)**	**6,290**
Interest expense	**—**	**—**	**(3,981)**	**(3,981)**
Foreign currency loss, net	**—**	**—**	**58**	**58**
Other income, net	**—**	**—**	**(973)**	**(973)**
Depreciation expense	**1,150**	**1,249**	**631**	**3,030**
Amortization expense	**$ —**	**$ —**	**$ 2,397**	**$ 2,397**

$'s in 000's **June 30, 2017**	**Products**	**Services**	**Corporate**	**Consolidated**
Net Sales	$ 154,207	$ —	$ —	$ 154,207
Operating income (loss)	17,639	—	(6,170)	11,469
Interest expense	—	—	(999)	(999)
Other income, net	—	—	—	—
Foreign currency loss, net	—	—	(121)	(121)
Depreciation expense	1,041	—	70	1,111
Amortization expense	$ —	$ —	$ 521	$ 521

Note 15 – Related Parties

Opco had entered into management consulting services agreements with members of Holdco. The services were related to financial transactions and other senior management matters related to business administration. Those agreements provided for the Company to pay base annual management fees plus expenses, typically paid quarterly. These expenses were recorded in general and administrative expenses in the condensed consolidated statement of operations. The Company recorded $57 thousand and $112 thousand of expense for the three and six months ended June 30, 2017. Upon consummation of the recapitalization and IPO transactions, these agreements were terminated.

As discussed in Note 7– Income Taxes, the Company has accrued tax distributions that are payable to Continuing LLC Owners to facilitate the Continuing LLC Owners periodic estimated tax obligations. At June 30, 2018, and December 31, 2017, the Company had an accrual of $706 thousand and $597 thousand, respectively, for estimated tax distributions, which are included in accounts payable on the condensed consolidated balance sheets.

The Company leases office and warehouse space from a company under common control of the Sellers, commencing on January 17, 2018. The Company incurred rent expenses of $89 thousand and $164 thousand in the three and six months ended June 30, 2018, respectively.

Note 16 – Subsequent events

On August 9, 2018, the Company entered into an amendment to its A&R credit agreement, which increased the revolving facility from $50 million to $75 million.

On August 3, 2018, the Court in the Med Vets antitrust lawsuit granted our Motion to Dismiss the Complaint.

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, 2017 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, 2017. 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."

Our Business

Overview

PetIQ is a rapidly growing pet health and wellness company providing convenient access and affordable choices to a broad portfolio of veterinarian-recommended pet health and wellness products across a network of leading national retail stores, including more than 40,000 retail pharmacy locations. PetIQ believes that pets are an important part of the family and deserve the best pet care we can give them. Through our retail relationships, we encourage pet owners to regularly visit their veterinarian and educate them about the importance of veterinarian-grade products. During the three months ended June 30, 2018, we completed the acquisition of VIP Petcare. Through VIP, we provide veterinary services to pet owners in over 39 states.

On January 17, 2018, we acquired Community Veterinary Clinics, LLC d/b/a VIP Petcare ("VIP," and such acquisition, the "VIP Acquisition"). The aggregate consideration, comprised of (i) $100 million in cash (ii) 4,200,000 membership units of Holdings (the "LLC Interests") and 4,200,000 shares of Class B common stock, $0.001 par value per share, of the Company (the "Class B Issuance" and together with the LLC Interests, the "Equity Consideration") and (iii) promissory notes consisting of (A) a $10.0 million note payable 5 years and 6 months after the closing, which shall accrue interest quarterly in arrears at a rate of 6.75% per annum and (B) two $10 million contingent notes, payable upon the achievement of certain combined Company EBITDA targets for 2018 and 2019, which, if payable, shall accrue interest quarterly in arrears at a rate of 6.75% per annum beginning once earned.

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 and conduct the business now conducted by Opco and its subsidiaries.

Our sales occur predominantly in the U.S. and Canada. Approximately 99% and 98% of our three months ended June 30, 2018 and 2017, respectively, net sales were generated from customers located in the United States and Canada, with the remaining sales generated from other foreign locations. We have two reporting segments: (i) Products; and (ii) Services. This is based on the level at which the chief operating decision maker reviews the results of operations to make decisions regarding performance assessment and resource allocation.

Results of Operations

Components of our Results of Operations

Net Sales

Our product net sales consist of our total sales net of product returns, allowances (discounts), trade promotions and incentives. We offer a variety of trade promotions and incentives to our customers, such as cooperative advertising programs and in-store displays. We recognize revenue when persuasive evidence of an arrangement exists, in accordance with the terms of our contracts, which generally occurs upon shipment of product, when the price is fixed or determinable and when collectability is reasonably assured. Trade promotions are used to increase our aggregate net sales. Our net sales are periodically influenced by the timing, extent and amount of such trade promotions and incentives.

Key factors that may affect our future sales growth include: new product introductions; expansion into e-commerce and other customer bases; expansion of items sold to existing customers, addition of new retail customers and to maintain pricing levels necessary for profitability; aggressive pricing by our competitors; and whether we can maintain and develop positive relationships with key retail customers.

Our products are primarily consumables and, as such, they experience a replenishment cycle.

Our service revenue consists of providing veterinary services for consumers and selling products to the consumer in conjunction with those services. The customer renders payment at the time the service is rendered.

While many of our products are sold consistently throughout the year, we experience seasonality in the form of increased retailer demand for our flea and tick product offerings in the first two quarters of the year in preparation for increased consumer demand during the summer months. Additionally our veterinary services experience seasonality as consumers typically seek more services in the warmer months.

Gross Profit

Gross profit is our net product sales plus service revenue less cost of product sales and services. Our cost of product sales consists primarily of costs of raw goods, finished goods packaging materials, manufacturing, shipping and handling costs and costs associated with our warehouses and distribution network. Cost of services are comprised of all service and product costs related to providing veterinary services, including but not limited to, salaries of veterinarians, technicians and other clinic based personnel, transportation and delivery costs, facilities rent, occupancy costs, supply costs, depreciation and amortization of clinic assets, certain marketing and promotional expenses and costs of goods sold.

Gross margin measures our gross profit as a percentage of net sales. With respect to our proprietary products, we have a manufacturing network that includes leased manufacturing facilities where we manufacture finished goods, as well as third-party contract manufacturing facilities from which we purchase finished products predominately on a dollar-per-unit basis. The gross margin on our proprietary value-branded products is higher than on our distributed products. For distributed products, our costs are driven largely by whether we source the product direct from the manufacturer or a licensed distributor. Gross profit in the services segment is driven by the number of pets that seek services in the individual clinics due to the relatively fixed cost nature of providing the clinic.

General and Administrative Expenses

Our general and administrative expenses primarily consist of employee compensation and benefits expenses, sales and merchandizing expenses, advertising and marketing expenses, rent and lease expenses, IT and utilities expenses, professional fees, insurance costs, R&D costs, host fees, banking charges, and consulting fees. General and administrative expenses as a percentage of net sales have increased from 10.8% in the first six months of 2017 to 12.5% in the first six months of 2018, primarily driven by charges associated with the VIP Acquisition. In addition to costs directly related to the VIP Acquisition, we acquired the corporate overhead that we are currently integrating into the consolidated company. In the future, we expect our general and administrative expenses to grow at a slower rate than our net sales growth as we leverage our past investments.

Our advertising and marketing expenses primarily consist of digital marketing (e.g. search engine optimization, pay-per-click, content marketing, etc.), social media, in-store merchandising and trade shows in an effort to promote our brands and build awareness. These expenses may vary from quarter to quarter but typically they are higher in the second and third quarters. We expect our marketing and advertising expenses to decrease as a percentage of net sales as we continue to concentrate campaigns to relevant markets, as well as shift spending towards in-store marketing and customer trade-supported programs.

Net Income

Our net income for future periods will be affected by the various factors described above. In addition, our historical results prior to the IPO benefit from insignificant income taxes due to Opco's status as a pass-through entity for U.S. federal income tax purposes, and we anticipate future results will not be consistent as our net income will be subject to U.S. federal and state income taxes.

Results of Operations

The following table sets forth our consolidated statements of income 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, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Product sales	$ 148,713	$ 87,178	86.89 %	100.0 %
Service revenue	22,429	—	13.11 %	— %
Total sales	171,142	87,178	100.0 %	100.0 %
Cost of products sold	127,583	71,227	74.5 %	81.7 %
Cost of services	17,241	—	10.1 %	— %
Total cost of sales	144,824	71,227	84.6 %	81.7 %
Gross profit	26,318	15,951	15.4 %	18.3 %
General and administrative expenses	16,943	9,277	9.9 %	10.6 %
Operating income	9,375	6,674	5.5 %	7.7 %
Interest expense	(2,216)	(535)	(1.3)%	(0.6)%
Foreign currency gain/(loss), net	136	(72)	0.1 %	(0.1)%
Other (expense) income, net	(877)	3	(0.5)%	— %
Total other expense, net	(2,957)	(604)	(1.7)%	(0.7)%
Pretax net income	6,418	6,070	3.8 %	7.0 %
Provision for income taxes	(1,020)	—	(0.6)%	— %
Net income	$ 5,398	$ 6,070	3.2 %	7.0 %

	Six months ended		% of Net sales	
$'s in 000's	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Product sales	$ 246,564	$ 154,207	86.1 %	100.0 %
Service revenue	39,644	—	13.9 %	— %
Total sales	286,208	154,207	100.0 %	100.0 %
Cost of products sold	212,169	126,056	74.1 %	81.7 %
Cost of services	31,838	—	11.1 %	— %
Total cost of sales	244,007	126,056	85.3 %	81.7 %
Gross profit	42,201	28,151	14.7 %	18.3 %
General and administrative expenses	35,911	16,682	12.5 %	10.8 %
Operating income	6,290	11,469	2.2 %	7.4 %
Interest expense	(3,981)	(999)	(1.4)%	(0.6)%
Foreign currency gain/(loss), net	58	(121)	0.0 %	(0.1)%
Loss on debt extinguishment	—	—	— %	— %
Other expense, net	(973)	—	(0.3)%	— %
Total other expense, net	(4,896)	(1,120)	(1.7)%	(0.7)%
Pretax net income	1,394	10,349	0.5 %	6.7 %
Provision for income taxes	47	—	0.0 %	— %
Net income	$ 1,441	$ 10,349	0.5 %	6.7 %

Three Months Ended June 30, 2018 Compared With Three Months Ended June 30, 2017

Net sales

Product sales increased $61.5 million or 70.5%, to $148.7 million for the three months ended June 30, 2018, compared to $87.2 million for the three months ended June 30, 2017. This increase was driven by expanding item count at existing customers of existing items, as well as growth in new customers, primarily from the VIP Acquisition. Revenues were also impacted by the adoption of ASU 2014-09 Revenue from Contracts with Customers ("ASC 606"), which reduced revenue by $5.3 million relative to past practice, this revenue will be recognized in later periods when certain criteria are met. See Note 1 – "Principal Business Activity and Significant Accounting Policies" to the Condensed Consolidated Financials for more information regarding the adoption of ASC 606.

Service revenue was $22.4M, with no comparable revenue in 2017. The VIP Acquisition in January 2018 led to the addition of services revenue in the three months ended June 30, 2018.

Gross profit

Gross profit increased by $10.4 million, or 65%, to $26.3 million for the three months ended June 30, 2018, compared to $16.0 million for the three months ended June 30, 2017. This increase is due to the significant sales growth, offset by the growth occurring in lower margin items as well as increased trade expenditures which reduces net sales.

Gross margin decreased to 15.4% for the three months ended June 30, 2018, from 18.3% for the three months ended June 30, 2017.

General and administrative expenses

General and administrative expenses increased by $7.7 million or 83% to $17.0 million for the three months ended June 30, 2018 compared to $9.3 million for the three months ended June 30, 2017. The increase reflects:

- VIP acquisition related costs of $0.2 million;
- Increased amortization of $1.0 million on acquired intangible assets;
- Increased legal, accounting, and related costs as part of being a public company;
- increased compensation expense to support overall growth, the addition of our stock based compensation plan and related grants; and
- the addition of the VIP corporate overhead that oversees the Services segment.

Interest expense, net

Interest expense, net increased $1.7 million, or 314%, to $2.2 million for the three months ended June 30, 2018, compared to $0.5 million for the three months ended June 30, 2017. This increase was driven by the new debt agreement entered into to finance the VIP Acquisition as well as higher amounts outstanding on the revolving credit facility during the quarter compared to the three months ended June 30, 2017.

Other expense, net

Other expense, net, increased $0.9 million to $0.9 million in the three months ended June 30, 2018 compared to $3,000 for the three months ended June 30, 2017. This is due to a fair value adjustment to the contingent notes entered into as part of the VIP Acquisition as well as a settlement entered into related to a royalty agreement.

Pre-tax net income

As a result of the factors above, pre-tax net income increased $0.3 million to $6.4 million for the three months ended June 30, 2018 compared to pre-tax net income of $6.1 million for the three months ended June 30, 2017.

Provision for income taxes

Our effective tax rate was 16% for the three months ended June 30, 2018, with a tax expense of $1.0 million. The effective tax rate differs from the statutory rate primarily due to the impact of the non-controlling interest income that is not taxable and the new Global Intangible Low Taxed Income ("GILTI") income inclusion. Prior to our IPO in July 2017, the Company was treated as a partnership, thus did not have income tax expense.

Six Months Ended June 30, 2018 Compared With Six Months Ended June 30, 2017

Net sales

Product sales increased $92.4 million or 60%, to $246.6 million for the six months ended June 30, 2018, compared to $154.2 million for the six months ended June 30, 2017. This increase was driven primarily by expanding item count at existing customers of existing items, as well as growth in new customers, primarily from the VIP Acquisition. Revenues were also impacted by the adoption of ASU 2014-09 Revenue from Contracts with Customers ("ASC 606"), which reduced revenue by $5.9 million relative to past practice, this revenue will be recognized in later periods when certain criteria are met. See Note 1 – Principal Business Activity and Significant Accounting Policies to the Condensed Consolidated Financials for more information regarding the adoption of ASC 606.

Service revenue was $39.6 million, with no comparable revenue in 2017. The VIP Acquisition in January 2018 led to the addition of the services revenue in the six months ended June 30, 2018.

Gross profit

Gross profit increased by $14.1 million, or 50%, to $42.2 million for the six months ended June 30, 2018, compared to $28.2 million for the six months ended June 30, 2017. This increase is due to the significant sales growth, offset by the growth occurring in lower margin items as well increased trade expenditures which reduces net sales.

Additionally, margin was impacted by the purchase accounting adjustment of $1.5 million to fair value inventory as well as significant new wellness center openings. Gross margin decreased to 14.7% for the six months ended June 30, 2018, from 18.3% for the six months ended June 30, 2017.

General and administrative expenses

General and administrative expenses increased by $19.2 million or 115% to $35.9 million for the six months ended June 30, 2018 compared to $16.7 million for the six months ended June 30, 2017. The increase reflects:

- VIP Acquisition related costs of $3.4 million;
- Increased amortization of $2.2 million on acquired intangible assets;
- Increased legal, accounting, and related costs as part of being a public company;
- increased compensation expense to support overall growth, the addition of our stock based compensation plan and related grants; and
- the addition of the VIP corporate overhead that oversees the Services segment.

Interest expense, net

Interest expense, net increased $3.0 million, or 300.0%, to $4.0 million for the six months ended June 30, 2018, compared to $1.0 million for the six months ended June 30, 2017. This increase was driven by the new debt agreement entered into to finance the VIP Acquisition as well as higher amounts outstanding on the revolving credit facility during the quarter compared to the six months ended June 30, 2017.

Other expense, net

Other expense, net, increased to $1.0 million in the six months ended June 30, 2018 compared to zero for the six months ended June 30, 2017. This is due to a fair value adjustment to the contingent notes entered into as part of the VIP Acquisition and a royalty settlement.

Pre-tax net income

As a result of the factors above, pre-tax net income decreased $9.0 million to $1.4 million for the six months ended June 30, 2018 compared to pre-tax net income of $10.3 million for the six months ended June 30, 2017.

Provision for income taxes

Our effective tax rate was (3.4%) for the six months ended June 30, 2018, with a tax benefit of $0.05 million. Prior to our IPO in July 2017, the Company was treated as a partnership, thus did not have income tax expense.

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 acquisition costs, stock based compensation expense, purchase accounting inventory adjustment, fair value adjustment to contingent consideration, new clinic launch expenses, integration and costs of discontinued clinics, and management fees. Adjusted EBITDA adjusts 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 (loss) income to EBITDA and Adjusted EBITDA below and not rely on any single financial measure to evaluate our business.

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

	For the three months ended		For the six months ended	
	June 30, 2018	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
Net income	**$ 5,398**	$ 6,070	**$ 1,441**	$ 10,349
Plus:				
Tax expense (benefit)	**1,020**	—	**(47)**	—
Depreciation	**1,780**	575	**3,030**	1,111
Amortization	**1,257**	261	**2,397**	521
Interest	**2,216**	535	**3,981**	999
EBITDA	**$ 11,671**	$ 7,441	**$ 10,802**	$ 12,980
Acquisition costs(1)	**151**	—	**3,366**	—
Management fees(2)	**—**	196	**—**	386
Stock based compensation expense	**756**	—	**1,454**	—
Purchase accounting adjustment to inventory	**—**	—	**1,502**	—
Non same-store revenue(3)	**(794)**	—	**(1,015)**	—
Non same-store costs(3)	**1,903**	—	**2,291**	—
Fair value adjustment of contingent note	**459**	—	**600**	—
Integration costs and costs of discontinued clinics	**385**	—	**756**	—
New wellness center launch expenses(4)	**846**	—	**1,211**	—
Non-recurring royalty settlement(5)	**440**	—	**440**	—
Adjusted EBITDA	**$ 15,817**	$ 7,637	**$ 21,407**	$ 13,366

(1) Acquisition costs relating to our acquisition of VIP, which was completed during the six months ended June 30, 2018.

(2) Represents annual fees paid pursuant to our management agreements with Eos, Highland and Labore. The management agreements terminated in connection with our IPO.

(3) Non same-store revenue and costs are from wellness centers and regions with less than four full trailing quarters of operating results. There were 23 wellness centers and 5 regions that had less than four trailing quarters of operating results for the three and six months ended June 30, 2018 and none for the three and six months ended June 30, 2017.

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

(5) Represents a settlement paid to a supplier related to a royalty agreement in place since 2013.

Financial Condition, Liquidity, and Capital Resources

Historically, our primary sources of liquidity have been cash flows from operations, borrowings, and equity contributions. As of June 30, 2018 and December 31, 2017, our cash and cash equivalents were $11.7 million and $37.9 million respectively. As of June 30, 2018, we had $23.5 million outstanding under a revolving credit facility, $75 million under a term loan, $10 million due under a guaranteed note, and $1.9 million outstanding under a mortgage. The debt agreements bear interest at rates between 4.35% and 7.23%.

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, 2018 and December 31, 2017, we had working capital (current assets less current liabilities) of $73.6 million and $90.7 million, respectively.

We believe that our operating cash flow, cash on hand, and debt proceeds from our borrowings under our credit facility 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 $9.4 million for the six months ended June 30, 2018, compared to cash used in operating activities of $7.0 million for the six months ended June 30, 2017. The change in operating cash flows primarily reflects lower earnings, offset partially by high non cash items such as depreciation and amortization. Working capital uses are driven by increased accounts receivable resulting from our growing sales and higher inventory to support growing net sales. Net changes in assets and liabilities accounted for $18.2 million in cash used in operating activities for the six months ended June 30, 2018 compared to $19.2 million of cash used in operating activities for the six months ended June 30, 2017.

Cash used in Investing Activities

Net cash used in investing activities was $96.7 million for the six months ended June 30, 2018, compared to $0.7 million for the six months ended June 30, 2017. The increase in net cash used in investing activities is a result of the VIP Acquisition as well as growth in capital expenditures.

Cash provided by Financing Activities

Net cash provided by financing activities was $79.9 million for the six months ended June 30, 2018 compared to $8.0 million in net cash provided by financing activities for the six months ended June 30, 2017. This increase in cash provided by financing activities is primarily driven by the Company's new debt taken out to finance the VIP Acquisition.

Description of Indebtedness

A&R Credit Agreement

In connection with the VIP Acquisition, the Company amended and restated its existing revolving credit agreement (the "A&R Credit Agreement") on January 17, 2018. The A&R Credit Agreement provides for a secured revolving credit facility of $50 million in the aggregate, at either LIBOR or Base (prime) interest rates plus an applicable margin. The A&R Credit Agreement matures on January 17, 2023. On August 9, 2018, the Company entered into an amendment to the A&R Credit Agreement to increase the revolving credit facility to $75 million in aggregate.

All obligations under the A&R Credit Agreement are unconditionally guaranteed by Holdco 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 Credit Agreement, and the guarantees of those obligations, are secured by substantially all of the assets of each borrower and guarantor under the A&R Credit Agreement, subject to certain exceptions.

Also in connection with the closing of the VIP Acquisition, the Company entered into a term loan credit agreement (the "Term Loan Credit Agreement"). The Term Loan Credit Agreement provides for a secured term loan credit facility of

$75 million in aggregate at either LIBOR or Base (prime) interest rates plus an applicable margin. The Term Loan Credit Agreement requires quarterly principal payments, with the full balance due on January 17, 2023.

As of June 30, 2018, the Company had $23 million outstanding under the A&R Credit Agreement and $75 million under the Term Loan Credit Agreement. The interest rate on the A&R Credit Agreement was 5.00% as a Base Rate loan, the interest rate on the Term Loan Credit Agreement was 7.23% as a LIBOR rate loan. The A&R Credit Agreement contains a lockbox mechanism.

The A&R Credit Agreement and Term Loan Credit Agreement contain certain covenants and restrictions including a fixed charge coverage ratio and a minimum EBITDA target and is secured by collateral consisting of a percentage of eligible accounts receivable, inventories, and machinery and equipment. As of June 30, 2018, the Company was in compliance with these covenants.

Prior Credit Agreement

The Company entered into a previous credit agreement ("Prior Credit Agreement") on December 21, 2016. The Prior Credit Agreement provided for secured financing of $50.0 million in aggregate at either LIBOR or Base (prime) interest rates plus an applicable margin, consisting of:

(i) $45.0 million revolving credit facility ("Prior Revolver") maturing on December 16, 2019; and
(ii) $5.0 million term loan ("Prior Term Loans"), requiring equal amortizing payments for 24 months.

As of December 31, 2017, the Company had fully repaid the Prior Term Loans and had $15.3 million outstanding under the Prior Revolver. The interest rate on the Prior Revolver was 5.00% as a Base Rate loan. All amounts outstanding under the Prior Revolver were repaid in connection with the A&R Credit Agreement.

Other Debt

The Company entered into a mortgage with a local bank to finance $1.9 million of the purchase price of 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.

In connection with the VIP Acquisition, the Company entered into a guarantee note which requires the Company to pay $10.0 million on July 17, 2023. The note bears interest at a fixed 6.75% and requires quarterly interest payments.

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 New Credit Agreement is variable rate debt. Interest rate changes generally do not affect the market value of our credit agreement but do affect the amount of our interest payments and, therefore, our future earnings and cash flows. As of June 30, 2018, we had variable rate debt of approximately $98.5 million under our Revolver and Term Loan. An increase of 1% would have increased our interest expense for the six months ended June 30, 2018 by approximately $445 thousand.

Item 4. Controls and Procedures.

Internal Control over Financing Reporting

As we are an emerging growth company and a newly public company, we have not prepared a formal management's report on internal control over financial reporting, as would otherwise be required by Section 404 of the Sarbanes-Oxley Act of 2002, nor have we engaged an independent registered public accounting firm to perform an audit of our internal control over financial reporting as of any balance sheet date in our condensed consolidated financial statements. Our compliance with Section 404 of the Sarbanes-Oxley Act will first be subject to management's assessment regarding internal control over financial reporting in connection with the filing of our Annual Report on Form 10-K for the fiscal year ending December 31, 2018 and we will not be required to have an independent registered public accounting firm attest to the effectiveness of our internal control over financial reporting until the filing of our first Annual Report on Form 10-K after we lose emerging growth company status. We will remain an emerging growth company until the earliest to occur of: the last day of the year in which we have $1.07 billion or more in annual net sales, the date we qualify as a "large accelerated filer," with at least $700 million of equity securities held by non-affiliates as of the last day of our most recently completed second quarter; the issuance, in any three-year period, by us of more than $1 billion in non-convertible debt securities; or December 31, 2022. Accordingly, this Quarterly Report on Form 10-Q does not include a report of management's assessment regarding internal control over financial reporting due to a transition period established by rules of the SEC for newly public companies.

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.

As discussed in Note 2 to the condensed consolidated financial statements included in this Quarterly Report, we completed the acquisition of Community Veterinary Clinics LLC and Subsidiaries d/b/a VIP Petcare "VIP" from VIP Holdings, LLC, on January 17, 2018. As part of our post-closing integration activities, we are engaged in the process of assessing the internal controls of VIP. As permitted by interpretive guidance for newly acquired businesses issued by SEC staff, management has excluded VIP's internal control over financial reporting from the evaluation of the Company's effectiveness of its disclosure controls and procedures as of June 30, 2018. As outlined in Note 2 to the condensed consolidated financial statements included in this quarterly report, total assets of VIP included in the Company's preliminary purchase price allocation were approximately $25 million, and total VIP revenues were approximately $40 million for the period from the acquisition date to June 30, 2018.

Changes in Internal Control over Financial Reporting

Effective January 1, 2018, we adopted Accounting Standards Codification 606, *Revenue from Contracts with Customers ("Topic 606")*. The adoption of Topic 606 had an immaterial impact on our financial statements, however we implemented certain changes to our revenue recognition related control activities to enhance policies and periodic review procedures to incorporate specific Topic 606 considerations.

Additionally, in relation to the closing of the VIP acquisition, noted in the section above, management implemented changes to internal control activities, including enhanced policies and review procedures pertaining to the use of valuation service providers, opening balance sheet determination, intercompany transactions, and segment reporting.

There were no other changes in our internal control over financial reporting that occurred during our fiscal quarter ended June 30, 2018, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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" our ability to successfully grow our business through acquisitions; our ability to integrate, manage and expand VIP's business; and our dependency on a limited number of customers; our ability to implement our growth strategy effectively; our ability to achieve or sustain profitability; competition from veterinarians and others in our industry; reputational damage to our brands; economic trends and spending on pets; our ability to open new retail clinics; failure to effectively execute on our Services segment rationalization plans;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; and the risks set forth under the "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2017 and Quarterly Report on 10-Q for the period ended March 31, 2018.

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.

In May 2017, Bayer Healthcare LLC and its affiliates (collectively "Bayer") filed suit in the United States District Court for the District of Delaware, against CAP IM Supply, Inc. ("CAP IM"), our supplier of Advecta 3 and PetLock MAX, which we began to sell in 2017 as our value-branded alternatives to Bayer's K9 Advantix II. Bayer alleges that Advecta 3 and PetLock MAX infringe a patent relating to K9 Advantix II. Bayer seeks unspecified monetary damages and an injunction against future sales by CAP IM of Advecta 3 and PetLock MAX to the Company. Bayer sought, and was denied, a preliminary injunction. Although we have not been named in the suit, our license and supply agreement with CAP IM requires us to share with CAP IM the payment of defense and settlement costs of such litigation and allows us to control the defense of the proceeding. CAP IM intends to vigorously defend this case and we believe that CAP IM has meritorious defenses. However, because of the inherent uncertainties of litigation, we can provide no assurance of an outcome favorable to CAP IM and to us.

In April 2018, Med Vets, Inc. and Bay Medical Solutions Inc., filed a Complaint in the United States District Court for the Northern District of California against PetIQ, Inc. and VIP Petcare Holdings, Inc. for alleged unlawful merger and other antitrust violations. The plaintiffs' sought unspecified monetary damages, and various injunctive relief, including an order to require PetIQ to divest its interests in VIP. We filed a Motion to Dismiss the Complaint for failure to state a claim upon which relief could be granted. On August 3, 2018 the Court granted our Motion to Dismiss the Complaint

We are from time to time subject to, and are presently involved in, litigation and other proceedings. Other than the litigation described above, 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.

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, 2017 and our quarterly report on 10-Q for the period ended March 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 5. Other Information

On August 9, 2018, the Company entered into an amendment to the A&R Credit Agreement to increase availability under the revolving credit facility to $75 million. The foregoing description is not intended to be complete and is qualified in its entirety by the Amendment to the A&R Credit Agreement, which is filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q and incorporated herein by reference.

Item 6. Exhibits.

10.1*	Amendment to the Amended and Restated Credit Agreement
10.2*+	Form of Restricted Stock Unit Agreement for Non-Employee Directors
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*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.

* Filed herewith
+Compensatory plan or arrangement

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 14, 2018	/s/ John Newland
	John Newland Chief Financial Officer

Exhibit 10.1

FIRST AMENDMENT TO AMENDED AND RESTATED
CREDIT AGREEMENT AND JOINDER

THIS FIRST AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT AND JOINDER (this "Amendment"), dated as of August 9, 2018, is entered into by and among PETIQ, LLC, an Idaho limited liability company ("PetIQ"), the other Credit Parties signatory hereto (collectively with PETIQ, the "Borrowers"), the LENDERS signatory hereto (including KEYBANK NATIONAL ASSOCIATION, which will become a Lender and the Syndication Agent pursuant to this Amendment), and EAST WEST BANK, a California banking corporation, as Administrative Agent for the Lenders (in such capacity, "Administrative Agent"), with reference to the following facts:

RECITALS

A. The Borrowers, the Lenders, and Administrative Agent are parties to an Amended and Restated Credit Agreement dated as of January 17, 2018 (the "Credit Agreement") and certain other related Loan Documents, pursuant to which the Lenders provide the Borrowers a revolving credit facility with sub-facilities for letters of credit and swing line loans).

B. The parties hereto desire to amend the Credit Agreement: (i) to increase the aggregate Revolving Credit Commitments from $50,000,000 to $75,000,000; (ii) to add KeyBank National Association "KeyBank"), by joinder, as a Lender under the Credit Agreement, with a Revolving Credit Commitment of $25,000,000; (iii) to permit the Borrowers to grant a subordinate purchase-money security interest to Merial LLC ("Merial"); and (iv) to make various technical corrections and other modifications, all as set forth below.

NOW, THEREFORE, the parties hereby agree as follows:

1. Defined Terms. All initially capitalized terms used in this Amendment (including in the recitals hereto) without definition shall have the respective meanings set forth for such terms in the Credit Agreement.

2. Addition of Definitions. Section 1.01 of the Credit Agreement is hereby amended and supplemented by adding therein new definitions of "First Amendment Effective Date" and "Refinanced Debt" as follows:

"First Amendment Effective Date" means the effective date of the First Amendment to Amended and Restated Credit Agreement by and among the Borrowers, the Lenders (including KeyBank National Association as a new Lender and the Syndication Agent, by joinder), Administrative Agent, L/C Issuer and Swingline Lender.

"Refinanced Debt" means Indebtedness that is the subject of a Permitted Refinancing.

3. Deletion of Cash Management Obligations Sublimit. Section 1.01 of the Credit Agreement is hereby further amended by amending and restating the definition of "Cash Management Obligations" so that it reads in full as follows (changes to the text are indicated with

a ~~strikethrough~~ or in ***bold, italicized and underscored*** type):

"Cash Management Obligations" means, as of any date of determination, the aggregate outstanding obligations of Borrowers to Cash Management Banks pursuant to Cash Management Agreements, provided that Cash Management Obligations ~~(i)~~ may not exceed $5,000,000 at any time ~~and (ii) with respect to the obligations pursuant to Cash Management Agreements described in clause (ii) of the definition thereof, such Cash Management Obligations shall not exceed in the aggregate $500,000 out of the $5,000,000 aggregate cap amount at any time; for the avoidance of doubt, the $500,000 sublimit provided herein is a part of, and not in addition to, the overall $5,000,000 aggregate limit~~.

4. Amendment of Concentration Cap for Wal-Mart and Sam's Club. Section 1.01 of the Credit Agreement is hereby further amended by amending and restating subsection (c)(i) of the definition of "Eligible Receivables" so that such subsection reads in full as follows:

"(i) 40% measured on a combined basis for Wal-Mart and Sam's Club, notwithstanding their Affiliate relationship, provided, that in the event of new product introductions, if approved by the Administrative Agent in writing in its sole discretion and in any event for a period of not more than 60 days, such allowable combined percentage shall be 70%; and"

5. Amendment of Definition of Eurodollar Rate. Section 1.01 of the Credit Agreement is further amended by amending and restating the definition of Eurodollar Rate so that it reads in full as follows (changes to the text are indicated with a ~~strikethrough~~ or in ***bold, italicized and underscored*** type):

"Eurodollar Rate" means, for any Interest Period with respect to any Eurodollar Rate Loan, the rate per annum determined by the Administrative Agent to be the rate for deposits in Dollars for a period approximately equal to such Interest Period and in an amount approximately equal to the principal amount of such Eurodollar Rate Loan which appears on the Bloomberg Screen TMM Page under the heading "LIBOR Fix" as of 11:00 a.m. (London time) on the second Business Day prior to the first day of such Interest Period (adjusted for any and all assessments, surcharges and reserve requirements)***; provided, however, if the Eurodollar Rate determined as provided above would be less than zero, then the Eurodollar Rate shall be deemed to be zero for the purposes of this Agreement***. If such interest rate shall cease to be available from the above-described Bloomberg report, the Eurodollar Rate shall be determined from such financial reporting service as the Administrative Agent shall reasonably determine and use with respect to its other loan facilities for which interest is determined based on the London interbank offered rate.

6. Amendment of Definition of Required Lenders. Section 1.01 of the Credit Agreement is hereby further amended by amending and restating the definition of "Required Lenders" so that it reads in full as follows (changes to the text are indicated with a ~~strikethrough~~ or in ***bold, italicized and underscored*** type):

"Required Lenders" means, as of any date of determination, Lenders holding more than 50% of the sum of the aggregate Revolving Credit Commitments, collectively; provided that: (a) if at any time there are only two (2) Lenders, Required Lenders shall mean both Lenders; (b) ***if***

at any time there are more than two (2) Lenders, Required Lenders shall mean at least two (2) unaffiliated Lenders; and (c) the Revolving Credit Commitment of any Defaulting Lender shall be excluded for purposes of making a determination of Required Lenders

7. Increase in Revolving Credit Commitments.

(a) Amendment of Definition of Revolving Credit Facility. Section 1.01 is hereby further amended by amending and restating the definition of Revolving Credit Facility so that it reads in full as follows:

"Revolving Credit Facility" means, at any time, the aggregate amount of the Revolving Credit Commitments at such time. As of the First Amendment Effective Date, the Revolving Credit Facility is $75,000,000.

(b) Amendment of Schedule of Commitments. Schedule 2.01 to the Credit Agreement is hereby amended and restated to read in full as set forth on Schedule 2.01 to this Amendment.

8. Consent to Incurrence of Purchase-Money Indebtedness to Merial. Section 7.02 of the Credit Agreement is hereby amended by (i) deleting the word "and" from the end of subsection (n), (ii) re-lettering existing subsection (o) to become a new subsection (p), and (iii) adding therein a replacement subsection (o) as follows:

"(o) Indebtedness of the Credit Parties to Merial LLC ('Merial') secured by purchase-money security interests permitted by Section 7.03(a)xii, so long as no Event of Default has occurred and is continuing at the time such Indebtedness is incurred or after giving to the incurrence of such Indebtedness."

9. Consent to Grant of Purchase-Money Security Interest to Merial. Section 7.03(a) of the Credit Agreement is hereby amended and supplemented by (i) deleting the word "and" from the end of clause x. thereof, (ii) adding a semicolon followed by the word "and" after the word "Liens" in clause xi. thereof; (iii) renumbering current clause xii. thereof to be new numbered clause xiii.; and (iv) adding a replacement clause xii. therein as follows:

"xii. Liens in favor of Merial granted on or after the First Amendment Effective Date to secure permitted purchase-money Indebtedness of any Credit Party to Merial, provided that such Liens (a) attach only to the assets acquired with such purchase-money Indebtedness and the proceeds thereof and (b) are subordinated to the Lien of Administrative Agent pursuant to a written subordination agreement between Administrative Agent and Merial in form and substance satisfactory to Administrative Agent in its Permitted Discretion; and"

10. Amendment of Fixed Charge Coverage Ratio Covenant. Section 7.13 of the Credit Agreement is hereby amended and restated to read in full as follows (changes to the text are indicated with a ~~strikethrough~~ or in ***bold, italicized and underscored*** type):

"7.13 **Fixed Charge Coverage Ratio**. The Credit Parties shall not permit the

Consolidated Fixed Charge Coverage Ratio, determined as of the last day of any Fiscal Quarter, to be less than ~~1.10~~ ***1.15*** to 1.00."

11. Amendment of Notices Provision. Section 6.05 of the Credit Agreement is hereby amended by amending and restating the last paragraph thereof so that it reads in full as follows (changes to the text are indicated with a ~~strikethrough~~ or in ***bold, italicized and underscored*** type):

"Delivery by the Credit Parties to the Administrative Agent of any and all notices required to be delivered to the Lenders as herein required shall be deemed made upon receipt of such notices by the Administrative Agent ***(and Administrative Agent agrees to promptly forward the same to the Lenders)***."

12. Amendment of "Waterfall" Provision. Section 8.03 of the Credit Agreement is hereby amended and restated to read in full as follows (changes to the text are indicated with a ~~strikethrough~~ or in ***bold, italicized and underscored*** type):

"**8.03 Application of Funds**. In the event that, following the occurrence and during the continuance of any Event of Default, the Administrative Agent or any Lender receives any monies in connection with the enforcement of any of the Loan Documents, or otherwise with respect to the realization upon any of the Collateral, the Administrative Agent may apply (and shall apply at (a) the request of the Required Lenders or (b) following the exercise of remedies pursuant to Section 8.02, including without limitation, pursuant to the proviso thereof) such monies as follows (and each Lender shall comply with the instructions of the Administrative Agent in the case of any such monies received by such Lender):

i. First, to payment of outstanding Pro Rata Protective Advances and Out-of-Formula Advances ratably among the holders thereof in proportion to the respective amounts described in this clause First and if the Revolving Credit Lenders have declined to participate in Protective Advances pursuant to Section 2.17(a), to payment of outstanding Protective Advances not to exceed 10% of the Borrowing Base as of the date of the making of such Protective Advances funded by the Administrative Agent;

ii. Second, to payment of that portion of the Obligations owing to the Administrative Agent constituting (a) indemnities and expenses due and payable under this Agreement and the other Loan Documents (including reasonable and documented fees, charges and disbursements of counsel to the Administrative Agent), and (b) the fees due and payable under the Fee Letter;

iii. Third, to ***(a)*** the payment of that portion of the Obligations constituting (i) indemnities and expenses (including reasonable and documented fees, charges and disbursements of counsel to the Lenders and amounts payable under Article III) due and payable to the Lenders under this Agreement and the other Loan Documents, (ii) accrued and unpaid interest and fees (including Unused Facility Fees, Early Revolving Credit Facility Termination Fees and Letter of Credit Fees) due and payable to the Lenders, (iii) unpaid principal of the Revolving Credit Loans, the L/C Borrowings and the Swingline Loans, ratably among the holders thereof, (iv) Secured Cash Management Obligations then owing under

Secured Cash Management Agreements, and (v) Secured Hedge Obligations then owing under Secured Hedge Agreements***, and (b) to the Administrative Agent for the account of the L/C Issuer, to Cash Collateralize that portion of L/C Obligations comprised of the aggregate undrawn amount of Letters of Credit to the extent not otherwise Cash Collateralized by the Borrowers pursuant to Sections 2.03 and 2.21***;

iv. Fourth, if the Revolving Credit Lenders have declined to participate in Protective Advances pursuant to Section 2.17, to payment of outstanding Protective Advances funded by the Administrative Agent remaining outstanding after the application of clause First above;

v. Fifth, ~~to the Administrative Agent for the account of the L/C Issuer, to Cash Collateralize that portion of L/C Obligations comprised of the aggregate undrawn amount of Letters of Credit to the extent not otherwise Cash Collateralized by the Borrowers pursuant to Sections 2.03 and 2.21~~ the payment in full of all other Obligations due and payable ratably among the holders thereof; and;

vi. ~~Seventh~~***Sixth***, the balance, if any, after all of the Obligations have been indefeasible paid in full, to the Borrowers or as otherwise required by Law.

~~vii. Seventh, the balance, if any, after all of the Obligations have been indefeasible paid in full, to the Borrowers or as otherwise required by Law.~~

All payments applied to the Loans pursuant to this Section 8.03 shall be applied to the Loans owing to the Lenders in accordance with their respective Applicable Percentages."

13. Amendment of Costs and Expenses Provision. Section 10.04(a) of the Credit Agreement is hereby amended and restated to read in full as follows (changes to the text are indicated with a ~~strikethrough~~ or in ***bold, italicized and underscored*** type):

"(a) Costs and Expenses. The Borrowers shall pay (i) all reasonable documented out-of-pocket expenses incurred by the Administrative Agent and its Affiliates (including the reasonable and documented fees, charges and disbursements of one firm of outside counsel for such Persons, and one local or special counsel to such Persons in any relevant jurisdiction), in connection with the syndication of the credit facilities provided for herein, the preparation, negotiation, execution, delivery and administration of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable documented out-of-pocket expenses incurred by the L/C Issuer in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all reasonable and documented out-of-pocket expenses incurred by the Administrative Agent or any Lender, which, in the case of any Lender, other than the Administrative Agent and its Affiliates, shall be limited to one firm of outside counsel for all such Lenders (including the reasonable and documented fees, charges and disbursements of counsel) ***(and, in the case of an actual unwaivable conflict of interest, one additional counsel for all such similarly affected persons, one additional local or special counsel for all such similarly affected persons in any relevant jurisdiction, and one regulatory counsel for all such similarly affected***

persons), in connection with the enforcement or protection of its rights (A) in connection with this Agreement and the other Loan Documents, including its rights under this Section, or (B) in connection with the Loans (including Swingline Loans) made or Letters of Credit issued hereunder, including all such reasonable and documented out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit."

14. Amendment of Indemnification by the Borrowers Provision. Section 10.04(b) of the Credit Agreement is hereby amended and restated as follows (changes to the text are indicated with a ~~strikethrough~~ or in ***bold, italicized and underscored*** type):

"(b) Indemnification by the Borrowers. The Borrowers shall indemnify the Administrative Agent (and any sub-agent thereof), each Lender and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the reasonable and documented fees, charges and disbursements of any outside counsel for any Indemnitee which, in the case of the Lenders, other than the Administrative Agent and its Affiliates, shall be limited to one firm of outside counsel for all such Lenders ***(and, in the case of an actual unwaivable conflict of interest, one additional counsel for all such similarly affected persons, one additional local or special counsel for all such similarly affected persons in any relevant jurisdiction, and one regulatory counsel for all such similarly affected persons))***, incurred by any Indemnitee or asserted against any Indemnitee by any third party or by the Borrowers or any other Credit Party arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder, the consummation of the transactions contemplated hereby or thereby, or, in the case of the Administrative Agent (and any sub-agent thereof) and each of its Related Parties only, the administration of this Agreement and the other Loan Documents, (ii) any Loan (including any Swingline Loan) or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by the L/C Issuer to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Borrowers or any other Credit Party, or any Environmental Liability related in any way to the Borrowers or any other Credit Party, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by the Borrowers or any other Credit Party, and regardless of whether any such Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses (x) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee or (y) result from a claim brought by the Borrowers or any other Credit Parties against an Indemnitee for breach in bad faith of such Indemnitee's obligations hereunder or under any other Loan Document, if the Borrowers or such other Credit Parties has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction. Without limiting the provisions of Section 3.01(c), this Section 10.04(b) shall not apply with respect to Taxes other than any Taxes that represent losses, claims, damages, etc. arising from any non-Tax claim."

15. Amendment of Form of Compliance Certificate. Exhibit D to the Credit Agreement is hereby amended and restated to read in full as set forth on Exhibit D to this Amendment ((changes to the text of Exhibit D are indicated with a ~~strikethrough~~ or in ***bold, italicized and underscored*** type).

16. Release of Lien on "Lovibles" Trademark; Exclusion from Borrowing Base of Inventory Bearing "Lovibles" Trademark. Administrative Agent hereby releases its Lien on any and all trademarks relating to the Borrowers' so-called "Lovibles" products, and Administrative Agent agrees to execute and deliver to Borrower Representative all release forms necessary or reasonably desirable to further the release of such Lien. The Borrowers acknowledge and agree that following the First Amendment Effective Date, no Inventory bearing, sold under a license to use, or otherwise relating to the "Lovibles" trademark shall constitute Eligible Inventory.

17. Commitment of KeyBank. Pursuant to the joinder provisions of Section 18 below, as of the First Amendment Effective Date, KeyBank shall be (a) a Lender with a Commitment of $25,000,000 and (b) the Syndication Agent. KeyBank's Applicable Percentage of the Revolving Credit Facility is set forth on Schedule 2.01 to this Amendment.

18. Joinder of KeyBank as a Lender and as Syndication Agent. By its execution of this Amendment, effective as of the First Amendment Effective Date, KeyBank shall be a Lender for all purposes under the Credit Agreement and the other Loan Documents and the Syndication Agent and shall be joined and shall have bound itself to the Credit Agreement and to all other Loan Documents to which Lenders are bound generally as of the effective date hereof. KeyBank hereby assumes all of the obligations of a Lender under the Credit Agreement and the other Loan Documents and shall be entitled to all of the benefits of a Lender under the Loan Documents. In furtherance of this joinder agreement, KeyBank hereby agrees to furnish the Administrative Agent a completed Administrative Questionnaire, an Internal Revenue Service Form W-9, and any other agreements, documents or instruments that Lenders are required or reasonably requested by Administrative Agent or Borrower Representative to deliver to Administrative Agent or to the Borrowers pursuant to the Credit Agreement.

19. Conditions Precedent. The effectiveness of this Amendment shall be subject to the satisfaction of each of the following conditions:

(a) This Amendment. Administrative Agent shall have received this Amendment, duly executed by the Borrowers, the Lenders (including, without limitation, KeyBank National Association), and Administrative Agent;

(b) Officer's Certificate. Administrative Agent shall have received certificates attaching resolutions of the respective boards of directors, boards of managers or other applicable governing bodies of the Borrowers that authorize the Borrowers' incurrence of the additional indebtedness contemplated hereunder; and

(c) Fees. Administrative Agent shall have received payment of the fees set forth in a separate letter agreement between Administrative Agent and the Borrowers dated as of the date hereof.

20. General Amendment Provisions.

A. The Credit Agreement, as amended hereby, shall be and remain in full force and effect in accordance with its terms, and Borrowers hereby ratify and confirm the Credit Agreement in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, an amendment to, or a consent to a deviation from, any right, power, or remedy of Administrative Agent or the Lender under the Credit Agreement or any other Loan Document, as in effect prior to the date hereof.

B. The Borrowers represent and warrant to Administrative Agent and the Lenders that the representations and warranties contained in the Credit Agreement are true and correct in all material respects as of the date of this Amendment (except for representations and warranties that expressly relate to an earlier date, which are true and correct in all material respects as of such earlier date) and that no Event of Default has occurred and is continuing.

C. This Amendment constitutes the entire agreement of the parties in connection with the subject matter hereof and cannot be changed or terminated orally. All prior agreements, understandings, representations, warranties and negotiations regarding the subject matter hereof, if any, are merged into this Amendment.

D. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a ".pdf" format data file, such signature shall create a valid and binding obligation of the party executing this Amendment (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or ".pdf" signature page were an original hereof.

E. This Amendment shall be governed by, and construed and enforced in accordance with, the internal laws (as opposed to the conflicts of law principles) of the State of New York.

[Remainder of page intentionally left blank; signature pages follow]

IN WITNESS WHEREOF, the undersigned have executed this Amendment by their respective duly authorized officers as of the date first above written.

The Borrowers:

PETIQ, LLC,
an Idaho limited liability company

By /s/ Cord Christensen
Name: Cord Christensen
Title: Chief Executive Officer

TRUE SCIENCE HOLDINGS, LLC,
a Florida limited liability company

By /s/ Cord Christensen
Name: Cord Christensen
Title: Manager

TRURX LLC,
an Idaho limited liability company

By /s/ Cord Christensen
Name: Cord Christensen
Title: Manager

TRU PRODIGY, LLC,
a Texas limited liability company

By /s/ Cord Christensen
Name: Cord Christensen
Title: Manager

COMMUNITY VETERINARY CLINICS LLC,
a Delaware limited liability company

By /s/ Nathan Smith
Name: Nathan Smith
Title: Manager

PET SERVICES OPERATING, LLC,
a Delaware limited liability company

By /s/ Nathan Smith
Name: Nathan Smith
Title: Manager

PAWPLUS MANAGEMENT, LLC,
a Delaware limited liability company

By /s/ Nathan Smith
Name: Nathan Smith
Title: Manager

VIP PETCARE, LLC,
a Delaware limited liability company

By /s/ Nathan Smith
Name: Nathan Smith
Title: Manager

COMMUNITY CLINICS, INC.,
a California corporation

By /s/ Nathan Smith
Name: Nathan Smith
Title: Director

<u>The Agent, L/C Issuer and Swingline Lender</u>:

EAST WEST BANK,
as Administrative Agent, LC/Issuer and
Swingline Lender

By: /s/ David A. Lehner
David A. Lehner
Senior Vice President

<u>The Syndication Agent:</u>

KEYBANK NATIONAL ASSOCIATION,
as Syndication Agent

By: /s/ Craig A. Hanselman
Name: Craig A. Hanselman
Title: Vice President

<u>The Lenders</u>:

EAST WEST BANK,
as a Lender

By: /s/ David A. Lehner
David A. Lehner
Senior Vice President

COMERICA BANK,
as a Lender

By: /s/ Brian Dobbs
Name: Brian Dobbs
Title: Vice President

KEYBANK NATIONAL ASSOCIATION,
as a Lender

By: /s/ Craig A. Hanselman
Name: Craig A. Hanselman
Title: Vice President

Schedule 2.01

Commitments and Applicable Percentages

Lender	Revolving Credit Commitment	Applicable Percentage
East West Bank	$40,000,000.00	53.3333334%
Comerica Bank	$10,000,000.00	13.3333333%
KeyBank National Association	$25,000,000.00	33.3333333%
Total	$75,000,000.00	100.0000000%

FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date: __________, ___

To: East West Bank, as Administrative Agent

Ladies and Gentlemen:

Reference is made to that certain Amended and Restated Credit Agreement, dated as of January 17, 2018 (as amended, amended and restated, extended, supplemented or otherwise modified in writing from time to time, the "Credit Agreement"; the terms used herein but not defined herein having the meaning as therein defined), among (a) PETIQ, LLC, an Idaho limited liability company ("PetIQ") as a Borrower (as defined below) and as the Borrower Representative (as defined in the Credit Agreement) for the other Borrowers party thereto; (b) TRUE SCIENCE HOLDINGS, LLC, a Florida limited liability company, TRURX LLC, an Idaho limited liability company, TRU PRODIGY, LLC, a Texas limited liability company, COMMUNITY CLINICS, INC., a California corporation, PAWSPLUS MANAGEMENT, LLC, a Delaware limited liability company, PET SERVICES OPERATING, LLC, a Delaware limited liability company, VIP PETCARE, LLC, a California limited liability company, COMMUNITY VETERINARY CLINICS, LLC, a Delaware limited liability company (together with PetIQ, each individually, a "Borrower" and collectively, the "Borrowers"); (c) the other Credit Parties party thereto; (d) the Lenders from time to time party thereto; and (e) EAST WEST BANK, as Administrative Agent.

The undersigned hereby certifies as of the date hereof that he/she is the Financial Officer of PetIQ and that as such he/she is authorized to execute and deliver this Certificate to the Administrative Agent, and, upon request, to the Lenders, on behalf of the Credit Parties, and in such capacity that:

[Use following paragraph 1 for Fiscal Year-end financial statements]

1. The Credit Parties are delivering attached hereto as Exhibit A and as required by Section 6.04(a) of the Credit Agreement for the Fiscal Year ended as of the above date, the consolidated and consolidating balance sheet of Parent and its Subsidiaries, as at the end of such Fiscal Year, and the related consolidated and consolidating statements of income or operations, cash flows and shareholders' equity for such Fiscal Year, each setting forth in comparative form the figures for the previous Fiscal Year and all such consolidated and consolidating financial statements to be in reasonable detail, prepared in accordance with GAAP, consistently applied, and such consolidated and consolidating financial statements to be audited and accompanied by a report and opinion prepared in accordance with generally accepted auditing standards by an independent certified public accountant and certified without qualification and without expression of uncertainty as to the ability of Parent, the Borrowers and their Restricted Subsidiaries to continue as going concerns (other than a "going concern" qualification resulting from an upcoming maturity under the Credit Agreement or the Term Credit Agreement occurring within one year from the time such opinion is delivered or a breach of Section 7.13 of the Credit Agreement). The information contained in such financial statements fairly presents in all material respects the financial condition of Parent, the Borrowers and their Restricted Subsidiaries on the

dates indicated therein. Attached hereto as Schedule 1, Schedule 2, and Schedule 3, respectively, are: (i) computations evidencing the Fixed Charge Coverage Ratio, the First Lien Net Leverage Ratio and Excess Cash Flow, in each case, for the Reference Period ended as of the last day of the Fiscal Year ended as of the above date and specifying whether the Credit Parties have complied with Section 7.13 and Section 7.15 of the Credit Agreement; (ii) a copy of the management discussion and analysis prepared in connection with such financial statements; and (iii) a copy of the accountants' management letter (if any) for the Fiscal Year ended as of the above date.

[Use following paragraph 1 for Fiscal Quarter-end financial statements]

1. The Credit Parties are delivering attached hereto as Exhibit A and as required by Section 6.04(b) of the Credit Agreement for the Fiscal Quarter ended as of the above date, the consolidated and consolidating balance sheet of the Parent, the Borrowers and their Restricted Subsidiaries, as at the end of such Fiscal Quarter, and the related consolidated and consolidating statements of income or operations, cash flows and shareholders' equity for such Fiscal Quarter and the portion of the Fiscal Year through the end of such Fiscal Quarter, each setting forth in comparative form the figures for the previous Fiscal Quarter of the previous Fiscal Year and the corresponding portion of the previous Fiscal Year and all such consolidated and consolidating financial statements to be in reasonable detail, prepared in accordance with GAAP consistently applied. The information contained in such financial statements fairly presents in all material respects the financial condition of Parent, the Borrowers and their Restricted Subsidiaries on the dates indicated therein. Attached hereto as Schedule 1 and Schedule 2, respectively, are: (i) computations evidencing the Fixed Charge Coverage Ratio and the First Lien Net Leverage Ratio for the Reference Period ended as of the last day of the Fiscal Quarter ended as of the date above and specifying whether the Credit Parties have complied with Section 7.13 and Section 7.15 of the Credit Agreement; and (ii) a copy of the management discussion and analysis prepared in connection with such financial statements (which may be subject to year-end adjustments and the absence of footnotes).

[Use following paragraph 1 for Fiscal Month-end financial statements]

1. The Credit Parties are delivering attached hereto as Exhibit A and as required by Section 6.04(c) of the Credit Agreement after the end of each of the first two Fiscal Months of the Fiscal Quarter ended as of the above date, the unaudited monthly consolidating financial statements of Parent, the Borrowers and their Restricted Subsidiaries for such Fiscal Month, including the consolidating balance sheet of Parent, the Borrowers and their Restricted Subsidiaries, as at the end of such Fiscal Month, the related consolidating statements of income or operations and cash flows for such Fiscal Month and for the portion of the Fiscal Year then ended, each setting forth in comparative form the figures for the corresponding Fiscal Month of the previous Fiscal Year and the corresponding portion of the previous Fiscal Year, each, prepared in accordance with GAAP consistently applied at such date and for such period. The information contained in such financial statements fairly presents in all material respects the financial condition of Parent, the Borrower and their Restricted Subsidiaries on the dates indicated therein (subject to year-end adjustments and the absence of footnotes). Attached hereto as Schedule 1 and Schedule 2, respectively, are: (i) computations evidencing the Fixed Charge Coverage Ratio for the Reference Period ended as of the last day of the Fiscal Month ended as of the date above and specifying whether the Credit Parties have complied with Section 7.13 of the Credit Agreement;

and (ii) a management discussion and analysis prepared in connection with the financial statements for each Fiscal Month (subject to year-end adjustments and the absence of footnotes).

2. The undersigned has reviewed and is familiar with the terms of the Credit Agreement and the Loan Documents and has made, or has caused to be made under his/her supervision, a detailed review of the transactions and condition (financial or otherwise) of the Credit Parties during the accounting period covered by such financial statements.

3. A review of the activities of the Credit Parties during such fiscal period has been made under the supervision of the undersigned with a view to determining whether during such fiscal period the Credit Parties performed and observed all their obligations under the Loan Documents, and

[select one:]

[the undersigned has no knowledge of any Default or Event of Default during such fiscal period by any of the Credit Parties.]

-or—

[the undersigned, has knowledge of the following list of Default(s) and /or Event(s) of Default and the nature thereof:]

4. The financial covenant analyses and information set forth on <u>Schedules 1</u>, [and] <u>2</u>, [and <u>3</u>] attached hereto are true and accurate on and as of the date of this Certificate. All the financial covenant calculations set forth on <u>Schedules 1</u>, [and] <u>2</u>, [and <u>3</u>] attached hereto have been made in accordance with the Credit Agreement and are subject to the applicable terms thereof.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of ____________________ ___, 20___.

PETIQ, LLC

By: ______________________________
Name: ______________________________
Title: ______________________________

EXHIBIT A

FINANCIAL STATEMENTS

Financial Test Date: ___________________

SCHEDULE 1

I. Section 7.13 – Consolidated Fixed Charge Coverage Ratio

A. Consolidated EBITDA for the Parent and its Restricted Subsidiaries (other than the Mark and Chappell Entities) for the Reference Period most recently ended as of the date set forth above ("Subject Period):

1.	Consolidated Net Income for the Subject Period; *PLUS*:	**$_____________**
2.	provision for income taxes for the Subject Period; *PLUS*:	**$_____________**
3.	Consolidated Interest Expense for the Subject Period; *PLUS*:	**$_____________**
4.	depreciation and amortization; *PLUS*:	**$_____________**
5.	other one-time, non-occurring and non-cash expenses or losses that have been deducted in determining Consolidated Net Income disclosed in writing to, and deemed acceptable by, the Administrative Agent; *PLUS*:	**$_____________**
6.	costs and expenses incurred in connection with the Amendment Effective Date Transactions in an aggregate amount not in excess of $10,000,000 *PLUS*:	**$_____________**
7.	costs and expenses incurred in connection with the initial public offering of PetIQ, Inc. in an amount not in excess of $2,700,000; *PLUS:*	**$_____________**
8.	Pre-Opening Expenses in an amount not to exceed 10% of Consolidated EBITDA for the Subject Period prior to giving effect to this item 8; *PLUS*:	**$_____________**
9.	non-cash compensation expenses and other non-cash expenses or charges arising from the granting of stock options, stock appreciation rights or similar arrangements; *PLUS*:	**$_____________**
10.	non-recurring legal expenses for litigation matters in an amount not to exceed $200,000 for any period of four consecutive Fiscal Quarters; *PLUS:*	**$_____________**
11.	fees and expenses paid to members of the board of directors of Parent (or any direct or indirect parent company of Parent) in an amount not to exceed $250,000 for any period of four consecutive Fiscal Quarters; *MINUS:*	**$_____________**

12. the sum without duplication of (i) income tax credits and cash refunds actually received and (ii) any non-cash gains that have been added in determining Consolidated Net Income, in each case to the extent included in the calculation of Consolidated Net Income for the Subject Period: **$____________**

13. Consolidated EBITDA (total of lines I.A.1. through I.A.12.):[1] **$____________**

B. the aggregate amount of all Unfinanced Capital Expenditures during the Subject Period: **$____________**

C. the aggregate amount paid, or required to be paid (without duplication), in cash in respect of the current portion of all federal, state, local and foreign income taxes for the Subject Period: **$____________**

D. the aggregate amount of Consolidated Interest Expense paid or payable in cash during the Subject Period: **$____________**

E. the aggregate amount of all regularly scheduled payments of principal Indebtedness for borrowed money during the Subject Period paid or required to be paid by the Credit Parties, but not including any principal payments in respect of the Revolving Credit Loans under the Credit Agreement or any other revolving credit facility unless such payment of the Revolving Credit Loans or under such revolving credit facility, as applicable, results in a permanent reduction thereunder: **$____________**

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[1] Consolidated EBITDA for Community Veterinary Clinics, LLC and its Restricted Subsidiaries for the fiscal quarters ended March 31, 2017, June 30, 2017 and September 30, 2017 shall be deemed to be $6,484,101, $7,518,374 and $2,069,965, respectively.

F. Consolidated Fixed Charge Coverage Ratio
(ratio of difference of I.A.13. – I.B. – I.C. to sum of lines I.D. + I.E.):

______:1.00

Compliance Required? ***Yes/No***

*Is ratio in line I.F. equal to or greater than ~~1.10~~**1.15**:1.00?*

Compliance? ***Yes/No***

Financial Test Date: ___________________

II. Section 7.15 – First Lien Net Leverage Ratio

A. Total Indebtedness as of the date set forth above secured by a first-lien on property of Parent, the Borrowers or their Restricted Subsidiaries (including, for the avoidance of doubt, the Term Loan Facility, any secured letters of credit and Indebtedness under the Credit Agreement) minus Unrestricted Cash in an amount not to exceed $5,000,000: **$**____________

B. Consolidated EBITDA for the Reference Period ended as of the date set forth above: **$**____________

C. First Lien Net Leverage Ratio (ratio of line II.A. to line II.B.): ______:1.00

Compliance Required? ***Yes/No***

Is ratio in line III.C. equal to or less than ______:1.00?[2]

Compliance? ***Yes/No***

[2] Refer to Section 7.15 of the Credit Agreement.

Financial Test Date: __________________

EXCESS CASH FLOW

III. Excess Cash Flow

A. Consolidated EBITDA for the Fiscal Year ended as of the date set forth above (line I.A.13.); *MINUS:* **$____________**

B. the sum, without duplication, of:

1. the cash portion of Consolidated Interest Expense paid during such Fiscal Year; *PLUS:* **$____________**

2. the cash portion of any fees pursuant to the Credit Agreement or the Term Credit Agreement during such Fiscal Year; *PLUS*: **$____________**

3. the cash portion of income taxes, including Permitted Tax Distributions (excluding the principal amount of Indebtedness used to finance such Permitted Tax Distributions and any such Permitted Tax Distributions financed with the proceeds of an offering of Capital Stock); *PLUS*: **$____________**

4. (a) all scheduled and voluntary principal payments made in respect of the Term Loan Facilities during such Fiscal Year, (b) all permanent repayments of advances made during such Fiscal Year under the Credit Agreement to the extent accompanied by a permanent reduction of the Commitments thereunder and (c) all principal payments made in respect of any other Indebtedness permitted pursuant to Section 7.02 of the Credit Agreement made during such Fiscal Year to the extent such payments cannot be reborrowed, in each case of clauses (a) through (c), to the extent made with internally generated funds; *PLUS*: **$____________**

5. (a) maintenance and growth Capital Expenditures funded with internally generated cash in the applicable Fiscal Year and (b) to the extent the Borrowers or any of their Restricted Subsidiaries have entered into a binding contract with respect to the same, maintenance and growth Capital Expenditures to be funded with internally

generated cash in the immediately subsequent Fiscal Year; *provided*, to the extent the actual amount of such Capital Expenditures in the subsequent Fiscal Year is less than the amount deducted pursuant to this clause (b), such difference shall be added to the Excess Cash Flow for the subsequent Fiscal Year; *PLUS*: **$____________**

6. Pre-Opening Expenses incurred in such Fiscal Year to the extent made with internally generated funds; *PLUS*: **$____________**

7. cash payments made during such Fiscal Year in respect of Permitted Acquisitions to the extent made with internally generated funds, including cash earnouts and royalty payments made to sellers that were not deducted as expenses and working capital and purchase price adjustments made pursuant to the acquisition documentation governing such Permitted Acquisition; *PLUS:* **$____________**

8. the cash portion of costs, fees, charges, expenses or losses paid during such Fiscal Year in accordance with lines I.A.6. and I.A.7.; *PLUS:* **$____________**

9. the cash portion of amounts added back to the definition of Consolidated EBITDA in accordance with lines I.A.10. and I.A.11.: **$____________**

10. the excess, if any, of Consolidated Working Capital at the end of the Subject Period over Consolidated Working Capital at the beginning of the Subject Period (or if the difference results in an amount less than zero, minus the excess, if any of the Consolidated Working Capital at the end of the Subject Period over Consolidated Working Capital): **$____________**

C. Excess Cash Flow (line III.A. minus the sum of lines III.B.1. through III.B.10.) **$____________**

SCHEDULE 2

ACCOUNTANTS’ MANAGEMENT LETTER

See attached.

SCHEDULE 3

MANAGEMENT DISCUSSION AND ANALYSIS

See attached.

PETIQ, INC.
2017 Omnibus Incentive Plan

RESTRICTED STOCK UNIT AGREEMENT FOR NON-EMPLOYEE DIRECTORS

THIS RESTRICTED STOCK UNIT AGREEMENT (this “**Agreement**”) is made effective as of [________], 20[__] (the “**Grant Date**”) by and between PetIQ, Inc., a Delaware corporation (the “**Company**”), and [___________] (the “**Participant**”), pursuant to the PetIQ, Inc. 2017 Omnibus Incentive Plan, as in effect and as amended from time to time (the “**Plan**”). Capitalized terms that are not defined herein shall have the meanings given to such terms in the Plan.

WHEREAS, the Company has adopted the Plan in order to grant Awards from time to time to certain key Employees, Directors and Consultants of the Company and its Subsidiaries or Affiliates; and

WHEREAS, the Participant is an Eligible Recipient as contemplated by the Plan, and the Committee has determined that it is in the interest of the Company to grant this Award to the Participant.

NOW, THEREFORE, in consideration of the premises and subject to the terms and conditions set forth herein and in the Plan, the parties hereto agree as follows:

1. Grant and Vesting of Restricted Stock Units.

(a) As of the Grant Date, the Participant will be credited with [_____] Restricted Stock Units. Each Restricted Stock Unit is a notional amount that represents the right to receive one Share, subject to the terms and conditions of the Plan and this Agreement, if and when the Restricted Stock Unit vests.

(b) The Restricted Stock Units shall vest [**FOR ANNUAL GRANTS:** in full on the first (1^{st}) anniversary of the Grant Date, subject to the Participant’s continuous service with the Company or a Subsidiary or Affiliate thereof, as applicable, as a Director (“**Service**”), from the Grant Date through such anniversary] [**FOR NEW DIRECTOR GRANTS:** in three (3) substantially equal annual installments on each of the first three (3) anniversaries of the Grant Date, subject to the Participant’s continuous service with the Company or a Subsidiary or Affiliate thereof, as applicable, as a Director (“**Service**”), from the Grant Date through each such anniversary].

2. Rights as a Stockholder.

(a) Unless and until a Restricted Stock Unit has vested and the Share underlying it has been distributed to the Participant, the Participant will not be entitled to vote in respect of that Restricted Stock Unit or that Share.

(b) If the Company declares a cash dividend on its Shares, then, on the payment date of the dividend, the Participant will be credited with dividend equivalents equal to the amount of cash dividend per Share multiplied by the number of Restricted Stock Units credited to the Participant through the record date. The dollar amount credited to the Participant under the preceding sentence will be credited to an account ("**Account**") established for the Participant for bookkeeping purposes only on the books of the Company. The balance in the Account will be subject to the same terms regarding vesting and forfeiture as the Participant's Restricted Stock Units awarded under this Agreement, and will be paid in cash in a single sum at the time that the Shares associated with the Participant's Restricted Stock Units are delivered (or forfeited at the time that the Participant's Restricted Stock Units are forfeited).

3. Termination of Service.

[**ANNUAL GRANTS:** Upon a termination of Service occurring for any reason prior to the first (1st) anniversary of the Grant Date, the Participant shall forfeit all of the Restricted Stock Units.]

[**NEW DIRECTOR GRANTS:** Upon a termination of Service occurring for any reason, the Participant shall forfeit any Restricted Stock Units that have not vested as of the date of such termination of Service.]

4. Timing and Form of Payment.

Once a Restricted Stock Unit vests, the Participant will be entitled to receive a Share in its place. Delivery of the Share will be made as soon as administratively feasible following the vesting of the associated Restricted Stock Unit. Shares will be credited to an account established for the benefit of the Participant with the Company's administrative agent. The Participant will have full legal and beneficial ownership of the Shares at that time.

5. Nontransferability of Restricted Stock Units.

The Restricted Stock Units granted hereunder may not be sold, transferred, pledged, assigned, encumbered or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution or, on such terms and conditions as the Committee shall establish, to a permitted transferee.

6. Beneficiary Designation.

The Participant may from time to time name any beneficiary or beneficiaries (who may be named contingently or successively) by whom any right under the Plan and this Agreement is to be exercised in case of his or her death. Each designation will revoke all prior designations by the Participant, shall be in a form reasonably prescribed by the Committee, and will be effective only when filed by the Participant in writing with the Committee during his or her lifetime.

7. Requirements of Law.

The issuance of Shares following vesting of the Restricted Stock Units shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required. No Shares shall be issued upon vesting of any portion of the Restricted Stock Units granted hereunder, if such issuance would result in a violation of applicable law, including the U.S. federal securities laws and any applicable state or foreign securities laws.

8. No Guarantee of Continued Service.

Nothing in the Plan or in this Agreement shall interfere with or limit in any way the right of the Company or an Affiliate thereof to terminate the Participant's Service at any time or confer upon the Participant any right to continued Service.

9. No Rights as a Stockholder.

Except as provided in Section 2 above or as otherwise required by law, the Participant shall not have any rights as a stockholder with respect to any Shares covered by the Restricted Stock Units granted hereunder prior to the date on which he or she is recorded as the holder of those Shares on the records of the Company.

10. Interpretation; Construction.

Any determination or interpretation by the Committee under or pursuant to this Agreement shall be final and conclusive on all persons affected hereby. Except as otherwise expressly provided in the Plan, in the event of a conflict between any term of this Agreement and the terms of the Plan, the terms of the Plan shall control.

11. Amendments.

The Committee may, in its sole discretion, at any time and from time to time, alter or amend this Agreement and the terms and conditions of the unvested portion of the Restricted Stock Units (but not any portion of the Restricted Stock Units that has previously vested) in whole or in part, including without limitation, amending the criteria for vesting and exercisability set forth in Section 1 hereof and substituting alternative vesting criteria; *provided that* such alteration, amendment, suspension or termination shall not adversely alter or impair the rights of the Participant under the Restricted Stock Units without the Participant's consent. The Company shall give written notice to the Participant of any such alteration or amendment of this Agreement as promptly as practicable after the adoption thereof. This Agreement may also be amended by a writing signed by both the Company and the Participant.

12. Miscellaneous.

(a) Notices. All notices, requests, demands, letters, waivers and other communications required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been duly given if delivered personally, mailed, certified or registered mail with postage prepaid, sent by next-day or overnight mail or delivery, or sent by fax, as follows:

(i) If to the Company:

PetIQ, Inc.
923 S. Bridgeway Place
Eagle, ID 83616
Attention: General Counsel
Phone: 208-939-8900

(ii) If to the Participant, to the Participant's last known home address,

or to such other person or address as any party shall specify by notice in writing to the Company. All such notices, requests, demands, letters, waivers and other communications shall be deemed to have been received (w) if by personal delivery on the day after such delivery, (x) if by certified or registered mail, on the fifth business day after the mailing thereof, (y) if by next-day or overnight mail or delivery, on the day delivered, or (z) if by fax, on the day delivered, *provided that* such delivery is confirmed.

(b) Binding Effect; Benefits. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their respective successors and assigns. Nothing in this Agreement, express or implied, is intended or shall be construed to give any person other than the parties to this Agreement or their respective successors or assigns any legal or equitable right, remedy or claim under or in respect of any agreement or any provision contained herein.

(c) Waiver. Either party hereto may by written notice to the other (i) extend the time for the performance of any of the obligations or other actions of the other under this Agreement, (ii) waive compliance with any of the conditions or covenants of the other contained in this Agreement and (iii) waive or modify performance of any of the obligations of the other under this Agreement. Except as provided in the preceding sentence, no action taken pursuant to this Agreement, including, without limitation, any investigation by or on behalf of either party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants or agreements contained herein. The waiver by either party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any preceding or succeeding breach and no failure by either party to exercise any right or privilege hereunder shall be deemed a waiver of such party's rights or privileges hereunder or shall be deemed a waiver of such party's rights to exercise the same at any subsequent time or times hereunder.

(d) Entire Agreement. This Agreement, together with the Plan, constitutes the entire obligation of the parties with respect to the subject matter of this Agreement and supersedes any prior written or oral expressions of intent or understanding with respect to such subject matter.

(e) Code Section 409A Compliance. The Restricted Stock Units are intended to be exempt from or comply with the requirements of Code Section 409A and this Agreement shall be interpreted accordingly. Notwithstanding any provision of this Agreement, to the extent that the Committee determines that any portion of the Restricted Stock Units granted under this Agreement is subject to Code Section 409A and fails to comply with the requirements of Code Section 409A, notwithstanding anything to the contrary contained in the Plan or in this Agreement, the Committee reserves the right to amend, restructure, terminate or replace such portion of the Restricted Stock Units in order to cause such portion of the Restricted Stock Units to either not be subject to Code Section 409A or to comply with the applicable provisions of such section.

(f) Applicable Law. This Agreement shall be governed by and construed in accordance with the law of the State of Delaware, regardless of the law that might be applied under principles of conflict of laws.

(g) Section and Other Headings. The section and other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

(h) Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

(i) Erroneously Awarded Compensation. Notwithstanding any provision in the Plan or in this Agreement to the contrary, this Award shall be subject to any compensation recovery and/or recoupment policy that may be adopted and amended from time to time by the Company to comply with applicable law, including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or to comport with good corporate governance practices.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the Company and the Participant have duly executed this Agreement as of the date first above written.

PETIQ, INC.

By:

Name:

Title:

PARTICIPANT

Name: [________]

[*Signature Page to BOD RSU Agreement*]

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)) 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) [omitted pursuant to Exchange Act Rules 13a-14(a) and 15d-15(a)]

    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 14, 2018

/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)) 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) [omitted pursuant to Exchange Act Rules 13a-14(a) and 15d-15(a)]

    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 14, 2018

/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, 2018, 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 14, 2018

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, 2018, 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 14, 2018