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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

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

(State or other jurisdiction of incorporation or organization)

35-2554312

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of November 14, 2018, we had 21,308,788 shares of Class A common stock and 6,857,876 shares of Class B common stock outstanding.

PetIQ, Inc.

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PetIQ, Inc.
Condensed Consolidated Balance Sheets
(\$'s in 000's except for share and per share amounts)

	September 30, 2018	December 31, 2017
	(Unaudited)	
Current assets		
Cash and cash equivalents	\$ 4,482	\$ 37,896
Accounts receivable, net	53,594	21,759
Inventories	76,576	44,056
Supplier prepayments	19	3,173
Other current assets	1,594	1,991
Total current assets	136,265	108,875
Property, plant and equipment, net	25,036	15,000
Deferred tax assets	41,101	5,994
Other non-current assets	3,188	2,646
Intangible assets, net	85,431	3,266
Goodwill	118,408	5,064
Total assets	\$ 409,429	\$ 140,845
Liabilities and equity		
Current liabilities		
Accounts payable	\$ 46,306	\$ 14,234
Accrued wages payable	3,952	1,811
Accrued interest payable	1,023	115
Other accrued expenses	1,072	1,880
Current portion of long-term debt and capital leases	1,973	151
Total current liabilities	54,326	18,191
Long-term debt	107,642	17,183
Capital leases, less current installments	1,376	389
Contingent notes	7,150	—
Other non-current liabilities	417	238
Total non-current liabilities	116,585	17,810
Commitments and contingencies		
Equity		
Additional paid-in capital	189,880	70,873
Class A common stock, par value \$0.001 per share, 125,000,000 shares authorized, 19,172,303 and 13,222,583 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	19	13
Class B common stock, par value \$0.001 per share, 100,000,000 shares authorized, 6,594,364 and 8,268,188 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	7	8
Accumulated deficit	(976)	(3,493)
Accumulated other comprehensive loss	(1,049)	(687)
Total stockholders' equity	187,881	66,714
Non-controlling interest	50,637	38,130
Total equity	238,518	104,844
Total liabilities and equity	\$ 409,429	\$ 140,845

See accompanying notes to the condensed consolidated financial statements

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Product sales	\$ 108,524	\$ 60,554	\$ 355,088	\$ 214,761
Services revenue	22,858	—	62,502	—
Total net sales	131,382	60,554	417,590	214,761
Cost of products sold	90,155	48,037	302,324	174,093
Cost of services	17,045	—	48,883	—
Total cost of sales	107,200	48,037	351,207	174,093
Gross profit	24,182	12,517	66,383	40,668
Operating expenses				
General and administrative expenses	17,621	10,739	53,532	27,421
Operating income	6,561	1,778	12,851	13,247
Interest expense, net	(2,159)	(352)	(6,140)	(1,351)
Foreign currency (loss) gain, net	(50)	(31)	8	(152)
Other income (expense), net	351	14	(622)	14
Total other expense, net	(1,858)	(369)	(6,754)	(1,489)
Pretax net income	4,703	1,409	6,097	11,758
Income tax (expense) benefit	(801)	(550)	(754)	(550)
Net income	3,902	859	5,343	11,208
Net income attributable to non-controlling interest	1,681	1,085	2,651	11,434
Net income (loss) attributable to PetIQ, Inc.	\$ 2,221	\$ (226)	\$ 2,692	\$ (226)
Net income (loss) per share attributable to PetIQ, Inc. Class A common stock⁽¹⁾				
Basic	\$ 0.13	(0.02)	\$ 0.17	(0.02)
Diluted	\$ 0.13	(0.02)	\$ 0.17	(0.02)
Weighted average shares of Class A common stock outstanding⁽¹⁾				
Basic	16,943,630	13,222,583	15,842,104	13,222,583
Diluted	17,238,918	13,222,583	15,965,647	13,222,583

(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 Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income	\$ 3,902	\$ 859	\$ 5,343	\$ 11,208
Foreign currency translation adjustment	(11)	314	(300)	829
Comprehensive income	3,891	1,173	5,043	12,037
Comprehensive income attributable to non-controlling interest	1,670	1,206	2,571	12,070
Comprehensive income attributable to PetIQ	\$ 2,221	\$ (33)	\$ 2,472	\$ (33)

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

	For the Nine Months Ended	
	September 30, 2018	September 30, 2017
Cash flows from operating activities		
Net income	\$ 5,343	\$ 11,208
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Depreciation and amortization of intangible assets and loan fees	8,927	2,725
Foreign exchange (gain) loss on liabilities	16	204
Loss on disposition of property, plant, and equipment	(41)	14
Stock based compensation expense	2,678	246
Deferred tax adjustment	761	351
Other non-cash activity	(84)	—
Changes in assets and liabilities		
Accounts receivable	(23,299)	(7,257)
Inventories	(24,745)	(316)
Prepaid expenses and other assets	3,681	1,137
Accounts payable	9,727	1,797
Accrued wages payable	942	570
Other accrued expenses	1,291	287
Net cash (used in) provided by operating activities	<u>(14,803)</u>	<u>10,966</u>
Cash flows from investing activities		
Proceeds from disposition of property, plant, and equipment	108	—
Purchase of property, plant, and equipment	(6,128)	(3,558)
Business acquisition (net of cash acquired)	(92,083)	—
Net cash used in investing activities	<u>(98,103)</u>	<u>(3,558)</u>
Cash flows from financing activities		
Proceeds from issuance of long-term debt	427,778	206,020
Principal payments on long-term debt	(346,137)	(213,522)
Proceeds from Initial Public Offering (IPO) of Class A Shares, net of underwriting discounts and offering costs	—	104,010
Repayment of preference notes	—	(55,960)
Change in restricted deposits	—	50
Purchase of LLC units from Continuing LLC Owners	—	(2,133)
Principal payments on capital lease obligations	(861)	(86)
Payment of deferred financing fees and debt discount	(2,675)	(42)
Exercise of options to purchase common stock	1,429	—
Net cash provided by (used in) financing activities	<u>79,534</u>	<u>38,337</u>
Net change in cash and cash equivalents	<u>(33,372)</u>	<u>45,745</u>
Effect of exchange rate changes on cash and cash equivalents	(42)	24
Cash and cash equivalents, beginning of period	37,896	767
Cash and cash equivalents, end of period	<u>\$ 4,482</u>	<u>\$ 46,536</u>

See accompanying notes to the condensed consolidated financial statements

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

Supplemental cash flow information	For the Nine Months Ended	
	September 30, 2018	September 30, 2017
Interest paid	\$ 5,129	\$ 1,116
Property, plant, and equipment acquired through accounts payable	25	(53)
Capital lease additions	34	17
Issuance of preference notes for LLC Interests	—	55,960
Net change of deferred tax asset from step-up in basis	35,621	9,814
Income taxes paid	491	709
Accrued tax distribution	844	—
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 Other Comprehensive		Class A Common		Class B Common		Additional Paid-in Capital	Non- controlling Interest	Total Equity
	Accumulated Deficit	(Loss) Income	Shares	Dollars	Shares	Dollars			
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	—	(254)	5,873,825	6	(5,873,825)	(6)	43,920	(43,666)	—
Net increase in deferred tax asset from LLC Interest transactions	—	—	—	—	—	—	35,621	—	35,621
Accrued tax distributions	—	—	—	—	—	—	—	(844)	(844)
Other comprehensive income	—	(220)	—	—	—	—	—	(80)	(300)
Stock based compensation expense	—	—	—	—	—	—	1,757	921	2,678
Exercise of Options to purchase Common Stock	—	—	75,895	0	—	—	1,429	—	1,429
Net income	2,692	—	—	—	—	—	—	2,651	5,343
Balance - September 30, 2018	\$ (976)	\$ (1,049)	19,172,303	\$ 19	6,594,363	\$ 7	\$189,880	\$ 50,637	\$ 238,518

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 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 (“Opco”). The Company is the sole managing member of PetIQ Holdings, LLC (“Holdco”), a Delaware limited liability company, which is the sole member of 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 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 September 30, 2018 and December 31, 2017 and for the three and nine months ended September 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:

<i>\$'s in 000's</i>	September 30, 2018	December 31, 2017
Liabilities:		
Contingent notes	\$ 7,150	\$ —

In connection with the acquisition of Community Veterinary Clinics, LLC d/b/a VIP Petcare ("VIP" and such acquisition, the "VIP Acquisition") a portion of the purchase price is structured in the form of Contingent Notes (the "Contingent Notes") that vest based on the combined Company EBITDA targets 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:

<i>\$'s in 000's</i>	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Balance at beginning of the period	\$ 7,500	\$ —	\$ —	\$ —
Fair value of contingent consideration at VIP Acquisition date	—	—	6,900	—
Change in fair value of contingent consideration	(350)	—	250	—
Balance at the end of the period	\$ 7,150	\$ —	\$ 7,150	\$ —

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:

<i>\$'s in 000's</i>	September 30, 2018	December 31, 2017
Trade receivables	\$ 50,646	\$ 22,189
Other receivables	3,432	297
	54,078	22,486
Less: Allowance for doubtful accounts	(383)	(343)
Non-current portion of receivables	(101)	(384)
Total accounts receivable, net	\$ 53,594	\$ 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:

<i>\$'s in 000's</i>	September 30, 2018	December 31, 2017
Raw materials and work in progress	\$ 4,470	\$ 4,004
Finished goods	72,106	40,052
Total inventories	<u>\$ 76,576</u>	<u>\$ 44,056</u>

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 condensed consolidated statements of operations, depending on the use of the asset. The estimated useful lives of property, plant, and equipment are as follows:

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

Deferred Acquisition Liability

The Company had 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 was due in 2018. The note was fully repaid in July 2018. The balance recorded as of December 31, 2017 was \$1,575 thousand, and was included in other accrued expenses on the condensed consolidated balance sheets.

Revenue Recognition

On January 1, 2018, we adopted Accounting 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 September 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 September 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 \$33 thousand and \$114 thousand for the three months ended September 30, 2018 and 2017, respectively, and \$131 thousand and \$427 thousand for the nine months ended September 30, 2018 and 2017, respectively. Advertising costs were \$532 thousand and \$436 thousand for the three months ended September 30, 2018 and 2017, respectively, and \$2,545 thousand and \$2,028 thousand for the nine months ended September 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, Holdco, held by the non-controlling 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 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 period prior to the IPO on July

20, 2017 because the Company operated as Opco during those periods. As of September 30, 2018 and December 31, 2017 the non-controlling interest was approximately 25.6% 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 nine month periods ended September 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 nine month periods ended September 30, 2018.

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

<i>\$'s in 000's</i>	As Reported	Adjustments	Balance Without Adoption of Topic 606
Revenues	\$ 131,382	\$ (5,442)	\$ 125,940
Cost of sales	107,200	(4,476)	102,724
General and Administrative expenses	17,621	426	18,047
(Provision) benefit for income taxes	(801)	(223)	(1,024)
Net Income	3,902	(1,615)	2,287

Condensed Consolidated Statements of Income for the nine months ended September 30, 2018

<i>\$'s in 000's</i>	As Reported	Adjustments	Balance Without Adoption of Topic 606
Revenues	\$ 417,590	\$ 765	\$ 418,355
Cost of sales	351,207	(743)	350,464
General and Administrative expenses	53,532	870	54,402
(Provision) benefit for income taxes	(754)	(102)	(856)
Net Income	5,343	536	5,879

Condensed Consolidated Balance Sheets

<i>\$'s in 000's</i>	As Reported	Adjustments	Balance Without Adoption of Topic 606
Assets			
Accounts receivable	\$ 53,594	\$ 486	\$ 54,080
Inventories	76,576	(486)	76,090
Other current assets	1,594	—	1,594
Liabilities and Stockholders' Equity			
Accounts payable	46,306	(1,202)	45,104
Accumulated deficit	(976)	1,216	240

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

<i>\$'s in 000's</i>	Three months ended September 30, 2018		
	U.S.	Foreign	Total
Product sales	\$ 106,969	\$ 1,555	\$ 108,524
Service revenue	22,858	—	22,858
Total net sales	\$ 129,827	\$ 1,555	\$ 131,382

<i>\$'s in 000's</i>	Three months ended September 30, 2017		
	U.S.	Foreign	Total
Product sales	\$ 59,328	\$ 1,226	\$ 60,554
Service revenue	—	—	—
Total net sales	\$ 59,328	\$ 1,226	\$ 60,554

<i>\$'s in 000's</i>	Nine months ended September 30, 2018		
	U.S.	Foreign	Total
Product sales	\$ 350,503	\$ 4,585	\$ 355,088
Service revenue	62,502	—	62,502
Total net sales	\$ 413,005	\$ 4,585	\$ 417,590

<i>\$'s in 000's</i>	Nine months ended September 30, 2017		
	U.S.	Foreign	Total
Product sales	\$ 211,095	\$ 3,666	\$ 214,761
Service revenue	—	—	—
Total net sales	\$ 211,095	\$ 3,666	\$ 214,761

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 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 a material 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. See Note 7 – Income Taxes, for the Company’s assessment of the income tax effects of the Act.

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 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. 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:

<i>\$'s in 000's</i>	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	1,371	113,480
Total assets	<u>226,816</u>	<u>(2,529)</u>	<u>224,287</u>
Current liabilities	22,886	146	23,032
Capital lease obligations	3,032	—	3,032
Total liabilities	<u>25,918</u>	<u>146</u>	<u>26,064</u>
Estimated purchase price	<u>\$ 200,898</u>	<u>\$ (2,675)</u>	<u>\$ 198,223</u>
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	<u>\$ 200,898</u>	<u>\$ (2,675)</u>	<u>\$ 198,223</u>

During the three and nine months ended September 30, 2018, 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 over the estimated useful lives of the assets through January 2038. Amortization expense for these definite-lived intangible assets for the three and nine months ended September 30, 2018 was \$1.2 million and \$3.3 million, respectively. The estimated future amortization expense is approximately \$1.2 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 \$113.5 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 September 30, 2017 and January 1, 2018 to January 16, 2018. Additionally the share count utilized and Net Income do not account for non-controlling interests. 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:

(\$'s in 000's, except per share data)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Net sales	\$ 131,382	\$ 92,143	\$ 420,687	\$ 332,757
Net income	\$ 3,902	\$ (443)	\$ 7,193	\$ 12,684
Earnings per share:				
Basic ⁽¹⁾	\$ 0.15	\$ (0.02)	\$ 0.30	\$ 0.53
Diluted ⁽¹⁾	\$ 0.15	\$ (0.02)	\$ 0.30	\$ 0.52

Note 3 – Property, Plant, and Equipment

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

\$'s in 000's	September 30, 2018	December 31, 2017
Leasehold improvements	\$ 10,797	\$ 6,616
Equipment	12,115	10,665
Vehicles and accessories	3,683	—
Computer equipment and software	5,649	927
Buildings	2,492	771
Furniture and fixtures	1,448	407
Land	660	660
Construction in progress	259	2,344
	37,103	22,390
Less accumulated depreciation	(12,067)	(7,390)
Total property, plant, and equipment	\$ 25,036	\$ 15,000

Depreciation expense related to these assets was \$1.8 million and \$0.7 million for the three months ended September 30, 2018, and 2017, respectively, and \$4.8 million and \$1.8 million for the nine months ended September 30, 2018 and 2017, respectively.

Note 4 – Intangible Assets and Goodwill

Intangible assets consist of the following at:

<i>\$'s in 000's</i>	Useful Lives	September 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	1,958	1,998
Brand names	10-15 years	10,497	923
Total amortizable intangibles		93,285	7,483
Less accumulated amortization		(8,370)	(4,733)
Total net amortizable intangibles		84,915	2,750
Non-amortizable intangibles			
Trademarks and other		516	516
Intangible assets, net of accumulated amortization		\$ 85,431	\$ 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 September 30, 2018, and 2017, was \$1.3 million and \$0.3 million, respectively, and \$3.7 million and \$0.8 million for the nine months ended September 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	\$ 1,293
2019	5,174
2020	5,174
2021	5,173
2022	5,169
Thereafter	62,932

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

<i>(\$'s in 000's)</i>	Reporting Unit		
	Products	Services	Total
Goodwill as of January 1, 2018	\$ 5,064	\$ —	\$ 5,064
Foreign currency translation	(136)	—	(136)
Acquisition	65,190	48,290	113,480
Goodwill as of September 30, 2018	\$ 70,118	\$ 48,290	\$ 118,408

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, which was subsequently amended in August 2018. The A&R Credit Agreement provides for a secured revolving credit facility of \$75 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 September 30, 2018, the Company had \$23.8 million outstanding under the A&R Credit Agreement and \$74.8 million under the Term Loan Credit Agreement. The interest rate on the A&R Credit Agreement was 5.25% as a Base Rate loan, the interest rate on the Term Loan Credit Agreement was 7.35% as a LIBOR rate loan. Additionally the Company pays between 0.375% and 0.50% as an unused facility fee, depending on the amount borrowed. 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 September 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:

<i>\$'s in 000's</i>	September 30,	December 31, 2017
	2018	
Term loans	\$ 74,813	\$ —
Revolving credit facility	23,774	15,325
Mortgage	1,872	1,902
Guaranteed note	10,000	—
Net discount on debt and deferred financing fees	(2,022)	—
	\$ 108,437	\$ 17,227
Less current maturities of long-term debt	(795)	(44)
Total long-term debt	\$ 107,642	\$ 17,183

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

<i>(\$'s in 000's)</i>	
Remainder of 2018	\$ 199
2019	796
2020	798
2021	800
2022	802
Thereafter	107,064

The Company incurred debt issuance costs of \$0.1 million and \$0.3 million related to the A&R Credit Agreement and zero and \$2.4 million related to the Term Loan during the three and nine months ended September 30, 2018, respectively.

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 September 30, 2018, consist of the following:

<i>\$'s in 000's</i>	Lease Obligations	
	Operating Leases	Capital Leases
Remainder of 2018	\$ 884	\$ 360
2019	2,196	1,235
2020	1,523	815
2021	699	188
2022	536	78
Thereafter	244	12
Total minimum future obligations	\$ 6,082	\$ 2,688
Less interest		(133)
Present value of net future minimum obligations		2,555
Less current capital lease obligations		(1,179)
Long-term capital lease obligations		\$ 1,376

The net book value of assets under capital lease was \$3.9 million and \$0.9 million as of September 30, 2018 and December 31, 2017, respectively. Total operating lease expense for the three months ended September 30, 2018 and 2017 totaled \$1.1 million and \$0.5 million, respectively, and \$2.8 million and \$1.4 million for the nine months ended September 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 17.0% and 12.4% for the three and nine months ended September 30, 2018, respectively, and 39% and 4.7% for the quarter and nine months ended September 30, 2017, respectively. Income tax expense for the nine 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 for a portion of the year and the impact of the non-controlling interest income that is not taxable.

As noted at year-end, the Company was able to reasonably estimate certain TCJA effects and recorded a provisional tax expense for the deemed repatriation tax of \$0.2 million, and the remeasurement of deferred taxes of \$3.4 million. As of September 30, 2018, our accounting for the TCJA is complete and the previously disclosed provisional amounts (transition tax and remeasurement of deferred taxes) are now final. The measurement-period adjustments include a net tax benefit of \$55 thousand for the Company's allocated share of the one-time transition tax on unrepatriated earnings of foreign subsidiaries and a net expense of \$70 thousand due to the remeasurement of deferred tax assets associated with the corporate tax rate reduction.

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.

HoldCo makes cash distributions to members to pay taxes attributable to the income earned. In the three and nine months ended September 30, 2018, the Company made cash distributions of \$141 thousand and \$1,467 thousand, respectively. In the three and nine months ended September 30, 2017, the Company did not make cash distributions.

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 Holdco 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 Holdco 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, and income attributable to Holdco prior to the IPO is included in income attributable to non-controlling interests.

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:

<i>(in 000's, except for per share amounts)</i>	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>September 30, 2018</u>	<u>September 30, 2017</u>	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Numerator:				
Net income	\$ 3,902	\$ 859	\$ 5,343	\$ 11,208
Less: net income attributable to non-controlling interests	(1,681)	(1,085)	(2,651)	(11,434)
Net income attributable to PetIQ, Inc. — basic and diluted	2,221	(226)	2,692	(226)
Denominator:				
Weighted-average shares of Class A common stock outstanding -- basic	16,944	13,223	15,842	13,223
Dilutive effects of stock options that are convertible into Class A common stock	291	—	122	—
Dilutive effect of RSUs	4	—	1	—
Weighted-average shares of Class A common stock outstanding -- diluted	17,239	13,223	15,966	13,223
Earnings per share of Class A common stock — basic	\$ 0.13	\$ (0.02)	\$ 0.17	\$ (0.02)
Earnings per share of Class A common stock — diluted	\$ 0.13	\$ (0.02)	\$ 0.17	\$ (0.02)

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 nine months ended September 30, 2018 and 2017, all shares of the Company’s Class B common stock 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.

Additionally, 974,435 and 345,660 weighted average stock options and restricted stock units have not been included in the diluted earnings per share calculation for the three and nine months ended September 30, 2018, respectively, as they have been determined to be anti-dilutive under the treasury stock method. All options outstanding for the three and nine

months ended September 30, 2017 have not been included in the diluted earnings per share calculation as they have been determined to be anti-dilutive under the treasury stock method.

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 September 30, 2018, 838,805 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 September 30, 2018, 570,000 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 \$1,224 thousand and \$2,678 thousand for the three and nine months ended September 30, 2018. Total compensation expense of these equity awards recognized for the three and nine months ended September 30, 2017 was \$246 thousand. 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 periods ended September 30, 2018 and 2017:

	2018	2017
Expected term (years) ⁽¹⁾	6.25	6.25
Expected volatility ⁽²⁾	35.00 %	35.00 %
Risk-free interest rate ⁽³⁾	2.53 %	1.98 %
Dividend yield ⁽⁴⁾	0.00 %	0.00 %

- (1) The Company utilized the simplified method to determine the expected term of the stock options since we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term.
- (2) The expected volatility assumption was calculated based on a peer group analysis of stock price volatility with a look back period consistent with the expected option term.
- (3) The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of grant, which corresponds to the expected term of the stock options.
- (4) The Company has not paid and does not anticipate paying a cash dividend on our common stock

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

	Stock Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life (years)
Outstanding at December 31, 2017	598,647	\$ 16.00		
Granted	1,211,837	22.58		
Exercised	(75,895)	18.83		
Forfeited	(195,000)	21.37		
Cancelled	—			
Outstanding at September 30, 2018	1,539,589	\$ 20.36	\$ 29,174	9.15
Options exercisable at September 30, 2018	128,778			

The weighted average grant date fair value of stock options granted during the period ended September 30, 2018 was \$10.10 per option. At September 30, 2018, total unrecognized compensation cost related to unvested stock options was \$13.7 million and is expected to be recognized over a weighted-average period of 3.2 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 September 30, 2018, total unrecognized compensation cost related to unvested RSUs was \$780 thousand and is to expected to vest over a weighted average 3.4 years.

The fair value of these equity awards is amortized to equity based compensation expense over the vesting period, which totaled \$59 thousand and \$78 thousand for the three and nine months ended September 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 September 30, 2018.

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2017	—	—
Granted	29,758	30.33
Settled	—	
Forfeited	—	
Non-vested RSUs at September 30, 2018	29,758	\$ 30.33

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

Note 10 – Stockholders' Equity

Acquisition

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

Exchanges

During the nine months ended September 30, 2018, LLC Owners exercised exchange rights and exchanged 5,873,825 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	PetIQ, Inc.	Total	Continuing LLC	PetIQ, Inc.
	Owners			Owners	
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		
Contribution of proceeds from stock option issuance	—	75,895	75,895		
Exchange transactions	(5,873,825)	5,873,825	—		
As of September 30, 2018	6,594,363	19,172,303	25,766,666	25.6%	74.4%

For the three and nine months ended September 30, 2018, the Company owned a weighted average of 65.6% and 65.9%, respectively, of Holdco.

Note 12 – Customer Concentration

The Company has significant exposure to customer concentration. During the three months ended September 30, 2018 one customer accounted for 22% of net sales. During the three months ended September 30, 2017, three customers individually accounted for more than 10% of sales, together comprising 61% of net sales. In total for the nine months ended September 30, 2018 two customers accounted for 30% of net sales and for the nine months ended September 30, 2017, three customers accounted for 61% of net sales.

At September 30, 2018 two Product Segment customers individually accounted for more than 10% of outstanding trade receivables, and in aggregate accounted for 38% of outstanding trade receivables, net. At December 31, 2017 three Product Segment customers, individually accounted for more than 10% of outstanding trade receivables, and in aggregate accounted for 48%, of outstanding trade receivables, net.

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. The case has been stayed pending the outcome of settlement negotiations.

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, but permitted the plaintiffs to attempt to plead a viable Complaint on or before October 5, 2018. On October 3, 2018,

Plaintiffs filed a motion for pre-Complaint discovery. Although we believe the motion lacks merit, because of the inherent uncertainties of litigation, we can provide no assurance of a favorable outcome.

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 September 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 the VIP Acquisition, 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:

<i>\$'s in 000's</i>				
September 30, 2018	Products	Services	Corporate	Consolidated
Net Sales	\$ 108,524	\$ 22,858	\$ —	\$ 131,382
Operating income (loss)	14,053	2,260	(9,752)	6,561
Interest expense	—	—	(2,159)	(2,159)
Foreign currency loss, net	—	—	(50)	(50)
Other income, net	—	—	351	351
Depreciation expense	589	477	720	1,786
Amortization expense	\$ —	\$ —	\$ 1,294	\$ 1,294

<i>\$'s in 000's</i>				
September 30, 2017	Products	Services	Corporate	Consolidated
Net Sales	\$ 60,554	\$ —	\$ —	\$ 60,554
Operating income (loss)	5,568	—	(3,790)	1,778
Interest expense	—	—	(352)	(352)
Other income, net	—	—	14	14
Foreign currency loss, net	—	—	(31)	(31)
Depreciation expense	648	—	36	684
Amortization expense	\$ —	\$ —	\$ 261	\$ 261

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

<i>\$'s in 000's</i>				
September 30, 2018	Products	Services	Corporate	Consolidated
Net Sales	\$ 355,088	\$ 62,502	\$ —	\$ 417,590
Operating income (loss)	39,158	3,855	(30,162)	12,851
Interest expense	—	—	(6,140)	(6,140)
Foreign currency loss, net	—	—	8	8
Other income, net	—	—	(622)	(622)
Depreciation expense	1,739	1,726	1,351	4,816
Amortization expense	\$ —	\$ —	\$ 3,691	\$ 3,691

<i>\$'s in 000's</i>				
September 30, 2017	Products	Services	Corporate	Consolidated
Net Sales	\$ 214,761	\$ —	\$ —	\$ 214,761
Operating income (loss)	23,207	—	(9,960)	13,247
Interest expense	—	—	(1,351)	(1,351)
Other income, net	—	—	14	14
Foreign currency loss, net	—	—	(152)	(152)
Depreciation expense	1,725	—	70	1,795
Amortization expense	\$ —	\$ —	\$ 782	\$ 782

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 \$158 thousand and \$545 thousand of expense for the three and nine months ended September 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 LLC Owners to facilitate the LLC Owners periodic estimated tax obligations. At September 30, 2018, and December 31, 2017, the Company had an accrual of \$0 and \$597 thousand, respectively, for estimated tax distributions, which are included in accounts payable on the condensed consolidated balance sheets.

As discussed in Note 5– Debt, the Company has a note payable to the Sellers of VIP, who are significant shareholders of the Company, of \$10 million and accrued interest of \$480 thousand as of September 30, 2018.

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 \$268 thousand in the three and nine months ended September 30, 2018, respectively.

Chris Christensen, the brother of CEO, McCord Christensen, acts as the Company's agent at Moreton Insurance ("Moreton"), which acts as a broker for a number of the Company's insurance policies. The Company's premium expense, paid to Moreton and subsequently transferred to insurance providers, was \$434 thousand for the three and nine months ended September 30, 2017 and \$522 thousand for the three and nine months ended September 30, 2018. Mr. Chris Christensen was paid a commission of approximately \$20 thousand and \$25 thousand for the three and nine months ended September 30, 2018 and 2017, respectively, by Moreton for the sale of such insurance policies to the Company.

Note 16 – Subsequent events

On October 1, 2018, the Company closed an underwritten public offering of 5,750,000 shares of Class A common stock. The Company sold 2,000,000 newly issued shares of Class A common stock and received net proceeds of approximately \$73.5 million after deducting underwriting discounts and commissions and offering expenses. The remaining 3,750,000 shares of Class A common stock were sold by existing shareholders and the Company did not receive any proceeds with respect hereto.

On October 17, 2018, the Company completed the strategic acquisition of HBH Enterprises, LLC (“HBH”) (the “HBH Acquisition”). Total consideration was approximately \$16 million including approximately \$3.0 million of cash plus the issuance of 400,000 LLC interests of Holdco (the “Holdco Consideration”) and 400,000 shares of Class B common stock, \$0.001 par value per share, of the Company (the “Company Stock Consideration” and, together with the Holdco Consideration, the “Equity Consideration”). The Equity Consideration can be exchanged for 400,000 shares of Class A common stock of the Company pursuant to the terms of the LLC Agreement of Holdco.

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 nine months ended September 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 September 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 remained consistent at 12.8% in the first nine months of 2017 and the first nine months of 2018, primarily driven by charges associated with the VIP Acquisition offset by sales growth. 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:

\$'s in 000's	For the Three Months Ended		% of Net Sales	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Product sales	\$ 108,524	\$ 60,554	82.6 %	100.0 %
Service revenue	22,858	—	17.4 %	— %
Total sales	131,382	60,554	100.0 %	100.0 %
Cost of products sold	90,155	48,037	68.6 %	79.3 %
Cost of services	17,045	—	13.0 %	— %
Total cost of sales	107,200	48,037	81.6 %	79.3 %
Gross profit	24,182	12,517	18.4 %	20.7 %
General and administrative expenses	17,621	10,739	13.4 %	17.7 %
Operating income	6,561	1,778	5.0 %	2.9 %
Interest expense	(2,159)	(352)	(1.6)%	(0.6)%
Foreign currency (loss), net	(50)	(31)	(0.0)%	(0.1)%
Other income, net	351	14	0.3 %	— %
Total other expense, net	(1,858)	(369)	(1.4)%	(0.6)%
Pretax net income	4,703	1,409	3.6 %	2.3 %
Provision for income taxes	(801)	(550)	(0.6)%	(0.9)%
Net income	\$ 3,902	\$ 859	3.0 %	1.4 %

\$'s in 000's	For the Nine Months Ended		% of Net Sales	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Product sales	\$ 355,088	\$ 214,761	85.0 %	100.0 %
Service revenue	62,502	—	15.0 %	— %
Total sales	417,590	214,761	100.0 %	100.0 %
Cost of products sold	302,324	174,093	72.4 %	81.1 %
Cost of services	48,883	—	11.7 %	— %
Total cost of sales	351,207	174,093	84.1 %	81.1 %
Gross profit	66,383	40,668	15.9 %	18.9 %
General and administrative expenses	53,532	27,421	12.8 %	12.8 %
Operating income	12,851	13,247	3.1 %	6.2 %
Interest expense	(6,140)	(1,351)	(1.5)%	(0.6)%
Foreign currency gain/(loss), net	8	(152)	0.0 %	(0.1)%
Other (expense) income, net	(622)	14	(0.1)%	— %
Total other expense, net	(6,754)	(1,489)	(1.6)%	(0.7)%
Pretax net income	6,097	11,758	1.5 %	5.5 %
Provision for income taxes	(754)	(550)	(0.2)%	(0.3)%
Net income	\$ 5,343	\$ 11,208	1.3 %	5.2 %

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

Net sales

Product sales increased \$48.0 million or 79%, to \$108.5 million for the three months ended September 30, 2018, compared to \$60.6 million for the three months ended September 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 increased revenue by \$5.4 million relative to past practice, this revenue was previously recognized in earlier periods. 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 \$22.9M, with no comparable revenue in 2017. The VIP Acquisition in January 2018 led to the addition of services revenue in the three months ended September 30, 2018.

Gross profit

Gross profit increased by \$11.7 million, or 93%, to \$24.2 million for the three months ended September 30, 2018, compared to \$12.5 million for the three months ended September 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 18.4% for the three months ended September 30, 2018, from 20.7% for the three months ended September 30, 2017.

General and administrative expenses

General and administrative expenses increased by \$6.9 million or 64% to \$17.6 million for the three months ended September 30, 2018 compared to \$10.7 million for the three months ended September 30, 2017. The increase reflects:

- Acquisition related costs of \$0.1 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;
- the addition of the VIP corporate overhead that oversees the Services segment; and
- offset by the non-recurrence in 2018 of certain costs associated with becoming a public company incurred in the third quarter of 2017 related to the Company’s IPO.

Interest expense, net

Interest expense, net increased \$1.8 million to \$2.2 million for the three months ended September 30, 2018, compared to \$0.4 million for the three months ended September 30, 2017. This increase was driven by the new debt agreement entered into to finance the VIP Acquisition, increasing rates, as well as higher amounts outstanding on the revolving credit facility during the quarter compared to the three months ended September 30, 2017.

Other income, net

Other (expense) income, net, increased \$0.4 million to income of \$0.4 million in the three months ended September 30, 2018 compared to \$14 thousand for the three months ended September 30, 2017. This is due to a fair value adjustment to the contingent notes entered into as part of the VIP Acquisition.

Pre-tax net income

As a result of the factors above, pre-tax net income increased \$3.3 million to \$4.7 million for the three months ended September 30, 2018 compared to pre-tax net income of \$1.4 million for the three months ended September 30, 2017.

Provision for income taxes

Our effective tax rate was 17.0% for the three months ended September 30, 2018, with a tax expense of \$.8 million. The 2018 effective tax rate differs from the statutory rate primarily due to the impact of the non-controlling interest income that is not taxable. For the period subsequent to our IPO in July 2017 to September 30, 2017, our effective tax rate 39%. The 2017 effective tax rate differs from the statutory rate primarily due to the impact of the non-controlling interest income that is not taxable.

Nine months ended September 30, 2018 Compared With Nine months ended September 30, 2017

Net sales

Product sales increased \$140.3 million or 65%, to \$355.1 million for the nine months ended September 30, 2018, compared to \$214.8 million for the nine months ended September 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 ASC 606, which reduced revenue by \$0.8 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 \$62.5 million, with no comparable revenue in 2017. The VIP Acquisition in January 2018 led to the addition of the services revenue in the nine months ended September 30, 2018.

Gross profit

Gross profit increased by \$25.7 million, or 63%, to \$66.4 million for the nine months ended September 30, 2018, compared to \$40.7 million for the nine months ended September 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 15.9% for the nine months ended September 30, 2018, from 18.9% for the nine months ended September 30, 2017.

General and administrative expenses

General and administrative expenses increased by \$26.1 million or 95% to \$53.5 million for the nine months ended September 30, 2018 compared to \$27.4 million for the nine months ended September 30, 2017. The increase reflects:

- Acquisition related costs of \$3.5 million;
- increased amortization of \$2.9 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
- the addition of the VIP corporate overhead that oversees the Services segment; and
- offset by the non-recurrence in 2018 of certain costs associated with becoming a public company incurred in the third quarter of 2017 related to the Company's IPO.

Interest expense, net

Interest expense, net increased \$4.8 million to \$6.1 million for the nine months ended September 30, 2018, compared to \$1.4 million for the nine months ended September 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 nine months ended September 30, 2017.

Other (expense) income, net

Other (expense) income, net, increased to expense of \$0.6 million in the nine months ended September 30, 2018 compared to income of \$14 thousand for the nine months ended September 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 \$5.7 million to \$6.1 million for the nine months ended September 30, 2018 compared to pre-tax net income of \$11.8 million for the nine months ended September 30, 2017.

Provision for income taxes

Our effective tax rate was 12.4% and 4.6% for the nine months ended September 30, 2018 and 2017, respectively, with tax expense of \$0.8 million and \$0.6 million. Prior to our IPO in July 2017, the Company was treated as a partnership, and 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.

Beginning in the quarter ended September 30, 2018, the Company modified the definition of its same-store criteria to include host partners, regional offices, and wellness centers with at least six trailing quarters of operations to better align with the amount of time management expects before operations reach maturity. The change resulted in \$0.3 million of revenue and \$0.5 million of costs related to the six months ended June 30, 2018, included in the nine months ended September 30, 2018 adjustment that were not included in the calculation under the previous definition.

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 nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income	\$ 3,902	\$ 859	\$ 5,343	\$ 11,208
Plus:				
Tax expense (benefit)	801	550	754	550
Depreciation	1,786	684	4,816	1,795
Amortization	1,294	261	3,691	782
Interest	2,159	352	6,140	1,351
EBITDA	\$ 9,942	\$ 2,706	\$ 20,744	\$ 15,686
Acquisition costs ⁽¹⁾	113	—	3,479	—
Management fees ⁽²⁾	—	158	—	545
Costs associated with becoming a public company	—	2,275	—	2,275
Stock based compensation expense	1,224	246	2,678	246
Purchase accounting adjustment to inventory	—	—	1,502	—
Non same-store revenue ⁽³⁾	(1,472)	—	(2,775)	—
Non same-store costs ⁽³⁾	3,845	—	6,667	—
Fair value adjustment of contingent note	(350)	—	250	—
Integration costs and costs of discontinued clinics	57	—	813	—
Clinic launch expenses ⁽⁴⁾	50	—	1,261	—
Non-recurring royalty settlement ⁽⁵⁾	—	—	440	—
Adjusted EBITDA	\$ 13,409	\$ 5,385	\$ 35,059	\$ 18,752

- (1) Acquisition costs relating to the VIP Acquisition, which was completed during the nine months ended September 30, 2018 and the HBH Acquisition, which was completed in October 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, host partners, and regions with less than six full trailing quarters of operating results. There were 25 wellness centers, 5 regions, and one new host partner that had less than six trailing quarters of operating results for the three and nine months ended September 30, 2018 and none for the three and nine months ended September 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 September 30, 2018 and December 31, 2017, our cash and cash equivalents were \$4.5 million and \$37.9 million respectively. As of September 30, 2018, we had \$23.8 million outstanding under a revolving credit facility, \$74.8 million under a term loan, \$10.0 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 7.65%.

On October 1, 2018, the Company closed an underwritten public offering of 5,750,000 shares of Class A common stock. The Company sold 2,000,000 newly issued shares of Class A common stock and received net proceeds of approximately \$73.5 million after deducting underwriting discounts and commissions and offering expenses. The remaining 3,750,000 shares of Class A common stock were sold by existing shareholders and the Company did not receive any proceeds with respect hereto.

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 September 30, 2018 and December 31, 2017, we had working capital (current assets less current liabilities) of \$81.9 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 \$14.8 million for the nine months ended September 30, 2018, compared to cash used in operating activities of \$11.0 million for the nine months ended September 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 net sales and higher inventory to support growing net sales. Net changes in assets and liabilities accounted for \$32.4 million in cash used in operating activities for the nine months ended September 30, 2018 compared to \$3.8 million of cash used in operating activities for the nine months ended September 30, 2017.

Cash used in Investing Activities

Net cash used in investing activities was \$98.1 million for the nine months ended September 30, 2018, compared to \$3.6 million for the nine months ended September 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 \$79.5 million for the nine months ended September 30, 2018 compared to \$38.3 million in net cash provided by financing activities for the nine months ended September 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, which was subsequently amended in August 2018. The A&R Credit Agreement provides for a secured revolving credit facility of \$75 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 September 30, 2018, the Company had \$23.8 million outstanding under the A&R Credit Agreement and \$74.8 million under the Term Loan Credit Agreement. The interest rate on the A&R Credit Agreement was 5.25% as a Base Rate loan, the interest rate on the Term Loan Credit Agreement was 7.35% as a LIBOR rate loan. Additionally the Company pays between .375% and .50% as an unused facility fee, depending on the amount borrowed. 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 September 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 September 30, 2018, we had variable rate debt of approximately \$98.6 million under our Revolver and Term Loan. An increase of 1% would have increased our interest expense for the nine months ended September 30, 2018 by approximately \$0.7 million.

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.

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 September 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. The case has been stayed pending the outcome of settlement negotiations.

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, but permitted the plaintiffs to attempt to plead a viable Complaint on or before October 5, 2018. On October 3, 2018, Plaintiffs filed a motion for pre-Complaint discovery. Although we believe the motion lacks merit, because of the inherent uncertainties of litigation, we can provide no assurance of a favorable outcome.

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 6. Exhibits.

- 4.1 [Registration Rights Agreement, dated as of July 20, 2017, by and among PetIQ, Inc. and certain investors set forth therein \(incorporated by reference to the Company's Form S-3 Registration Statement filed with the Securities and Exchange Commission on September 9, 2018\).](#)
- 4.2 [Registration Rights Agreement, dated as of January 17, 2018, by and between PetIQ, Inc. and VIP Petcare Holdings, Inc. \(incorporated by reference to the Company's Form S-3 Registration Statement filed with the Securities and Exchange Commission on September 9, 2018\).](#)
- 10.1+ [Employment and Non-Competition Agreement, dated September 17, 2018, between PetIQ, Inc. and Susan Sholtis \(incorporated by reference to the Company's Current Report on Form 8-K filed on September 20, 2018\).](#)
- 10.2*+ [Form of Nonqualified Option Award Agreement pursuant to the PetIQ, Inc. 2017 Omnibus Incentive Plan](#)
- 10.3*+ [Form of Restricted Stock Unit Agreement pursuant to the PetIQ, Inc. 2017 Omnibus Incentive Plan](#)
- 10.4*+ [Form of Director Restricted Stock Unit Agreement pursuant to the PetIQ, Inc. 2017 Omnibus Incentive Plan](#)
- 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.

November 14, 2018

/s/ John Newland

John Newland
Chief Financial Officer

PETIQ, INC.
2017 OMNIBUS INCENTIVE PLAN

NONQUALIFIED STOCK OPTION AGREEMENT

THIS NONQUALIFIED STOCK OPTION 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 make this grant 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. Shares Subject to Option; Exercise Price.

(a) Shares Subject to Option. The Company shall grant to the Participant, effective as of the Grant Date, an option to purchase _____ Shares from the Company, which shall become exercisable, if at all, as provided below in Section 2(a) (the “**Option**”).

(b) Exercise Price. The Option shall have an Exercise Price of \$_____ per Share, which is not less than the Fair Market Value per Share on the Grant Date.

(c) Option Subject to Plan. By signing this Agreement, the Participant acknowledges that he or she has been provided a copy of the Plan and has had the opportunity to review such Plan and agrees to be bound by all the terms and provisions of the Plan.

(d) Character of Option. The Option granted hereunder is not intended to be an “incentive stock option” within the meaning of Code Section 422.

2. Vesting and Exercisability; Expiration.

(a) Vesting and Exercisability. The Option shall vest and become exercisable in substantially equal annual installments on each of the first four (4) anniversaries of the Grant Date,

subject to the Participant's continuous service with the Company or a Subsidiary or Affiliate thereof, as applicable, whether as an Employee, Director, or Consultant ("**Service**"), from the Grant Date through each such anniversary of the Grant Date. Notwithstanding the foregoing, all or a portion of the Option may also vest and become exercisable under the circumstances described in Section 4(c) or Section 5.

(b) Normal Expiration Date. Unless the Option earlier terminates in accordance with Sections 2 or 4, the Option shall terminate on the tenth anniversary of the Grant Date (the "**Normal Expiration Date**"). Once a portion of the Option has become exercisable pursuant to this Section 2, such portion of the Option may be exercised, subject to the provisions hereof, at any time and from time to time until the Normal Expiration Date.

3. **Method of Exercise and Payment.**

All or part of the exercisable portion of the Option may be exercised by the Participant upon (a) the Participant's written notice to the Company of exercise and (b) the Participant's payment of the Exercise Price in full at the time of exercise (i) in cash or cash equivalents, (ii) in unrestricted Shares already owned by the Participant, valued at the Fair Market Value on the date of exercise, or (iii) by net exercise or broker's cashless exercise procedure, or any other procedures approved by the Committee from time to time. As soon as practicable after receipt of a written exercise notice and payment in full of the Exercise Price of any exercisable portion of the Option in accordance with this Section 3, but subject to Section 8 below, the Company shall deliver to the Participant (or such other person or entity) a certificate, certificates or electronic book-entry notation representing the Shares acquired upon the exercise thereof, registered in the name of the Participant (or such other person or entity); *provided that*, if the Company, in its sole discretion, shall determine that, under applicable securities laws, any certificates issued under this Section 3 must bear a legend restricting the transfer of such Shares, such certificates shall bear the appropriate legend.

4. **Termination of Service.**

(a) Any Termination. Except as otherwise set forth below in this Section 4 or in Section 5, in the event that the Participant's Service terminates for any reason, any portion of the Option held by the Participant that is not then vested and exercisable shall terminate and be cancelled immediately upon such termination of Service.

(b) Termination due to Death or Disability. In the event that the Participant's Service terminates by reason of the Participant's death or Disability, any then-vested portion of the Option may be exercised by the Participant or the Participant's beneficiary as designated in accordance with Section 9, or if no such beneficiary is named, by the Participant's estate, at any time prior to one (1) year following the Participant's termination of Service or the Normal Expiration Date of the Option, whichever period is shorter. The Option shall terminate immediately thereafter.

(c) **Termination due to Qualified Retirement.** In the event that the Participant's Service terminates by reason of the Participant's Qualified Retirement, any unvested portion of the Option held by the Participant shall immediately vest in full as of the date of such termination of Service. The Option may be exercised by the Participant at any time prior to one (1) year following the Participant's termination of Service or the Normal Expiration Date of the Option, whichever period is shorter. The Option shall terminate immediately thereafter. For purposes of this Agreement, "**Qualified Retirement**" shall mean a termination of the Participant's Service, other than for Cause or due to the Participant's death or Disability, on or after the Participant reaches the age of 55 with at least ten years of Service.

(d) **Termination for Cause.** In the event that the Participant's Service terminates for Cause, the entire Option held by the Participant, whether or not then vested and exercisable, shall terminate and be cancelled immediately upon such termination of Service.

(e) **Other Termination of Service.** In the event that the Participant's Service terminates for any reason other than (i) death or Disability, (ii) Qualified Retirement, or (iii) for Cause, any then-vested portion of the Option may be exercised by the Participant at any time prior to the ninetieth (90th) day following the Participant's termination of Service (or, in the event that the Participant dies or becomes Disabled after the termination of Service, but within the period during which the Option would otherwise be exercisable hereunder, such ninety (90) day period shall be extended to the date that is one (1) year after such termination) or the Normal Expiration Date of the Option, whichever period is shorter. The Option shall terminate immediately thereafter.

5. **Qualifying Terminations Following a Change in Control.**

Notwithstanding any language to the contrary in the Plan or the Participant's employment or other services agreement with the Company, the Option will not vest solely upon a Change in Control unless such Option is not assumed by the Company's successor or converted to an equivalent value award upon substantially the same terms effective immediately following the Change in Control (in accordance with Section 12 of the Plan). However, the Participant will be immediately entitled to exercise the entire Option, whether vested or unvested, if the Participant experiences a Qualifying Termination. A "**Qualifying Termination**" occurs if, within twelve (12) months following a Change in Control, the Participant's Service is terminated by the Company without Cause.

6. **Tax Withholding.**

Whenever Shares are to be issued pursuant to the exercise of any portion of the Option or any cash payment is to be made hereunder, the Company or any Affiliate thereof shall, in accordance with Section 15 of the Plan, have the power to withhold, or require the Participant to remit to the Company or such Affiliate thereof, an amount sufficient to satisfy federal, state, and local withholding tax requirements, both domestic and foreign, relating to such transaction, and the Company or such Affiliate thereof may defer payment of cash or issuance of Shares until such requirements are satisfied; provided, however, that such amount may not exceed the maximum statutory withholding rate. The Participant shall be entitled to satisfy the amount of any such required tax withholding by having the Company withhold from the Shares otherwise issuable

upon exercise of the Option a number of Shares having a Fair Market Value equal to the amount of such required tax withholdings.

7. **Non-Compete; Non-Solicitation; Non-Disparagement.**

(a) **Non-Compete.** During the period of the Participant's Service and for twelve (12) months following the termination thereof for any reason (the "**Restricted Period**"), the Participant agrees that he or she shall not, and shall not permit his or her respective Affiliates to, directly or indirectly through another Person, engage in a Competitive Business (defined below) by providing any services similar to those provided by the Participant during his or her Service with the Company, in any geographic location in which the Company Group is engaged in business, which includes the United States (the "**Geographic Area**"). For purposes of this Agreement, "**Competitive Business**" shall mean any business that is engaged in the acquisition, distribution, marketing, sale, resale, manufacture or production of veterinary pet prescription and over-the-counter medications or related products, and all matters and services incidental or related thereto, or any other business in competition with the business conducted by (or actively being contemplated by) the Company, its Subsidiaries or any of its Affiliates (the "**Company Group**").

(b) **Non-Solicitation.** The Participant agrees that during his or her period of Service and during the Restricted Period, the Participant shall not, and shall not permit his or her Affiliates to, directly or indirectly through another Person within the Geographic Area:

(i) hire any Employee or independent contractor of the Company Group, or solicit, induce, recruit or encourage any such Employee or independent contractor to leave the employ of, or reduce the services provided to, the Company Group, or encourage or attempt to do any of the foregoing, either for the Participant's own purposes or for any other Person or entity; or

(ii) (A) solicit, interfere with, subvert, disrupt or alter the relationship, contractual or otherwise, between the Company Group and any client, customer, contractor, vendor, supplier, licensor or licensee of the Company Group, or any prospective client, customer, contractor, vendor, supplier, licensor or licensee of the Company Group, (B) divert or take away or attempt to divert or take away the business or patronage (with respect to products or services of the kind or type developed, produced, marketed, furnished or sold by the Company) of any of the clients, customers or accounts, or prospective clients, customers or accounts, of the Company, or (C) encourage or attempt to do any of the foregoing, either for the Participant's own purposes or for any other Person or entity.

(c) **Other Covenants.** For the avoidance of doubt, the restrictive covenants set forth in this Section 7 are in addition to, and not in lieu of, any restrictive covenants to which the Participant may otherwise be subject, whether under the terms of his or her employment or services agreement or otherwise.

(d) Severability. The covenants contained in this Section 7 shall be construed as a series of separate covenants, one for each county, city, state or any similar subdivision in any Geographic Area. Except for geographic coverage, each such separate covenant shall be deemed identical in terms to the covenant contained in the preceding sections. If, in any judicial proceeding, a court refuses to enforce any of such separate covenants (or any part thereof), then such unenforceable covenant (or such part) shall be eliminated from this Agreement to the extent necessary to permit the remaining separate covenants (or portions thereof) to be enforced. In the event that the provisions of this Section 7 are deemed to exceed the time, geographic or scope limitations permitted by applicable law, then such provisions shall be reformed to the maximum time, geographic or scope limitations, as the case may be, permitted by applicable law.

(e) Acknowledgments. The Participant acknowledges that the restrictions set forth in Sections 7(a) and 7(b) are fair and reasonable in all respects. Without limiting the foregoing, the Participant makes the following acknowledgments:

(i) The Participant will, by virtue of the Participant's position with the Company, have and gain a high level of inside knowledge regarding the Company Group and its business, and as a result, will have the ability to harm or threaten its legitimate business interests, including, without limitation, its goodwill, technologies, intellectual property, business plans, processes, methods of operation, customers, customer lists, referral sources, vendors and vendor contracts, financial and marketing information, and other trade secrets.

(ii) The Participant will provide services or have significant presence or influence on behalf of the Company Group within the entire Geographic Area due to the nature of the Company Group's business, which is conducted extensively throughout the Geographic Area.

(iii) The type of activities restricted by Sections 7(a) and 7(b) would be in direct competition with the Company Group's business.

(iv) The Participant has received sufficient consideration in exchange for the covenants made herein.

(f) Remedies for Breach.

(i) The Participant acknowledges and agrees that in the event of the Participant's actual or threatened breach of any of the restrictive covenants contained in this Section 7, the Company will have no adequate remedy at law. The Participant accordingly agrees that, in the event of any actual or threatened breach by the Participant of any of said covenants, the Company will be entitled to seek immediate injunctive and other equitable relief, without bond and without the necessity of showing actual monetary damages. Nothing in this Section 7 will be construed as prohibiting the Company from

pursuing any other remedies available to it for such breach or threatened breach, including the recovery of any damages that it is able to prove.

(ii) In addition, and not in limitation of the foregoing, in the event of the Participant's breach of any of the restrictive covenants set forth in this Section 7, (A) the Option (whether vested or unvested) shall immediately be forfeited, (B) the Company shall be entitled to recover any Shares previously acquired upon the exercise of the Option, and (C) if the Participant has previously sold any of the Shares derived from the Option, the Company shall also have the right to recover from the Participant the economic value thereof.

8. Nontransferability of Awards.

The Option 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. All rights with respect to the Option granted to the Participant hereunder shall be exercisable during his or her lifetime only by such Participant or, if permitted by the Committee, a permitted transferee. Following the Participant's death, all rights with respect to the Option that were exercisable at the time of the Participant's death and have not terminated shall be exercised by his or her designated beneficiary, his or her estate or, if designated by the Committee, a permitted transferee.

9. 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.

10. Adjustments.

The Shares subject to the Option may be adjusted in any manner as contemplated by Section 5 of the Plan.

11. Requirements of Law.

The issuance of Shares pursuant to the Option 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 exercise of any portion of the Option granted hereunder, if such exercise would result in a violation of applicable law, including the U.S. federal securities laws and any applicable state or foreign securities laws.

12. No Guarantee of Continued Service.

Nothing 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.

13. No Rights as Stockholder.

Except as otherwise required by law, the Participant shall not have any rights as a stockholder with respect to any Shares covered by the Option granted hereunder until such time as the Shares issuable upon exercise of such Option have been so issued.

14. 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.

15. 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 any Option (but not any previously granted vested Options) in whole or in part, including without limitation, amending the criteria for vesting and exercisability set forth in Section 2 hereof, substituting alternative vesting and exercisability criteria and imposing certain blackout periods on Options; *provided that* such alteration, amendment, suspension or termination shall not adversely alter or impair the rights of the Participant under the Option 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.

16. 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 Pl.
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) No Guarantee of Future Awards. This Agreement does not guarantee the Participant the right to or expectation of future Awards under the Plan or any future plan adopted by the Company.

(d) 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.

(e) 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 (provided, that this Agreement shall not supersede any written employment agreement or other written agreement between the Company and the Participant, including, but not limited to, any written restrictive covenant agreements).

(f) Code Section 409A Compliance. This Option is intended to be exempt from 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 Option 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 Option in order to cause such portion of the Option to either not be subject to Code Section 409A or to comply with the applicable provisions of such section.

(g) Applicable Law; Jurisdiction. 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.

(h) 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.

(i) 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.

(j) 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]

Notwithstanding anything in this Agreement or in the Plan to the contrary, the Committee hereby reserves the right, in its sole discretion, to terminate or cancel this Award if the Participant fails to accept this Agreement on or prior to [____], 20[__].

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]

PETIQ, INC.
2017 Omnibus Incentive Plan

RESTRICTED STOCK UNIT AGREEMENT

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) Shares Subject to Award. 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) Vesting. The Restricted Stock Units shall vest in substantially equal annual installments on each of the first four (4) anniversaries of the Grant Date, subject to the Participant’s continuous service with the Company or a Subsidiary or Affiliate thereof, as applicable, whether as an Employee, Director, or Consultant (“**Service**”), from the Grant Date through each such anniversary of the Grant Date. Notwithstanding the foregoing, all or a portion of the Restricted Stock Units may also vest under the circumstances described in Section 3(b) or Section 4.

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.

(a) Any Termination. Except as otherwise set forth in this Section 3 or in Section 4, in the event that the Participant’s Service terminates for any reason, any portion of the Restricted Stock Units that is not then vested shall terminate and be cancelled immediately upon such termination of Service.

(b) Termination due to Qualified Retirement. In the event that the Participant’s Service terminates by reason of the Participant’s Qualified Retirement, any unvested portion of the Restricted Stock Units shall immediately vest in full as of the date of such termination of Service. For purposes of this Agreement, “**Qualified Retirement**” shall mean a termination of the Participant’s Service, other than for Cause or due to the Participant’s death or Disability, on or after the Participant reaches the age of 55 with at least ten years of Service.

(c) Termination for Cause. In the event that the Participant’s Service terminates for Cause, the entire Award of Restricted Stock Units, whether or not then vested, shall terminate and be cancelled immediately upon such termination of Service.

4. Qualifying Terminations Following a Change in Control.

Notwithstanding any language in the Plan or the Participant’s employment or other services agreement with the Company to the contrary, the Restricted Stock Units will not vest solely upon a Change in Control unless the Restricted Stock Units are not assumed by the Company’s successor or converted to an equivalent value award upon substantially the same terms effective immediately following the Change in Control. However, if the Participant experiences a Qualifying Termination, the Restricted Stock Units will immediately vest in full. A “**Qualifying Termination**” occurs if, within twelve (12) months following a Change in Control, the Participant’s Service is terminated by the Company without Cause.

5. 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.

6. Tax Withholding.

The Company or any Affiliate thereof shall have the power to withhold, or require the Participant to remit to the Company or such Affiliate thereof, cash or Shares that are distributable

to the Participant with respect to the Restricted Stock Units in an amount sufficient to satisfy the federal, state, and local withholding tax requirements, both domestic and foreign, relating to such transaction, and the Company or such Affiliate thereof may defer payment of cash or issuance of Shares until such requirements are satisfied; provided, however, that such amount may not exceed the maximum statutory withholding rate. The Participant shall be entitled to satisfy the amount of any such required tax withholding by having the Company withhold from the Shares otherwise distributable to the Participant upon vesting of the Restrictive Stock Units a number of Shares having a Fair Market Value equal to the amount of such required tax withholdings.

7. **Non-Competition, Non-Solicitation and Non-Disparagement.**

(a) **Non-Compete.** During the period of the Participant's Service and for twelve (12) months following the termination thereof for any reason (the "**Restricted Period**"), the Participant agrees that he or she shall not, and shall not permit his or her respective Affiliates to, directly or indirectly through another Person, engage in a Competitive Business (defined below) by providing any services similar to those provided by the Participant during his or her Service with the Company, in any geographic location in which the Company Group is engaged in business, which includes the United States (the "**Geographic Area**"). For purposes of this Agreement, "**Competitive Business**" shall mean any business that is engaged in the acquisition, distribution, marketing, sale, resale, manufacture or production of veterinary pet prescription and over-the-counter medications or related products, and all matters and services incidental or related thereto, or any other business in competition with the business conducted by (or actively being contemplated by) the Company, its Subsidiaries or any of its Affiliates (the "**Company Group**").

(b) **Non-Solicitation.** The Participant agrees that during his or her period of Service and during the Restricted Period, the Participant shall not, and shall not permit his or her Affiliates to, directly or indirectly through another Person within the Geographic Area:

(i) hire any Employee or independent contractor of the Company Group, or solicit, induce, recruit or encourage any such Employee or independent contractor to leave the employ of, or reduce the services provided to, the Company Group, or encourage or attempt to do any of the foregoing, either for the Participant's own purposes or for any other Person or entity; or

(ii) (A) solicit, interfere with, subvert, disrupt or alter the relationship, contractual or otherwise, between the Company Group and any client, customer, contractor, vendor, supplier, licensor or licensee of the Company Group, or any prospective client, customer, contractor, vendor, supplier, licensor or licensee of the Company Group, (B) divert or take away or attempt to divert or take away the business or patronage (with respect to products or services of the kind or type developed, produced, marketed, furnished or sold by the Company) of any of the clients, customers or accounts, or prospective clients, customers or accounts, of the Company, or (C) encourage or attempt to do any of the foregoing, either for the Participant's own purposes or for any other Person or entity.

(c) **Other Covenants.** For the avoidance of doubt, the restrictive covenants set forth in this Section 7. are in addition to, and not in lieu of, any restrictive covenants to which the

Participant may otherwise be subject, whether under the terms of his or her employment or services agreement or otherwise.

(d) Severability. The covenants contained in this Section 7. shall be construed as a series of separate covenants, one for each county, city, state or any similar subdivision in any Geographic Area. Except for geographic coverage, each such separate covenant shall be deemed identical in terms to the covenant contained in the preceding sections. If, in any judicial proceeding, a court refuses to enforce any of such separate covenants (or any part thereof), then such unenforceable covenant (or such part) shall be eliminated from this Agreement to the extent necessary to permit the remaining separate covenants (or portions thereof) to be enforced. In the event that the provisions of this Section 7. are deemed to exceed the time, geographic or scope limitations permitted by applicable law, then such provisions shall be reformed to the maximum time, geographic or scope limitations, as the case may be, permitted by applicable law.

(e) Acknowledgments. The Participant acknowledges that the restrictions set forth in Sections 7(a) and 7(b) are fair and reasonable in all respects. Without limiting the foregoing, the Participant makes the following acknowledgments:

(i) The Participant will, by virtue of the Participant's position with the Company, have and gain a high level of inside knowledge regarding the Company Group and its business, and as a result, will have the ability to harm or threaten its legitimate business interests, including, without limitation, its goodwill, technologies, intellectual property, business plans, processes, methods of operation, customers, customer lists, referral sources, vendors and vendor contracts, financial and marketing information, and other trade secrets.

(ii) The Participant will provide services or have significant presence or influence on behalf of the Company Group within the entire Geographic Area due to the nature of the Company Group's business, which is conducted extensively throughout the Geographic Area.

(iii) The type of activities restricted by Sections 7(a) and 7(b) would be in direct competition with the Company Group's business.

(iv) The Participant has received sufficient consideration in exchange for the covenants made herein.

(f) Remedies for Breach.

(i) The Participant acknowledges and agrees that in the event of the Participant's actual or threatened breach of any of the restrictive covenants contained in this Section 7, the Company will have no adequate remedy at law. The Participant accordingly agrees that, in the event of any actual or threatened breach by the Participant of any of said covenants, the Company will be entitled to seek immediate injunctive and other equitable relief, without bond and without the necessity of showing actual monetary damages. Nothing in this Section 7 will be construed as prohibiting the Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovery of any damages that it is able to prove.

(ii) In addition, and not in limitation of the foregoing, in the event of the Participant's breach of any of the restrictive covenants set forth in this Section 7, (A) the Restricted Stock Units (whether vested or unvested) shall immediately be forfeited, (B) the Company shall be entitled to recover any Shares acquired upon the vesting of the Restricted Stock Units, and (C) if the Participant has previously sold any of the Shares derived from the Restricted Stock Units, the Company shall also have the right to recover from the Participant the economic value thereof.

8. 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.

9. 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.

10. 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.

11. 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.

12. 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.

13. 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.

14. 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 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.

15. 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 Pl.
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) No Guarantee of Future Awards. This Agreement does not guarantee the Participant the right to or expectation of future Awards under the Plan or any future plan adopted by the Company.

(d) 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.

(e) 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.

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) 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]

Notwithstanding anything in this Agreement or in the Plan to the contrary, the Committee hereby reserves the right, in its sole discretion, to terminate or cancel this Award if the Participant fails to accept this Agreement on or prior to [____], 20[___].

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 RSU Agreement]

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 (1st) 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]

**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: November 14, 2018

/s/ McCord Christensen
McCord Christensen
Chief Executive Officer

**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: November 14, 2018

/s/ John Newland
John Newland
Chief Financial Officer

**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 September 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: November 14, 2018

**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 September 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: November 14, 2018
