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

FORM 10-K

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

For the fiscal year ended December 31, 2019

☐ **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:

PetIQ, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 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 ☐ (Do not check if a smaller reporting company)	Smaller reporting company☐
Emerging growth company ☒	

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

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

As of June 28, 2019, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of common equity held by non-affiliates of the registrant was $629.7 million. Shares of Class A common stock held by each executive officer, director and by certain persons that own 10 percent or more of the outstanding Class A common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 11, 2020, we had 23,889,861 shares of Class A common stock and 4,462,643 shares of Class B common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

We intend to file with the Securities and Exchange Commission, not later than 120 days after the close of our fiscal year ended December 31, 2019, a definitive proxy statement or an amendment to this report filed under cover of Form 10-K/A containing the information required to be disclosed under Part III of Form 10-K.

PetIQ, Inc.

Table of Contents

PART I

The following discussion should be read in conjunction with our audited consolidated financial statements and accompanying notes thereto included elsewhere in this Annual Report. The following discussion includes certain forward-looking statements. For a discussion of important factors, including the continuing development of our business and other factors which could cause actual results to differ materially from the results referred to in the historical information and the forward-looking statements presented herein, see "Item 1A, Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" contained in this Annual Report.

Unless the context requires otherwise, references to "PetIQ, Inc.," "PetIQ," the "Company," "we," "our" or "us" refer collectively to PetIQ, Inc. and its consolidated subsidiaries, including PetIQ Holdings, LLC, a Delaware limited liability company, which we refer to as "HoldCo".

Item 1 - Business

Business Overview

PetIQ is a leading pet medication and wellness company delivering a smarter way for pet parents to help their pets live their best lives through convenient access to affordable veterinary products and services. We engage with customers through more than 60,000 points of distribution across retail, including veterinary, and e-commerce channels with our branded distributed medications, which is further supported by our own world-class medication manufacturing facility in Omaha, Nebraska. Our national service platform, VIP Petcare ("VIP"), operates in over 3,400 retail partner locations in 41 states, providing cost effective and convenient veterinary wellness services. PetIQ believes that pets are an important part of the family and deserve the best products and care we can give them.

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

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

Recent Developments

Capstar Acquisition

On January 13, 2020, we announced that, through Opco, we executed an Asset Purchase Agreement (the "Purchase Agreement") to acquire the U.S. rights to Capstar® and CapAction® and related assets (the "Acquisition") from Elanco US Inc. ("Elanco") for $95 million, plus the cost of certain outstanding finished goods inventory in saleable condition. Capstar and CapAction are oral tablets for the treatment of flea infestations on dogs, puppies, cats and kittens. Capstar is comprised of five SKUs and CapAction is sold under three SKUs. The closing of the transaction is contingent upon customary closing conditions, including, among others, the approval of the acquisition under a consent order issued by the U.S. Federal Trade Commission. The parties have agreed that the Acquisition will not close earlier than July 1, 2020.

Following closing, Elanco will manufacture and supply Capstar and CapAction and provide certain technology transfer services to Opco over a 24-month period pursuant to a manufacturing and supply agreement.

Perrigo Animal Health Acquisition

On July 8, 2019, we, through Opco, completed the acquisition of all the outstanding stock of Sergeant's Pet Care Products, Inc. ("Sergeant's"), d/b/a Perrigo Animal Health, including any assets related to Perrigo Company plc's animal health business (the "Perrigo Animal Health Acquisition"). As a result of the Perrigo Animal Health Acquisition, Sergeant's is now an indirect wholly-owned subsidiary of the Company.

Our Industry

Attractive Pet Industry Trends. In 2019, approximately 54% of total U.S. households owned a dog or a cat, compared to 50% of total U.S. households in 2009, according to Packaged Facts. Demographic trends in pet ownership and changing attitudes toward pets support our continuing growth, through the following:

- *Pet Humanization*: According to Packaged Facts, in the United States, an estimated 90% of dog owners and 86% of cat owners strongly or at least somewhat agree that they view their pets as family members. In addition, in 2019, 93% of dog owners and 91% of cat owners agreed that their pets have had a positive impact on their mental health, and, in 2018, 92% of dog owners and 85% of cat owners agreed that their pets had a positive impact on their physical health. With pets increasingly viewed as companions, friends and family members, pet owners behave like “pet parents” with a strong inclination for spending disposable income to meet all of their pets’ needs during all economic cycles. Pets have become a household and individual spending priority.

- *Increasing Consumer Focus on Pet Health and Wellness*: Consumers are exhibiting greater interest in improved health for their pets and, as a result, are increasing their spending on veterinary care as well as purchases of the most effective veterinarian-grade pet products and supplies. Pet owners of all demographic and income levels aspire to purchase leading veterinarian-grade treatments.

- *Increasing Pet Age and Incidents of Pet Disease*: Pets are living longer and, as a result, have increasing medical needs. Packaged Facts cites Association for Pet Obesity Prevention (APOP) data for 2018 that 56% of dogs and 60% of cats are overweight, and Packaged Facts cites Merck Animal Health estimates from 2017 that up to 75% of older dogs have heart disease. Packaged Facts also found in a July-August 2019 survey that 38% of dog and 36% of cat owners have a pet that is 7 years old or older.

- *Increasing Market Size and Consumer Spending*: Pet spending in the United States has steadily increased every year since 1994, with Americans spending approximately $95 billion on pet products and services for their pets in 2019, when sales growth was a robust 5.4%. According to Packaged Facts, the total U.S. pet products and services market is expected to reach $122 billion in 2023, representing a CAGR of 5.1% from 2019 to 2024.

Strong Growth in Pet Products. According to Packaged Facts, the $95.0 billion U.S. consumers spent on pet products and services in 2019 nearly doubled their 2009 spending of $53.7 billion. Veterinary channel sales of pet medications grew from an estimated $6.7 billion in 2018 to $7.3 billion in 2019, and overall retail sales of pet medications (excluding pet supplements) are estimated to grow from $9.0 billion in 2019 to $12.5 billion by 2022, according to Packaged Facts. Additionally, our innovative pet treats compete in the U.S. dog and cat treat market, which has grown every year since 2012. According to Packaged Facts, the U.S. dog and cat treat market has grown to an estimated $6.7 billion in 2019 and is estimated to reach $7.5 billion of retail sales by 2023, representing a CAGR of 3% between 2018 and 2023.

Growth of Pet Medication Purchases from Retail Channel. We believe the market for pet medication and health and wellness products in the retail and online channels will likely outpace growth in the broader pet industry. The pet owner has increasingly purchased veterinarian grade pet products from the retail channel and e-commerce. We believe that migration will continue in the future as more consumers take advantage of the convenience of their local retail store and online, become aware of the significant cost savings that retail channels and online can deliver, and our product penetration at retail increases. Additionally, there is a significant segment of pet owners who have not sought pet health care for a variety of reasons. Our affordable high-quality products will help unlock demand and provide customers the leading treatments they want at prices they can afford as the estimated retail share of the U.S. pet medication industry has remained strong and stable over the past decade. In addition, we have strong relationships with established distribution to veterinarians and believe we are uniquely positioned to provide veterinarian services within the retail channel, and continue to benefit from this channel expansion.

Our Business Strategy

There are significant opportunities to grow our brand awareness, increase our net sales and profitability and deliver shareholder value by executing on the following initiatives:

Grow Consumer Awareness of Our Products in the Retail Channel. We are an established category creator in the pet health and wellness and medication market. While we maintain strong relationships with the top distributors to the veterinary channel, we have strong penetration of the retail channel and high awareness among retailers. With our broad retail network that includes the top U.S. retailers, we are increasingly focused on providing these retailers with excellent value and on building consumer awareness and converting more pet owners to use products we distribute. As retailers continue to see the value our proprietary products bring to their bottom line and in helping them compete with other OTC channels, and as pet owners learn that our proprietary value-branded products offer the same active ingredients as leading brands at lower prices, we believe our share of the overall pet Rx and OTC medications and health and wellness products market will continue to grow.

Increase Volume of Products with Existing Retailers. We conduct business with the majority of leading U.S. retailers with our core product offerings. We believe our net sales will continue to grow as we expand the number of products we have available for sale at each retailer. We also plan to creatively expand SKU placement within existing accounts through our in-house merchandising capabilities. Additionally, we believe we are positioned to expand our presence within leading retailers as a result of the growth of our Services segment.

Provide Veterinarian Services in Conjunction with our Retail Partners. Through our Services segment, we participate in the veterinary services industry, which is expected to grow from $28.5 billion in 2019 to $36.8 billion in 2023 according to Packaged Facts, representing a CAGR of 5.3%. We provide a comprehensive suite of services at 3,400 community clinic locations and wellness centers hosted at retailers across 41 states, which includes diagnostic tests, vaccinations, prescription medications, microchipping and wellness checks. We believe we have the ability to expand those offerings within our existing retail footprint, which will provide an additional earnings stream, as well as drive pet parent traffic to our retail partners for the purchase of pet medication and health and wellness products, thereby expanding the sales of our product offerings through our retail partners. In addition, we opened 80 wellness centers within retail partners in 2019 and we expect to open 1,000 wellness centers by 2023. We believe that our wellness centers will help us address the $10.0 billion underserved veterinary market in 2019, consisting of $7.4 billion of services according to L.E.K. Consulting and $2.6 billion in related product revenue generated from such services based on management estimates.

Employees

As of December 31, 2019, we had 1,866 employees. Our employees are not represented by any labor union or any collective bargaining arrangement with respect to their employment with us. We have never experienced any work stoppages or strikes as a result of labor disputes. We believe that our employee relations are good.

We additionally regularly contract with veterinarians to staff our community clinics and wellness centers. As of December 31, 2019, we utilized approximately 1,700 contract veterinarians.

Seasonality

While many of our products are sold consistently throughout the year, we do experience seasonality in the form of increased demand for our flea and tick product offerings in the first half of the year, both leading up to and throughout the spring and summer seasons. Additionally we may experience fluctuations in net sales related to the inventory management strategies of our retail customers.

Similarly, the practice of veterinary medicine is subject to seasonal fluctuation. In particular, demand for veterinary services is significantly higher during the warmer months as there are more fleas, ticks, and mosquitos during these months and products and services sold to prevent or treat illness or diseases related to these insects.

Our Products

Through our Products segment, we are a manufacturer and distributor of pet medication and health and wellness products to the retail channel, and also have strong relationships with distribution to veterinarians, which will be leveraged to sell Capstar to veterinarians upon closing of that transaction. We focus our product offerings on innovative, proprietary value-branded products, and leading third-party branded products for dogs and cats, including pet Rx medications, OTC medications, and wellness products. We offer and supply these products to customers primarily in the United States.

Rx Medications

Our Rx pet medications include heartworm preventatives, arthritis, thyroid, diabetes and pain treatments, antibiotics and other specialty medications, all of which require a prescription from a veterinarian. We co-develop and manufacture our own proprietary value-branded products and distribute well-known leading third-party branded medications.

Our proprietary value-branded Rx medications allow consumers to care for their pets with the same quality of branded medications at a lower cost. We plan to develop, and bring to retail customers, proprietary value-branded versions of other popular pet Rx medications currently available only in branded versions at premium prices.

We also sell to retailers more than 350 SKUs of the most popular pet Rx medications, in multiple formats, that previously had been available primarily through the veterinarian channel. These retailers then sell these pet Rx medications to pet owners who have a prescription. We source these pet Rx medications directly from manufacturers or through licensed distributors. Several of the top-selling Rx medications that we distribute include Rimadyl®, Heartgard® Plus and Vetmedin®.

OTC Medications and Supplies

The OTC medications we sell are primarily comprised of flea and tick control products, which are available in multiple forms that consumers choose between, such as spot on (topical) treatments, chewables, and collars.

We sell to the retail channel more than 500 SKUs of the most popular leading OTC-branded and value-branded medications consisting primarily of flea and tick control medications. We source OTC medications directly from manufacturers or through licensed distributors. With the completion of the Perrigo Animal Health Acquisition during 2019, we have expanded our manufacturing capabilities to include spot on and collar flea and tick control medications under the PetArmor, Sentry and Sergeants brands.

Health and Wellness Products

Our health and wellness products include specialty treats and other pet products such as dental treats and nutritional supplements (including hip and joint, vitamins and skin and coat products). We manufacture and distribute more than 350 SKUs of proprietary wellness products for dogs and cats, mainly under our PetArmor, VetIQ, Minties and Sentry product lines.

Specific products in this category include dental treats, such as *Minties* dental treats; nutritional supplements, such as our VetIQ products, skin and coat chews, vitamin chews and treats that disguise medication to aid in pets' pill ingestion; and treats, such as our *Betsy Farms* dog treats and *Delightibles* cat treats.

Product Innovation

We offer a broad portfolio of pet medications and health and wellness products to our retail customers, including an array of products that we develop, manufacture and distribute. To continue to grow our pet Rx medication, OTC medications and other health and wellness product offerings, we invest in research and development on an ongoing basis. We use a combination of in-house specialists, third-party consultants and animal health research and development experts to expand our proprietary value-branded portfolio and develop next-generation versions of our current pet products.

In addition, we have harnessed our position to emerge as an attractive partner for outside research and development researchers and entrepreneurs developing new products and technologies in the strategic pet health and wellness field. We believe these scientists and entrepreneurs seek out our partnership on innovative products given our experience in proprietary value-branded manufacturing and relationships with key retail channel contacts. Our process of assessing partnerships with any outside research and development opportunity includes performing our own internal research and development review, testing and quality control procedures.

Channels

Traditional industry sales channels for pet Rx medications, OTC medications, and other health and wellness products include sales through the veterinarian, retail and e-commerce channels, depending primarily on the product involved.

Historically, pet Rx and flea and tick medications have been sold through veterinarian offices and, to a lesser extent, e-commerce. We have focused on making these products, as well as our proprietary value-branded products, available directly to consumers through retail outlets, which offer consumers access to these products at lower prices and in more convenient locations. Our retail channel sales are primarily concentrated in five sub-channels of retail: (i) food, drug and mass market sales (e.g., Walmart, Target and Kroger); (ii) club stores (e.g., Sam's Club, Costco Wholesale and BJ's Wholesale Club); (iii) pet specialty stores (e.g., PetSmart, Petco and independent pet stores); (iv) e-commerce (e.g., Chewy.com and Amazon.com); and (v) independent pharmacies. The Company will continue to grow its e-commerce business sales in line with total market growth in this channel by supporting its retail partners' channel strategies and partnering with leading online retailers.

We believe we are a key participant in the sales growth of pet medication products to the retail channel, with the additional benefit of having access to the veterinarian channel through solid relationships with established distributors.

Customers

Approximately 99% of our 2019 and 2018 net sales, and 98% of our 2017 net sales, were generated from customers located in the United States and Canada, with the remainder from foreign locations. Our customers are primarily national superstore chains, ecommerce retailers, and national pet superstore chains, such as Walmart, Sam's Club, Costco, PetSmart, Petco, Kroger, Target, Chewy.com, Amazon, and BJ's Wholesale Club. We supply each of these customers on a national basis. Our largest retail customers in 2019 were Chewy.com and Walmart, which represented 23% and 12%, respectively, of our net sales. Our largest retail customers in 2018 and 2017 were Walmart and Sam's Club, which represented 18% and 6%, respectively, of our net sales in 2018 and 30% and 16%, respectively, of our net sales in 2017. In addition, Anda Inc. ("Anda"), which distributes our products to pharmacies, accounted for 10% of our net sales in 2018, and 15% in 2017. No other customer accounted for more than 10% of our net sales in 2019, 2018, or 2017.

Additionally, we develop strong and lasting relationships with our pharmacy customers by promoting our product breadth and expertise, superb customer care and support. Pharmacy customers have a higher barrier to entry than other retail customers as they are a highly regulated segment of the retail channel. We believe that, because of such regulation, our pharmacy customers appreciate our focus on integrating our systems with theirs, including interfacing delivery schedules and traceability, which is a key requirement for any major pharmacy retailer. In addition, we try to continually strengthen our pharmacy relationships by providing a variety of value-added services to the pharmacies. These services may include computer programs, training opportunities and web-based customer support.

Finally, we believe that maintaining our level of customer care is critical in retaining and expanding our relationships with our key customers. Our in-house customer care representatives participate in ongoing training programs under the supervision of our training managers. These training sessions include a variety of topics such as product knowledge, computer usage and customer service tips. Our customer care representatives promptly respond to customer inquiries related to products, order status, prices and shipping. We believe that our customer care representatives are a valuable source of feedback regarding customer satisfaction.

Supply Chain

Proprietary Value-Branded Products

None of our suppliers for our proprietary value-branded products are individually significant. We believe there is ample available capacity, including of active pharmaceutical ingredients ("API"), for our value-added products, including at contract manufacturing organizations around the world. Our proprietary value-branded products are currently manufactured by us at our facilities in Omaha, Nebraska, Daytona Beach, Florida and Springville, Utah and through a network of manufacturing facilities owned and operated by contract manufacturing partners across the United States and in Europe. We expect that the combined capacities of our facilities and those of our contract manufacturing partners will meet our forecasted needs for our proprietary value-branded products for the foreseeable future.

Distributed Products

We purchase branded and other products that we distribute, but do not manufacture, from a variety of sources in the United States and Europe, including certain manufacturers and licensed distributors. We believe that having strong relationships with our suppliers will ensure the availability of an adequate volume of products ordered by our retail customers and will enable us to provide more and better product information.

Fulfillment, Warehousing and Shipping

To accomplish efficient fulfillment for Rx medication products across the United States into retail, we utilize our established medication distribution channels with our distribution partner, Anda. We have a multi-year contract with Anda, which automatically renews for successive two year terms.

For most products, our in-house fulfillment and distribution operations manage the entire supply chain, beginning with the placement of the order, continuing through order processing and then fulfilling and shipping of the product to the customer. All customer orders are processed by our customer service team. We inventory our products at, and fill most customer orders from, our distribution centers in Daytona Beach, Florida, Omaha, Nebraska and Springville, Utah. We also use third-party warehouse providers to fulfill a small amount of our orders. We ship our products using common carriers.

Product Quality and Safety

We believe that product safety and quality are critical. We have developed, implemented and enforced a robust product safety and quality program. We have established critical control points throughout the entire supply chain from ingredient sourcing to finished goods to ensure compliance with our quality program.

The food safety program at our Utah plant, where our pet treats are made, is certified at Safe Quality Food ("SQF") Level II (Food Safety) under Global Food Safety Initiative (GFSI) Benchmarks. To achieve this qualification level, our Utah facility has been built to comply with particular food safety specifications and allows for correct airflow to prevent cross-contamination, among other things. This qualification level also requires us to have certain standard operating procedures in place written to SQF code specifications, hold regular training seminars for manufacturing employees and maintain reporting documentation evidencing compliance with such standard operating procedures.

In addition, our food safety and quality program includes strict guidelines for incoming ingredients, batching, processing, packaging and finished goods. As part of our focus on food safety and quality, we have implemented batch and lot traceability controls across our manufacturing network, including at our manufacturing facilities, where such controls have been implemented into our enterprise resource planning system. These controls allow us to track and tie discreet, inbound raw material components through the manufacturing process to the ultimate finished product, allowing us to maintain and control all finished product lot details and quickly access process manufacturing details.

At the Florida facility where our Rx and OTC medications are held for distribution, we maintain a Veterinary Prescription Drug Wholesale Distributor license with the State of Florida Department of Business and Professional Regulation, which is the same government entity that regulates distribution facilities for human medications. In connection with our

maintenance of this license, the State of Florida conducts random inspections of our facility. To pass these inspections, we must demonstrate safety compliance at the highest standard, including maintaining correct plant temperatures and environmental controls.

As described above, we use contract manufacturers to produce certain of our proprietary value-branded products. To ensure product quality, consistency and safety standards, we actively monitor each contract manufacturer's operations through the standard operating procedures and facility audits described above.

At our Omaha location EPA and FDA regulated products are produced and packaged and distributed from our nearby state of the art distribution center. This includes dog and cat flea and tick spot-on, shampoo, collars, toothpaste and hairball paste. We have a robust quality management program that includes quality processes for the laboratory, incoming inspection, manufacturing and packaging inspections, supplier quality, change control, deviations, and corrective and preventative actions (CAPA). We manage customer interaction through our call centers and social media to ensure that products maintain the highest quality. All call data is tracked, trended and reviewed for signals that may indicate product quality issues. The Omaha site is inspected several times annually by external auditors and we perform annual internal audits and mock recalls. We have received high marks and consistently maintain compliance with cGMPs and retain certifications as required.

All of our contract manufacturing facilities are required to have quality control standard operating procedures in place. We require our contract manufacturing facilities to maintain third-party certifications and pass our own quality system and safety audits, and for FDA-regulated products, to comply with the Good Manufacturing Practices of the FDA. Third-party certifications provide an independent and external assessment that a product and/or process complies with applicable safety regulations and standards, though a regulatory authority may disagree with that assessment. In addition, our quality control team conducts reviews of all aspects of our supply chain to ensure that ingredients, finished goods and manufacturing processes meet our strict safety and quality requirements and that all of our ingredients are rigorously tested prior to being used in our products.

Any consumer may call our customer service line, where we have trained representatives on staff. Any call reporting an adverse event relating to our products is further addressed by our third-party vendor, SafetyCall, through its own on-site veterinarians. On a quarterly basis, we submit filings in accordance with the EPA specifications reporting any adverse event associated with our flea and tick products.

Marketing and Advertising

Our marketing strategy largely focuses on building awareness and educating pet owners about our various brands and products. To accomplish this goal, we use a combination of television, digital marketing (e.g. digital coupons, display ads, pay per click, email), social media marketing and in-store displays and promotions. Our marketing message highlights the quality and cost-savings our products offer customers such as our proprietary, value-branded flea and tick products that contain the same active ingredients as leading brands at lower prices.

Competition

The pet medication and health and wellness industry is highly competitive. In our Products segment, we compete on the basis of product quality, product availability, quality, palatability, loyalty and trust, product variety and ingredients, product packaging and design, shelf space, reputation and brand, price point and promotional efforts. We compete directly and indirectly with both manufacturers and distributors of pet medication and health and wellness products and online distributors, as well as with veterinarians. We directly face competition from companies that distribute various pet medications and pet health and wellness products to traditional retailers such as Bayer AG, Central Garden and Pet Company, Hartz (Unicharm Corp.), Mars, Inc. ("Mars"), Manna Pro, Nestlé S.A. ("Nestlè"), Spectrum Holdings, Promika LLC, Tevra Brands ("Tevra"), and The J.M. Smucker Company ("Smucker"), most of which are larger than we are and have greater financial resources. Similarly, we face intense competition from manufacturers who sell pet medications and pet health and wellness products to e-commerce and other retailers and to veterinarians, who compete directly with our retailers to offer consumers pet flea and tick and other pet health and wellness products.

Our retail customers compete with online retailers and veterinarians for the sale of Rx and OTC pet medications and other health and wellness products. Many pet owners may prefer the convenience of purchasing their pet medications or other health products during a veterinarian visit. In order to effectively compete with veterinarians, we and retail partners must continue to price competitively and to educate pet owners about the product availability, service and savings offered by purchasing pet medications and other health products in their retail stores.

Within our Services segment, we compete directly with veterinarians. Our primary competitors for our veterinary clinics in most markets are individual practitioners or small, regional multi-clinic practices. In addition, some national companies such as Banfield Pet Hospitals, VCA Animal Hospitals, or Petco are developing or have developed networks of veterinary clinics or hospitals in markets in which we currently operate.

Our Trademarks and Other Intellectual Property

We believe that our intellectual property is valuable and has contributed to the success of our business. Our primary trademarks include “PetIQ,” “PetArmor,” “VIP Petcare,” “VetIQ PetCare,” “VetIQ,” “Advecta,” “SENTRY,” “Sergeants,” “PetLock,” “Heart Shield Plus,” “TruProfen,” “Betsy Farms,” “PetAction,” “Minties,” “Vera” and “Delightibles” all of which are registered with the U.S. Patent and Trademark Office.We also have numerous other trademark registrations and pending applications, in the U.S., Canada and Europe, for product names that are central to our branding. Our trademarks are assets that reinforce our brand, our sub-brands and our consumers’ perception of our products. The current registrations of these trademarks in the U.S. and foreign countries are effective for varying periods of time and may be renewed periodically, provided that we, as the registered owner, or our licensees where applicable, comply with all applicable renewal requirements including, where necessary, the continued use of the trademarks in connection with the goods or services identified in the applicable registrations. In addition to trademark protection, we own numerous URL designations, including www.petarmor.com, www.vetiqpetcare.com, www.vippetcare.com, petvet.vippetcare.com, www.vetiq.com, www.advecta.com, www.sentrypetcare.com, www.sergeants.com, www.delightibles.com and www.mintiestreats.com, which are important to the successful implementation of our marketing and advertising strategy. We also have patents and pending patent applications for products, formulas and packaging that we consider important to our business. We rely on and carefully protect unpatented proprietary expertise, recipes and formulations, continuing innovation and other trade secrets to develop and maintain our competitive position. The contents of our websites are not intended to be incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

Government Regulation

Along with our contract manufacturers, ingredient and packaging suppliers and third-party shipping providers, we are subject to a broad range of laws and regulations, both in the U.S. and elsewhere, intended to protect public health and safety, natural resources and the environment. Our products and operations in the U.S. are subject to regulation by the FDA, the EPA, the Florida Department of Health and the USDA and by various other federal, state, local and foreign authorities regarding the registration, manufacturing, processing, packaging, storage, distribution, advertising, labeling and export of our products, including drug and food safety standards.

All Rx animal drugs are required to be approved by the FDA through either a New Animal Drug Application or, in the case of generic Rx animal drugs, an Abbreviated New Animal Drug Application (“ANADA”). Two of our proprietary value-branded products, TruProfen and Heart Shield Plus, have been approved by the FDA under ANADAs submitted to the FDA by third parties. We have agreements with these third parties that hold approved ANADAs to private label or proprietary value-branded products under such ANADAs. However, the third parties that hold the ANADAs are ultimately responsible for compliance with regulatory obligations associated with these products.

In addition, our foreign subsidiaries are subject to the laws of the United Kingdom, the Republic of Ireland and the European Union, as well as provincial and local regulations.

Under various statutes and regulations, these agencies and authorities, among other things, (i) prescribe the requirements for registration and establish the standards for quality and safety, (ii) regulate our marketing, advertising and sales to

consumers and (iii) control the importing and exporting of our products. Certain of these agencies, in certain circumstances, must not only approve our products, but also review the manufacturing processes and facilities used to produce these products before they can be marketed in the United States and elsewhere. In particular, certain of our pet products require EPA or FDA approval prior to marketing. To market such a regulated pet product, the regulatory agency must approve a new product, supported by data from animal safety and effectiveness studies that adequately demonstrate the safety and efficacy of that product in the target animal for the intended indication; or, in the case of generic versions of previously approved reference-listed pet products, the regulatory agency, supported by data to demonstrate, among other things, that the proposed generic product has the same active ingredients in the same concentration as the reference-listed product and is bioequivalent to the reference listed product. After approval, manufacturers are required to collect reports of adverse events and submit them on a regular basis to either the EPA or FDA. Some of the approved products we distribute are held by third parties with whom we contract to distribute those products under our own label.

We are subject to labor and employment laws, safety and health regulations and other laws, including those promulgated by the EPA and the National Labor Relations Board. Our operations, and those of our contract manufacturers, ingredient and packaging suppliers and third-party shipping providers, are subject to various laws and regulations relating to worker health and safety matters as well as environmental and natural resource protection, including the availability and use of pesticides, emissions and discharges to the environment, and the treatment, handling, storage and disposal of materials and wastes. We monitor changes in these laws and believe that we are in material compliance with applicable laws and regulations. No assurance can be given, however, that material costs and liabilities will not arise in the future, such as due to a change in the law or the discovery of currently unknown conditions.

Certain states have laws, rules and regulations which require that veterinary medical practices be either wholly-owned or majority-owned by licensed veterinarians and that corporations which are not wholly-owned or majority-owned by licensed veterinarians refrain from providing, or holding themselves out as providers of, veterinary medical care. In these states and provinces, we provide management and other administrative services to veterinary practices rather than owning such practices or providing such care. In some cases, in addition to providing management and administrative services we may lease the veterinary facility and equipment to the veterinary practice. Although we have structured our operations to comply with our understanding of the veterinary medicine laws of each state and province in which we operate, interpretive legal precedent and regulatory guidance varies by jurisdiction and is often sparse and not fully developed.

In addition, all of the states in which we operate impose various registration permit and/or licensing requirements. To fulfill these requirements, we have registered each of our facilities with appropriate governmental agencies and, where required, have appointed a licensed veterinarian to act on behalf of each facility. All veterinarians practicing in our animal wellness centers are required to maintain valid state licenses to practice.

Our Corporate Information

Our principal executive offices are located at 923 S. Bridgeway Place, Eagle, Idaho 83616. Our telephone number is 208-939-8900. The address of our corporate website is www.petiq.com, and our investor relations website is located at http://ir.petiq.com. The contents of our website are not intended to be incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

Available Information

Our Annual Reports on Form 10-K, annual proxy statements and related proxy cards are made available on our website at the same time they are mailed to stockholders. Our quarterly reports on Form 10-Q, periodic reports on Form 8-K and amendments to those reports that we file or furnish pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are available through our website, free of charge, as soon as reasonably practicable after they have been electronically filed or furnished to the SEC. Our website also provides access to reports filed by our directors, executive officers and certain significant shareholders pursuant to Section 16 of the Exchange Act. In addition, General Code of Ethics and charters for the committees of our board of directors are available on our website as well as other shareholder communications. The information contained in or that can be accessed through our website does not constitute a part of, and is not incorporated by reference into, this report. The SEC maintains an internet site

(http://www.sec.gov) that contains reports, proxy information statements and other information related to issuers that file electronically with the SEC.

Item 1A – Risk Factors

Our business, results of operations and financial condition may be materially adversely affected by a number of factors, including the following:

Risks Related to Our Business and Industry

We may seek to grow our business through acquisitions of or investments in new or complementary businesses, facilities, technologies or products, or through strategic alliances, and the failure to manage acquisitions, investments or strategic alliances, or the failure to integrate them with our existing business, could have a material adverse effect on us.

From time to time we may consider opportunities to acquire or make investments in new or complementary businesses, facilities, technologies or products, or enter into strategic alliances, that may enhance our capabilities, expand our manufacturing network, complement our current products or expand the breadth of our markets. Potential and completed acquisitions and investments and other strategic alliances involve numerous risks, including:

- problems integrating the purchased business, facilities, technologies or products;
- issues maintaining uniform standards, procedures, controls and policies;
- unanticipated costs associated with acquisitions, investments or strategic alliances;
- diversion of management's attention from our existing business;
- adverse effects on existing business relationships with suppliers, contract manufacturers, and retail customers;
- risks associated with entering new markets in which we have limited or no experience;
- potential loss of key employees of acquired businesses; and
- increased legal and accounting compliance costs.

We do not know if we will be able to identify acquisitions or strategic relationships we deem suitable, whether we will be able to successfully complete any such transactions on favorable terms or at all or whether we will be able to successfully integrate any acquired business, facilities, technologies or products into our business or retain any key personnel, suppliers or customers. Our ability to successfully grow through strategic transactions depends upon our ability to identify, negotiate, complete and integrate suitable target businesses, facilities, technologies and products and to obtain any necessary financing. These efforts could be expensive and time-consuming and may disrupt our ongoing business and prevent management from focusing on our operations. If we are unable to integrate any acquired businesses, facilities, technologies and products effectively, our business, results of operations and financial condition could be materially adversely affected.

Completed acquisitions may result in additional goodwill and/or an increase in other intangible assets on our balance sheet. We are required annually, or as facts and circumstances exist, to test goodwill and other intangible assets to determine if impairment has occurred. If the testing performed indicates that impairment has occurred, we are required to record a non-cash impairment charge for the difference between the carrying value of the goodwill or other intangible assets and the implied fair value of the goodwill or the fair value of other intangible assets in the period the determination is made. We determined there was no impairment in 2019, 2018 and 2017; however, we cannot accurately predict the amount and timing of any impairment of assets. Should the value of goodwill or other intangible assets become impaired, there could be a material adverse effect on our financial condition and results of operations.

We are dependent on a relatively limited number of customers for a significant portion of our net sales.

Our largest retail customers in 2019 were Chewy.com and Walmart, which accounted for 22% and 12%, respectively, of our net sales. Our largest retail customers in 2018 and 2017 were Walmart and Sam's Club, which accounted for 18% and 6% of sales, respectively, in 2018 and 30% and 16% of our net sales, respectively, in 2017. No other retail customer has

accounted for 10% or more of our net sales for these periods. In addition, Anda, which distributes our products to pharmacies, accounted for less than 10%, 10% and 15% of our net sales in 2019, 2018, and 2017, respectively. If we were to lose any of our key customers, if any of our key customers reduce the amount of their orders or if any of our key customers consolidate, reduce their store footprint and/or gain greater market power, our business, financial condition and results of operations may be materially adversely affected. We may be similarly adversely impacted if any of our key customers experience any financial or operational difficulties or generate less traffic.

In addition, we generally do not enter into long-term contracts with our retail customers. As a result, we rely on consumers' continuing demand for our products and our position in the market for all purchase orders. Our customers are sophisticated and have the ability to replace our proprietary value brands with various other supply options if we do not compete aggressively for their business. If our retail customers change their pricing, margin expectations or business terms (including through the imposition of warehouse and other fees), change their business strategies as a result of industry consolidation or otherwise, reduce the number of brands or product lines they carry, decrease their advertising or promotional efforts for, or the amount of shelf space they allocate to, our products or allocate greater shelf space to other products, our net sales could decrease and our business, financial condition and results of operations may be materially adversely affected.

We may not be able to successfully implement our growth strategy on a timely basis or at all.

Our future success depends, in large part, on our ability to implement our growth strategy, including introducing products and expanding into new markets, attracting new consumers to our brand and sub-brands, improving placement of our products in the stores of our retail customers, and expanding our distribution and online sales through our retail partners. In addition, our growth strategy includes expanding and increasing profitability of our veterinary mobile clinics and wellness centers. Our ability to implement this growth strategy depends, among other things, on our ability to:

- develop new proprietary value-branded products and product line extensions that appeal to consumers;
- continue to effectively compete in our industry;
- increase our brand and sub-brand recognition by effectively implementing our marketing strategy and advertising initiatives;
- maintain and, to the extent necessary, improve our high standards for product quality, safety and integrity;
- expand and maintain brand and sub-brand loyalty;
- secure shelf space and wellness center space in the stores of our retail customers;
- increase profitability of our mobile clinics or wellness centers; and
- enter into distribution and other strategic arrangements with traditional retailers and other potential distributors of our products.

We may not be able to successfully implement our growth strategy and may need to change our strategy in order to maintain our growth. If we fail to implement our growth strategy or if we invest resources in a growth strategy that ultimately proves unsuccessful, our business, financial condition and results of operations may be materially adversely affected.

We may be unsuccessful in opening new retail wellness centers, which could adversely affect our growth

One of the key means to achieving our growth strategy is through opening new retail clinics, both wellness centers and mobile clinics, and operating those on a profitable basis. During 2019, we have opened 80 new wellness centers within retail partners and we plan to open an additional 130 wellness centers in 2020 with an expected 1,000 wellness centers by the end of 2023. Our ability to open new retail clinics is dependent upon a number of factors, many of which are beyond our control, including our ability to:

- identify locations and retail partners that can support our wellness centers;
- compete for sites;
- reach acceptable lease or host arrangement terms;

- hire, train, and retain the skilled veterinarians and skilled employees necessary to staff the clinics and wellness centers;
- obtain, in a timely manner and for an acceptable cost, required licenses, permits, and regulatory approvals;
- respond effectively to any changes in local, state, and federal law and regulations that adversely affect our ability to open new wellness centers or clinics; and
- control construction and other launch costs to open the wellness centers and clinics.

There is no guarantee that a sufficient number of suitable sites or hosts will be available in desirable areas or on terms that are acceptable to us in order to achieve our growth plan. If we are unable to open new wellness centers, or if openings are significantly delayed, our earnings or revenue growth and our business could be materially and adversely affected, as we expect a portion of our growth to come from new locations.

As part of our longer-term growth strategy, we may enter into geographic markets in which we have little or no prior operating history. The challenges of entering new markets include (i) difficulties in hiring experienced personnel, (ii) lack of familiarity with local real estate markets and demographics, (iii) lack of consumer familiarity with our brand, and (iv) competitive and economic conditions, and discretionary spending patterns that are different from and more difficult to predict or satisfy than in our existing markets. In addition, wellness centers that we open in new markets may take longer to reach expected sales and profit levels on a consistent basis, and may have higher construction, occupancy, and operating costs, than wellness centers that we open in existing markets, thereby affecting our overall profitability. Any failure on our part to recognize or respond to these challenges may adversely affect the success of any new wellness centers.

If we continue to grow rapidly, we may not be able to manage our growth effectively.

Our historical rapid growth has placed and, if continued, may continue to place significant demands on our management and our operational and financial resources. Our organizational structure may become more complex as we add additional staff, and we would likely require more resources to grow and continue to improve our operational, management and financial controls. If we are not able to manage our growth effectively, our business, financial condition and results of operations may be materially adversely affected.

We currently purchase our distributed Rx and OTC medications from manufacturers and licensed distributors. We do not have a long term guaranteed supply of medications at pre-established prices for the majority of our products.

We currently do not manufacture the vast majority of our branded products that we distribute and we are depending on certain manufacturers and licensed distributors for our supply of products. We cannot guarantee that we will be able to purchase an adequate supply of Rx and OTC medications from manufacturers and licensed distributors to meet our customers' demands, or that we will be able to purchase these medications at competitive prices. As these medications represent a significant portion of our net sales, our failure to fill customer orders for these medications could adversely impact our net sales. If we are forced to pay higher prices for these medications to ensure an adequate supply, we cannot guarantee that we will be able to pass along to our customers any increases in the prices we pay for these medications. Manufacturers may also decide to compete further with us by pursuing or increasing their efforts in direct marketing and sales of their products. These manufacturers can sell their products at lower prices and maintain a higher gross margin on their product sales than we can. In this event, retailers may elect to purchase Rx and OTC medications directly from those manufacturers. Additionally, in the event that the manufacturers of these Rx and OTC medications take action to prohibit our licensed distributors from selling such medications to us entirely, or dictate the pricing at which our licensed distributors sell such medications to us or that our retail customers sell such medications to end consumers, our financial condition and results of operations could be materially and adversely affected.

We operate in a highly competitive industry and may lose market share or experience margin erosion if we are unable to compete effectively.

The pet products and services retail industry is highly competitive. In our Products segment, we compete on the basis of product quality, product availability, quality, palatability, loyalty and trust, product variety and ingredients, product packaging and design, shelf space, reputation and brand, price point and promotional efforts. We compete directly and

indirectly with both manufacturers and distributors of pet medication and health and wellness products and online distributors, as well as with veterinarians. We directly face competition from companies that distribute various pet medications and pet health and wellness products to traditional retailers such as Bayer AG, Central Garden and Pet Company, Hartz (Unicharm Corp.), Mars, Inc., Meridian Animal Health, Nestlé S.A, Promika LLC, Tevra Brands, and The J.M. Smucker Company, most of which are larger than we are and have greater financial resources. Similarly, we face intense competition from manufacturers who sell pet medications and pet health and wellness products to e-commerce and other retailers and to veterinarians, who compete directly with our retailers to offer consumers pet flea and tick and other pet health and wellness products.

Our retail customers compete with online retailers and veterinarians for the sale of Rx and OTC pet medications and other health and wellness products. Many pet owners may prefer the convenience of purchasing their pet medications or other health products during a veterinarian visit. In order to effectively compete with veterinarians, we and retail partners must continue to price competitively and to educate pet owners about the product availability, service and savings offered by purchasing pet medications and other health products in their retail stores.

Within our Services segment, we compete directly with veterinarians. Our primary competitors for our veterinary clinics in most markets are individual practitioners or small, regional multi-clinic practices. In addition, some national companies such as Banfield Pet Hospitals, VCA Animal Hospitals, or Petco are developing or have developed networks of veterinary clinics in markets in which we currently operate.

These competitors may be able to identify and adapt to changes in consumer preferences more quickly than us due to their resources and scale. They may also be more successful in marketing and selling their products, better able to increase prices to reflect cost pressures and better able to increase their promotional activity, which may impact us and the entire pet health and wellness industry. If these or other competitive pressures cause our products to lose market share or experience margin erosion, our business, financial condition and results of operations may be materially adversely affected.

We face significant competition from veterinarians and may not be able to compete profitably with them.

We compete directly with veterinarians for the sale of pet medications and other health and wellness products. Veterinarians hold a competitive advantage over us because many pet owners may find it more convenient or preferable to purchase these products directly from their veterinarians at the time of an office visit. In addition, we now operate veterinary clinics and manage a significant number of veterinarians, both as employees and as independent contractors, and now compete directly with the veterinarians for the provision of veterinarian services. In order to effectively compete with veterinarians in the future, we may be required to incur additional costs for marketing, promotions and other incentives, which may result in lower operating margins and adversely affect the results of operations.

Resistance from veterinarians to authorize prescriptions, or attempts/efforts on their part to discourage pet owners to purchase from retailers and pharmacies could cause our net sales to decrease and could materially adversely affect our financial condition and results of operations.

Since we began our operations, some veterinarians have resisted providing, or simply refuse to provide, pet owners with a copy of their pet's prescription or authorizing the prescription to an outside pharmacy, thereby effectively preventing outside pharmacies from filling such prescriptions under state law. We have also been informed by customers and consumers that veterinarians on certain occasions have tried to discourage pet owners from purchasing from the retail channel. If the number of veterinarians who refuse to authorize prescriptions should increase, or if veterinarians are successful in discouraging pet owners from purchasing from outside retailers and pharmacies, our net sales could decrease and our financial condition and results of operations may be materially adversely affected.

Any damage to our reputation or our brand or sub-brands may materially adversely affect our business, financial condition and results of operations.

Maintaining, developing and expanding our reputation with consumers, our retail customers and our suppliers is critical to our success. Our brand and sub-brands may suffer if our marketing plans or product initiatives are not successful. The importance of our brand and sub-brands may decrease if competitors offer more products with formulations similar to the

products that we manufacture. Further, our brand and sub-brands may be negatively impacted due to real or perceived quality issues or if consumers perceive us as being untruthful in our marketing and advertising, even if such perceptions are not accurate. Product contamination, the failure to maintain high standards for product quality, safety and integrity, including raw materials and ingredients obtained from suppliers, or allegations of product quality issues, mislabeling or contamination, even if untrue or caused by our contract manufacturing partners or raw material suppliers, may reduce demand for our products or cause production and delivery disruptions. We maintain guidelines and procedures to ensure the quality, safety and integrity of our products. However, we may be unable to detect or prevent product and/or ingredient quality issues, mislabeling or contamination, particularly in instances of fraud or attempts to cover up or obscure deviations from our guidelines and procedures. If any of our products become unfit for consumption, cause injury or are mislabeled, we may have to engage in a product recall and/or be subject to liability. Damage to our reputation or our brand or sub-brands or loss of consumer confidence in our products for any of these or other reasons could result in decreased demand for our products and our business, financial condition and results of operations may be materially adversely affected.

Our growth and business are dependent on trends that may change, and our historical growth may not be indicative of our future growth.

The growth of our business depends primarily on the continued shift from consumers purchasing pet health and wellness products from veterinarians to purchasing such products through traditional retail channels, growth of the pet health and wellness products market and popularity of pet ownership, transitions from traditional veterinarians to mobile clinics and wellness centers, as well as on general economic conditions. These trends may not continue or may change. In the event of a decline in consumers purchasing pet health and wellness products through traditional retail channels, a change in pet health and wellness trends or a decrease in the overall number of pets, or during challenging economic times, we may be unable to persuade our retail customers and consumers to purchase our products, and our business, financial condition and results of operations may be materially adversely affected and our growth rate may slow or stop.

There may be decreased spending on pets in a challenging economic climate.

The United States has from time to time experienced challenging economic conditions, and the global financial markets have recently undergone and may continue to experience significant volatility and disruption. Our business, financial condition and results of operations may be materially adversely affected by a challenging economic climate, including adverse changes in interest rates, volatile commodity markets and inflation, contraction in the availability of credit in the market and reductions in consumer spending. The keeping of pets and the purchase of pet-related products may constitute discretionary spending for some consumers and any material decline in the amount of consumer discretionary spending may reduce overall levels of pet ownership or spending on pets. As a result, a slow-down in the general economy may cause a decline in demand for our products. In addition, we cannot predict how worsening economic conditions would affect our retail customers and suppliers, generally. If economic conditions result in decreased spending on pets and have a negative impact on our retail customers and suppliers, our business, financial condition and results of operations may be materially adversely affected.

Our business depends, in part, on the sufficiency and effectiveness of our marketing and trade promotion programs and incentives.

Due to the competitive nature of our industry, we must effectively and efficiently promote and market our products through television, internet and print advertisements as well as through trade promotions and incentives to sustain and improve our competitive position in our market. Marketing investments may be costly. In addition, we may, from time to time, change our marketing strategies and spending, including the timing or nature of our trade promotions and incentives. We may also change our marketing strategies and spending in response to actions by our customers, competitors and other companies that manufacture and/or distribute pet health and wellness products. The sufficiency and effectiveness of our marketing and trade promotions and incentives are important to our ability to retain and improve our market share and margins. If our marketing and trade promotions and incentives are not successful or if we fail to implement sufficient and effective marketing and trade promotions and incentives or adequately respond to changes in industry marketing strategies, our business, financial condition and results of operations may be adversely affected.

If our products or services are alleged to cause injury or illness or our products fail to comply with governmental regulations, we may need to recall our products and/or may experience related claims and reputational damage.

Our products may be subject to product recalls, including voluntary recalls or withdrawals, if they are alleged to pose a risk of injury or illness, or if they are alleged to have been mislabeled, misbranded or adulterated or to otherwise be in violation of governmental regulations. We may also voluntarily recall or withdraw products in order to protect our brand or reputation if we determine that they do not meet our standards, whether for quality, palatability, appearance or otherwise. If there is any future product recall or withdrawal, it could result in substantial and unexpected expenditures, destruction of product inventory, damage to our reputation and lost sales due to the unavailability of the product for a period of time, and our business, financial condition and results of operations may be materially adversely affected. In addition, a product recall or withdrawal may require significant management attention and could result in enforcement action by regulatory authorities.

We also may be subject to product liability claims if the consumption or use of our products is alleged to cause injury or illness. Although we carry product liability insurance, our insurance may not be adequate to cover all liabilities that we may incur in connection with product liability claims. For example, punitive damages are generally not covered by insurance. If we are subject to substantial product liability claims in the future, we may not be able to continue to maintain our existing insurance, obtain comparable insurance at a reasonable cost, if at all, or secure additional coverage. This could result in future product liability claims being uninsured. If there is a product liability judgment against us or a settlement agreement related to a product liability claim, our business, financial condition and results of operations may be materially adversely affected. In addition, even if product liability claims against us are not successful or are not fully pursued, these claims could be costly and time-consuming and may require management to spend time defending claims rather than operating our business.

Additionally, we may be subject to claims for veterinary malpractice or negligence in the event as a result of services provided by our veterinarians. Although we carry appropriate insurance, our insurance may not be adequate to cover all liabilities that we may incur in connection with veterinary malpractice or negligence claims. Additionally, any such claims may result in reputational damage to our services segment and our business, financial condition and results of operations may be materially adversely affected.

To the extent our retail customers purchase products in excess of consumer consumption in any period, our net sales in a subsequent period may be adversely affected as our retail customers seek to reduce their inventory levels.

From time to time, our retail customers may purchase more products than they expect to sell to consumers during a particular time period. Our retail customers may grow their inventory in anticipation of, or during, our promotional events, which typically provide for reduced prices during a specified time or other incentives. Our retail customers may also increase inventory in anticipation of a price increase for our products, or otherwise over-order our products as a result of overestimating demand for our products. If a retail customer increases its inventory during a particular reporting period as a result of a promotional event, anticipated price increase or otherwise, then our net sales during the subsequent reporting period may be adversely impacted as our retail customers seek to reduce their inventory to customary levels. This effect may be particularly pronounced when the promotional event, price increase or other event occurs near the end or beginning of a reporting period or when there are changes in the timing of a promotional event, price increase or similar event, as compared to the prior year. To the extent our retail customers seek to reduce their usual or customary inventory levels or change their practices regarding purchases in excess of consumer consumption, our net sales and results of operations may be materially adversely affected in that or subsequent periods.

We may not be able to manage our manufacturing and supply chain effectively, which may adversely affect our results of operations.

We must accurately forecast demand for all of our products in order to ensure that we have enough products available to meet the needs of our retail customers. Our forecasts are based on multiple assumptions that may cause our estimates to be inaccurate and affect our ability to obtain adequate manufacturing capacity (whether our own manufacturing capacity or contract manufacturing capacity) in order to meet the demand for our proprietary value-branded products, which could prevent us from meeting increased retail customer or consumer demand and harm our brand, our sub-brands and our

business. If we do not accurately align our manufacturing capabilities with demand, our business, financial condition and results of operations may be materially adversely affected.

If for any reason we were to change any one of our contract manufacturers, we could face difficulties that might adversely affect our ability to maintain an adequate supply of our proprietary value-branded products, and we would incur costs and expend resources in the course of making the change. Moreover, we might not be able to obtain terms as favorable as those received from our current contract manufacturers, which in turn would increase our costs.

In addition, we must continuously monitor our inventory and product mix against forecasted demand. If we underestimate demand, we risk having inadequate supplies. We also face the risk of having too much inventory on hand that may reach its expiration date and become unsalable, and we may be forced to rely on markdowns or promotional sales to dispose of excess or slow-moving inventory. If we are unable to manage our supply chain effectively, our operating costs could increase and our profit margins could decrease.

Shipping is a critical part of our business and any changes in, or disruptions to, our shipping arrangements could adversely affect our business, financial condition, and results of operations.

We currently rely on third-party national and regional logistics providers to deliver products to our manufacturing and distribution warehouses from our third-party suppliers and contract manufacturers and to deliver products from our manufacturing and distribution warehouses to our retail customers. If we are not able to negotiate acceptable pricing and other terms with these providers, or if these providers experience performance problems or other difficulties in processing our orders or delivering our products, it could negatively impact our results of operations and our customers' experience. For example, changes to the terms of our shipping arrangements may adversely impact our margins and profitability. In addition, our ability to receive inbound inventory efficiently and ship merchandise to our retail customers may be negatively affected by factors beyond our and these providers' control, including inclement weather, fire, flood, power loss, earthquakes, acts of war or terrorism or other events specifically impacting our or other shipping partners, such as labor disputes, financial difficulties, system failures and other disruptions to the operations of the shipping companies on which we rely. We are also subject to risks of damage or loss during delivery by our shipping vendors. If any of the foregoing occurs, our business, financial condition and results of operations may be materially adversely affected.

The growth of our business depends in part on our ability to accurately predict consumer trends, successfully introduce new products and improve existing products, and expand into new offerings.

Our growth depends, in part, on our ability to successfully introduce new products, including our manufactured products, and improve and reposition our existing products to meet the requirements of our retail partners and those of pet parents. This, in turn, depends on our ability to predict and respond to evolving consumer trends, demands and preferences. The success of our innovation and product development efforts is affected by the technical capability of our product development staff and third-party consultants in developing and testing new products, including complying with governmental regulations, our attractiveness as a partner for outside research and development scientists and entrepreneurs and the success of our management and sales team in introducing and marketing new products.

We may be unable to determine with accuracy when or whether any of our products now under development will be approved or launched, and we may be unable to develop or otherwise acquire product candidates or products. Additionally, we cannot predict whether any such products, once launched, will be commercially successful. Furthermore, the timing and cost of our R&D initiatives may increase as a result of additional government regulation or otherwise, making it more time-consuming and/or costly to research, test and develop new products. If we are unable to successfully develop or otherwise acquire new products, our financial condition and results of operations may be materially adversely affected.

Failure to protect our intellectual property could harm our competitive position or require us to incur significant expenses to enforce our rights.

Our success depends in part on our ability to protect our intellectual property rights. Our trademarks such as *"PetIQ," "VetIQ," "Advecta," "PetLock," "Heart Shield Plus," "TruProfen," "Betsy Farms," "PetAction," "Minties," "Vera," "PetArmor" and "Delightibles"* and others are assets that support our brand, sub-brands and consumers' perception of

our products. We rely on trademark, copyright, trade secret, patent and other intellectual property laws, as well as nondisclosure and confidentiality agreements and other methods, to protect our trademarks, trade names, proprietary information, technologies and/or processes. Our non-disclosure agreements and confidentiality agreements may not effectively prevent disclosure of our proprietary information, technologies and processes and may not provide an adequate remedy in the event of unauthorized disclosure of such information, which could harm our competitive position. In addition, effective patent, copyright, trademark and trade secret protection may be unavailable or limited for some of our intellectual property rights and trade secrets in foreign countries. We may need to engage in litigation or similar activities to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of proprietary rights of others. Any such litigation could require us to expend significant resources and divert the efforts and attention of our management and other personnel from our business operations. If we fail to protect our intellectual property, our business, financial condition and results of operations may be materially adversely affected.

We may be subject to intellectual property infringement claims or other allegations, which could result in substantial damages and diversion of management's efforts and attention.

We have obligations to respect third-party intellectual property. The steps we take to prevent misappropriation, infringement or other violation of the intellectual property of others may not be successful. From time to time, third parties have asserted intellectual property infringement claims against us, our suppliers, or our retail customers and may continue to do so in the future. Although we believe that our products and manufacturing processes do not infringe in any material respect upon proprietary rights of other parties and/or that meritorious defenses would exist with respect to any assertions of infringement of other parties, we may from time to time be found to infringe on the proprietary rights. For example, patent applications in the United States and some foreign countries are generally not publicly disclosed until the patent application is published, and we may not be aware of currently filed patent applications that relate to our products or processes. If patents later issue on these applications, we may be found liable for subsequent infringement. Such claims that our products or processes infringe these rights, regardless of their merit or resolution, could be costly and may divert the efforts and attention of our management and technical personnel. In part due to the complex technical issues and inherent uncertainties in intellectual property litigation, we cannot predict whether we will prevail in such proceedings. If such proceedings result in an adverse outcome, we could, among other things, be required to:

- Pay substantial damages (potentially treble damages in the United States);
- cease the manufacture, use or sale of the infringing products;
- discontinue the use of the infringing processes;
- expend significant resources to develop non-infringing processes;
- expend significant resources to litigate matters or to develop non-infringing processes; and
- enter into licensing arrangements with the third party claiming infringement, which may not be available on commercially reasonable terms, or may not be available at all.

If any of the foregoing occurs, our ability to compete could be affected and our business, financial condition and results of operations may be materially adversely affected.

Adverse litigation judgments or settlements resulting from legal proceedings relating to our business operations could materially adversely affect our business, financial condition and results of operations.

From time to time, we are subject to allegations, and may be party to legal claims and regulatory proceedings, relating to our business operations. Such allegations, claims and proceedings may be brought by third parties, including our customers, employees, governmental or regulatory bodies or competitors. Defending against such claims and proceedings, regardless of their merits or outcomes, is costly and time consuming and may divert management's attention and personnel resources from our normal business operations, and the outcome of many of these claims and proceedings cannot be predicted. If any of these claims or proceedings were to be determined adversely to us, a judgment, a fine or a settlement involving a payment of a material sum of money were to occur, or injunctive relief were issued against us, our reputation could be affected and our business, financial condition and results of operations could be materially adversely affected.

A failure of one or more key information technology systems, networks or processes may materially adversely affect our ability to conduct our business.

The efficient operation of our business depends on our information technology systems. We rely on our information technology systems to effectively manage our sales and marketing, accounting and financial and legal and compliance functions, engineering and product development tasks, research and development data, communications, supply chain, order entry and fulfillment and other business processes. We also rely on third parties and virtualized infrastructure to operate and support our information technology systems. The failure of our information technology systems to perform as we anticipate could disrupt our business and could result in transaction errors, processing inefficiencies and the loss of sales and customers, causing our business and results of operations to suffer.

In addition, our information technology systems may be vulnerable to damage or interruption from circumstances beyond our control, including fire, natural disasters, power outages, systems failures, security breaches, cyberattacks and computer viruses. The failure of our information technology systems to perform as a result of any of these factors or our failure to effectively restore our systems or implement new systems could disrupt our entire operation and could result in decreased sales, increased overhead costs, excess inventory and product shortages and a loss of important information. Further, to the extent that we have customer information in our databases, any unauthorized disclosure of, or access to, such information could result in claims under data protection laws and regulations and could damage our reputation and result in lost sales. If any of these risks materialize, our reputation and our ability to conduct our business may be materially adversely affected.

We are subject to extensive and ongoing governmental regulation and we may incur material costs in order to comply with existing or future laws and regulations, and our failure to comply may result in enforcement, recalls and other adverse actions or significant penalties.

We are subject to a broad range of federal, state, local and foreign laws and regulations intended to protect public health and safety, natural resources and the environment. See “Business—Government Regulation.” Our operations are subject to extensive and ongoing regulation by the FDA, EPA, the U.S. Department of Agriculture (the “USDA”), the Florida Department of Health and by various other federal, state, local and foreign authorities regarding the manufacturing, processing, packaging, storage, distribution, advertising, labeling and import and export of our products, including drug and food safety standards. Our operations also are subject to regulation regarding the availability and use of pesticides, emissions and discharges to the environment, and the treatment, handling, storage and disposal of materials and wastes. Many of these laws and regulations are becoming increasingly stringent and compliance with them is becoming increasingly expensive. Costs of compliance, and the impacts on us of any non-compliance, with any such laws and regulations could materially adversely affect our business, financial condition and results of operations.

Later discovery of previously unknown problems with a product, including adverse events of unanticipated severity or frequency, or with our third-party manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may result in, among other things:

- restrictions on the marketing or manufacturing of the product, withdrawal of the product from the market, or voluntary or mandatory product recalls;
- fines, warning letters or holds on target animal studies;
- refusal by applicable regulatory authorities to approve pending applications or supplements to approved applications, or suspension or revocation of product approvals;
- product seizure or detention, or refusal to permit the import or export of products; and
- injunctions or the imposition of civil or criminal penalties.

Regulatory policies may change and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of any current or future product candidates. We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain

regulatory compliance, we may lose any marketing approval that we may have obtained, which would adversely affect our business.

Our business is also affected by export and import controls and similar laws and regulations, both in the United States and elsewhere. Issues such as national security or health and safety, which may slow or otherwise restrict imports or exports, may adversely affect our business, financial condition and results of operations.

Violations of or liability under any of these laws and regulations may result in administrative, civil or criminal fines or penalties against us, revocation or modification of applicable permits, environmental investigations or remedial activities, voluntary or involuntary product recalls, warning or untitled letters or cease and desist orders against or restrictions on operations that are not in compliance, among other things. Liability may be imposed under some laws and regulations regardless of fault or knowledge and regardless of the legality of the original action. These laws and regulations, or their interpretation, may change in the future and we may incur (directly, or indirectly through our contract manufacturers) material costs to comply with current or future laws and regulations or in any required product recalls.

Certain states have laws, rules and regulations which require that veterinary medical practices be owned by licensed veterinarians and that corporations which are not owned by licensed veterinarians refrain from providing, or holding themselves out as providers of, veterinary medical care. We may experience difficulty in expanding our operations into other states or provinces with similar laws, rules and regulations. Although we have structured our operations to comply with our understanding of the veterinary medicine laws of each state and province in which we operate, interpretive legal precedent and regulatory guidance varies by jurisdiction and is often sparse and not fully developed. A determination that we are in violation of applicable restrictions on the practice of veterinary medicine in any jurisdiction in which we operate, could have a material adverse effect on us, particularly if we are unable to restructure our operations to comply with the requirements of that jurisdiction.

All of the states in which we operate impose various registration permit and/or licensing requirements. To fulfill these requirements, we have registered each of our facilities with appropriate governmental agencies and, where required, have appointed a licensed veterinarian to act on behalf of each facility. All veterinarians practicing in our animal hospitals are required to maintain valid state licenses to practice.

Failure to comply with federal, state and international laws and regulations relating to permit and/or licensing requirements, or the expansion of existing or the enactment of new laws or regulation relating to permit and/or licensing requirements, could adversely affect our business and our financial condition.

We strive to comply with all applicable laws, regulations and other legal obligations relating to permit and/or licensing requirements. It is possible, however, that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another or may conflict with other rules or our practices. We cannot guarantee that our practices have complied, comply or will comply fully with all such laws, regulations, requirements and obligations. Any failure, or perceived failure, by us to comply with our filed permits and licenses with any applicable federal, state or international related laws, industry standards or codes of conduct, regulatory guidance, orders to which we may be subject or other legal obligations relating to privacy or consumer protection could adversely affect our reputation, brand and business, and may result in claims, proceedings or actions against us by governmental entities or others or other liabilities. Any such claim, proceeding or action could hurt our reputation, brand and business, force us to incur significant expenses in defense of such proceedings, distract our management, increase our costs of doing business, result in a loss of customers and suppliers and may result in the imposition of monetary liability. We may also be contractually liable to indemnify and hold harmless third parties from the costs or consequences of non-compliance with any laws, regulations or other legal obligations relating to permit and/or licensing requirements. In addition, various federal, state and foreign legislative and regulatory bodies may expand existing laws or regulations, enact new laws or regulations or issue revised rules or guidance regarding permit and/or licensing requirements. Any such changes may force us to incur substantial costs or require us to change our business practices. This could compromise our ability to pursue our growth strategy effectively and may adversely affect our ability to acquire customers or otherwise harm our business, financial condition and results of operations.

If we fail to comply with governmental regulations applicable to our business, various governmental agencies may impose fines, institute litigation or preclude us from operating in certain states.

Certain states and provinces have laws, rules and regulations which require that veterinary medical practices be owned by licensed veterinarians and that corporations which are not owned by licensed veterinarians refrain from providing, or holding themselves out as providers of, veterinary medical care. We may experience difficulty in expanding our operations into other states or provinces with similar laws, rules and regulations. Although we have structured our operations to comply with our understanding of the veterinary medicine laws of each state in which we operate, interpretive legal precedent and regulatory guidance varies by jurisdiction and is often sparse and not fully developed. A determination that we are in violation of applicable restrictions on the practice of veterinary medicine in any jurisdiction in which we operate, could have a material adverse effect on us, particularly if we are unable to restructure our operations to comply with the requirements of that jurisdiction. All of the states in which we operate impose various registration requirements. To fulfill these requirements, we have registered each of our facilities with appropriate governmental agencies and, where required, have appointed a licensed veterinarian to act on behalf of each facility. All veterinarians practicing in our animal hospitals are required to maintain valid state licenses to practice.

Our success depends on our ability to attract and retain key employees and the succession of senior management.

Our continued growth and success requires us to hire, retain and develop our leadership team. If we are unable to attract and retain talented, highly qualified senior management and other key executives, as well as provide for the succession of senior management, our growth and results of operations may be adversely impacted.

We may experience difficulties hiring skilled veterinarians due to shortages that could disrupt our business.

From time to time we may experience shortages of skilled veterinarians in markets in which we operate mobile clinics and wellness centers, which may require us to enhance wages and benefits to recruit and retain enough qualified veterinarians to adequately staff mobile clinics and wellness centers. If we are unable to recruit and retain qualified veterinarians, or to control our labor costs, our business, financial conditions and results of operations may be materially adversely affected.

We have incurred net losses in the past and may be unable to sustain profitability in the future.

We incurred a net loss of $14.3 million for the year ended December 31, 2019. As of December 31, 2019, we had an accumulated deficit of $36.6 million, including the operations of PetIQ Holdings, LLC (“Holdco”) prior to our IPO. We expect to continue to incur significant product commercialization and regulatory, sales and marketing, clinic opening, and other expenses. In addition, our general and administrative expenses increased following the acquisitions of Perrigo Animal Health and VIP to support the larger combined Company and product portfolio. The net income we earn may fluctuate significantly from quarter to quarter. We will need to generate additional net sales or increased gross margin to sustain profitability, and we cannot be sure that we will remain profitable for any substantial period of time. Our failure to maintain profitability could negatively impact the value of our Class A common stock.

If our cash from operations is not sufficient to meet our current or future operating needs, expenditures and debt service obligations, our business, financial condition and results of operations may be materially adversely affected.

Our ability to generate cash to meet our operating needs, expenditures and debt service obligations will depend on our future performance and financial condition, which will be affected by financial, business, economic, legislative, regulatory and other factors, including potential changes in costs, pricing, the success of product innovation and marketing, competitive pressure and consumer preferences. If our cash flow and capital resources are insufficient to fund our debt service obligations and other cash needs, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness. Our credit facility restricts our ability to take these actions and we may not be able to affect any such alternative measures on commercially reasonable terms or at all. If we cannot make scheduled payments on our debt, the lenders under our senior secured credit facilities can terminate their commitments to loan money, can declare all outstanding principal and interest to be due and payable, foreclose against the assets securing their borrowings and we could be forced into bankruptcy or liquidation. In addition, any downgrade of our debt ratings by any

of the major rating agencies, which could result from our financial performance, acquisitions or other factors, would also negatively impact our access to additional debt financing (including leasing) or refinancing on favorable terms, or at all. Even if we are successful in taking any such alternative actions, such actions may not allow us to meet our scheduled debt service obligations and, as a result, our business, financial condition and results of operations may be materially adversely affected.

The trading price of our Class A common stock is highly volatile. The trading price of our Class A common stock has fluctuated significantly since our IPO.

This volatility, as well as general economic, market or political conditions, could reduce the market price of shares of our Class A common stock in spite of our operating performance. In addition, our results of operations could be below the expectations of public market analysts and investors due to a number of potential factors, including variations in our quarterly results of operations, additions or departures of key management personnel, failure to meet analysts' earnings estimates, publication of research reports about our industry, litigation and government investigations, changes or proposed changes in laws or regulations or differing interpretations or enforcement thereof affecting our business, adverse market reaction to any indebtedness we may incur or securities we may issue in the future, changes in market valuations of similar companies or speculation in the press or investment community, announcements by our competitors of significant contracts, acquisitions, dispositions, strategic partnerships, joint ventures or capital commitments and adverse publicity about our industry in or individual scandals, and in response the market price of shares of our Class A common stock could decrease significantly.

In the past few years, stock markets have experienced extreme price and volume fluctuations. In the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

Our quarterly operating results may fluctuate significantly and could fall below the expectations of securities analysts and investors due to seasonality and other factors, some of which are beyond our control, resulting in a decline in our stock price.

Our quarterly operating results may fluctuate significantly because of several factors, including:

- the timing of new product and clinic launches;
- the timing and extent of customer inventory management decisions;
- our ability to procure product in a cost effective manner;
- expansion to new customers or product categories;
- seasonality of services;
- macroeconomic conditions, both nationally and locally;
- negative publicity relating to use of pet products outside the veterinary channel; and
- taxes

Seasonal factors and the timing of holidays cause our revenue to fluctuate from quarter to quarter. Our flea and tick business is most significant in the second and third quarters. Adverse weather conditions may also affect customer traffic to our customers or our ability to meet customer delivery requirements.

Risks Related to Our Company and Our Organizational Structure

Our principal asset is our interest in HoldCo, and, accordingly, we depend on distributions from HoldCo to pay our taxes and expenses. HoldCo's ability to make such distributions may be subject to various limitations and restrictions.

We are a holding company and have no material assets other than our ownership of LLC Interests of HoldCo. As such, we have no independent means of generating revenue or cash flow, and our ability to pay our taxes and operating expenses or

declare and pay dividends in the future, if any, will be dependent upon the financial results and cash flows of HoldCo and its subsidiaries and distributions we receive from HoldCo. There can be no assurance that our subsidiaries will generate sufficient cash flow to distribute funds to us or that applicable state law and contractual restrictions, including negative covenants in our debt instruments, will permit such distributions.

HoldCo is treated as a partnership for U.S. federal income tax purposes and, as such, is not subject to any entity-level U.S. federal income tax. Instead, taxable income is allocated to holders of LLC Interests, including us. Accordingly, we incur income taxes on our allocable share of any net taxable income of HoldCo. Under the terms of the HoldCo Agreement, HoldCo will be obligated to make tax distributions to holders of LLC Interests, including us. These tax distributions are funded from available cash of HoldCo and its subsidiaries. These tax distributions will be computed, for us, based on our actual tax liability as a result of the net taxable income allocated to us as a result of owning interests in HoldCo and, for all Continuing LLC Owners, based on the net taxable income of HoldCo allocated to such holder of LLC Interests multiplied by an assumed, combined tax rate equal to the maximum rate applicable to an individual resident in New York, New York (taking into account the deductibility of state and local taxes and other applicable adjustments). In addition to tax expenses, we will also incur expenses related to our operations. We intend, as its managing member, to cause HoldCo to make cash distributions to the owners of LLC Interests in an amount sufficient to (i) fund all or part of their tax obligations in respect of taxable income allocated to them and (ii) cover our operating expenses. However, HoldCo's ability to make such distributions may be subject to various limitations and restrictions, such as restrictions on distributions that would either violate any contract or agreement to which HoldCo is then a party, including debt agreements, or any applicable law, or that would have the effect of rendering HoldCo insolvent. Our credit agreement does not currently restrict our ability to make tax distributions. If we do not have sufficient funds to pay tax or other liabilities or to fund our operations, we may have to borrow funds, which could materially adversely affect our liquidity and financial condition and subject us to various restrictions imposed by any such lenders. In addition, if HoldCo does not have sufficient funds to make distributions, our ability to declare and pay cash dividends will also be restricted or impaired.

If we are deemed to be an investment company under the Investment Company Act of 1940, as amended (the "1940 Act"), as a result of our ownership of HoldCo, applicable restrictions could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.

Under Sections 3(a)(1)(A) and (C) of the 1940 Act, a company generally will be deemed to be an "investment company" for purposes of the 1940 Act if (i) it is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities or (ii) it engages, or proposes to engage, in the business of investing, reinvesting, owning, holding or trading in securities and it owns or proposes to acquire investment securities having a value exceeding 40% of the value of its total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. We do not believe that we are an "investment company," as such term is defined in either of those sections of the 1940 Act.

As the sole managing member of HoldCo, we will control and operate HoldCo. On that basis, we believe that our interest in HoldCo is not an "investment security" as that term is used in the 1940 Act. However, if we were to cease participation in the management of HoldCo, our interest in HoldCo could be deemed an "investment security" for purposes of the 1940 Act.

We and HoldCo intend to conduct our operations so that we will not be deemed an investment company. However, if we were to be deemed an investment company, restrictions imposed by the 1940 Act, including limitations on our capital structure and our ability to transact with affiliates, could make it impractical for us to continue our business as contemplated and could have a material adverse effect on our business.

Anti-takeover provisions in our organizational documents and Delaware law might discourage or delay acquisition attempts for us that you might consider favorable.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make the merger or acquisition of the Company more difficult without the approval of our board of directors. Among other things:

- a staggered board of directors;
- removal of directors, only for cause, by a supermajority of the voting power of stockholders entitled to vote;
- a provision denying stockholders the ability to call special meetings;
- a provision denying stockholders the ability to act by written consent;
- provisions waiving the corporate opportunity doctrine with respect to Certain Sponsors and their affiliates;
- advance notice requirements for stockholder proposals and nominations;
- amendment of our amended and restated charter by a supermajority of the voting power of stockholders entitled to vote; and
- the authorization of undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management, and may discourage, delay or prevent a transaction involving a change of control of our Company that is in the best interest of our stockholders. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our Class A common stock if they are viewed as discouraging future takeover attempts. In addition, because we are incorporated in Delaware, we have opted out of Section 203 of the General Corporation Law of the State of Delaware (the "DGCL").

Our board of directors is authorized to issue and designate shares of our preferred stock in additional series without stockholder approval.

Our amended and restated certificate of incorporation authorizes our board of directors, without the approval of our stockholders, to issue shares of our preferred stock, subject to limitations prescribed by applicable law, rules and regulations and the provisions of our amended and restated certificate of incorporation, as shares of preferred stock in series, to establish from time to time the number of shares to be included in each such series and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof. The powers, preferences and rights of these additional series of preferred stock may be senior to or on parity with our Class A common stock, which may reduce its value.

Unanticipated changes in effective tax rates or adverse outcomes resulting from examination of our income or other tax returns could adversely affect our results of operations and financial condition.

We are subject to taxes by the U.S. federal, state and local tax authorities, and our tax liabilities will be affected by the allocation of expenses to differing jurisdictions. Our future effective tax rates could be subject to volatility or adversely affected by a number of factors, including:

- changes in the valuation of our deferred tax assets and liabilities;
- expected timing and amount of the release of any tax valuation allowances;
- tax effects of stock-based compensation; or
- changes in tax laws, regulations or interpretations thereof.

In addition, we may be subject to audits of our income, sales and other transaction taxes by U.S. federal, state and local taxing authorities. Outcomes from these audits could have an adverse effect on our operating results and financial condition.

Changes affecting the availability of the London Inter-bank Offered Rate ("LIBOR") may have consequences for us that cannot yet be reasonably predicted.

We have outstanding debt with variable interest rates based on LIBOR. Advances under our revolving credit facility and our term loan facility generally bear interest based on (i) the Eurodollar Rate (as defined in our credit agreements and calculated using LIBOR) or (ii) the Base Rate (as defined in our credit agreements). The LIBOR benchmark has been the subject of national, international and other regulatory guidance and proposals to reform. In July 2017, the United Kingdom Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. These reforms may cause LIBOR to perform differently than it has in the past, and LIBOR may ultimately cease to exist after 2021. Alternative benchmark rates may replace LIBOR and could affect our debt securities, debt payments and receipts. At this time, it is not possible to predict the effect of any changes to LIBOR, any phase out of LIBOR or any establishment of alternative benchmark rates. Any new benchmark rate will likely not replicate LIBOR exactly, which could impact our contracts that terminate after 2021. There is uncertainty about how applicable law and the courts will address the replacement of LIBOR with alternative rates on variable rate retail loan contracts and other contracts that do not include alternative rate fallback provisions. If LIBOR ceases to exist after 2021, the interest rates on our revolving credit facility and our term loan facility will be based on the Base Rate or an alternative benchmark rate, which may result in higher interest rates. In addition, any changes to benchmark rates may have an uncertain impact on our cost of funds and our access to the capital markets, which could impact our results of operations and cash flows. Uncertainty as to the nature of such potential changes may also adversely affect the trading market for our securities.

Item 1B. Unresolved Staff Comments

None.

Item 2 - Properties

The following table sets forth the location, size, use and lease expiration date of our material properties as of December 31, 2019.

LOCATION	APPROXIMATE SIZE	PRINCIPAL USE(S)	LEASE EXPIRATION DATE
Daytona Beach, Florida	142,900 square feet	Manufacturing and distribution warehouse; office	November 30, 2022
Springville, Utah	242,000 square feet	Manufacturing and distribution warehouse; office	January 31, 2024
Omaha, Nebraska	132,575 square feet	Manufacturing; office	Owned
Omaha, Nebraska	164,500 square feet	Distribution warehouse	August 31, 2021
Eagle, Idaho	14,000 square feet	Corporate Headquarters	Owned

We are obligated under non-cancelable leases for our facilities. Our leases have varying terms, typically with three to five year renewal options.

We believe that our current properties are adequate for our intended purposes and represent sufficient capacity for our near term plans.

Item 3 – Legal Proceedings

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

During the year ended December 31, 2019, the Company recorded a liability of $1 million for contract termination costs, related to a settlement for alleged breach of contract. The expense is included within General and Administrative expenses for the year ended December 31, 2019.

On April 4, 2018, Med Vets, Inc. and Bay Medical Solutions Inc. (collectively "Plaintiffs") filed suit in the United States District Court for the Northern District of California against PetIQ 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. In June 2018, the Company 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 the Company's Motion to Dismiss the Complaint, but permitted the plaintiffs to attempt to plead a viable Complaint. The Plaintiffs' filed an Amended Complaint on December 13, 2018 and we subsequently filed a second Motion to Dismiss the Amended Complaint. On April 22, 2019, the Court granted the Company's Motion to Dismiss without further leave to amend, concluding that Plaintiffs were not able to identify any factual allegations to support their alleged claims. Plaintiffs filed a notice of appeal with the 9th Circuit Court of Appeals on May 21, 2019 and briefing on appeal was completed in December 2019. Oral arguments are expected to occur in mid to late 2020. A final decision from the 9th Circuit Court of Appeals is estimated in late 2020.

Additionally the Company is subject to various litigation related to its products as well as other corporate litigation. No individual item is significant.

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 December 31, 2019, 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 statements of operations.

Item 4 – Mine Safety Disclosures

Not Applicable

PART II

Item 5 – Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

As of March 11, 2020, there were approximately 13 holders of record of our Class A common stock and 23 holders of record of our Class B common stock. The holders of our Class B common stock also hold LLC interests in Holdco. There is no public market for these shares. A substantially greater number of holders of our stock are held in "street name" and held of record by banks, brokers, and other financial institutions.

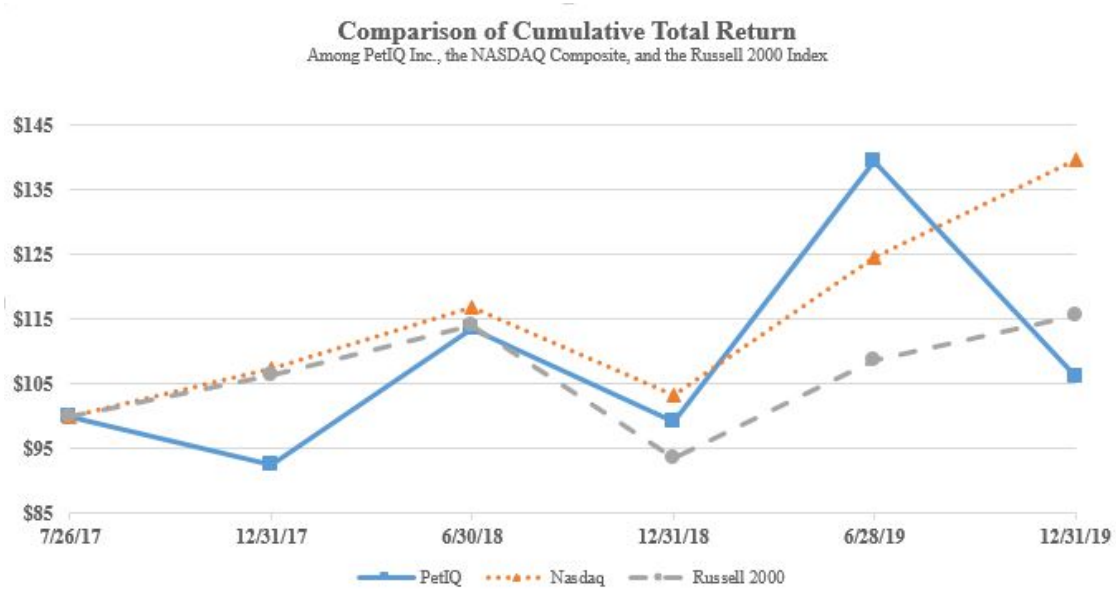
Dividend Policy

We have not historically paid cash dividends on our common stock, and have no current plans to pay cash dividends on our Class A common stock. The declaration, amount and payment of any future dividends will be at the sole discretion of our board of directors. Our board of directors may take into account general and economic conditions, our financial condition and results of operations, our available cash and current and anticipated cash needs, capital requirements, contractual, legal, tax and regulatory restrictions and implications on the payment of dividends by us to our stockholders or by our subsidiaries to us, including restrictions under our senior secured credit facilities and other indebtedness we may incur, and such other factors as our board of directors may deem relevant.

Stock Performance Graph

The information contained in the following chart is not considered to be "soliciting material," or "filed," or incorporated by reference in any past or future filing by the Company under the Securities Act or Exchange Act unless and only to the extent that, the Company specifically incorporates it by reference.

The following graph compares our total common stock return with the total return for (i) the NASDAQ Composite Index (the "NASDAQ Composite") and (ii) the Russell 2000 Index (the "Russell 2000") for the period from July 26, 2017 (the date our common stock commenced trading on the NASDAQ Global Market) through December 31, 2019. The figures represented below assume an investment of $100 in our common stock at the closing price of $23.64 on July 26, 2017 and in the NASDAQ Composite and the Russell 2000 on July 26, 2017. The comparisons in the table are required by the SEC and are not intended to forecast or be indicative of possible future performance of our common stock.



Date	PetIQ	NASDAQ Composite	Russell 2000
July 26, 2017	$ 100.00	$ 100.00	$ 100.00
December 31, 2017	92.39	107.48	106.46
December 31, 2018	99.28	103.31	93.50
December 31, 2019	105.96	139.70	115.68

Item 6 – Selected Financial Data –

In 000's, except for per share amounts	Fiscal Year Ended December 31, 2019	2018	2017	2016	2015
Statements of Operations Data:					
Net sales	$ 709,431	$ 528,614	$ 266,687	$ 200,162	$ 205,687
Gross profit	107,383	83,288	51,194	32,547	39,158
Operating (loss) income	(3,137)	7,748	13,289	702	3,570
Interest expense	(14,495)	(8,022)	(1,563)	(3,058)	(3,545)
Loss on extinguishment of debt	—	—	—	(1,681)	(1,449)
Pretax net (loss) income	(17,611)	(574)	11,787	(3,395)	(1,349)
Income tax benefit (expense)	3,309	661	(3,970)	—	—
Net (loss) income	$ (14,302)	$ 87	$ 7,817	$ (3,395)	$ (1,349)
Net income (loss) attributable to non-controlling interests	(2,849)	869	11,310	(3,395)	(1,349)
Net loss attributable to PetIQ Inc.	$ (11,453)	$ (782)	$ (3,493)	$ —	$ —
Basic loss per common share[(1)]	$ (0.51)	$ (0.05)	$ (0.26)	$ —	$ —
Diluted loss per common share[(1)]	(0.51)	(0.05)	(0.26)	—	—
Basic weighted average shares[(1)]	22,652	17,216	13,223	—	—
Diluted weighted average shares[(1)]	22,652	17,216	13,223	—	—
Balance Sheet Data (as of end of period):					
Cash and cash equivalents	$ 27,272	$ 66,360	$ 37,896	$ 767	$ 3,250
Working capital	112,409	143,525	90,684	43,462	49,153
Property, plant, and equipment, net	52,525	27,335	15,000	13,044	12,960
Total assets	672,728	495,434	140,845	81,330	92,335
Total debt, including current maturities	258,528	111,988	19,298	29,466	34,953
Stockholders'/Members equity	328,310	320,977	104,844	40,982	46,275
Other Data:					
Depreciation and amortization	15,133	11,867	3,400	2,982	2,577
Capital expenditures	(10,276)	(7,178)	(4,131)	(2,041)	(1,550)

(1) Number of shares outstanding and earnings per share prior to our IPO on July 26, 2017 are not reported.

Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations

We conduct our business through PetIQ, LLC and its subsidiaries. The following discussion and analysis of our financial condition and results of operations should be read together with our financial statements and related notes and other financial information appearing elsewhere in this report. This discussion contains forward-looking statements that reflect our plans, estimates, and beliefs and involve numerous risks and uncertainties. Actual results may differ materially from those contained in any forward-looking statements. See "Cautionary Note Regarding Forward-Looking Statements."

Business Overview

PetIQ is a leading pet medication and wellness company delivering a smarter way for pet parents to help their pet live their best lives through convenient access to affordable veterinary products and services. We engage with customers through more than 60,000 points of distribution across retail and e-commerce channels with our branded distributed medications, which is further supported by our own world-class medication manufacturing facility in Omaha, Nebraska. Our national service platform, VIP Petcare, operates in over 3,400 retail partner locations in 41 states, providing cost effective and convenient veterinary wellness services. PetIQ believes that pets are an important part of the family and deserve the best products and care we can give them.

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

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

Recent Developments

Capstar Acquisition

On January 13, 2020, we announced that, through Opco, we executed an Asset Purchase Agreement (the "Purchase Agreement") to acquire the U.S. rights to Capstar® and CapAction® and related assets (the "Acquisition") from Elanco US Inc. ("Elanco") for $95 million, plus the cost of certain outstanding finished goods inventory in saleable condition. Capstar and CapAction are oral tablets for the treatment of flea infestations on dogs, puppies, cats and kittens. Capstar is comprised of five SKUs and CapAction is sold under three SKUs. The closing of the transaction is contingent upon customary closing conditions, including, among others, the approval of the acquisition under a consent order issued by the U.S. Federal Trade Commission. The parties have agreed that the Acquisition will not close earlier than July 1, 2020.

Following closing, Elanco will manufacture and supply Capstar and CapAction and provide certain technology transfer services to Opco over a 24-month period pursuant to a manufacturing and supply agreement.

Perrigo Animal Health Acquisition

On July 8, 2019, we, through Opco, completed the acquisition of all the outstanding stock of Sergeant's Pet Care Products, Inc. ("Sergeant's"), d/b/a Perrigo Animal Health, including any assets related to Perrigo Company plc's animal health business (the "Perrigo Animal Health Acquisition"). As a result of the Perrigo Animal Health Acquisition, Sergeant's is now an indirect wholly-owned subsidiary of the Company.

Results of Operations

Components of our Results of Operations

Net Sales

Our Product Segment net sales consist of our total product 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 control transfers to our customers, in accordance with the terms of our contracts, which generally occurs upon shipment of product. Most contracts contain variable consideration, which is estimated at the time of sale and updated at each period end. 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 Product 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. In addition, our products are primarily consumables and, as such, they experience a replenishment cycle.

Our Service Segment revenue consists of providing veterinary services to 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 and owned 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 by whether we source the product direct from the manufacturer or a licensed distributor and the extent of value-added products and services we render with the distributed product. Gross profit in the services segment is driven by the number of pets that seek services in the individual clinics due to the relatively fixed cost nature of providing the clinic.

General and Administrative Expenses

Our general and administrative expenses primarily consist of employee compensation and benefits expenses, sales and merchandizing expenses, advertising and marketing expenses, rent and lease expenses, IT and utilities expenses, professional fees, insurance costs, R&D costs, host fees, banking charges, and consulting fees. General and administrative expenses as a percentage of net sales have increased to 14.5% in 2019 from 13.7% in 2018. The increase in general and administrative expenses in 2019 compared to 2018 was primarily driven by costs related to the Perrigo Animal Health

Acquisition and overall expansion of corporate overhead. We incurred significant expenses related to our 2019 and 2018 acquisitions.

Our advertising and marketing expenses primarily consist of digital marketing (e.g. social, display and search, etc.), addressable TV, e-mail, in-store merchandising and trade shows in an effort to build awareness and drive demand for our products and services. These expenses may vary from quarter to quarter but typically they are higher in the second and third quarters. Our Product Segment focuses on promoting PetArmor direct-to-consumer, supported by trade promotions and merchandising. Our Services Segment focuses on promoting our veterinary services direct-to-consumer, geo-targeted around our retail locations, supported by in-store signage. We expect our marketing expenses to increase commensurate with increases in revenue and market share for both segments.

As noted above, we experience seasonality in the form of increased demand for our flea and tick product offerings in the first two quarters of the year in preparation for the spring and summer seasons and, as a result, the sales and merchandizing expenses component of our general and administrative expenses generally increases in the second and third quarters due to promotional spending relating to our flea and tick product lines.

Contingent Note revaluations

The Company entered into two contingent notes associated with the acquisition of Community Veterinary Clinics, LLC, d/b/a (“VIP” and such acquisition the “VIP Acquisition”). The notes were earned based on consolidated company EBITDA as discussed in the accompanying financial statements, and were revalued each period through earnings. During the years ended December 31, 2019 and 2018, the Company recognized additional expense due to the revaluation of the notes of $7.3 million and $3.3 million, respectively.

Net (Loss) Income

Our net (loss) income for future periods will be affected by the various factors described above. In addition, our historical results are impacted by Opco’s status as a pass-through entity for U.S. federal income tax purposes and our ownership percentage of Holdco. We anticipate future results will not be consistent as our net income will be subject to U.S. federal and state income taxes. Our tax expense is impacted by our structure and, as a result, we expect our tax expense to fluctuate on a quarterly basis depending on the number of exchanges that occur during each period.

Non-Controlling Interest

For the periods from July 20, 2017 through December 31, 2017, and the years ended December 31, 2018 and 2019, PetIQ, Inc. consolidated the financial position and results of operations of HoldCo. Our Continuing LLC Owners hold their equity investment in us primarily through LLC Interests in the Company’s subsidiary, HoldCo, and an equal number of shares of the Company’s Class B common stock. Our Class B Stock has voting, but no economic rights. Each LLC Interest, together with a share of Class B Stock held by the Continuing LLC, is exchangeable for a share of the Company’s Class A common stock (or at the option of the Company, the cash equivalent thereof). The Company is the managing member of HoldCo and owns a majority of the LLC Interests, and consolidates HoldCo in the Company’s Consolidated Financial Statements. The interest of the Continuing LLC Owners in HoldCo is reflected in our Consolidated Financial Statements as a non-controlling interest.

For the periods prior to July 20, 2017, the Company consolidated the financial position and results of operations of HoldCo. The portion of HoldCo not owned by the Company is reported in our Consolidated Statements of Operations as non-controlling interest. The non-controlling interest presented in the accompanying Consolidated Balance Sheets is included within members’ equity.

Results of Operations

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

				% of Net Sales		
$'s in 000's	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
Product sales	$ 617,118	$ 450,229	$ 266,687	87.0 %	85.2 %	100.0 %
Service revenue	92,313	78,385	—	13.0 %	14.8 %	- %
Total net sales	709,431	528,614	266,687	100.0 %	100.0 %	100.0 %
Cost of products sold	530,031	383,501	215,493	74.7 %	72.5 %	80.8 %
Cost of services	72,017	61,825	—	10.2 %	11.7 %	- %
Total cost of sales	602,048	445,326	215,493	84.9 %	84.2 %	80.8 %
Gross profit	107,383	83,288	51,194	15.1 %	15.8 %	19.2 %
General and administrative expenses	103,200	72,260	37,905	14.5 %	13.7 %	14.2 %
Contingent note revaluation loss	7,320	3,280	—	1.0 %	0.6 %	- %
Operating (loss) income	(3,137)	7,748	13,289	(0.4)%	1.5 %	5.0 %
Interest expense, net	(14,495)	(8,022)	(1,563)	(2.0)%	(1.5)%	(0.6)%
Foreign currency (loss) gain, net	(151)	45	(140)	(0.0)%	0.0 %	(0.1)%
Other income (expense), net	172	(345)	201	0.0 %	(0.1)%	0.1 %
Total other expense, net	(14,474)	(8,322)	(1,502)	(2.0)%	(1.6)%	(0.6)%
Pretax net (loss) income	(17,611)	(574)	11,787	(2.5)%	(0.1)%	4.4 %
Income tax benefit (expense)	3,309	661	(3,970)	0.5 %	0.1 %	(1.5)%
Net (loss) income	$ (14,302)	$ 87	$ 7,817	(2.0)%	0.0 %	2.9 %

Year Ended December 31, 2019 Compared With Year Ended December 31, 2018

Net sales

Consolidated Net Sales

Consolidated net sales increased $180.8 million, or 34%, to $709.4 million for the year ended December 31, 2019, compared to $528.6 million for the year ended December 31, 2018. This increase was driven by Products segment sales, the Perrigo Animal Health Acquisition and growth in the Services segment.

Products Segment

Product sales increased $166.9 million, or 37%, to $617.1 million for the year ended December 31, 2019, compared to $450.2 million for the year ended December 31, 2018. This increase was driven by acquisitions, resulting in approximately $28.9 million in sales growth, and by increased velocity of growth of current customers.

Services Segment

Service revenue increased $13.9 million, or 18%, from $78.4 million to $92.3 million for the year ended December 31, 2019, compared to the year ended December 31, 2018. The Services revenue growth was driven by the opening of new wellness centers and increasing pet counts within existing community clinics as a result of scheduling improvements. Same-store sales increased $9.8 million, or 13.2%, to $84.2 million for the year ended December 31, 2019, compared to $74.4 million for the year ended December 31, 2018. The increase in same-store sales was driven by improvements in scheduling that were made during 2018 and moving 3 wellness centers and 2 district offices into the same store base, offset by converting successful mobile clinics into wellness centers. Non same-store sales increased $4.1 million, or 103.9%, to

$8.1 million for the year ended December 31, 2019, compared to $4.0 million for the year ended December 31, 2018. The increase in non same-store sales was a result of opening 80 additional wellness centers in 2019, as well as the maturation of clinics opened in the past six trailing quarters, offset by wellness centers moving into the same store sales base.

Gross profit

Gross profit increased by $24.1 million, or 29%, to $107.4 million for the year ended December 31, 2019, compared to $83.3 million for the year ended December 31, 2018. This increase is due to the significant sales growth as well as higher gross margin in the Services Segment, offset by a significant portion of Product sales growth occurring in lower margin items and the fair value of inventory adjustment recognized through cost of sales from the Perrigo Animal Health Acquisition. Gross margin decreased to 15.1% for the year ended December 31, 2019, from 15.8% for the year ended December 31, 2018.

General and administrative expenses

Consolidated general and administrative expenses ("G&A") increased $30.9 million, or 43%, to $103.1 million for the year ended December 31, 2019, compared to $72.3 million for the year ended December 31, 2018. As a percentage of net sales, G&A increased from 13.7% in 2018 to 14.5% in 2019, primarily driven by costs related to the Perrigo Animal Health Acquisition and overall expansion of corporate overhead.

Products Segment

Products segment G&A increased $11.9 million or 77% to $27.3 million for the year ended December 31, 2019, compared to $15.4 million for the year ended December 31, 2018. This increase was driven by acquisitions, resulting in approximately $6.1 million in G&A costs related to the acquired businesses, primarily selling and distribution expenses. Additionally variable expenses increased due to higher revenues.

Services Segment

Services segment G&A increased $2.9 million, or 22%, to $16.0 million for the year ended December 31, 2019, compared to $13.1 million for the year ended December 31, 2018. This increase was driven by additional marketing spends as the Company launched new wellness centers, as well as normal variable costs such as credit card processing and host fees which have grown due to Services revenue growth. Nearly all of the G&A growth relates to clinics opened in the last six quarters and therefore is derived from the non same-store sales base.

Unallocated Corporate

Unallocated corporate G&A increased $16.2 million, or 48%, to $49.7 million for the year ended December 31, 2019, from $33.5 million for the year ended December 31, 2018. The increase was driven by costs related to the Perrigo Animal Health Acquisition, including $6.1 million of acquisition costs and $1.0 million related to contract termination to adjust service providers. Stock-based compensation expense has grown by $3.5 million as a result of corporate growth, amortization has grown $0.8 million related to the additional acquired intangibles, and expenses have grown due to additional corporate infrastructure related to acquisitions, including the administrative departments at the Company's new subsidiaries of $4.0 million, as well as growth in the headquarters overhead related to corporate employees. This was offset slightly by reduction of corporate overhead as duplicate positions are eliminated as functions are centralized.

Interest expense, net

Interest expense, net, increased $6.5 million, to $14.5 million for the year ended December 31, 2019, compared to $8.0 million for the year ended December 31, 2018. This increase was driven by additional debt incurred to fund the Perrigo Animal Health Acquisition in 2019.

Pre-tax net loss

As a result of the factors above, pre-tax net loss increased $17.0 million to a pre-tax net loss of $17.6 million for the year ended December 31, 2019 compared to a pre-tax net loss of $0.6 million for the year ended December 31, 2018.

Tax expense

As a result of continued exchanges by Continuing LLC Owners of LLC Interests and Class B common shares, offset by the use of LLC Interests as consideration in business combinations during 2018, the Company now owns approximately 83% of Holdco with the LLC Interests not held by the Company considered 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.

Income tax benefit totaled 18.8% of pretax earnings in 2019. Our tax rate is affected by the lower pre-tax income in the current year, recurring items, such as the portion of income and expense allocated to the noncontrolling interest, and tax rates in foreign jurisdictions relative to the amounts of income we earn in those jurisdictions. It is also affected by discrete items that may occur in any given year but are not consistent from year to year.

Segment Adjusted EBITDA

Effective September 30, 2019, the Company changed its segment measure of profitability for its reportable segments from segment operating (loss) income to Adjusted EBITDA to better align the way the chief operating decision maker views reportable segment operations in light of changes in the Company's operations, including the increase of manufacturing operations as a result of the Perrigo Animal Health Acquisition in the Products segment and the growth of the Company's wellness centers, host partners, and regional offices within the Services segment. For comparability purposes, previous periods have been recast to reflect the measure of segment profitability.

Products Segment

Products segment Adjusted EBITDA increased $21.3 million, or 41%, to $73.5 million for the year ended December 31, 2019, compared to $52.2 million for the year ended December 31, 2018. Products segment Adjusted EBITDA fluctuates based on the quantity and mix of products sold, specifically whether the products are manufactured by PetIQ or are distributed for other manufacturers. The significant growth in Products segment Adjusted EBITDA relates to significant sales growth as well as the Perrigo Animal Health Acquisition completed in July 2019 and the HBH Enterprises, LLC ("HBH") (the "HBH Acquisition") completed in October 2018 ($48.0 million of aggregate additional sales), which expanded the Company's manufacturing capabilities as well as added additional brands of manufactured products. Adjustments related to the segment include a purchase accounting adjustment for the step up of inventory to fair value of $4.8 million that was recognized through cost of sales, depreciation on production assets, and costs related to the Company's SKU rationalization process of $6.5 million, which resulted in disposal of, or a reserve on, inventory not expected to be sold due to brand re-alignment.

Services Segment

Services segment Adjusted EBITDA increased $4.8 million, or 31%, to $20.0 million for the year ended December 31, 2019, compared to $15.2 million for the year ended December 31, 2018. Services segment Adjusted EBITDA can fluctuate considerably based on the volume of pets seen in clinics, due to the relatively fixed cost nature of a clinic (i.e. fixed labor costs regardless of number of pets seen) as well as the conversion of community clinics into fixed wellness centers. Additionally, Services segment earnings are impacted by the Company's growth strategy of opening new wellness centers and the impact of the Company's same store portfolio, discussed further below under 'Consolidated Non-GAAP Financial Measures.' Services segment Adjusted EBITDA has grown on increasing pet counts in existing clinics, driven by schedule optimization and price alignment, offset by cannibalization of pets into newly opened wellness centers from community clinics.

Unallocated Corporate

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

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

$'s in 000's	**Year ended December 31, 2019**			
December 31, 2019	**Products**	**Services**	**Unallocated Corporate**	**Consolidated**
Pretax net income (loss)	$ 58,081	$ 4,134	$ (79,826)	$ (17,611)
Adjustments:				
Depreciation	3,552	3,170	2,417	9,139
Interest	66	135	14,294	14,495
Amortization	—	—	5,994	5,994
Acquisition costs[(1)]	—	—	6,147	6,147
Stock based compensation expense	—	—	7,355	7,355
Purchase accounting adjustment to inventory	4,805	—	—	4,805
Non same-store revenue[(2)]	—	(8,088)	—	(8,088)
Non same-store costs[(2)]	—	19,553	—	19,553
Fair value adjustment of contingent note[(3)]	—	—	7,320	7,320
Integration costs and costs of discontinued clinics[(4)]	551	374	2,863	3,788
SKU Rationalization[(5)]	6,482	—	—	6,482
Clinic launch expense[(6)]	—	767	—	767
Litigation expenses	—	—	529	529
Adjusted EBITDA	**$ 73,537**	**$ 20,045**	**$ (32,907)**	**$ 60,675**

(1) Acquisition costs include legal, accounting, banking, consulting, diligence, and other out-of-pocket costs.
(2) Non same-store revenue and costs relate to our Services Segment and are from wellness centers, host partners, and regions with less than six full trailing quarters of operating results.
(3) Fair value adjustment on the contingent note represents the non cash adjustment to mark the Contingent note to fair value.
(4) Integration costs and costs of discontinued clinics represent costs related to integrating the acquired businesses, such as personnel costs like severance and signing bonuses, consulting work, contract termination, and IT conversion costs. These costs are primarily in the Products Segment and the Unallocated Corporate Segment for personnel costs, legal and consulting expenses, and IT costs. In addition, related to the Services Segment, there were costs associated with vet services clinics that were discontinued subsequent to the acquisition of VIP and wellness center closures.
(5) SKU rationalization relates to the disposal of or reserve to estimated net realizable value for inventory that will either no longer be sold, or will be de-emphasized, as the Company aligns brands between Legacy PetIQ brands and brands acquired as part of the Perrigo Animal Health Acquisition. All costs are included in the Products Segment gross margin.
(6) Clinic launch expenses relate to our Services Segment and represent the nonrecurring costs to open new veterinary wellness centers, primarily employee costs, training, marketing, and rent prior to opening for business.

$'s in 000's	Year ended December 31, 2018			
December 31, 2018	**Products**	**Services**	**Unallocated Corporate**	**Consolidated**
Pretax net income (loss)	$ 48,755	$ 2,662	$ (51,991)	$ (574)
Adjustments:				
Depreciation	2,343	2,326	1,988	6,657
Interest	—	—	8,022	8,022
Amortization	—	—	5,210	5,210
Acquisition costs[1]	—	—	3,787	3,787
Stock based compensation expense	—	—	3,812	3,812
Purchase accounting adjustment to inventory	647	1,502	—	2,149
Non same-store revenue[2]	—	(3,967)	—	(3,967)
Non same-store costs[2]	—	10,345	—	10,345
Fair value adjustment of contingent note[3]	—	—	3,280	3,280
Integration costs and costs of discontinued clinics[4]	—	998	—	998
Clinic launch expense[5]	—	1,380	—	1,380
Non-recurring royalty settlement[6]	440	—	—	440
Adjusted EBITDA	**$ 52,185**	**$ 15,246**	**$ (25,892)**	**41,539**

(1) Acquisition costs include legal, accounting, banking, consulting, diligence, and other out-of-pocket costs.
(2) Non same-store revenue and costs relate to our Services Segment and are from wellness centers, host partners, and regions with less than six full trailing quarters of operating results.
(3) Fair value adjustment on the contingent note represents the non cash adjustment to mark the Contingent note to fair value.
(4) Integration costs and costs of discontinued clinics represent costs related to integrating the acquired businesses, such as personnel costs like severance and signing bonuses, consulting work, contract termination, and IT conversion costs. In addition, related to the Services Segment, there were costs associated with vet services clinics that were discontinued subsequent to the acquisition of VIP and wellness center closures.
(5) Clinic launch expenses relate to our Services Segment and represent the nonrecurring costs to open new veterinary wellness centers, primarily employee costs, training, marketing, and rent prior to opening for business.
(6) Non-recurring royalty settlement represents a settlement paid to a supplier related to a royalty agreement in place since 2013.

Year Ended December 31, 2018 Compared With Year Ended December 31, 2017

Net sales

Consolidated Net Sales

Consolidated net sales increased $261.9 million, or 98%, to $528.6 million for the year ended December 31, 2018, compared to $266.7 million for the year ended December 31, 2017. The growth is attributed to $183.5 million in additional product sales, which is a result of expansion of items sold to continuing customers, addition of new items, and addition of new customers. Additionally, the $78.4 million of service revenue is new in 2018 as a result of the VIP Acquisition completed in January 2018.

Products Segment

Product sales increased $183.5 million, or 69%, to $450.2 million for the year ended December 31, 2018, compared to $266.7 million for the year ended December 31, 2017. This increase was driven by expanding item counts at existing customers of existing items and increase in velocity of sales of existing items, as well growth due to the acquisitions.

Services Segment

Services revenue was $78.4 million for the year ended December 31, 2018 and the Company did not have any Services segment revenue for the year ended December 31, 2017.

Gross profit

Gross profit increased by $32.1 million, or 63%, to $83.3 million for the year ended December 31, 2018, compared to $51.2 million for the year ended December 31, 2017. This increase is due to the significant sales growth as well as higher gross margin in the services segment, offset by a significant portion of the product sales growth occurring in lower margin items. Gross margin decreased to 15.8% for the year ended December 31, 2018, from 19.2% for the year ended December 31, 2017.

General and administrative expenses

Consolidated G&A increased by $34.4 million, or 91%, to $72.3 million for the year ended December 31, 2018, compared to $37.9 million for the year ended December 31, 2017. As a percentage of net sales, G&A decreased from 14.2% in 2017 to 13.7% in 2018, which was the result of increases in net sales exceeding G&A expense growth due to the fixed nature of a portion of the G&A expenses.

Products Segment

Products segment G&A decreased $4.5 million, or 20%, to $18.0 million in 2018, compared to $22.5 million in 2017. This decrease was driven by the change in revenue recognition from ASC 606, which moved certain costs from G&A to cost of sales, as well as reduced sales and merchandising activity as the Company sales grew primarily in distributed products, which the Company does not typically support.

Services Segment

Services segment G&A increased $13.9 million, or 100%, for the year ended December 31, 2018, as the Company did not have any Services segment G&A for the year ended December 31, 2017.

Unallocated Corporate

Unallocated corporate costs grew considerably over the prior year, with growth of $25.0 million to $40.4 million for the year ended December 31, 2018, compared to $15.4 million for the year ended December 31, 2017. The increase was driven by costs related to the acquisitions, including $3.8 million of acquisition costs. Stock-based compensation expense has grown by $3.4 million on normal corporate growth, amortization has grown by $4.2 million, related to the additional acquisitions, and expenses grew due to additional corporate infrastructure related to acquisitions, including the administrative departments at the Company's new subsidiaries of $16.6 million, as well as growth in the headquarters overhead related to corporate employees of approximately $2.9 million. This was offset slightly by reduction of corporate overhead as duplicate positions were eliminated as functions were centralized.

Interest expense, net

Interest expense, net increased $6.4 million, to $8.0 million for the year ended December 31, 2018, compared to $1.6 million for the year ended December 31, 2017. This increase was driven by new debt agreements entered into in January of 2018 as part of the VIP Acquisition, which increased amounts borrowed substantially, as well as significant use of our revolver to finance higher working capital to support the sales growth, offset slightly by the proceeds of our public offering in October 2018, which allowed for reduced use of the revolver as well as generated interest income from deposits.

Pre-tax net income (loss)

As a result of the factors above, pre-tax net income decreased $12.4 million to a pre-tax net loss of $0.6 million for the year ended December 31, 2018 compared to a pre-tax net income of $11.8 million for the year ended December 31, 2017.

Tax expense

As a result of continued exchanges by Continuing LLC Owners of LLC Interests and Class B common shares, offset by the use of LLC Interests as consideration in business combinations the Company's ownership fluctuates. 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.

Income tax benefit totaled 115.2% of pretax earnings in 2018. Our tax rate is affected by the lower pre-tax income in the current year, recurring items, such as the portion of income and expense allocated to the noncontrolling interest, and tax rates in foreign jurisdictions relative to the amounts of income we earn in those jurisdictions. It is also affected by discrete items that may occur in any given year but are not consistent from year to year. In 2018, we finalized our accounting for the Tax Act resulting in an immaterial adjustment tax expense.

Segment Adjusted EBITDA

Products Segment

Products segment Adjusted EBITDA increased $21.3 million, or 69%, to $52.2 for the year ended December 31, 2018, compared to $30.8 million for the year ended December 31, 2017. The significant growth in Products segment operating income is the result of significant sales growth, primarily related to increased velocity of sales to existing customers.

Services Segment

Services segment Adjusted EBITDA increased $15.2 million, or 100% for the year ended December 31, 2018, as the Company did not have any Services segment Adjusted EBITDA for the year ended December 31, 2017.

Unallocated Corporate

Unallocated corporate expenses consist of expenses incurred by centrally-managed departments, including accounting, legal, human resources, information technology and headquarters expenses, as well as executive and incentive compensation expenses, and other miscellaneous costs.

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

$'s in 000's	Year ended December 31, 2018			
December 31, 2018	**Products**	**Services**	**Unallocated Corporate**	**Consolidated**
Pretax net income (loss)	$ 48,755	$ 2,662	$ (51,991)	$ (574)
Adjustments:				
Depreciation	2,343	2,326	1,988	6,657
Interest	—	—	8,022	8,022
Amortization	—	—	5,210	5,210
Acquisition costs[1]	—	—	3,787	3,787
Stock based compensation expense	—	—	3,812	3,812
Purchase accounting adjustment to inventory	647	1,502	—	2,149
Non same-store revenue[2]	—	(3,967)	—	(3,967)
Non same-store costs[2]	—	10,345	—	10,345
Fair value adjustment of contingent note[3]	—	—	3,280	3,280
Integration costs and costs of discontinued clinics[4]	—	998	—	998
Clinic launch expense[5]	—	1,380	—	1,380
Non-recurring royalty settlement[6]	440	—	—	440
Adjusted EBITDA	**$ 52,185**	**$ 15,246**	**$ (25,892)**	**$ 41,539**

(1) Acquisition costs include legal, accounting, banking, consulting, diligence, and other out-of-pocket costs.
(2) Non same-store revenue and costs relate to our Services Segment and are from wellness centers, host partners, and regions with less than six full trailing quarters of operating results.
(3) Fair value adjustment on the contingent note represents the non cash adjustment to mark the Contingent note to fair value.
(4) Integration costs and costs of discontinued clinics represent costs related to integrating the acquired businesses, such as personnel costs like severance and signing bonuses, consulting work, contract termination, and IT conversion costs. In addition, related to the Services Segment, there were costs associated with vet services clinics that were discontinued subsequent to the acquisition of VIP and wellness center closures.
(5) Clinic launch expenses relate to our Services Segment and represent the nonrecurring costs to open new veterinary wellness centers, primarily employee costs, training, marketing, and rent prior to opening for business.
(6) Non-recurring royalty settlement represents a settlement paid to a supplier related to a royalty agreement in place since 2013.

$'s in 000's	Year ended December 31, 2017			
December 31, 2017	**Products**	**Services**	**Unallocated Corporate**	**Consolidated**
Pretax net income (loss)	$ 28,671	$ —	$ (16,884)	$ 11,787
Adjustments:				
Depreciation	2,165	—	183	2,348
Interest	—	—	1,563	1,563
Amortization	—	—	1,052	1,052
Acquisition costs[1]	—	—	1,965	1,965
Stock based compensation expense	—	—	447	447
Management fees	—	—	610	610
Costs associated with becoming a public company	—	—	2,710	2,710
Supplier receivable write-off	—	—	(175)	(175)
Adjusted EBITDA	**$ 30,836**	**$ —**	**$ (8,529)**	**$ 22,307**

(1) Acquisition costs include legal, accounting, banking, consulting, diligence, and other out-of-pocket costs.

Consolidated Non-GAAP Financial Measures

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

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

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

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

Because of these limitations, EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using EBITDA and Adjusted EBITDA only supplementally. You should review the reconciliations of net (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 years ended		
	December 31, 2019	December 31, 2018	December 31, 2017
Net (loss) income	$ (14,302)	$ 87	$ 7,817
Plus:			
Tax (benefit) expense	(3,309)	(661)	3,970
Depreciation	9,139	6,657	2,348
Amortization	5,994	5,210	1,052
Interest	14,495	8,022	1,563
EBITDA	$ 12,017	$ 19,315	$ 16,750
Acquisition costs[1]	6,147	3,787	1,965
Management fees	—	—	610
Costs associated with becoming a public company	—	—	2,710
Supplier receivable recovery	—	—	(175)
Integration costs and costs of discontinued clinics[2]	3,788	998	—
SKU rationalization[3]	6,482	—	—
Purchase accounting adjustment to inventory	4,805	2,149	—
Stock based compensation expense	7,355	3,812	447
Fair value adjustment of contingent note[4]	7,320	3,280	—
Non same-store revenue[5]	(8,088)	(3,967)	—
Non same-store costs[5]	19,553	10,345	—
Clinic launch expenses[6]	767	1,380	—
Litigation expenses	529	—	—
Non-recurring royalty settlement[7]	—	440	—
Adjusted EBITDA	$ 60,675	$ 41,539	$ 22,307

(1) Acquisition costs include legal, accounting, banking, consulting, diligence, and other out-of-pocket costs.
(2) Integration costs and costs of discontinued clinics represent costs related to integrating the acquired businesses, such as personnel costs like severance and signing bonuses, consulting work, contract termination, and IT conversion costs. These costs are primarily in the Products segment and the corporate segment for personnel costs, legal and consulting expenses, and IT costs. In addition, related to the Service Segment, there were costs associated with vet services clinics that were discontinued subsequent to the acquisition of VIP and wellness center closures.
(3) SKU rationalization relates to the disposal of or reserve to estimated net realizable value for inventory that will either no longer be sold, or will be de-emphasized, as the Company aligns brands between Legacy PetIQ brands and brands acquired as part of the Perrigo Animal Health Acquisition. All costs are included in the Products segment gross margin.
(4) Fair value adjustment on the contingent note represents the non cash adjustment to mark the 2019 Contingent note to fair value.
(5) Non same-store revenue and costs relate to our Services segment and are from wellness centers, host partners, and regions with less than six full trailing quarters of operating results.
(6) Clinic launch expenses relate to our Services segment and represent the nonrecurring costs to open new veterinary wellness centers, primarily employee costs, training, marketing, and rent prior to opening for business.
(7) Non-recurring royalty settlement 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 flow from operations, borrowings, and equity contributions. As of December 31, 2019 and December 31, 2018, our cash and cash equivalents were $27.3 million and $66.4 million, respectively. As of December 31, 2019, we had $10.0 million outstanding under a revolving credit facility, $220.0 million under a term loan and $29.3 million in other debt. The debt agreements bear interest at rates between 4.3% and 6.8%.

Our primary cash needs are for working capital and to support our growth plans, which may include acquisitions. 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 that is currently ongoing. Our primary working capital requirements are to carry inventory and receivable levels necessary to support our increasing Product net sales. Fluctuations in working capital are primarily driven by the timing of new product launches and seasonal retailer demand. As of December 31, 2019 and December 31, 2018, we had working capital (current assets less current liabilities) of $112.4 million and $143.4 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 provided by or used in Operating Activities

Net cash provided by operating activities was $20.8 million for the year ended December 31, 2019, compared to net cash used in operating activities of $12.4 million for the year ended December 31, 2018. The change in operating cash flows primarily reflects lower earnings, offset by higher non-cash items such as stock-based compensation, depreciation and amortization, contingent note revaluation and decreases in working capital. Working capital changes are driven by increased accounts receivable resulting from our growing sales and decreased inventory due to timing of expected sales in 2020, offset by growth in accounts payable to purchase inventory. Net changes in assets and liabilities accounted for $7.2 million in cash used in operating activities for the year ended December 31, 2019 compared to $30.8 million of cash used in operating activities for the year ended December 31, 2018.

Cash used in Investing Activities

Net cash used in investing activities was $195.0 million for the year ended December 31, 2019, compared to $100.0 million for the year ended December 31, 2018. The increase in net cash used in investing activities is a result of the Perrigo Animal Health Acquisition that occurred in 2019 as well as increased purchase of property, plant, and equipment, primarily to support the launch of additional wellness centers.

Cash provided by Financing Activities

Net cash provided by financing activities was $135.1 million for the year ended December 31, 2019, compared to $141.0 million in net cash provided by financing activities for the year ended December 31, 2018. The change in cash provided by financing activities is primarily driven by the Company’s new debt incurred to finance the VIP Acquisition in 2018 compared to the new debt incurred to finance the Perrigo Animal Health Acquisition in 2019.

Description of Indebtedness

A&R Credit Agreement

In connection with the Perrigo Animal Health Acquisition described in Note 2 – Business Combinations in the notes to the consolidated financial statements, the Company amended the existing revolving credit agreement of PetIQ, LLC and each of its domestic wholly-owned subsidiaries (the “Amended Revolving Credit Agreement”) on July 8, 2019. The Amended Revolving Credit Agreement provides for a secured revolving credit facility of $110 million, with an accordion feature allowing an additional increase up to a total facility of $125 million and extends the maturity date of the revolving facility to July 8, 2024. In addition, the Amended Revolving Credit Agreement reduces the interest rate on Eurodollar rate loans and modifies certain financial covenants, including eliminating the maximum first lien net coverage ratio. The borrowers under the Amended Revolving Credit Facility incur fees between 0.375% and 0.50% as unused facility fees, dependent on the aggregate amount borrowed.

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

The Amended Revolving Credit Agreement contains a number of covenants that, among other things, restrict the ability of the borrowers and guarantors thereunder to (subject to certain exceptions): (i) make investments, loans or advances; (ii) incur additional indebtedness; (iii) create liens on assets; (iv) engage in mergers or consolidations and/or sell assets; (v) pay dividends and distributions or repurchase our equity interests; (vi) repay subordinated indebtedness; (vii) make certain acquisitions; and (viii) other restrictions typical for a credit agreement of this type. As of December 31, 2019, the borrowers and guarantors thereunder were in compliance with these covenants.

The Amended Revolving Credit Agreement also contains certain customary affirmative covenants and events of default (including change of control). In addition, the Amended Revolving Credit Agreement contains a minimum fixed charge coverage ratio covenant which is tested if availability under the Amended Revolving Credit Agreement falls below a certain level. As of December 31, 2019, the borrowers and guarantors thereunder were in compliance with these covenants.

As of December 31, 2019, $10.0 million was outstanding under the Amended Revolving Credit Agreement. The weighted average interest rate on the Amended Revolving Credit Agreement was 3.5% at December 31, 2019.

A&R Term Loan Credit Agreement

Also in connection with the closing of the Perrigo Animal Health Acquisition, the Company amended and restated the existing term loan credit agreement of PetIQ, LLC (the “A&R Term Loan Credit Agreement”) on July 8, 2019. The A&R Term Loan Credit Agreement was increased from $74.1 million to $220.0 million at an interest rate equal to the Eurodollar rate plus 4.50%, the proceeds of which were used to refinance the existing term loan facility and consummate the acquisition.

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

The A&R Term Loan Credit Agreement contains a number of covenants that, among other things, restrict the ability of the borrower and guarantors thereunder to (subject to certain exceptions): (i) make investments, loans or advances; (ii) incur additional indebtedness; (iii) create liens on assets; (iv) engage in mergers or consolidations and/or sell assets; (v) pay dividends and distributions or repurchase our equity interests; (vi) repay subordinated indebtedness; (vii) make certain acquisitions; and (viii) other restrictions typical for a credit agreement of this type. As of December 31, 2019, the borrower and guarantors thereunder were in compliance with these covenants.

The A&R Term Loan Credit Agreement also contains certain customary affirmative covenants and events of default (including change of control). In addition, the A&R Term Loan Credit Agreement includes a maintenance covenant that requires compliance with a maximum first lien net leverage ratio. The availability of certain baskets and the ability to enter into certain transactions (including our ability to pay dividends) may also be subject to compliance with secured leverage ratios. As of December 31, 2019, the borrower and guarantors thereunder were in compliance with these covenants.

As of December 31, 2019, $220.0 million was outstanding under the A&R Term Loan Credit Agreement.

General 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 of $10.0 million. As of December 31, 2019, $7.5 million was payable pursuant to the 2018 Contingent Note and $10.0 million was payable pursuant to the 2019 Contingent note. The guarantee note, the 2018 Contingent Note, and the 2019 Contingent Note, collectively, "Notes Payable – VIP Acquisition" of $27.5 million require quarterly interest payments of 6.75% with the balance payable July 17, 2023.

The Company incurred debt issuance costs of $0.7 million during the year ended December 31, 2019, related to the A&R Credit Agreement and $5.1 million during the year ended December 31, 2019, related to the A&R Term Loan Credit Agreement.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations as of December 31, 2019:

		Payments Due by Period			
$'s in 000's	**Total**	**2020**	**2021-2022**	**2023-2024**	**Thereafter**
Long-term debt [(1)]	$ 259,312	$ 2,248	$ 4,503	$ 32,012	$ 220,549
Interest on debt	69,191	15,779	28,966	24,282	163
Operating lease obligations	24,540	5,706	9,602	6,304	2,928
Finance lease obligations	5,341	1,771	2,479	1,088	3
Product purchase obligations	40,279	34,542	1,912	1,093	2,732
R&D arrangement	20,500	400	12,850	7,250	—
Total contractual obligations	$ 419,163	$ 60,446	$ 60,312	$ 72,029	$ 226,375

(1) Long term debt includes the contingent notes earned at the end of 2018 and 2019, respectively, which had a combined recorded value of $17.5 million and will be paid in 2023.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the revenue and expenses incurred during the reported periods. On an ongoing basis, we evaluate our estimates and judgments, including those related to accrued expenses and stock-based compensation. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Changes in estimates are reflected in reported results for the period in which they become known. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are described in the notes to our financial statements appearing in this report, we believe that the following critical accounting policies are most important to understanding and evaluating our reported financial results.

Revenue Recognition

The Company recognizes product sales when product control is transferred to the customer, which is generally upon delivery or shipment of goods, depending on terms with a customer. Many customer contract include some form of variable consideration such as discounts, rebates, and sales returns and allowance. 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.

Revenue for services is recognized over time as the service is delivered, typically over a single day. Payment is typically rendered at the time of service.

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 Consolidated Balance Sheet.

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.

Inventories

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

Purchase Accounting

The purchase method of accounting requires companies to assign values to assets and liabilities acquired based upon their fair values at the acquisition date. In most instances, there are not readily defined or listed market prices for individual assets and liabilities acquired in connection with a business, including intangible assets. The determination of fair value for assets and liabilities in many instances requires a high degree of estimation. The valuation of intangible assets, in particular, is very subjective. We generally obtain third-party valuations to assist us in estimating fair values. The use of different valuation techniques and assumptions could change the amounts and useful lives assigned to the assets and liabilities acquired and the related amortization expense.

Accounting for Income Taxes

The Company’s annual income tax rate is based on its income, statutory tax rates, changes in prior tax positions and tax planning opportunities available in the various jurisdictions in which it operates. Significant judgment and estimates are required to determine the Company’s annual tax rate and evaluate its tax positions. Despite the Company’s belief that its

tax return positions are fully supportable, these positions are subject to challenge, and the Company may not be successful in defending these challenges.

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future. In evaluating our ability to recover our deferred tax assets in the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. The assumptions about future taxable income require the use of judgment and are consistent with the plans and estimates we are using to manage the underlying businesses. However, it is possible that some or all of these deferred tax assets could ultimately not be realized in the future if our operations are not able to generate sufficient taxable income to utilize the net deferred tax assets. Therefore, a substantial valuation allowance to reduce our deferred tax assets may be required, which would materially increase our expenses in the period the allowance is recognized and would adversely affect our results of operations and statement of financial condition.

Item 7A – 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 December 31, 2019, we had variable rate debt of approximately $230.0 million under our Revolver and Term Loan. An increase of 1% would have increased our interest expense for the year ended December 31, 2019 by approximately $1.5 million.

Item 8 – Financial Statements and Supplementary Data

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
PetIQ, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of PetIQ, Inc. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of (loss) income, comprehensive (loss) income, members'/stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for revenue recognition as of January 1, 2018 due to the adoption of ASC Topic 606, *Revenue from Contracts with Customers*, and related amendments.

As discussed in Notes 1 and 6 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standard Update No. 2016-02 *Leases (Topic 842)*, and related amendments.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2014.

Boise, Idaho
March 11, 2020

PetIQ, Inc.

Consolidated Balance Sheets

(In 000's except for per share amounts)

	December 31, 2019	December 31, 2018
Current assets		
Cash and cash equivalents	$ 27,272	$ 66,360
Accounts receivable, net	71,377	45,007
Inventories	79,703	92,142
Other current assets	7,071	4,212
Total current assets	185,423	207,721
Property, plant and equipment, net	52,525	27,335
Operating lease right of use assets	20,785	—
Deferred tax assets	59,780	43,946
Other non-current assets	3,214	2,857
Intangible assets, net	119,956	88,546
Goodwill	231,045	125,029
Total assets	$ 672,728	$ 495,434
Liabilities and equity		
Current liabilities		
Accounts payable	$ 51,538	$ 54,768
Accrued wages payable	9,082	5,295
Accrued interest payable	83	728
Other accrued expenses	3,871	1,154
Current portion of operating leases	4,619	—
Current portion of long-term debt and finance leases	3,821	2,251
Total current liabilities	73,014	64,196
Operating leases, less current installments	16,580	—
Long-term debt, less current installments	251,376	107,418
Finance leases, less current installments	3,331	2,319
Other non-current liabilities	117	524
Total non-current liabilities	271,404	110,261
Commitments and contingencies (Note 13)		
Equity		
Additional paid-in capital	300,120	262,219
Class A common stock, par value $0.001 per share, 125,000 shares authorized; 23,554 and 21,620 shares issued and outstanding, respectively	23	22
Class B common stock, par value $0.001 per share, 100,000 shares authorized; 4,752 and 6,547 shares issued and outstanding, respectively	5	7
Accumulated deficit	(15,903)	(4,450)
Accumulated other comprehensive loss	(1,131)	(1,316)
Total stockholders' equity	283,114	256,481
Non-controlling interest	45,196	64,496
Total equity	328,310	320,977
Total liabilities and equity	$ 672,728	$ 495,434

See accompanying notes to the consolidated financial statements.

PetIQ, Inc.
Consolidated Statements of (Loss) Income
(In 000's except for per share amounts)

	For the Year Ended December 31,		
	2019	**2018**	**2017**
Product sales	$ 617,118	$ 450,229	$ 266,687
Services revenue	92,313	78,385	—
Total net sales	709,431	528,614	266,687
Cost of products sold	530,031	383,501	215,493
Cost of services	72,017	61,825	—
Total cost of sales	602,048	445,326	215,493
Gross profit	107,383	83,288	51,194
Operating expenses			
General and administrative expenses	103,200	72,260	37,905
Contingent note revaluation loss	7,320	3,280	—
Operating (loss) income	(3,137)	7,748	13,289
Interest expense, net	(14,495)	(8,022)	(1,563)
Foreign currency (loss) gain, net	(151)	45	(140)
Other income (expense), net	172	(345)	201
Total other expense, net	(14,474)	(8,322)	(1,502)
Pretax net (loss) income	(17,611)	(574)	11,787
Income tax benefit (expense)	3,309	661	(3,970)
Net (loss) income	(14,302)	87	7,817
Net (loss) income attributable to non-controlling interest	(2,849)	869	11,310
Net loss attributable to PetIQ, Inc.	$ (11,453)	$ (782)	$ (3,493)
Net loss per share attributable to PetIQ, Inc. Class A common stock			
Basic	$ (0.51)	$ (0.05)	$ (0.26)
Diluted	$ (0.51)	$ (0.05)	$ (0.26)
Weighted average shares of Class A common stock outstanding			
Basic	22,652	17,216	13,223
Diluted	22,652	17,216	13,223

See accompanying notes to the consolidated financial statements.

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

	For the Year Ended December 31,		
	2019	**2018**	**2017**
Net (loss) income	$ (14,302)	$ 87	$ 7,817
Foreign currency translation adjustment	366	(613)	823
Comprehensive (loss) income	(13,936)	(526)	8,640
Comprehensive (loss) income attributable to non-controlling interest	(2,777)	697	11,943
Comprehensive loss attributable to PetIQ	$ (11,159)	$ (1,223)	$ (3,303)

See accompanying notes to the consolidated financial statements.

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

	For the Year Ended December 31,		
	2019	**2018**	**2017**
Cash flows from operating activities			
Net (loss) income	$ (14,302)	$ 87	$ 7,817
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities			
Depreciation and amortization of intangible assets and loan fees	16,509	12,467	3,614
Foreign exchange loss on liabilities	—	16	228
(Gain) Loss on disposition of property, plant, and equipment	(189)	(90)	20
Stock based compensation expense	7,355	3,812	447
Deferred tax adjustment	(3,458)	(843)	3,690
Contingent note revaluation	7,320	3,280	—
Other non-cash activity	405	(334)	—
Changes in assets and liabilities			
Accounts receivable	(14,123)	(14,209)	(4,313)
Inventories	30,448	(36,610)	(9,718)
Other assets	(1,619)	1,423	(721)
Accounts payable	(7,595)	15,701	4,152
Accrued wages payable	2,800	1,979	694
Other accrued expenses	(2,718)	908	(28)
Net cash provided by (used in) operating activities	20,833	(12,413)	5,882
Cash flows from investing activities			
Proceeds from disposition of property, plant, and equipment	340	229	—
Purchase of property, plant, and equipment	(10,276)	(7,178)	(4,131)
Business acquisitions (net of cash acquired)	(185,090)	(93,052)	—
Net cash used in investing activities	(195,026)	(100,001)	(4,131)
Cash flows from financing activities			
Proceeds from issuance of long-term debt	818,387	538,028	260,020
Principal payments on long-term debt	(676,509)	(466,912)	(270,458)
Proceeds from public offering of class A common stock, net of underwriting discounts and offering costs	—	73,914	104,010
Repayment of preference notes	—	—	(55,960)
Change in restricted deposits	—	—	50
Tax distributions to LLC Owners	(1,686)	(1,485)	—
Purchase of LLC units from Continuing LLC Owners	—	—	(2,133)
Principal payments on finance lease obligations	(1,547)	(1,254)	(116)
Payment of deferred financing fees and debt discount	(5,790)	(2,750)	(42)
Tax withholding payments on Restricted Stock Units	(114)	—	—
Exercise of options to purchase class A common stock	2,318	1,429	—
Net cash provided by financing activities	135,059	140,970	35,371
Net change in cash and cash equivalents	(39,134)	28,556	37,122
Effect of exchange rate changes on cash and cash equivalents	46	(92)	7
Cash and cash equivalents, beginning of period	66,360	37,896	767
Cash and cash equivalents, end of period	$ 27,272	$ 66,360	$ 37,896

See accompanying notes to the consolidated financial statements.

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

Supplemental cash flow information	For the Year Ended December 31, 2019	2018	2017
Interest paid	$ 13,632	$ 7,220	$ 1,353
Net change in property, plant, and equipment acquired through accounts payable	(1,814)	25	(80)
Finance lease additions	(3,006)	656	35
Issuance of preference notes for LLC Interests	—	—	55,960
Net change of deferred tax asset from step-up in basis	12,381	36,882	9,441
Income taxes paid	249	640	323
Accrued tax distribution	786	2,097	597
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	—	103,004	—

See accompanying notes to the consolidated financial statements.

PetIQ, Inc.
Consolidated Statements of Members'/Stockholders' Equity
(In 000's)

	Members Equity	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Class A Common		Class B Common		Additional Paid-in Capital	Non-controlling Interest	Total Equity
				Shares	Dollars	Shares	Dollars			
Balance - January 1, 2017	$ 42,941	$ —	$ (1,940)	—	$ —	—	$ —	$ —	$ (19)	$ 40,982
Net income prior to IPO	11,165	—	—	—	—	—	—	—	(4)	11,161
Other comprehensive income prior to IPO	—	—	515	—	—	—	—	—	—	515
Accrued tax distribution prior to recapitalization	(591)	—	—	—	—	—	—	—	—	(591)
Recapitalization transaction:										
Issuance of Class A common stock for merger	—	—	—	6,035	6	—	—	—	—	6
Exchange of LLC Interests held by Continuing LLC Owners and certain employees for Class A common stock	(53,515)	—	668	—	—	—	—	28,459	24,388	—
Issuance of Class B Shares	—	—	—	—	—	8,402	8	—	—	8
Initial Public Offering transactions	—	—	—	—	—	—	—	—	—	—
Issuance of Class A Shares for IPO net of under writing discounts and offering costs	—	—	—	7,188	7	—	—	104,003	—	104,010
Issuance of preference notes to affiliates	—	—	—	—	—	—	—	(55,960)	—	(55,960)
Increase in deferred tax asset from step-up in tax basis	—	—	—	—	—	—	—	9,441	—	9,441
Purchase of non-controlling interests	—	—	(120)	—	—	(133)	—	(15,345)	13,332	(2,133)
Accrued tax distributions	—	—	—	—	—	—	—	—	(6)	(6)
Stock based compensation	—	—	—	—	—	—	—	275	172	447
Other comprehensive income post IPO	—	—	190	—	—	—	—	—	119	308
Net (loss) income post IPO	—	(3,493)	—	—	—	—	—	—	149	(3,344)
Balance - December 31, 2017	—	$ (3,493)	$ (687)	13,223	$ 13	8,268	$ 8	$ 70,873	$ 38,130	$ 104,844
ASC 606 adoption, net of tax	—	(175)	—	—	—	—	—	—	(110)	(285)
Issuance of equity for business combination	—	—	128	—	—	4,600	5	43,075	59,796	103,004
Exchange of LLC Interests held by LLC Owners	—	—	(290)	6,321	6	(6,321)	(6)	47,458	(47,168)	—
Net increase in deferred tax asset from LLC Interest transactions	—	—	—	—	—	—	—	36,882	—	36,882
Accrued tax distributions	—	—	—	—	—	—	—	—	(2,097)	(2,097)
Other comprehensive income	—	—	(441)	—	—	—	—	—	(172)	(613)
Public offering	—	—	—	2,000	2	—	—	73,912	—	73,914
Equity shift as a result of the public offering	—	—	(26)	—	—	—	—	(13,914)	13,940	—
Stock based compensation expense	—	—	—	—	—	—	—	2,504	1,308	3,812
Exercise of Options to purchase Common Stock	—	—	—	76	—	—	—	1,429	—	1,429
Net (loss) income	—	(782)	—	—	—	—	—	—	869	87
Balance - December 31, 2018	—	$ (4,450)	$ (1,316)	21,620	$ 22	6,547	$ 7	$ 262,219	$ 64,496	$ 320,977
Exchange of LLC Interests held by LLC Owners	—	—	(109)	1,794	1	(1,794)	(1)	17,299	(17,190)	—
Net increase in deferred tax asset from LLC Interest transactions	—	—	—	—	—	—	—	12,381	—	12,381
Accrued tax distributions	—	—	—	—	—	—	—	—	(786)	(786)
Other comprehensive income	—	—	294	—	—	—	—	—	72	366
Stock based compensation expense	—	—	—	—	—	—	—	5,902	1,453	7,355
Exercise of Options to purchase Common Stock	—	—	—	119	—	—	—	2,318	—	2,318
Issuance of stock vesting of RSU's	—	—	—	21	—	—	—	—	—	—
Net loss	—	(11,453)	—	—	—	—	—	—	(2,849)	(14,302)
Balance - December 31, 2019	—	$ (15,903)	$ (1,131)	23,554	$ 23	4,752	$ 5	$ 300,120	$ 45,196	$ 328,310

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

See accompanying notes to the consolidated financial statements.

Notes to the consolidated financial statements

Note 1 – Principal Business Activity and Significant Accounting Policies

Principal Business Activity and Principals of Consolidation

PetIQ is a leading pet medication and wellness company delivering a smarter way for pet parents to help their pets live their best lives through convenient access to affordable veterinary products and services. The company engages with customers through points of distribution across retail and e-commerce channels with its branded distributed medications, which is further supported by its own world-class medications manufacturing facility in Omaha, Nebraska. The Company's national service platform, VIP Petcare, operates retail partner locations providing cost effective and convenient veterinary wellness services.

We are the 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 the business and affairs of Opco.

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

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

Fair Value of Financial Instruments

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

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

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

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

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

The carrying amounts of the Company's financial instruments, including cash, 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.

A portion of the purchase price for the acquisition of Community Veterinary Clinics, LLC d/b/a VIP Petcare (“VIP” and such acquisition, the “VIP Acquisition”) was 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 liabilities related to the 2018 and 2019 Contingent Notes became fixed as of December 31, 2018 and 2019, respectively, and are carried at cost, which approximates fair value as the stated interest rate is consistent with current market rates.

The Contingent Notes are included in long-term debt in the accompanying consolidated balance sheets. The Contingent Notes began bearing interest at a fixed rate of 6.75%, with the balance payable July 17, 2023.

The following table summarizes the Level 3 activity related to the Contingent Notes:

	Year ended	
$'s in 000's	**December 31, 2019**	**December 31, 2018**
Balance at beginning of the period	$ 2,680	$ —
Fair value of contingent consideration at VIP Acquisition date	—	6,900
Change in fair value of contingent consideration	7,320	3,280
Transfer out of level 3	(10,000)	(7,500)
Balance at the end of the period	$ —	$ 2,680

Cash and Cash Equivalents

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

Receivables and Credit Policy

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

Other receivables consists of various receivables due from vendors, banking partners, and notes receivable from suppliers. Non-current portions of these other receivables are included in other non-current assets on the consolidated balance sheets.

Accounts receivable consists of the following as of:

$'s in 000's	**December 31, 2019**	**December 31, 2018**
Trade receivables	$ 67,551	$ 43,531
Other receivables	4,257	1,764
	71,808	45,295
Less: Allowance for doubtful accounts	(431)	(216)
Non-current portion of receivables	—	(72)
Total accounts receivable, net	$ 71,377	$ 45,007

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined on the first-in first-out (“FIFO”) method and includes estimated rebate amounts. The Company maintains reserves for estimated obsolete or unmarketable inventory based on the difference between the cost of inventory and its estimated net realizable value. In estimating the

reserves, management considers factors such as excess or slow-moving inventories, product expiration dating, and market conditions. Changes in these conditions may result in additional reserves. Major components of inventories consist of the following as of:

$'s in 000's	December 31, 2019	December 31, 2018
Raw materials	$ 10,675	$ 6,106
Work in progress	1,717	94
Finished goods	67,311	85,942
Total inventories	$ 79,703	$ 92,142

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

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

Intangible Assets

Indefinite lived intangible assets consist primarily of trademarks and in-process research and development (“IPRD”). Trademarks represent the value assigned to acquired, legally registered phrases and graphic designs that identify and distinguish products sold by the Company. The trademarks acquired as part of the Perrigo Animal Health Acquisition are accounted for as indefinite-lived assets. IPRD represents the value assigned to acquired research and development projects that principally represent rights to develop and sell a product that the Company has acquired which have not yet been completed or approved. The IPRD acquired as part of the Perrigo Animal Health Acquisition is accounted for as an indefinite-lived asset until the product is available for sale and regulatory approval is obtained, or abandonment of the associated research and development efforts. If the research and development efforts are successfully completed, the IPRD would be amortized over its then estimated useful life. The fair value of the IPRD was estimated using the multi-period excess earnings income method. The projected cash flows estimates for the future products were based on certain key assumptions including estimates of future revenues and expenses, taking into account the stage of development at the acquisition date and the resources needed to complete development. Trademarks and IPRD are not amortized, rather potential impairment is considered on an annual basis in the fourth quarter, or more frequently upon the occurrence of an event, when circumstances indicate that the book value of trademarks and IPRD are greater than their fair value. The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of the indefinite lived intangible asset is less than the carrying value as a basis to determine whether further impairment testing under ASC 350 is necessary. No impairment charge was recorded for the years ended December 31, 2019, 2018, and 2017.

Definite-lived intangible assets consist of a distribution agreement, production certifications, patents and processes, customer relationships, and brand names. The assets are amortized on either a straight-line basis or proportionately to the benefits derived from those relationships or agreements. Useful lives vary by asset type and are determined based on the period over which the intangible asset is expected to contribute directly or indirectly to the company’s future cash flows. Useful lives range from 2 to 20 years.

Goodwill

Goodwill is the excess of the consideration paid over the fair value of specifically identifiable assets, liabilities and contingent liabilities in a business combination and relates to the future economic benefits arising from assets, which are not capable of being individually identified and separately recognized.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized but is reviewed for impairment annually in the Company's fourth quarter or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Under ASU 2017-04 (Topic 350), *Intangibles - Goodwill and Other – Simplifying the Test for Goodwill Impairment*, companies are no longer required to determine the fair value of individual assets and liabilities of a reporting unit to measure goodwill impairment, thus eliminating Step Two of the analysis that was required under the prior guidance. Under ASU 2017-04, goodwill impairment testing is performed by comparing the fair value of the reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value.

The update to the standard does not eliminate the optional qualitative assessment of goodwill impairment that is often used to determine if the quantitative assessment is necessary. The qualitative assessment requires the evaluation of certain events and circumstances such as macroeconomic conditions, industry and market considerations, cost factors and overall financial performance, as well as company and reporting unit specific items. If, after assessing these qualitative factors, the Company determines that it is more likely than not that the carrying value of the reporting unit is less than its fair value, then no further testing is required. Otherwise, the Company would perform a quantitative analysis.

The quantitative analysis requires companies to compare the fair value of the reporting units to which goodwill was assigned to their respective carrying values. If the fair value exceeds the carrying value, no further work is required and no impairment loss is recognized. If the carrying value exceeds the fair value, the goodwill of the reporting unit is potentially impaired, and the carrying value of goodwill is then reduced to the implied value, or to zero if the fair value of the assets exceeds the fair value of the reporting unit, through an impairment charge.

The Company performed its qualitative assessment during the fourth fiscal quarter of 2019 and concluded that it was more likely than not that the fair values of its reporting units were greater than their carrying amounts. After reaching this conclusion, the quantitative impairment test was unnecessary and no further testing was performed. The qualitative factors that were considered included, but were not limited to, general economic conditions, outlook for the pet sector, market capitalization, consolidated company stock price, and recent and forecasted financial performance.

Goodwill impairment analysis and measurement is a process that requires significant judgment. If there are significant changes in market conditions or a future downturn in our business, or a future annual goodwill impairment test indicates an impairment of our goodwill, the Company may have to recognize impairment of its goodwill.

Revenue Recognition

When Performance Obligations Are Satisfied

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

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

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

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

The performance obligations in our contracts are satisfied within one year. As such, we have not disclosed the transaction price allocated to remaining performance obligations as of December 31, 2019.

Variable Consideration

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

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

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

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

Significant Payment Terms

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

Shipping

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

Warranties & Returns

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

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

Contract balances

Contract asset and liability balances as of December 31, 2019 and 2018 are immaterial. The Company does not have significant deferred revenue or unbilled receivable balances.

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

	Year ended December 31, 2019		
$'s in 000's	**U.S.**	**Foreign**	**Total**
Products sales	$ 610,986	$ 6,132	$ 617,118
Services revenue	92,313	—	92,313
Total net sales	$ 703,299	$ 6,132	$ 709,431

	Year ended December 31, 2018		
$'s in 000's	**U.S.**	**Foreign**	**Total**
Products sales	$ 444,364	$ 5,865	$ 450,229
Services revenue	78,385	—	78,385
Total net sales	$ 522,749	$ 5,865	$ 528,614

	Year ended December 31, 2017		
$'s in 000's	**U.S.**	**Foreign**	**Total**
Products sales	$ 261,526	$ 5,161	$ 266,687
Services revenue	—	—	—
Total net sales	$ 261,526	$ 5,161	$ 266,687

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 $1.3 million, $0.2 million, and $0.5 million and advertising costs were $4.5 million, $2.9 million, and $2.2 million for the years ended December 31, 2019, 2018, and 2017, respectively.

Collaboration Agreements

Through the Perrigo Animal Health Acquisition, we entered into a product development and asset purchase agreement with a third party for certain product formulations in development by the third party. The Company may make up to $20.5 million of payments over the course of the next several years contingent on achievement of certain development and regulatory approval milestones. Product development costs are expensed as incurred or as milestone payments become probable. There can be no assurance that these products will be approved by the U.S. Food and Drug Administration ("FDA") on the anticipated schedule or at all. Consideration paid after FDA approval will be capitalized and amortized to cost of goods sold over the economic life of each product. The expenses paid prior to FDA approval will be included in General and Administrative expenses on the Consolidated Statements of (Loss) Income. There were no expenses incurred under the agreement for the period ended December 31, 2019.

Litigation

The Company is subject to various legal proceedings, claims, litigation, investigations and contingencies arising out of the ordinary course of business. If the likelihood of an adverse legal outcome is determined to be probable and the amount of loss is estimable, then a liability is accrued in accordance with accounting guidance for Contingencies. If the assessment indicates a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. The Company consults with both internal and external legal counsel related to litigation. See Note 13 for more information.

Stock based compensation

The Company expenses employee share-based awards under ASC Topic 718, Compensation—Stock Compensation, which requires compensation cost for the grant-date fair value of share-based awards to be recognized over the requisite service period. Stock options granted to executives and other employees are valued using the Black-Scholes option pricing model. See Note 9 for more information.

Accounting for Income Taxes

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

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

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

Interest expense, net

Interest expense, net, is comprised primarily of interest expense related to (i) our debt agreements, (ii) unused line fees, (iii) amortization of deferred loan fees, (iv) finance lease obligations and the mortgage note outstanding, offset by interest income earned on our demand deposits and other assets. Interest expense was $14.9 million, $8.3 million, and $1.6 million

for the years ended December 31, 2019, 2018, and 2017, respectively, offset by $0.4 million, $0.3 million, and $0.1 million of interest income, respectively.

Non-controlling interest

The non-controlling interests on the condensed consolidated statements of (loss) income represents the portion of earnings or loss attributable to the economic interest in the Company's subsidiary, Holdco, held by the non-controlling holders of Class B common stock and limited liability company interests in Holdco. Non-controlling interests on the condensed consolidated balance sheet represents the portion of net assets of the Company attributable to the non-controlling holders of Class B common stock and Limited Liability Company interests in Holdco. As of December 31, 2019 and December 31, 2018 the non-controlling interest was approximately 16.8% and 23.2%, respectively.

Earnings Per Share

Basic earnings per share is computed by dividing net (loss) income attributable to PetIQ, Inc. by the weighted average shares outstanding during the period. Diluted earnings per share is computed by dividing net (loss) income attributable to PetIQ, Inc., adjusted as necessary for the impact of potentially dilutive securities, by the weighted-average shares outstanding during the period and the impact of securities that would have a dilutive effect on earnings per share. See Note 8 for further discussion.

Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to current year presentation. These reclassifications had no impact on net (loss) income, members'/shareholders' equity, or cash flows as previously reported.

Recently Issued Accounting Pronouncements / Adopted Accounting Standard Updates

From time to time, the Financial Accounting Standards Board ("FASB") or other standards setting bodies issue new accounting pronouncements. Updates to the Accounting Standards Codification ("ASC") are communicated through issuance of an Accounting Standards Update ("ASU").

In May 2014, the FASB issued ASC Topic 606, Revenue from Contracts with Customers, and subsequently issued several related ASUs (collectively, "Topic 606"), which provide guidance for recognizing revenue from contracts with customers. The core principle of Topic 606 is that revenue is recognized when promised goods or services are transferred to customers in an amount that reflects consideration for which entitlement is expected in exchange for those goods or services. Topic 606 was effective commencing with our quarter ending March 31, 2018.

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 Consolidated Financial Statements.

Results for the years ended December 31, 2018 and 2019 are presented under Topic 606. Prior periods are not adjusted and will continue to be reported under ASC 605 Revenue Recognition.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." The purpose of ASU 2016-02 is 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. In addition, ASU 2016-02 modifies the definition of a lease to clarify that an arrangement contains a lease when such arrangement conveys the right to control the use of an identified asset. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within the year of adoption. Originally under ASU 2016-02, an organization was required upon adoption to recognize and measure leases beginning in the earliest period presented using a modified retrospective approach and restate the financial statements for all periods presented. In July 2018, the FASB issued ASU 2018-11, which amends ASU 2016-02 to provide

organizations with an additional (and optional) transition method whereby it may elect to recognize and measure leases by applying the cumulative impact of adopting ASU 2016-02 to the opening retained earnings balance in the period of adoption, thereby removing the requirement that the financial statements of prior periods by restated. The Company adopted the provisions of this guidance effective January 1, 2019, using the modified retrospective optional transition method. Therefore, the standard was applied beginning January 1, 2019 and prior periods were not restated. The adoption of the standard did not result in a cumulative-effect adjustment to the opening balance of accumulated deficit. The Company elected the package of practical expedients and implemented internal controls and system functionality to enable the preparation of financial information upon adoption. In addition, the Company has elected to apply the practical expedient to not separate the lease and non-lease components for all of the Company's leases.

The adoption of the new standard resulted in the recognition of a right of use asset and short-term and long-term liabilities recorded on the Company's consolidated balance sheet related to operating leases. Accounting for finance leases remained substantially unchanged. In addition, the adoption of the standard did not have a material impact on the Company's results of operations or cash flows.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments." ASU 2016-13 adds a current expected credit loss ("CECL") impairment model to U.S. GAAP that is based on expected losses rather than incurred losses. Modified retrospective adoption is required with any cumulative-effect adjustment recorded to retained earnings as of the beginning of the period of adoption. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within the year of adoption. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. PetIQ will adopt the new guidance in fiscal year 2020. PetIQ does not expect the application of the CECL impairment model to have a significant impact on PetIQ's allowance for uncollectible amounts for accounts receivable.

In March 2018, the FASB issued ASU No. 2018-05, Income Taxes (Topic 740), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118. The amendments add various SEC paragraphs pursuant to the issuance of SEC Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("Act") ("SAB 118"). The SEC issued SAB 118 to address concerns about reporting entities' ability to timely comply with the accounting requirements to recognize all of the effects of the Act in the period of enactment. SAB 118 allows disclosure that timely determination of some or all of the income tax effects from the Act are incomplete by the due date of the financial statements and if possible to provide a reasonable estimate. The Company completed accounting for the Act during the year ended December 31, 2018. See Note 7 – Income Taxes, for the Company's assessment of the income tax effects of the Act.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820) Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 amends ASC 820 to add, remove, and modify fair value measurement disclosure requirements. The ASU's changes to disclosures aim to improve the effectiveness of ASC 820's disclosure requirements under the aforementioned FASB disclosure framework project. ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods within the year of adoption. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted for any eliminated or modified disclosures prescribed by the ASU. This ASU is effective for the Company beginning in interim periods starting in fiscal year 2020. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

Note 2 – Business Combinations

Perrigo Animal Health Acquisition

On July 8, 2019, PetIQ, Inc., through its subsidiary PetIQ, LLC, completed the acquisition of all the outstanding stock of Sergeant's Pet Care Products, Inc. ("Sergeant's"), d/b/a Perrigo Animal Health, including any assets related to Perrigo

Company plc's animal health business (the "Perrigo Animal Health Acquisition"). Sergeant's is now an indirect wholly-owned subsidiary of the Company.

The fair value of the consideration is summarized as follows:

$'s in 000's		**Fair Value**
Inventories	$	17,998
Property, plant and equipment		19,568
Other current assets		13,048
Other assets		9,680
Indefinite-lived intangible assets		23,040
Definite-lived intangible assets - 13 year weighted average life		14,480
Goodwill		105,838
Total assets		203,652
Liabilities assumed		19,259
Purchase price	$	184,393
Cash paid, net of cash acquired	$	(185,090)
Post-closing working capital adjustment		697
Fair value of total consideration transferred	$	(184,393)

The definite-lived intangibles primarily relate to trademarks, customer relationships, and developed technology and know-how. The $14.6 million represents the fair value and will be amortized over the estimated useful lives of the assets through June 2039. Amortization expense for these definite-lived intangible assets at December 31, 2019 was $1.1 million.

The indefinite-lived intangibles primarily relate to trademarks and in-process research and development. We evaluate goodwill and indefinite-lived intangible assets for impairment on an annual basis and more frequently if an event occurs or circumstances change that would indicate impairment may exist.

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 $105.8 million of goodwill is expected to be deductible for tax purposes. Goodwill was allocated to the Products segment.

Transaction costs of $6.1 million were incurred in the year ended December 31, 2019, and are included in General and Administrative expenses on the Consolidated Statements of (Loss) Income.

Pro Forma Combined Statements of Operations (Unaudited)

The following unaudited pro forma combined statements of operations presents the Company's operations as if the Perrigo Animal Health Acquisition and related financing activities had occurred on January 1, 2018. The pro forma information includes the following adjustments for nonrecurring charges (i) removal of costs of goods sold based on the step-up in fair value of acquired inventory of $4.8 million; and (ii) elimination of acquisition expenses of $6.1 million. Additionally the share count utilized and Net (Loss) Income do not account for non-controlling interest. The pro forma combined statements

of operations are not necessarily indicative of the results of operations as they would have been had the Perrigo Animal Health Acquisition been effected on the assumed date and are not intended to be a projection of future results:

	Year ended December 31,	
($'s in 000's, except per share data)	**2019**	**2018**
Net sales	$ 751,348	$ 618,678
Net (loss) income	$ (6,888)	$ (184,744)
(Loss) Earnings per share:		
Basic	$ (0.30)	$ (10.73)
Diluted	$ (0.30)	$ (10.73)

For the twelve months ended December 31, 2019, the acquired business had Product sales of $28.9 million and pre-tax net income of $1.2 million included in the Consolidated Statements of (Loss) Income.

HBH Enterprises

On October 17, 2018, the Company completed the acquisition of HBH Enterprises, LLC (“HBH”) (the “HBH Acquisition”).

The fair value of the consideration is summarized as follows:

$'s in 000's	**Fair Value**
Working Capital, net	$ 1,676
Property, plant, and equipment	2,686
Intangible assets - Customer relationships (15 year useful life)	3,800
Goodwill	7,607
Total assets	15,769
Capital lease obligations	1,114
Total liabilities	1,114
Estimated purchase price	$ 14,655
Cash paid, net of cash acquired	$ 1,683
LLC Interests and shares of Class B common stock	12,972
Estimated fair value of total consideration transferred	$ 14,655

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 $5.0 million of the $7.6 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 segment.

VIP Acquisition

On January 17, 2018, PetIQ, Inc. completed the VIP Acquisition.

The fair value of the consideration is summarized as follows:

$'s in 000's	Fair value
Current assets	$ 15,617
Property, plant, and equipment	8,885
Other assets, net	295
Intangible assets - Customer relationships (20 year useful life)	77,200
Intangible assets - Brand names (10 year useful life)	9,600
Goodwill	112,643
Total assets	224,240
Current liabilities	22,908
Capital lease obligations	3,032
Total liabilities	25,940
Purchase price	$ 198,300
Cash paid, net of cash acquired	$ 92,082
LLC Interests and shares of Class B common stock	90,031
Guarantee note	10,000
Contingent notes	6,900
Post-closing working capital adjustment	(713)
Fair value of total consideration transferred	$ 198,300

The definite-lived intangibles primarily relate to customer relationships and brand names. The $86.8 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 year ended December 31, 2019 and 2018 was $4.3 million and $4.7 million, respectively.

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 $49.8 million of the $112.6 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.

Note 3 – Property, Plant, and Equipment

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

$'s in 000's	December 31, 2019	December 31, 2018
Leasehold improvements	$ 15,517	$ 10,776
Equipment	23,138	14,477
Vehicles and accessories	6,007	3,989
Computer equipment and software	8,070	5,839
Buildings	10,050	2,479
Furniture and fixtures	1,836	1,547
Land	4,557	660
Construction in progress	3,392	682
	72,567	40,449
Less accumulated depreciation	(20,042)	(13,114)
Total property, plant, and equipment	$ 52,525	$ 27,335

Depreciation and amortization expense related to these assets total $9.1 million, $6.7 million, and $2.3 million for the years ended December 31, 2019, 2018, and 2017, respectively.

Note 4 – Intangible Assets and Goodwill

Intangible assets consist of the following at:

$'s in 000's	Useful Lives	December 31, 2019	December 31, 2018
Amortizable intangibles			
Distribution agreement	2 years	$ —	$ 3,021
Certification	7 years	350	350
Customer relationships	12-20 years	89,232	82,124
Patents and processes	5-10 years	4,928	1,900
Brand names	5-15 years	15,019	10,470
Total amortizable intangibles		109,529	97,865
Less accumulated amortization		(13,058)	(9,835)
Total net amortizable intangibles		96,471	88,030
Non-amortizable intangibles			
Trademarks and other		18,016	516
In-process research and development		5,469	—
Intangible assets, net of accumulated amortization		$ 119,956	$ 88,546

Certain intangible assets are denominated in currencies other than the U.S. Dollar; therefore, their gross and net carrying values are subject to foreign currency movements. Amortization expense for the years ended December 31, 2019, 2018, and 2017 was $6.0 million, $5.2 million, and $1.1 million, respectively.

The IPRD, intangible assets represent the value assigned to acquired R&D projects that principally represent rights to develop and sell a product that the Company has acquired which have not yet been completed or approved. The IPRD acquired as part of the Perrigo Animal Health Acquisition is accounted for as an indefinite-lived asset until the product is available for sale and regulatory approval is obtained, or abandonment of the associated research and development efforts. If the research and development efforts are successfully completed, the IPRD would be amortized over its then estimated useful life. The fair value of the IPRD was estimated using the multi-period excess earnings income method. The projected cash flows estimates for the future products were based on certain key assumptions including estimates of future revenues and expenses, taking into account the stage of development at the acquisition date and the resources needed to complete development.

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

Years ending December 31, ***($'s in 000's)***	
2020	$ 9,012
2021	8,996
2022	9,173
2023	8,809
2024	6,797
Thereafter	53,684

The following is a summary of the changes in the carrying value of goodwill for the years ended December 31, 2019 and 2018.

	Reporting Unit		
($'s in 000's)	**Products**	**Services**	**Total**
Goodwill as of January 1, 2018	$ 5,064	$ —	$ 5,064
Foreign currency translation	(285)	—	(285)
Acquisitions	72,986	47,264	120,250
Goodwill as of December 31, 2018	77,765	47,264	125,029
Foreign currency translation	178	—	178
Acquisitions	105,838	—	105,838
Goodwill as of December 31, 2019	$ 183,781	$ 47,264	$ 231,045

Note 5 – Debt

A&R Credit Agreement

In connection with the Perrigo Animal Health Acquisition described in Note 2 – Business Combinations in the notes to the consolidated financial statements, the Company amended the existing revolving credit agreement of PetIQ, LLC and each of its domestic wholly-owned subsidiaries (the "Amended Revolving Credit Agreement") on July 8, 2019. The Amended Revolving Credit Agreement provides for a secured revolving credit facility of $110 million, with an accordion feature allowing an additional increase up to a total facility of $125 million and extends the maturity date of the revolving facility to July 8, 2024. In addition, the Amended Revolving Credit Agreement reduces the interest rate on Eurodollar rate loans and modifies certain financial covenants, including eliminating the maximum first lien net coverage ratio. The borrowers under the Amended Revolving Credit Facility incur fees between 0.375% and 0.50% as unused facility fees, dependent on the aggregate amount borrowed.

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

The Amended Revolving Credit Agreement contains a number of covenants that, among other things, restrict the ability of the borrowers and guarantors thereunder to (subject to certain exceptions): (i) make investments, loans or advances; (ii) incur additional indebtedness; (iii) create liens on assets; (iv) engage in mergers or consolidations and/or sell assets; (v) pay dividends and distributions or repurchase our equity interests; (vi) repay subordinated indebtedness; (vii) make certain acquisitions; and (viii) other restrictions typical for a credit agreement of this type. As of December 31, 2019, the borrowers and guarantors thereunder were in compliance with these covenants.

The Amended Revolving Credit Agreement also contains certain customary affirmative covenants and events of default (including change of control). In addition, the Amended Revolving Credit Agreement contains a minimum fixed charge coverage ratio covenant which is tested if availability under the Amended Revolving Credit Agreement falls below a certain level. As of December 31, 2019, the borrowers and guarantors thereunder were in compliance with these covenants.

As of December 31, 2019, $10.0 million was outstanding under the Amended Revolving Credit Agreement. The weighted average interest rate on the Amended Revolving Credit Agreement was 3.5% at December 31, 2019.

A&R Term Loan Credit Agreement

Also in connection with the closing of the Perrigo Animal Health Acquisition, the Company amended and restated the existing term loan credit agreement of PetIQ, LLC (the "A&R Term Loan Credit Agreement") on July 8, 2019. The A&R Term Loan Credit Agreement was increased from $74.1 million to $220.0 million at an interest rate equal to the Eurodollar rate plus 4.50%, the proceeds of which were used to refinance the existing term loan facility and consummate the acquisition.

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

The A&R Term Loan Credit Agreement contains a number of covenants that, among other things, restrict the ability of the borrower and guarantors thereunder to (subject to certain exceptions): (i) make investments, loans or advances; (ii) incur additional indebtedness; (iii) create liens on assets; (iv) engage in mergers or consolidations and/or sell assets; (v) pay dividends and distributions or repurchase our equity interests; (vi) repay subordinated indebtedness; (vii) make certain

acquisitions; and (viii) other restrictions typical for a credit agreement of this type. As of December 31, 2019, the borrower and guarantors thereunder were in compliance with these covenants.

The A&R Term Loan Credit Agreement also contains certain customary affirmative covenants and events of default (including change of control). In addition, the A&R Term Loan Credit Agreement includes a maintenance covenant that requires compliance with a maximum first lien net leverage ratio. The availability of certain baskets and the ability to enter into certain transactions (including our ability to pay dividends) may also be subject to compliance with secured leverage ratios. As of December 31, 2019, the borrower and guarantors thereunder were in compliance with these covenants.

As of December 31, 2019, $220.0 million was outstanding under the A&R Term Loan Credit Agreement.

General 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 of $10.0 million. As of December 31, 2019, $7.5 million was payable pursuant to the 2018 Contingent Note and $10.0 million was payable pursuant to the 2019 Contingent Note. The guarantee note and the Contingent Notes, collectively, “Notes Payable – VIP Acquisition” of $27.5 million require quarterly interest payments of 6.75% with the balance payable July 17, 2023. The following represents the Company’s long-term debt as of:

$'s in 000's	**December 31, 2019**	**December 31, 2018**
Term loans	$ 220,000	$ 74,625
Revolving credit facility	10,000	13,452
Mortgage	1,812	1,859
2019 Contingent note	—	2,680
Notes Payable - VIP Acquisition	27,500	17,500
Net discount on debt and deferred financing fees	(5,688)	(1,902)
	$ 253,624	$ 108,214
Less current maturities of long-term debt	(2,248)	(796)
Total long-term debt	$ 251,376	$ 107,418

Future maturities of long-term debt, excluding net discount on debt and deferred financing fees, as of December 31, 2019, are as follows:

($'s in 000's)	
2020	$ 2,248
2021	2,250
2022	2,253
2023	29,755
2024	2,257
Thereafter	220,549

The Company incurred debt issuance costs of $0.7 million during the year ended December 31, 2019 related to the A&R Credit Agreement and $5.1 million related to the A&R Term Loan Credit Agreement.

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 2020 and 2026. A portion of leases are denominated in foreign currencies.

On January 1, 2019, the Company adopted ASU No. 2016-02, “Leases (Topic 842),” which requires most leases to be recognized on the balance sheet. The Company adopted the standard using the modified retrospective method and used

the effective date as our date of initial adoption. Prior year financial statements were not restated under the new standard and, therefore, those amounts are not presented below. For both operating and finance leases, the Company recognizes a right-of-use asset, which represents the right to use the underlying asset for the lease term, and a lease liability, which represents the present value of our obligation to make payments arising over the lease term.

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

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

The effect of the changes made to our consolidated balance sheet as of January 1, 2019 for the adoption of the new lease standard was as follows:

$'s in 000's	**Balance at December 31, 2018**	**Adjustments due to ASC 842**	**Balance at January 1, 2019**
ASSETS			
Property and equipment, net [(1)]	$ 27,335	$ —	$ 27,335
Operating lease right-of-use assets	—	10,424	10,424
Other non-current assets	2,857	(116)	2,741
LIABILITIES			
Current portion of operating leases	$ —	$ 2,921	$ 2,921
Operating Leases, less current installments	—	7,644	7,644
Current portion of long-term debt and finance leases[(2)]	2,251	—	2,251
Finance leases, less current installments	2,319	—	2,319
Other non-current liabilities	524	(257)	267

(1) Finance lease right-of-use assets of $4.5 million are included in property and equipment, net, on the consolidated balance sheets.

(2) Current portion of long-term debt and finance leases includes $1.5 million of current portion of finance leases.

In accordance with the new lease standard requirements, the disclosure of the impact of adoption on our consolidated balance sheet was as follows:

$'s in 000's	December 31, 2019 As Reported	Balance excluding the adoption of ASC 842	Effect of change
ASSETS			
Property and equipment, net [1]	$ 52,525	$ 52,525	$ —
Operating lease right-of-use assets	20,785	—	(20,785)
Other non-current assets	3,214	3,276	62
LIABILITIES			
Current portion of operating leases	$ 4,619	$ —	$ (4,619)
Operating leases, less current installments	16,580	—	(16,580)
Current portion of long-term debt and finance leases[2]	3,821	3,821	—
Finance leases, less current installments	3,331	3,331	—
Other non-current liabilities	117	485	368

(1) Finance lease right-of-use assets of $5.8 million are included in property and equipment, net, on the condensed consolidated balance sheets.

(2) Current portion of long-term debt and finance leases includes $1.5 million of current portion of finance leases.

$'s in 000's	Year Ended December 31, 2019
Finance lease cost	
Amortization of right-of-use assets	$ 1,441
Interest on lease liabilities	308
Operating lease cost	4,833
Variable lease cost[1]	629
Short-term lease cost	41
Sublease income	(452)
Total lease cost	$ 6,800

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

Other information related to leases was as follows as of:

	December 31, 2019
Weighted-average remaining lease term (years)	
Operating leases	5.15
Finance leases	2.73
Weighted-average discount rate	
Operating leases	5.3%
Finance leases	5.7%

Annual future commitments under non-cancelable leases as of December 31, 2019, consist of the following:

	Lease Obligations	
$'s in 000's	**Operating Leases**	**Finance Leases**
2020	$ 5,706	$ 1,771
2021	4,920	1,329
2022	4,682	1,150
2023	3,910	1,072
2024	2,394	16
Thereafter	2,928	3
Total minimum future obligations	$ 24,540	$ 5,341
Less interest	(3,341)	(437)
Present value of net future minimum obligations	21,199	4,904
Less current lease obligations	(4,619)	(1,573)
Long-term lease obligations	$ 16,580	$ 3,331

Supplemental cash flow information:

	Year Ended
$'s in 000's	**December 31, 2019**
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases	$ 308
Operating cash flows from operating leases	4,568
Financing cash flows from finance leases	1,547
(Noncash) right-of-use assets obtained in exchange for lease obligations	
Operating leases	5,368
Finance leases	(3,006)

The net book value of assets under finance lease was $4.5 million as of December 31, 2018. Total operating lease expense for the years ended December 31, 2018, and 2017 totaled $6.0 million and $1.7 million, respectively

Annual future commitments under non-cancelable leases as of December 31, 2018 under ASC 840 were:

	Lease Obligations	
$'s in 000's	**Operating Leases**	**Capital Leases**
2019	$ 3,318	$ 1,615
2020	2,685	1,296
2021	1,894	605
2022	1,765	433
2023	1,478	123
Thereafter	134	—
Total minimum future obligations	$ 11,274	$ 4,072
Less imputed interest		(298)
Total lease obligations		3,774
Less current obligations		(1,455)
Long-term lease obligations		$ 2,319

Note 7 - Income Taxes

As a result of the IPO and related reorganization transactions completed in July 2017, the Company held an economic interest of approximately 62% in Holdco and consolidates the financial position and results of Holdco. The ownership of Holdco not held by the Company is considered non-controlling interest, which, through exchanges that have occurred since the IPO, totaled approximately 17% of the ownership of Holdco as of December 31, 2019. See Note 11 – Non-controlling interests for more information. 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. Prior to the IPO in 2017, the Company's predecessor for financial reporting purposes was Opco, which is a limited liability company, and the majority of Opco's businesses and assets are held and operated by limited liability companies, which are not subject to entity-level federal or state income taxation.

Holdco makes cash distributions to members to pay taxes attributable to their allocable share of income earned. In the years ended December 31, 2019 and 2018, the Company made cash distributions of $1.7 million and $1.5 million, respectively. Additionally, Holdco accrues for distributions required to be made related to estimated income taxes. During the years ended December 31, 2019 and 2018, the Company accrued $0.8 million and $2.1 million, respectively. This liability is included in accounts payable on the consolidated balance sheet.

The components of earnings before net (loss) income taxes, determined by tax jurisdiction, are as follows:

	Years Ended December 31		
$'s in 000's	**2019**	**2018**	**2017**
United States	$ (17,953)	$ (1,116)	$ 11,479
Foreign	342	542	308
Total	**$ (17,611)**	**$ (574)**	**$ 11,787**

The provision for income taxes for 2019, 2018, and 2017 consisted of the following:

	Years Ended December 31		
$'s in 000's	**2019**	**2018**	**2017**
Current:			
Federal	$ —	$ —	$ (10)
State	317	148	63
Foreign	17	—	—
	$ 334	**$ 148**	**$ 53**
Deferred and other:			
Federal	(2,146)	(751)	3,708
State	(1,336)	(135)	19
Foreign	(161)	77	190
	(3,643)	(809)	3,917
Total income tax expense (benefit)	**$ (3,309)**	**$ (661)**	**$ 3,970**

Reconciliation between the effective tax rate on income from continuing operations and the statutory tax rate is as follows:

	Years Ended December 31		
$'s in 000's	**2019**	**2018**	**2017**
Income tax expense (benefit) at federal statutory rate	21.0 %	21.0 %	35.0 %
State and local income taxes net of federal tax benefit	1.3	(5.7)	—
Non-controlling interest and nontaxable income	(4.0)	54.7	(33.2)
Deferred tax rate changes	(0.4)	37.2	—
Share-based compensation	0.1	18.3	—
Tax Cuts and Jobs Act of 2017	—	(7.3)	30.7
Other	0.8	(3.0)	1.2
Effective income tax rate	**18.8** %	**115.2** %	**33.7** %

Our tax rate is affected by the lower pre-tax loss in the current year, recurring items, such as the portion of income and expense allocated to the noncontrolling interest, and tax rates in foreign jurisdictions relative to the amounts of income we earn in those jurisdictions. It is also affected by discrete items that may occur in any given year such as stock based compensation, but are not consistent from year to year. Our effective income tax rate prior to the IPO differed from statutory rates primarily due to our pass-through entity structure for U.S. income tax purposes.

As a result of the IPO and reorganization transactions, the Company has recorded deferred tax assets and liabilities based on the differences between the book value of assets and liabilities for financial reporting purposes and those amounts

applicable for income tax purposes. Deferred tax assets have been recorded for the basis differences resulting from the purchase of LLC Interests from existing members and newly issued LLC Interests acquired directly from Holdco. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2019 and 2018 are as follows:

$'s in 000's	**2019**	**2018**
Deferred tax assets		
Investment in partnership	$ 53,303	$ 41,658
Fixed assets	29	41
Net operating loss carryforwards and tax credits	6,775	2,538
Other accruals and reversals	5	2
Subtotal	60,112	44,239
Less: valuation allowance	(143)	(206)
Net deferred tax assets	59,969	44,033
Deferred tax liabilities		
Intangible assets	$ (293)	$ (350)
Other	(5)	(5)
Net deferred tax liabilities	$ (298)	$ (355)

At December 31, 2019, the Company has federal net operating loss ("NOL") carryforwards of $4.9 million, of which $0.4 million, generated in 2017 and prior, will expire in 2037. The NOL generated in 2018 and 2019 of $4.5 million will have an indefinite carryforward period but can generally only be used to offset 80% of taxable income in any particular year. The Company has a federal business interest expense carryover totaling $0.6 million as of December 31, 2019, which has an indefinite carryforward period but is limited in any particular year based on certain provisions. As of December 31, 2019, the Company has charitable contribution carryforwards of $0.2 million, which if unused will expire between 2020 and 2024. The Company has state NOL carryforwards of $0.9 million as of December 31, 2019 which expire between 2022 and 2037 and others that have an indefinite carryforward period. At December 31, 2019 the Company had foreign NOL carryforwards of $0.2 million which do not expire. The above carryforward amounts are shown after-tax.

The Company has assessed the realizability of the net deferred tax assets as of December 31, 2019 and in that analysis has considered the relevant positive and negative evidence available to determine whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The realization of the gross deferred tax assets is dependent on several factors, including the generation of sufficient taxable income prior to the expiration of certain carryforwards. The Company believes that there will be sufficient taxable income in the future that the Company's deferred tax assets will be realized except for the following. The Company has a valuation allowance for certain deferred tax assets of $0.1 million and $0.2 million as of December 31, 2019 and 2018, respectively. The valuation allowance pertains to certain charitable contribution carryforwards as of December 31, 2019, and international loss carryforwards as of December 31, 2018, some of which have no expiration and others that would expire beginning in 2020.

The Company has not recognized any uncertain tax positions, penalties or interest as we have concluded that no such positions exist. Accordingly, no unrecognized tax benefit would impact the effective tax rate. If interest and penalties were accrued, we would recognize interest and penalties as income tax expense. We are subject to taxation in the United States and various states and foreign jurisdictions. As of December 31, 2019, tax years from 2016 to present are subject to examination by the tax authorities.

Note 8 – Earnings (Loss) per Share

Basic and Diluted (Loss) Earnings per share

Basic (loss) earnings per share of Class A common stock is computed by dividing net (loss) 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 (loss) 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 9 — Stockholders' Equity, on July 20, 2017, the PetIQ Holdings, LLC Agreement ("LLC Agreement") was amended and restated to, among other things, (i) provide for a new single class of common membership interests, the LLC Interests of HoldCo, and (ii) exchange all of the then-existing membership interests of the Continuing LLC Owners for common units of HoldCo. This Recapitalization changed the relative membership rights of the Continuing LLC Owners such that retroactive application of the Recapitalization to periods prior to the IPO for the purposes of calculating earnings (loss) per share would not be appropriate.

Prior to the IPO, the PetIQ, LLC membership structure included several different types of LLC interests including ownership interests and profits interests. The Company analyzed the calculation of earnings per unit for periods prior to the IPO using the two-class method and determined that it resulted in values that would not be meaningful to the users of these consolidated financial statements. Therefore, earnings (loss) per share information has not been presented for periods prior to the IPO on July 20, 2017. The basic and diluted earnings (loss) per share represent only the period July 20, 2017 to December 31, 2019.

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

	Year ended December 31,		
(in 000's, except for per share amounts)	**2019**	**2018**	**2017**
Numerator:			
Net (loss) income	$ (14,302)	$ 87	$ 7,817
Less: net (loss) income attributable to non-controlling interests	(2,849)	869	11,310
Net (loss) income attributable to PetIQ, Inc. — basic and diluted	(11,453)	(782)	(3,493)
Denominator:			
Weighted-average shares of Class A common stock outstanding -- basic	22,652	17,216	13,223
Dilutive effects of stock options that are convertible into Class A common stock	—	—	—
Dilutive effect of RSUs	—	—	—
Weighted-average shares of Class A common stock outstanding -- diluted	22,652	17,216	13,223
(Loss) earnings per share of Class A common stock — basic	$ (0.51)	$ (0.05)	$ (0.26)
(Loss) earnings per share of Class A common stock — diluted	$ (0.51)	$ (0.05)	$ (0.26)

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.

Shares of the Company's Class B common stock as well as all stock options and restricted stock units have not been included in the diluted (loss) earnings per share calculation as they have been determined to be anti-dilutive under the if-converted method and treasury stock method, respectively.

Note 9 – Stock Based Compensation

PetIQ, Inc. Omnibus Incentive Plan

The PetIQ, Inc. Omnibus Incentive Plan, as amended (the "Plan"), provides for the grant of various equity-based incentive awards to directors of the Company, employees, and consultants. The types of equity-based awards that may be granted under the Plan include: stock options, stock appreciation rights (SARs), restricted stock, restricted stock units (RSUs), and other stock-based awards. The Company has 3,914 thousand authorized shares under the Plan. As of December 31, 2019 and 2018, 2,017 thousand and 413 thousand shares were available for issuance under the Plan, respectively. All awards issued under the Plan may only be settled in shares of Class A common stock. Shares issued pursuant to awards under the incentive plans are from our authorized but unissued shares.

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

The PetIQ, Inc. 2018 Inducement and Retention Stock Plan for CVC Employees (the "Inducement Plan") provides for the grant of stock options to employees hired in connection with the VIP Acquisition as employment inducement awards pursuant to NASDAQ Listing Rule 5635(c)(4). The Inducement Plan reserved 800 thousand shares of Class A Common Stock of the Company. As of December 31, 2019, no shares were available for issuance under the Inducement Plan. All awards issued under the Plan may only be settled in shares of Class A common stock.

Stock Options

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

The fair value of these equity awards is amortized to equity based compensation expense over the vesting period. Expense recognized totaled $6.2 million and $3.6 million for the years ended December 31, 2019, and 2018, respectively. All stock based compensation expense is included in general and administrative expenses based on the role of recipients. The fair value of the stock option awards was determined on the grant dates using the Black-Scholes valuation model based on the following weighted-average assumptions for the periods ended:

	December 31, 2019	December 31, 2018
Expected term (years) [1]	6.25	6.25
Expected volatility [2]	35.00 %	35.00 %
Risk-free interest rate [3]	2.37 %	2.74 %
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 December 31, 2019: The weighted average grant date fair value of stock options granted during the period ended December 31, 2019 and 2018 was $10.63 and $11.12, respectively, per option.

	Stock Options (in 000's)	Weighted Average Exercise Price	Aggregate Intrinsic Value (in 000's)	Weighted Average Remaining Contractual Life (years)
Outstanding at December 31, 2016	—	$ —		
Granted	804	16.00		
Exercised	—			
Forfeited	(205)	16.00		
Cancelled/Expired	—			
Outstanding at December 31, 2017	599	$ 16.00	$ 3,496	9.5
Granted	1,617	25.74		
Exercised	(76)	18.83		
Forfeited	(195)	21.37		
Cancelled/Expired	—			
Outstanding at December 31, 2018	1,945	$ 23.45	$ 5,527	9.1
Granted	423	27.54		
Exercised	(119)	19.51		
Forfeited	(168)	21.92		
Cancelled/Expired	(9)	25.70		
Outstanding at December 31, 2019	2,072	$ 24.63	$ 6,266	8.0
Options exercisable at December 31, 2019	572			

At December 31, 2019, total unrecognized compensation cost related to unvested stock options was $12.3 million and is expected to be recognized over a weighted-average period of approximately 2.6 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 December 31, 2019, total unrecognized compensation cost related to unvested RSUs was $3.2 million and is expected to vest over a weighted average of 3.1 years.

The fair value of these equity awards is amortized to equity based compensation expense over the vesting period, which totaled $1.1 million and $0.2 million for the years ended December 31, 2019 and 2018, respectively. All stock based compensation expense is included in general and administrative expenses based on the role of recipients.

The following table summarizes the activity of the Company's RSUs for the period ended December 31, 2019:

	Number of Shares (in 000's)	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2017	—	—
Granted	51	33.16
Settled	—	
Forfeited	—	
Outstanding at December 31, 2018	51	$ 33.16
Granted	123	27.61
Settled	(25)	30.43
Forfeited	(15)	30.58
Nonvested RSUs at December 31, 2019	133	$ 28.85

Note 10 - Stockholders' Equity

2018 Public Offering

On October 1, 2018, the Company closed an underwritten public offering of 5,750 thousand shares of Class A common stock. The Company sold 2,000 thousand newly issued shares of Class A common stock and received net proceeds of approximately $73.9 million after deducting underwriting discounts and commissions and offering expenses. The remaining 3,750 thousand shares of Class A common stock were sold by selling stockholders and the Company did not receive any proceeds with respect hereto. In conjunction with the 2018 Public Offering, a number of holders of Class B common stock exchanged LLC Interests and corresponding Class B common shares for Class A common stock. The impact on non-controlling interest is shown along with other exchanges during the year in Note 11 – Non-Controlling Interests.

Note 11 - Non-Controlling Interests

The Company reports a non-controlling interest representing the LLC interests of HoldCo held by Continuing LLC Owners. Changes in PetIQ's ownership interest in HoldCo while PetIQ retains its controlling interest in HoldCo will be accounted for as equity transactions. As such, future redemptions or direct exchanges of LLC interests of HoldCo by the Continuing LLC Owners will result in a change in ownership and reduce or increase the amount recorded as non-controlling interest and increase or decrease additional paid-in capital when HoldCo has positive or negative net assets, respectively. The Company is also required to make tax distributions based on the LLC Agreement to Continuing LLC Members on a regular basis, these distributions will reduce the non-controlling interest.

As of December 31, 2019, there were 28,306 thousand LLC Interests outstanding, of which PetIQ owned 23,554 thousand, representing a 83.2% ownership interest in HoldCo.

	LLC Interests held			% of Total	
$'s in 000's	**LLC Owners**	**PetIQ, Inc.**	**Total**	**LLC Owners**	**PetIQ, Inc.**
As of December 31, 2018	6,547	21,620	28,167	23.2%	76.8%
Stock based compensation adjustments	—	140	140		
Exchange transactions	(1,794)	1,794	—		
As of December 31, 2019	4,752	23,554	28,306	16.8%	83.2%

Note 12 - Customer Concentration

The Company has significant exposure to customer concentration. During each of the years ended December 31, 2019, 2018, and 2017, two, one, and three customers, respectively, accounted for more than 10% of sales individually and in aggregate accounted for 35%, 18%, and 61% of net sales, respectively. At December 31, 2019 and December 31, 2018,

two and one customers, respectively, individually accounted for more than 10% of outstanding trade receivables, and in aggregate accounted for 61% and 43%, respectively, of outstanding trade receivables, net. All of our customer concentration exists in our Products segment.

Note 13 - Commitments and Contingencies

Litigation Contingencies

During the year ended December 31, 2019, the Company recorded a liability of $1 million for contract termination costs, related to a settlement for alleged breach of contract. The expense is included within General and Administrative expenses for the year ended December 31, 2019.

On April 4, 2018, Med Vets, Inc. and Bay Medical Solutions Inc. (collectively “Plaintiffs”) filed suit in the United States District Court for the Northern District of California against PetIQ 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. In June 2018, the Company 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 the Company’s Motion to Dismiss the Complaint, but permitted the plaintiffs to attempt to plead a viable Complaint. The Plaintiffs’ filed an Amended Complaint on December 13, 2018 and we subsequently filed a second Motion to Dismiss the Amended Complaint. On April 22, 2019, the Court granted the Company’s Motion to Dismiss without further leave to amend, concluding that Plaintiffs were not able to identify any factual allegations to support their alleged claims. Plaintiffs filed a notice of appeal with the 9th Circuit Court of Appeals on May 21, 2019 and briefing on appeal was completed in December 2019. Oral arguments are expected to occur in mid to late 2020. A final decision from the 9th Circuit Court of Appeals is estimated in late 2020.

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, other than those previously noted, at December 31, 2019 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 statements of operations.

Commitments

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

Note 14 - Segments

Effective January 17, 2018, the Company has two operating segments: Products and Services. The Products segment consists of the Company’s manufacturing and distribution business. The Services segment consists of the Company’s veterinary services, and related product sales, provided by the Company directly to consumers.

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

Effective during the year ended December 31, 2019, the Company changed its segment measure of profitability for its reportable segments from segment operating income (loss) to Adjusted EBITDA to better align the way the CODM views reportable segment operations in light of changes in the Company’s operations, including the increase of manufacturing operations as a result of the Perrigo Animal Health Acquisition in the Products segment and the growth of the Company’s wellness centers, host partners, and regions within the Services segment. For comparability purposes, previous periods have been recast to reflect the measure of segment profitability.

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

$'s in 000's **December 31, 2019**	**Products**	**Services**	**Unallocated Corporate**	**Consolidated**
Net Sales	$ 617,118	$ 92,313	$ —	$ 709,431
Adjusted EBITDA	73,537	20,045	(32,907)	60,675
Property, plant, and equipment	23,114	13,520	15,891	52,525
Depreciation expense	3,552	3,170	2,417	9,139
Capital expenditures	1,297	6,409	2,570	10,276

$'s in 000's **December 31, 2018**	**Products**	**Services**	**Unallocated Corporate**	**Consolidated**
Net Sales	$ 450,229	$ 78,385	$ —	$ 528,614
Adjusted EBITDA	52,185	15,246	(25,892)	41,539
Property, plant, and equipment	13,191	6,137	8,007	27,335
Depreciation expense	2,343	2,326	1,988	6,657
Capital expenditures	1,339	3,440	2,399	7,178

$'s in 000's **December 31, 2017**	**Products**	**Services**	**Unallocated Corporate**	**Consolidated**
Net Sales	$ 266,687	$ —	$ —	$ 266,687
Adjusted EBITDA	30,836	—	(8,529)	22,307
Property, plant, and equipment	11,843	—	3,157	15,000
Depreciation expense	2,165	—	183	2,348
Capital expenditures	1,519	—	2,612	4,131

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

	For the years ended		
$'s in 000's	**December 31, 2019**	**December 31, 2018**	**December 31, 2017**
Adjusted EBITDA:			
Product	$ 73,537	$ 52,185	$ 30,836
Services	20,045	15,246	—
Unallocated Corporate	(32,907)	(25,892)	(8,529)
Total Consolidated	60,675	41,539	22,307
Adjustments:			
Depreciation	(9,139)	(6,657)	(2,348)
Amortization	(5,994)	(5,210)	(1,052)
Interest	(14,495)	(8,022)	(1,563)
Acquisition costs[1]	(6,147)	(3,787)	(1,965)
Stock based compensation expense	(7,355)	(3,812)	(447)
Purchase accounting adjustment to inventory[2]	(4,805)	(2,149)	—
Non same-store revenue[3]	8,088	3,967	—
Non same-store costs[3]	(19,553)	(10,345)	—
Fair value adjustment of contingent note	(7,320)	(3,280)	—
Integration costs and costs of discontinued clinics[4]	(3,788)	(998)	—
Clinic launch expenses[5]	(767)	(1,380)	—
Non-recurring royalty settlement[6]	—	(440)	—
SKU Rationalization[7]	(6,482)	—	(610)
Costs associated with becoming a public company	—	—	(2,710)
Supplier receivable write-off	—	—	175
Litigation expenses	(529)	—	—
Pretax net (loss) income	$ (17,611)	$ (574)	$ 11,787
Income tax benefit (expense)	3,309	661	(3,970)
Net (loss) income	$ (14,302)	$ 87	$ 7,817

(1) Acquisition costs are costs directly related to various completed and pending acquisitions and include diligence, accounting, banking, and other out of pocket costs.

(2) Purchase accounting adjustment to inventory represents the portion of costs of sales related to the fair value of inventory adjusted as part of the purchase price allocation. During 2019 the amounts relate to the Perrigo Animal Health Acquisition and are part of the Products segment. During 2018 the costs relate to the VIP Acquisition which are part of the Services Segment and the HBH Acquisition, which is part of the Products Segment.

(3) Non same-store revenue and costs relate to Services segment regional offices, mobile community clinics provided with host partners and wellness centers that have been operating for less than six full trailing quarters.

(4) Integration costs and costs of discontinued clinics represent costs related to integrating the acquired businesses, such as personnel costs like severance and signing bonuses, consulting work, contract termination, and IT conversion costs. These costs are primarily in the Products segment and the corporate segment for personnel costs, legal and consulting expenses, and IT costs. In addition, related to the Service Segment, there were costs associated with vet services clinics that were discontinued subsequent to the acquisition of VIP.

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

(6) Non-recurring royalty settlement represents a settlement paid to a supplier related to a royalty agreement in place since 2013.

(7) SKU Rationalization relates to the disposal of, or reserve to, estimated net realizable value for inventory that will either no longer be sold, or will be de-emphasized, as the Company aligns brands between Legacy PetIQ brands and brands acquired as part of the Perrigo Animal Health Acquisition. All costs are included in the Products segment gross margin.

Supplemental geographic disclosures are below.

	Year ended December 31, 2019		
$'s in 000's	**U.S.**	**Foreign**	**Total**
Products sales	$ 610,986	$ 6,132	$ 617,118
Services revenue	92,313	—	92,313
Total net sales	$ 703,299	$ 6,132	$ 709,431

	Year ended December 31, 2018		
$'s in 000's	**U.S.**	**Foreign**	**Total**
Products sales	$ 444,364	$ 5,865	$ 450,229
Services revenue	78,385	—	78,385
Total net sales	$ 522,749	$ 5,865	$ 528,614

	Year ended December 31, 2017		
$'s in 000's	**U.S.**	**Foreign**	**Total**
Products sales	$ 261,526	$ 5,161	$ 266,687
Services revenue	—	—	—
Total net sales	$ 261,526	$ 5,161	$ 266,687

The net book value of property plant and equipment, by location was as follows as of:

	December 31, 2019	**December 31, 2018**
United States	$ 51,397	$ 26,268
Europe	1,128	1,067
Total	$ 52,525	$ 27,335

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 consolidated statement of operations. The Company recorded $610 thousand for the year ended December 31, 2017. Upon consummation of the recapitalization and IPO transactions, these agreements were terminated.

As discussed in Note 7– Income taxes, the Company has accrued tax distributions that are payable to Continuing LLC Owners to facilitate the Continuing LLC Owners periodic estimated tax obligations. At December 31, 2019 and 2018, the Company had accrued $0.4 million and $1.2 million, respectively, for estimated tax distributions, which are included in accounts payable on the consolidated balance sheets.

As discussed in Note 5– Debt, the Company has notes payable to the Sellers of VIP, who are significant shareholders of the Company, of $27.5 million. The Company had no accrued interest on these notes as of December 31, 2019, but accrued interest of $0.2 million as of December 31, 2018.

The Company has leased office and warehouse space from a company under control of Will Santana, an Executive Vice President of the Company and a director, since the consummation of the VIP Acquisition on January 17, 2018. The Company incurred rent expenses of $0.4 million and $0.4 million for the years ended December 31, 2019 and 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 annual premium expense, paid to Moreton and subsequently transferred to insurance providers, was $2.3 million and $1.5 million in 2019 and 2018, respectively. Mr. Christensen was paid a commission of approximately $0.1 million and $0.1 million in 2019 and 2018, respectively, by Moreton for the sale of such insurance policies to the Company.

Note 16 – Quarterly information (unaudited)

(In 000's, except per share amounts)	Quarter 1	Quarter 2	Quarter 3	Quarter 4
2019:				
Product sales	$ 126,084	$ 194,606	$ 161,534	$ 134,894
Services revenue	22,352	26,028	24,491	19,442
Gross profit	24,730	34,900	27,291	20,462
General and administrative expenses	20,538	24,450	29,345	28,867
Operating income (loss)	4,872	8,990	(4,364)	(12,635)
Net income (loss)	2,326	5,918	(8,796)	(13,752)
Basic net income (loss) per common share	$ 0.07	$ 0.17	$ (0.26)	$ (0.47)
Diluted net income (loss) per common share	$ 0.07	$ 0.17	$ (0.26)	$ (0.47)
Basic weighted average shares	21,800	22,365	22,974	23,436
Diluted weighted average shares	21,978	22,597	22,974	23,436
2018:				
Product sales	$ 97,851	$ 148,713	$ 108,524	$ 95,141
Services revenue	17,215	22,429	22,858	15,883
Gross profit	15,883	26,318	24,182	16,905
General and administrative expenses	18,968	16,943	17,621	18,728
Operating income	(3,226)	8,916	6,911	(4,853)
Net (loss) income	(3,957)	5,398	3,902	(5,256)
Basic net (loss) income per common share	$ (0.14)	$ 0.16	$ 0.13	$ (0.16)
Diluted net (loss) income per common share	$ (0.14)	$ 0.16	$ 0.13	$ (0.16)
Basic weighted average shares	14,575	15,980	16,944	21,283
Diluted weighted average shares	14,575	16,008	17,239	21,283

Note 17 – Employee Benefit Plans

The Company sponsors 401(k) defined contribution plans at certain subsidiaries. Participants may elect to defer up to 100% of compensation. The Company makes matching contributions of 100% of the employee deferrals up to 3% of

compensation. The Company may also make discretionary profit sharing contributions each year, which are allocated to each eligible participant based on compensation. The Company made matching contributions of $0.6 million and $0.3 million, respectively, for the years ended December 31, 2019 and 2018. No benefit plans were in place for the years ended December 31, 2017.

Note 18 – Subsequent Events

On January 13, 2020, we announced that, through Opco, we executed an Asset Purchase Agreement (the "Purchase Agreement") to acquire the U.S. rights to Capstar® and CapAction® and related assets (the "Acquisition") from Elanco US Inc. ("Elanco") for $95 million, plus the cost of certain outstanding finished goods inventory in saleable condition. Capstar and CapAction are oral tablets for the treatment of flea infestations on dogs, puppies, cats and kittens. Capstar is comprised of five SKUs and CapAction is sold under three SKUs. The closing of the transaction is contingent upon customary closing conditions, including, among others, the approval of the acquisition under a consent order issued by the U.S. Federal Trade Commission. The parties have agreed that the Acquisition will not close earlier than July 1, 2020.

Following closing, Elanco will manufacture and supply Capstar and CapAction and provide certain technology transfer services to Opco over a 24-month period pursuant to a manufacturing and supply agreement.

Item 9 – Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A – Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this annual report. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures (a) were effective to ensure that information that we are required to disclose in reports that we file or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission ("SEC") rules and forms and (b) include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

We are responsible for establishing and maintaining internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, our management used the *Internal Control – Integrated Framework (2013)* as issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2019.

This annual report does not include an attestation report of the Registrant's registered public accounting firm due to an exemption established by rules of the SEC for emerging growth companies.

Changes in Internal Control Over Financial Reporting

In relation to the closing of the Perrigo Animal Health Acquisition, as outlined in Note 2, management implemented changes to internal control activities, including enhanced policies and review procedures pertaining to disclosure controls, the use of valuation service providers, opening balance sheet determination, intercompany transactions, and segment reporting.

Effective January 1, 2019, we adopted Accounting Standards Codification 842, Leases (*"Topic 842"*). The adoption of Topic 842 had a material impact on our Balance Sheet, with no significant impact to our Consolidated Statements of Operations or Cash Flows, and as such, we implemented certain changes to our lease and contract management related control activities to enhance policies and periodic review procedures to incorporate specific Topic 842 considerations.

There were no other changes in our internal control over financial reporting that occurred during our fiscal quarter ended, December 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K 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" and our ability to successfully grow our business through acquisitions; our dependency on a limited number of customers; our ability to implement our growth strategy effectively; disruptions in our manufacturing and distribution chains; competition from veterinarians and others in our industry; reputational damage to our brands; economic trends and spending on pets; the effectiveness of our marketing and trade promotion programs; recalls or withdrawals of our products or product liability claims; our ability to manage our manufacturing and supply chain effectively; disruptions in our manufacturing and distribution chains; our ability to introduce new products and improve existing products; our failure to protect our intellectual property; costs associated with governmental regulation; our ability to keep and retain key employees; our ability to sustain profitability; and the risks set forth under the "Risk Factors' section of this annual report on Form 10-K.

Item 9B - Other Information

None.

PART III

Item 10 – Directors and Executive Officers of the Registrant

We intend to file with the Securities and Exchange Commission, not later than 120 days after the close of our fiscal year ended December 31, 2019, a definitive proxy statement or an amendment to this report filed under cover of Form 10-K/A containing the information required by this Item.

Item 11 – Executive Compensation

We intend to file with the Securities and Exchange Commission, not later than 120 days after the close of our fiscal year ended December 31, 2019, a definitive proxy statement or an amendment to this report filed under cover of Form 10-K/A containing the information required by this Item.

Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

We intend to file with the Securities and Exchange Commission, not later than 120 days after the close of our fiscal year ended December 31, 2019, a definitive proxy statement or an amendment to this report filed under cover of Form 10-K/A containing the information required by this Item.

Item 13 – Certain Relationships and Related Transactions

We intend to file with the Securities and Exchange Commission, not later than 120 days after the close of our fiscal year ended December 31, 2019, a definitive proxy statement or an amendment to this report filed under cover of Form 10-K/A containing the information required by this Item.

Item 14 – Principal Accountant Fees and Services

We intend to file with the Securities and Exchange Commission, not later than 120 days after the close of our fiscal year ended December 31, 2019, a definitive proxy statement or an amendment to this report filed under cover of Form 10-K/A containing the information required by this Item.

PART IV

Item 15. Exhibits, Financial Statement Schedules

See "Index to Consolidated Financial Statements" in Part II, Item 8 of this Annual Report on Form 10-K. Financial statement schedules have been omitted because they are not required or are not applicable or because the information required in those schedules either is not material or is included in the consolidated financial statements or the accompanying notes.

Exhibit No.	Exhibit Description	Form	File No.	Exhibit	Filing Date
2.1	Purchase and Sale Agreement, dated May 8, 2019, by and among PetIQ, LLC, L. Perrigo Company, Perrigo Company plc and PetIQ, Inc.	8-K	001-38163	2.1	5/8/19
2.2**+	Asset Purchase Agreement, dated January 13, 2020, by and between Elanco US Inc., PetIQ, LLC and PetIQ, Inc.				
3.1	Amended and Restated Certificate of Incorporation of PetIQ, Inc.	S-1/A	333-218955	3.1	7/11/17
3.2	Bylaws of PetIQ, Inc.	S-1/A	333-218955	3.2	7/6/17
3.3	Certificate of Amendment to Amended and Restated Certificate of Incorporation	8-K	001-38163	3.1	6/1/18
4.1	Specimen Stock Certificate evidencing the shares of Class A common stock	S-1/A	333-218955	4.1	7/17/17
4.2	Registration Rights Agreement, dated July 20, 2017, among PetIQ, Inc. the Continuing LLC owners and the C-Corp LLC Parents	S-3	333-227186	4.1	9/4/18
4.3	Registration Rights Agreement, dated January 17, 2018, between PetIQ, Inc. and each VIP Petcare Owner	S-3	333-227186	4.2	9/4/18
4.4**	Description of PetIQ, Inc.'s Securities				
10.1	A&R Credit Agreement dated as of January 17, 2018 among PetIQ, LLC, as a Borrower Representative, the other credit parties party thereto, East West Bank and the other lenders party thereto, and East West Bank, as Administrative Agent, L/C Issuer and Swingline Lender	8-K	001-38163	10.2	1/23/18
10.2	Letter Agreement, dated January 17, 2018, by and among PetIQ, Inc., PetIQ Holdings, LLC, PetIQ, LLC, Community Veterinary Clinics, LLC, VIP Petcare Holdings, Inc., Will Santana, Kenneth Pecoraro, and the Equity Support Holders party thereto	8-K	001-38163	10.1	1/23/18
10.3	Term Loan Credit Agreement, dated January 17, 2018 by and among PetIQ, LLC, Ares Capital Corporation and the other lenders party thereto, and Ares Capital Corporation, as Administrative Agent	8-K	001-38163	10.3	1/23/18
10.4	PetIQ Holdings, LLC Sixth Amended and Restated Limited Liability Company Agreement	S-1/A	333-218955	10.4	7/6/17
10.5*	Employment Agreement, dated as of January 17, 2018, by and between PetIQ, LLC and Will Santana	8-K	001-38163	10.4	1/23/18
10.6*	PetIQ Inc. Amended and Restated 2017 Omnibus Incentive Plan	8-K	333-218955	10.1	5/31/19
10.7*	Form of Indemnification Agreement	S-1/A	333-218955	10.13	7/20/17
10.8	Credit Agreement, dated as of December 21, 2016 among PetIQ, LLC, as a Borrower and as Borrower Representative, the other credit parties party thereto, East West Bank and the other Lenders Party Hereto, and East West Bank, as Administrative Agent, L/C Issuer and Swingline Lender	S-1	333-218955	10.14	6/23/17
10.9	First Amendment to PetIQ Holdings, LLC Sixth Amended and Restated Limited Liability Company Agreement	10-K	001-38163	10.10	3/12/19
10.10	First Amendment and Joinder, dated as of August 9, 2018, to Credit Agreement dated as January 17, 2018	10-Q	001-38163	10.1	8/14/18
10.11*	PetIQ, Inc. 2017 Omnibus Incentive Plan Form of Nonqualified Stock Option Agreement	10-Q	001-38163	10.2	11/14/18

10.12*	Employment and Non-Competition Agreement, dated September 17, 2018, between PetIQ, LLC and Susan Sholtis	8-K	001-38163	10.1	9/20/18
10.13*	PetIQ, Inc. 2017 Omnibus Incentive Plan Restricted Stock Unit Agreement	10-Q	001-38163	10.3	11/14/18
10.14*	PetIQ, Inc. 2017 Omnibus Incentive Plan Form of Restricted Stock Unit Agreement for Non-Employee Directors	10-Q	333-218955	10.11	11/14/18
10.15	Second Amendment to Amended and Restated Credit Agreement, dated March 25, 2019, by and among PetIQ, LLC, the other credit parties party thereto, the lenders party thereto and East West Bank	10-Q	001-38163	10.1	8/8/19
10.16	First Amendment to Purchase and Sale Agreement, dated July 7, 2019, by and among PetIQ, LLC, L. Perrigo Company, Perrigo Company plc, and PetIQ, Inc.	8-K	001-38163	10.1	7/9/19
10.17	Third Amendment to Amended and Restated Revolving Credit Agreement, dated July 8, 2019, by and among PetIQ, LLC, East West Bank and the lenders party thereto	8-K	001-38163	10.2	7/9/19
10.18	Amended and Restructured Term Loan Credit Agreement, dated July 8, 2019, by and among PetIQ, LLC, Ares Capital Corporation and the Lenders party thereto	8-K	001-38163	10.3	7/9/19
10.19	Transition Services Agreement, dated July 8, 2019, by and between PetIQ, LLC and L. Perrigo Company	8-K	001-38163	10.4	7/9/19
10.20*	Employment and Non-Competition Agreement, dated as of May 28, 2019, between PetIQ, LLC and Michael Smith	8-K	001-38163	10.5	7/9/19
10.21*	Amended and Restated Employment and Non-Competition Agreement between PetIQ, LLC and McCord Christensen	10-Q	001-38163	10.1	5/9/19
10.22*	Employment and Non-Competition Agreement between PetIQ, LLC and John Newland	10-Q	001-38163	10.2	5/9/19
10.23*	Employment and Non-Competition Agreement between PetIQ, LLC and R. Michael Herrman	10-Q	001-38163	10.3	5/9/19
10.24*	PetIQ, Inc. Amended and Restated 2018 Inducement and Retention Stock Plan for CVC Employees	S-8	333-223635	4.3	3/13/18
21.1**	List of Subsidiaries of PetIQ Inc.				
23.1**	Consent of KPMG LLP				
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 18 U.S.C. Section 1350, Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
32.2**	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS	XBRL Instance Document				
101.SCH	XBRL Schema Documents				
101.CAL	XBRL Calculation Linkbase Document				
101.DEF	XBRL Definition Linkbase Document				
101.LAB	XBRL Labels Linkbase Document				
101.PRE	XBRL Presentation Linkbase Document				
101.DEF	XBRL Definition Linkbase Document				

* Indicates management contract or compensatory plan or arrangement.
** Filed herewith
+ Portions of this exhibit have been omitted pursuant to Item 601(b)(2)(ii) of Regulation S-K

Item 16. Form 10-K Summary

None.

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.

March 11, 2020

/s/ John Newland
John Newland
Chief Financial Officer

POWER OF ATTORNEY

KNOWN BY ALL PERSONS BY THESE PRESENTS, that the individuals whose signatures appear below hereby constitute and appoint McCord Christensen and John Newland, and each of them severally, as his or her true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution for him or her and in his or her name, place and stead in any and all capacities to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, full power and authority to do or perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or of his substitute or substitutes, may lawfully do to cause to be done by virtue hereof. Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of March 11, 2020.

SIGNATURE	TITLE
/s/ McCord Christensen McCord Christensen	Chief Executive Officer, President (principal executive officer) Officer and Chairman of the Board
/s/ John Newland John Newland	Chief Financial Officer (principal financial and accounting officer) Officer
/s/ Mark First Mark First	Director
/s/ James Clarke James Clarke	Director
/s/ Ronald Kennedy Ronald Kennedy	Director
/s/ Gary Michael Gary Michael	Director
/s/ Will Santana Will Santana	Director Executive Vice President
/s/ Scott Huff Scott Huff	Director
/s/ Larry Bird Larry Bird	Director

CERTAIN IDENTIFIED INFORMATION HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH (I) NOT MATERIAL AND (II) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED. REDACTED PORTIONS OF THIS EXHIBIT ARE MARKED BY [***].

ASSET PURCHASE AGREEMENT

by and between

ELANCO US INC.,

and

PETIQ, LLC,

and, for purposes of Section 9.16 only,

PETIQ, INC.

Dated as of January 13, 2020

TABLE OF CONTENTS

SCHEDULES

EXHIBITS

ASSET PURCHASE AGREEMENT (this "Agreement") is made and executed as of January 13, 2019 (the "Execution Date"), by and between Elanco US Inc., an Delaware corporation("Seller"), and PetIQ, LLC, a Idaho limited liability company ("Buyer") and solely for purposes of Section 9.16, PetIQ, Inc., a Delaware corporation (the "Buyer Guarantor"). Seller and Buyer are sometimes referred to herein individually as a "Party" and collectively as the "Parties."

RECITALS

WHEREAS, Bayer Aktiengesellschaft, a German stock corporation ("Bison"), and Seller have entered into that certain Share and Asset Purchase Agreement for the sale and purchase of Bison's animal health business, dated as of August 20, 2019 (as amended or otherwise modified from time to time, the "Bison Acquisition Agreement");

WHEREAS, in order to comply with any applicable Proposed Consent Orders and Final Consent Orders (collectively, "Consent Orders") and to address the remedial purposes of such Consent Orders, the Parties desire that, at the Closing, the Divesting Entities sell to Buyer, and Buyer purchase from the Divesting Entities, the Purchased Assets, upon the terms and conditions hereinafter set forth; and

WHEREAS, the applicable Divesting Entities and Buyer intend to enter into the Ancillary Agreements at the Closing.

NOW, THEREFORE, in consideration of the mutual benefits to be derived from this Agreement, the representations, warranties, conditions, agreements and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

ARTICLE 1
DEFINITIONS

1.1 Certain Defined Terms . As used herein, the following terms shall have the following meanings:

1.1.1 "Accountant" means an accounting firm of national reputation (excluding each of Seller's and its Affiliates' and Buyer's and its Affiliates' respective regular outside accounting firms) that is mutually acceptable to Seller and Buyer; *provided*, *however*, if Seller and Buyer are unable to agree on such accounting firm within 10 days after a Party (or the Parties) decide to submit any dispute under Article 2 for resolution by the Accountant in accordance with the terms thereof or any such mutually selected accounting firm is unwilling or unable to serve, then Seller shall deliver to Buyer a list of three other accounting firms of national reputation that have not performed services for Seller or its Affiliates or Buyer or its Affiliates in the preceding three-year period, and Buyer shall select one of such three accounting firms.

1.1.2 "Accounts Receivable" means all accounts receivable, notes receivable and other indebtedness due and owed by any Third Party to Seller or any of its Affiliates arising from sales of the Products by or on behalf of Seller or its Affiliates prior to the Closing Date.

1.1.3 "Affiliate" means, with respect to a Person, any other Person that, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with such first Person. For purposes of this definition, "control" and, with correlative meanings, the terms "controlled by" and "under common control with" mean (a) the possession, directly or indirectly, of the power to direct the management or policies of a business entity, whether through the ownership of voting securities, by Contract relating to voting rights or corporate governance, or otherwise or (b) the ownership, directly or indirectly, of more than 50% of the voting securities or other ownership interests of a business entity (or, with respect to a limited partnership or other similar entity, its general partner or controlling entity). Notwithstanding the foregoing, in no event shall any shareholder of Seller or any Affiliate of any shareholder of Seller (other than any subsidiary of Seller) be deemed an Affiliate of Seller for any purpose under this Agreement or any Ancillary Agreement.

1.1.4 "Ancillary Agreements" means the Bill of Sale, the Pharmacovigilance Agreement, the Quality Agreement, the Domain Name Assignment, the Trademark Assignment, the Transitional Manufacturing and Supply Agreement and the Transitional Services Agreement.

1.1.5 "Applicable Transition Period" means, as applicable: (a) in the case of Purchased Inventory and Transitional Inventory, on a Product-by-Product basis, the period commencing on the Closing Date and ending on the date as of which the Purchased Inventory of such Product delivered at Closing or the Transitional Inventory has been sold or expired; (b) in the case of Existing Stock (excluding Purchased Inventory, Transitional Inventory and Product labels and packaging), the period commencing on the Closing Date and ending on the date that is six months after the Closing Date; *provided that*, in the case of advertising and promotional materials for a Product contained within the Existing Stock or Transitional Inventory, including website content, the Applicable Transition Period means the period commencing on the Closing Date and ending on the earlier of (i) the date on which the Applicable Transition Period with respect to the packaging of such Product under subsection (c) below expires and (ii) the first anniversary of the Closing Date; or (c) in the case of Product labels and packaging, on a Product-by-Product basis, the period commencing on the Closing Date and ending on the later of the date that is six months following (i) receipt by Buyer or its Affiliates of labeling approval from a Governmental Authority for the relevant Product and (ii) the date on which all Purchased Product Registrations for such Product have been Transferred to Buyer or its Affiliates; *provided*, that under no circumstances will the Applicable Transition Period for any Product label or packaging for any Product expire later than the date that is 24 months after the Closing Date (with such date to extend to 30 months after the Closing Date with respect to any Purchased Inventory that has not been sold to a Third Party as of the last day in the 24th month following the Closing Date).

1.1.6 "Assumed Tax Liabilities" means any and all liabilities for (a) Taxes arising out of, in respect of or relating to the Product Business or the Purchased Assets for all Post-Closing Periods, (b) Transfer Taxes for which Buyer is responsible pursuant to Section 5.8.2(a) and (c) all Taxes to the extent solely resulting from a Buyer Tax Act or attributable to

any breach by Buyer or any of its Affiliates of any covenant or other agreement hereunder or under any Ancillary Agreement. For the avoidance of doubt, Assumed Tax Liabilities shall exclude any Excluded Tax Liabilities.

1.1.7 "Bill of Sale" means the Bill of Sale and Assignment and Assumption Agreement, in substantially the form of Exhibit A.

1.1.8 "Bison Acquisition Closing" means the closing of the transactions contemplated by the Bison Acquisition Agreement.

1.1.9 "Business Day" means any day other than a Saturday, a Sunday or any day on which banking institutions in New York, New York are permitted or obligated by Law to remain closed.

1.1.10 "Buyer Material Adverse Effect" means any event, fact, condition, occurrence, change or effect that prevents or materially impedes or delays the consummation by Buyer of the transactions contemplated by this Agreement or the Ancillary Agreements.

1.1.11 "Buyer Regulatory Documentation" means all (a) documentation and materials referred to in clause (a) or (b) of the definition of Purchased Regulatory Documentation (without regard to the Closing Date limitations in clause (b) thereof) that are created following the Closing and (b) data (including clinical and pre-clinical data) referenced in any of the documentation and materials referred to in the preceding clause (a).

1.1.12 "Buyer Tax Act" means (a) any election under any provision of applicable Law effective for the Pre-Closing Tax Period that is made after the Closing by Buyer, any of its Affiliates, or any transferee or successor of Buyer or any of its Affiliates and (b) any other action taken, or failure to act, after the Closing and outside of the ordinary course of business, by Buyer, any of its Affiliates, or any transferee or successor of Buyer or any of its Affiliates, in each case, that increases the amount of liability for Taxes with respect to the Product Business or the Purchased Assets for any Pre-Closing Tax Period.

1.1.13 "Closing Date" means the date on which the Closing occurs in accordance with 2.6.1.

1.1.14 "Code" means the Internal Revenue Code of 1986, as amended.

1.1.15 "Competition Authority" means the United States Federal Trade Commission and each other Governmental Authority having jurisdiction over the transactions contemplated by the Bison Acquisition Agreement under a Competition Law.

1.1.16 "Competition Law" means any Law of the United States or Judgment of any Governmental Authority that is designed or intended to prohibit, restrict or regulate actions that may have the purpose or effect of creating a monopoly, lessening competition or restraining trade.

1.1.17 "Concurrent Use Assets" means (a) the New Animal Drug Application number 141-205 for the concurrent use in dogs or cats of the products branded as PROGRAM

FLAVOR TABS (lufenuron) and CAPSTAR (nitenpyram) (the "Concurrent Use Registration"), (b) all documentation comprising such Concurrent Use Registration or the dossier therefor, and (c) to the extent owned by and in the possession or Control of any Divesting Entity and exclusively related to the Concurrent Use Registration, data (including clinical and pre-clinical data) referenced in any of the documentation and materials referred to in the preceding clauses (a) and (b), in each case (clauses (b) and (c)), excluding the Excluded Assets and all intellectual property rights of any Third Party contained or depicted therein.

1.1.18 "Confidentiality Agreement" means the confidentiality letter agreement, dated November 25, 2019, by and between Seller and Buyer.

1.1.19 "Confidential Data" means all data for which the Product Business is required by Law, Contract or privacy policy to safeguard or keep confidential or private.

1.1.20 "Contract" means any written contract, agreement, lease, sublease, license, sublicense or other legally binding commitment, undertaking or arrangement.

1.1.21 "Control" means, with respect to any intellectual property, intellectual property right, Product Registration or Purchased Regulatory Documentation, possession of the right, whether directly or indirectly, and whether by ownership, license or otherwise, to assign or grant a license, sublicense or other right to or under such intellectual property, intellectual property right, Product Registration or Purchased Regulatory Documentation, as provided for herein or in any Ancillary Agreement without violating the terms of any Contract or other arrangement with any Third Party.

1.1.22 "Copyrights" means all copyrights, whether registered or unregistered, and all registrations and applications for registration therefor and all extensions, restorations and renewals thereof and all rights in any copyrightable works, including all copyrights in works of authorship, including software, website content, webpage content, artwork, designs, drawings, photographs, videos, graphs, or any other audio-visual, textual or graphical works, and all derivatives and compilations thereof, and any and all moral rights therein.

1.1.23 "Disclosure Schedules" means the disclosure schedules of Seller delivered by Seller pursuant to this Agreement.

1.1.24 "Dispute" means any dispute, controversy or claim (of any and every kind or type, whether based on contract, tort, statute, regulation, or otherwise) arising out of, relating to, or in connection with this Agreement or any Ancillary Agreement or the transactions contemplated by this Agreement or any Ancillary Agreement, including any dispute as to the construction, validity, interpretation, enforceability or breach of this Agreement or any Ancillary Agreement.

1.1.25 "Divesting Entities" means Seller, and all Affiliates of Seller that, as of immediately prior to the Closing, have any right, title or interest in, to or under any Purchased Asset.

1.1.26 "Domain Name Assignment" means the Domain Name Assignment Agreement, in substantially the form of Exhibit B.

1.1.27 "Domain Names" means internet or global computing network addresses or locations, including all generic top-level domains (gTLDs) and country code top-level domains (ccTLDs) and social media accounts and handles.

1.1.28 "Encumbrance" means any mortgage, deed of trust, lien, license, pledge, hypothecation, restriction, easement, option, right of first refusal, security interest or other encumbrance.

1.1.29 "Excluded Assets" means (a) the Retained Names and Marks and all other intellectual property and intellectual property rights of Seller or any of its Affiliates (other than the Purchased Intellectual Property); (b) all employees, real property and tangible personal property of Seller or any of its Affiliates (other than the Purchased Inventory, the Purchased Product Records, the Purchased Regulatory Documentation and the Purchased Product Promotional Materials); (c) all cash and all Accounts Receivable; (d) all Manufacturing-related assets of Seller or any of its Affiliates (other than to the extent included in the Purchased Contracts); (e) any refund of Taxes to which Seller is entitled to in Section 5.8.4; (f) all rights to insurance policies and insurance Contracts or practices of Seller or its Affiliates (including any captive insurance policies or practices), any refunds paid or payable in connection with the cancellation or discontinuation of such policies or practices, and any claims made under such policies; (g) any rights or interests exclusively or primarily relating to any Product in the applicable Territory outside of the applicable Field or outside of the applicable Territory; (h) all rights of Seller or its Affiliates under this Agreement, the Ancillary Agreements and any other agreements, certificates and instruments otherwise delivered in connection with this Agreement relating to the sale of the Product Business (or any portion thereof) or any of the Products; (i) the Shared Contracts to be retained by the Divesting Entities in accordance with Section 2.3.3; (j) books, documents, records, files and other items prepared in connection with or relating to the negotiation and consummation of the transactions contemplated by this Agreement, the Bison Acquisition Agreement or the Ancillary Agreements or otherwise prepared in connection with the sale of the Products, including all (A) bids received from Third Parties and analyses relating to the Products or the Product Business, (B) confidentiality, joint defense or similar agreements with prospective purchasers of the Purchased Assets, the Products or the Product Business, and (C) strategic, financial or Tax analyses relating to the divestiture of the Purchased Assets, the Assumed Liabilities, the Products or the Product Business; (k) trade secrets (except to the extent included in the Product Know-How); (l) attorney work product, attorney-client communications and other items protected by established legal privilege, unless the books and records containing such items can be transferred without losing such privilege; (m) human resources and any other employee books and records; (n) financial, Tax and accounting records to the extent not exclusively or primarily related to the Product Business; (o) electronic mail and similar electronic communications; and(p) all other assets, property, rights and interests of Seller or any of its Affiliates not described in Section 2.1.1.

1.1.30 "Excluded Liabilities" means, without duplication, (a) all liabilities of each Divesting Entity or any member of any consolidated, affiliated, combined or unitary group of which any Divesting Entity is a member for Taxes attributable to the Pre-Closing Tax Period, including any Excluded Tax Liabilities; (b) all Liabilities in respect of indebtedness for borrowed money owing or guaranteed by the Divesting Entities with respect to the Product Business (subject to Section 4.5); (c) all accounts payable of any Divesting Entity outstanding prior to the

Closing Date with respect to the Product Business; (d) all Liabilities for Rebates not allocated to Buyer under Section 2.4.1 or Section 5.12; (e) all Liabilities arising out of Litigation against any Divesting Entity in respect of the Product Business existing as of the Closing Date; (f) all intercompany debts and obligations of the Divesting Entities; (g) all liabilities and obligations of the Divesting Entities with respect to the employment of their respective employees for compensation and benefits owed or claimed to be owed by such employees of the Divesting Entities; (h) all liabilities and obligations related to or arising from a violation of environmental Law prior to the Closing Date related to the Manufacture of the Products; (i) all liabilities and obligations of Divesting Entities and their Affiliates thereof arising pursuant to the terms of this Agreement or any Ancillary Agreement; (j) all liabilities and obligations, whether presently in existence or arising after the date hereof, relating to fees, commissions or expenses owed by Seller to any broker, finder, investment banker, accountant, attorney or other intermediary or advisor engaged by Seller in connection with the transactions arising from this Agreement or the Bison Acquisition Agreement; (k) the Divesting Entities' liabilities under Shared Contracts to be retained by the Divesting Entities in accordance with Section 2.3.3; and (l) all other liabilities and obligations of the Divesting Entities arising out of or related to the ownership, use, sale, license or other Exploitation of the Purchased Assets, in each case, arising prior to the Closing Date.

1.1.31 "Excluded Tax Liabilities" means, without duplication, all liabilities for (a) Taxes to the extent arising out of, in respect of, or relating to the Product Business or the Purchased Assets for Pre-Closing Tax Periods other than such Taxes resulting solely from a Buyer Tax Act or solely attributable to any breach by Buyer, any of its Affiliates or any of their respective transferees or successors of any covenant or other agreement hereunder or under any Ancillary Agreement, (b) to the extent not described under the immediately preceding clause (a), all Taxes of any Divesting Entity or any Affiliate thereof, including Taxes incurred by any Divesting Entity or any such Affiliate in connection with the consummation of the sale and transfer of the Purchased Assets hereunder or under any Ancillary Agreement, other than Transfer Taxes, and (c) Taxes with respect to any Pre-Closing Tax Period of a Person other than a Divesting Entity, Buyer or its Affiliates that is payable pursuant to any Shared Contracts or Purchased Contracts.

1.1.32 "Ex-Im Laws" means all U.S. Laws relating to export, reexport, transfer and import controls, including the Export Administration Regulations, the International Traffic in Arms Regulations and the customs and import Laws administered by U.S. Customs and Border Protection.

1.1.33 "Existing Patent" means any patent or patent application existing as of the Closing Date that is owned by or co-owned among Seller or any of its Affiliates or that Seller or any of its Affiliates have the right or ability to enforce as of the Closing Date or any time thereafter and any patent issuing from, or any continuation, continuation-in-part, divisional, reissue, reexamination, substitution or extension of, any of the foregoing, solely if and to the extent that any issued claim of any such patent or patent application covers or is practiced in the Manufacture by Seller or any of its Affiliates of any Product for Exploitation in the applicable Field in the applicable Territory or the Exploitation by Seller or any of its Affiliates of any Product or Product Improvement in the applicable Territory, in each case as of the Effective Date.

1.1.34 "Exploit" means (and, with correlative meanings, the terms "Exploited," "Exploitation" and "Exploiting" mean) to import, export, use, have used, sell, offer for sale, have sold, research, develop, commercialize, register, hold or keep (whether for disposal or otherwise), transport, distribute, promote, market, or otherwise dispose of, but excludes to Manufacture or have Manufactured.

1.1.35 "Field" means, for each Product, each Field indicated on Schedule 1.1.35 with respect to such Product.

1.1.36 "Final Consent Order" means, to the extent applicable, a final and effective written Judgment issued by any applicable Competition Authority, including any subsequent modifications thereto, requiring Seller or the Divesting Entities to sell, assign, license or otherwise transfer certain assets relating to the animal health businesses of each of Bison and its Affiliates and Seller and the Divesting Entities in order for Bison and Seller to obtain regulatory clearance from any such Competition Authority to complete the transactions contemplated by the Bison Acquisition Agreement.

1.1.37 "Fraud" means, with respect to any Party or its respective Affiliates, common law fraud under New York Law with respect to the making of representations and warranties contained in Article 3 of this Agreement; *provided* that such fraud of such Party shall only be deemed to exist if (a), in the case of Buyer, Buyer or its Affiliates had actual knowledge (as opposed to imputed or constructive knowledge) that the representations and warranties made by Buyer or its Affiliates were actually breached when made or (b) in the case of Seller, to Seller's Knowledge, the representations and warranties made by Seller or were actually breached when made, as applicable, and shall exclude equitable fraud, promissory fraud, unfair dealing and any other fraud based claims.

1.1.38 "Fundamental Representations" means the representations and warranties set forth in Section 3.1.1 (Entity Status), Section 3.1.2 (Authority), Section 3.1.3(a) (Non-Contravention), Section 3.1.3 (No Broker), Section 3.1.6(a) (Title to Purchased Assets), Section 3.2.1 (Entity Status), Section 3.2.2 (Authority), Section 3.2.4 (No Broker) and Section 3.2.6 (Financial Capacity; Solvency).

1.1.39 "GAAP" means the United States generally accepted accounting principles.

1.1.40 "Governmental Authority" means any supranational, international, national, federal, state, local or foreign court (or any arbitrator or other tribunal having competent jurisdiction), administrative agency or commission or other governmental authority or instrumentality, domestic or foreign.

1.1.41 "IRS" means the Internal Revenue Service.

1.1.42 "Judgment" means any judgment, decision, order or decree of any Governmental Authority.

1.1.43 "Law" means any domestic or foreign, federal, state or local statute, law (including common law), treaty, Judgment, ordinance, rule, administrative interpretation, regulation or other requirement having the force of law of any Governmental Authority.

1.1.44 "Liability" or "Liabilities" means any debts, liabilities, obligations, commitments or claims, whether accrued or fixed, known or unknown, fixed or contingent, determined or determinable and whether or not the same would be required to be reflected in financial statements or disclosed in the notes thereto.

1.1.45 "Licensed Copyrights" means, with respect to a Product, all Copyrights Controlled by any Divesting Entity and used to Exploit such Product in the applicable Field in the applicable Territory as of or during the twelve months prior to the Closing Date, excluding the Purchased Copyrights; *provided*, that Licensed Copyrights do not include software.

1.1.46 "Licensed Product Know-How" means, (a) other than the Product Know-How, all technology, technical information, know-how and data, including inventions (whether patentable or not), patent disclosures, assays, discoveries, trade secrets, specifications, instructions, processes, manufacturing processes, formulae, formulations, chemical or biological manufacturing and control data and quality control and testing procedures, including all biological, chemical, pharmacological, biochemical, toxicological, pharmaceutical, physical, safety, quality control, preclinical and clinical data that are (i) identified or identifiable in a tangible form, (ii) as of the Closing Date, solely owned by or co-owned among the Divesting Entities, (iii) used by or on behalf of any Divesting Entity for or in connection with the Manufacturing of any Product for Exploitation in the applicable Field in the applicable Territory or the maintenance of any Purchased Product Registration at any time during the twelve months prior to or after the Closing Date and (iv) in the possession or Control of any Divesting Entity; and (b) Seller Know-How Improvements (as defined in the Transitional Supply Agreement); *provided*, that Licensed Product Know-How does not include any of such information that is (x) general Manufacturing know-how or (y) software and, for clarity, does not include any biological or chemical materials.

1.1.47 "Litigation" means any legal action, arbitration, mediation, hearing, proceeding, or suit (whether civil, criminal or administrative).

1.1.48 "Loss" or "Losses" means any losses, damages, deficiencies, assessments, Judgments, fines, penalties, amounts paid in settlement and reasonable costs and expenses incurred in connection therewith, including reasonable costs and expenses of suits and proceedings, and reasonable fees and disbursements of experts, accountants and counsel.

1.1.49 "Manufacture" means (and, with correlative meanings, the terms "Manufactured" and "Manufacturing" mean) all activities related to the production, manufacture, having manufactured, processing, filling, finishing, testing, packaging, labeling, shipping, storing and holding of any Product or any intermediate thereof prior to the distribution of any Product.

1.1.50 "Material Adverse Effect" means an event, fact, development, impact, circumstance, condition, occurrence, change or effect that would reasonably be expected to be materially adverse to the results of operations or financial or other condition of the Product

Business, taken as a whole; *provided, however*, that none of the following, and no events, facts, conditions, occurrences, changes or effects resulting from the following, shall be deemed (individually or in combination) to constitute, or shall be taken into account in determining whether there has been, a "Material Adverse Effect": (a) Seller's and its Affiliates' compliance with the terms and conditions of this Agreement, any Consent Order, or the requests or requirements of the staff of any applicable Competition Authority; (b) any requests or requirements of the staff of any Governmental Authority having jurisdiction over this Agreement under any applicable Competition Law; (c) political or economic conditions or conditions affecting the capital or financial markets generally, including the worsening of any existing conditions; (d) conditions generally affecting any industry or industry sector in which the Product Business operates or competes or in which any Product is Manufactured or Exploited, including increases in operating costs; (e) any change or prospective change in accounting requirements or applicable Law; (f) any hostility, act of war, sabotage, terrorism or military actions, or any escalation of any of the foregoing; (g) any hurricane, flood, tornado, earthquake or other natural disaster or force majeure event; (h) the public announcement, execution or delivery of this Agreement or the pendency or consummation of the transactions contemplated hereby, including any reduction in revenue, any disruption in (or loss of) supplier, distributor, customer, partner or similar relationships or any loss of employees resulting therefrom; (i) the failure of the Product Business to achieve any milestones, financial projections, predictions, forecasts or estimates of revenues for any period (*provided*, that the underlying causes of such failure shall not be excluded, unless otherwise excluded pursuant to this definition); (j) the taking of any action by Seller or any of its Affiliates that is expressly contemplated by this Agreement, any Proposed Consent Order or any Final Consent Order or that Buyer or any Competition Authority (or the staff thereof) has requested be taken; and (k) any act or omission by Buyer or any of its Affiliates; except, in each of clauses (c) through (g), for those conditions that have a materially disproportionate effect on the results of operations or financial or other condition of the Product Business, taken as a whole, relative to other Persons operating businesses similar to the Product Business (in which case only the incremental material disproportionate effect may be taken into account in determining whether there has been a Material Adverse Effect).

1.1.51 "Permitted Encumbrance" means any (a) statutory Encumbrance for Taxes not yet due and payable; (b) Encumbrance imposed by Law that does not or would not be reasonably expected to materially detract from the current value of, or materially interfere with, the present use and enjoyment of any Purchased Asset subject thereto or affected thereby in the ordinary course of business of the Product Business; (c) right, title or interest of a licensor or licensee under a non-exclusive license granted in the ordinary course of business that is evident on the face of a license (and not arising from a breach of such license); (d) Encumbrances securing indebtedness for borrowed money incurred by Seller or any of its Affiliates in connection with the Bison Acquisition Closing to the extent such Encumbrances are released at or prior to Closing and (e) Encumbrance disclosed on Schedule 1.1.51.

1.1.52 "Person" means any individual, partnership, limited partnership, limited liability company, joint venture, syndicate, sole proprietorship, corporation, unincorporated association, trust, trustee, executor, administrator or other legal personal representative, or any other legal entity, including a Governmental Authority.

1.1.53 "Personal Information" means information that, alone or in combination with other information, is capable of identifying an individual or household or can be used to contact an individual, including name; Social Security number; government-issued identification numbers; health or medical information, including health insurance information; financial account information; passport numbers; user names/email addresses in combination with a password or security code that would allow access to an online account; unique biometric identifiers (e.g., fingerprints, retinal scans, face scans, or DNA profile); employee ID numbers; date of birth; and Internet Protocol (IP) addresses; or any other data that constitutes personal information or personal data under applicable Law.

1.1.54 "Pharmacovigilance Agreement" means the Pharmacovigilance Agreement with respect to the Products to be entered into at the Closing by Seller and Buyer (or their respective Affiliates).

1.1.55 "Post-Closing Tax Period" means any Tax Period beginning after the Closing Date and the portion of any Straddle Tax Period that begins on the day after the Closing Date.

1.1.56 "Pre-Closing Tax Period" means any Tax Period ending on or before the Closing Date and the portion of any Straddle Tax Period that ends on the Closing Date.

1.1.57 "Privacy and Security Requirements" means, to the extent applicable to the Product Business, (a) any Laws in the Territory regulating the Processing of Personal Information including Section 5 of the Federal Trade Commission Act, all state Laws related to unfair or deceptive trade practices, the California Consumer Privacy Act and any implementing regulations therein (together, the "CCPA"), the Fair Credit Reporting Act ("FCRA"), the Controlling the Assault of Non-Solicited Pornography And Marketing Act of 2003 ("CAN-SPAM"), all Laws related to online privacy policies, the Telephone Consumer Protection Act ("TCPA"), the Illinois Biometric Information Privacy Act ("BIPA"), all Laws in the Territory related to faxes, telemarketing and text messaging, and all Laws related to breach notification; (b) policies adopted by the Divesting Entities and applicable to the Product Business relating to the PCI DSS or the Processing of Personal Information, including all such website and mobile application privacy policies and internal information security policies; and (e) the Payment Card Industry Data Security Standard issued by the PCI Security Standards Council, as it may be amended from time to time.

1.1.58 "Process" means the creation, collection, use (including for the purposes of sending telephone calls, text messages and emails), storage, maintenance, processing, recording, distribution, transfer, transmission, receipt, import, export, protection, safeguarding, disposal or disclosure or other activity performed upon data (whether electronically or in any other form or medium).

1.1.59 "Product" means each of the products set forth on Schedule 1.1.35, in each case, as sold by or on behalf of the Divesting Entities in the applicable Territory as of immediately prior to or at any time during the twelve months prior to the Closing in the applicable Field under the Trademarks for such products identified on such Schedule.

1.1.60 "Product Business" means the Exploitation by the Divesting Entities of the Products in the applicable Fields in the applicable Territories, but excluding the research, development, registration, storage, use, transport, import and export of any Product in the applicable Field in the applicable Territory in support of the Exploitation of such Product outside of the applicable Field in the applicable Territory or outside of the applicable Territory.

1.1.61 "Product Improvements" means all modifications, derivative works, translations, developments, enhancements and improvements of any Product, Product Know-How, Purchased Product Promotional Materials, Licensed Copyrights or Licensed Product Know-How conceived, created, developed, reduced to practice or acquired by or on behalf of Buyer or any of its then current Affiliates, solely to the extent used in connection with the Exploitation of the Products in the Field in the Territory, at any time after the Closing Date.

1.1.62 "Product Know-How" means (a) all trade secret rights in the Product formulae in the Territory that, as of the Closing Date, are solely owned by or co-owned among the Divesting Entities, in each case solely with respect to the Territory and the applicable Field and (b) all technology, technical information, know-how and data, including inventions (whether patentable or not), patent disclosures, assays, discoveries, trade secrets, specifications, instructions, processes, manufacturing processes, formulae, formulations, chemical or biological manufacturing control data and quality control and testing procedures, including all biological, chemical, pharmacological, biochemical, toxicological, pharmaceutical, physical, safety, quality control, preclinical and clinical data, that are (i) identified or identifiable in a tangible form, (ii) as of the Closing Date, solely owned by or co-owned among the Divesting Entities, (iii) used by or on behalf of any Divesting Entity exclusively for or exclusively in connection with the Manufacturing of any Product for Exploitation in the applicable Field in the applicable Territory or the maintenance of any Purchased Product Registration at any time during the twelve months prior to the Closing Date and (iv) in the possession or Control of any Divesting Entity; *provided*, that Product Know-How does not include any of such information that is general Manufacturing know-how and, for clarity, does not include any biological or chemical materials.

1.1.63 "Product Registration" means, with respect to a Product, any and all approvals, marketing authorizations, licenses, registrations (except manufacturing establishment registrations) or authorizations of any Governmental Authority necessary to commercially distribute, sell or market such Product in the applicable Fields in the applicable Territory or any applications to obtain such approvals, marketing authorizations, licenses, registrations or authorizations.

1.1.64 "Proposed Consent Order" means, to the extent applicable, a proposed written Judgment issued by any applicable Competition Authority requiring the Divesting Entities to sell, assign, license or otherwise transfer certain assets relating to the animal health businesses of each of Bison and its Affiliates and Seller and its Affiliates in order for Bison and Seller to obtain regulatory clearance from any such Competition Authority to complete the transactions contemplated by the Bison Acquisition Agreement.

1.1.65 "Purchase Price" means the Closing Payment, as adjusted pursuant to Section 2.5.3.

1.1.66 "Purchased Copyrights" means the Copyrights that are set forth on Schedule 1.1.66.

1.1.67 "Purchased Domain Names" means all Domain Names listed on Schedule 1.1.67 and all applications and registrations therefor.

1.1.68 "Purchased Intellectual Property" means the Product Know-How, the Purchased Copyrights, the Purchased Domain Names and the Purchased Trademarks.

1.1.69 "Purchased Inventory" means all inventory of Products in finished packaged form labeled and held for sale [***] in the applicable Field and the applicable Territory, to the extent owned as of the Closing by any Divesting Entity and that has not been sold to a Third Party, including any wholesaler or distributor; [***]. All forms of inventory not in saleable form (*e.f.*, blister cards with tablets, bulk tablets, printed packaging materials, API) are excluded.

1.1.70 "Purchased Product Promotional Materials" means (other than the Purchased Regulatory Documentation and the Purchased Product Records) all existing advertising, promotional and media materials, sales training materials, customer lists, other marketing data and materials, trade show materials and videos, in such form as maintained by the Divesting Entities, to the extent (a) exclusively or primarily used or held for exclusive or primary use in the Product Business at any time during the twelve months prior to the Closing Date, (b) owned and in the possession or Control of the Divesting Entities and (c) produced in the 12 months prior to the Closing Date, by the Divesting Entities, but excluding, in all cases, the Excluded Assets and all intellectual property rights of any Third Party contained or depicted therein.

1.1.71 "Purchased Product Records" means all books and records relating exclusively or primarily to the Manufacture of any Product for Exploitation in the applicable Field and in the applicable Territory or the Product Business (other than the Purchased Regulatory Documentation and Purchased Product Promotional Materials), in such form as maintained by the Divesting Entities, to the extent (a) owned and in the possession or Control of the Divesting Entities and (b) necessary to Exploit (but not Manufacture) the Products as Exploited by the Divesting Entities as of the Closing Date, but excluding, in all cases, the Excluded Assets and all intellectual property rights of any Third Party contained or depicted therein.

1.1.72 "Purchased Product Registrations" means the Product Registrations listed on Schedule 1.1.72.

1.1.73 "Purchased Regulatory Documentation" means, all (a) documentation comprising the Purchased Product Registrations and (b) to the extent owned by and in the possession or Control of, and in such form as maintained by, any Divesting Entity, exclusively or primarily related to any Product and the applicable Field and the applicable Territory for such Product and necessary to, or otherwise limiting the ability to, Exploit or Manufacture such Product in such Field and Territory, (i) correspondence and reports submitted to or received from Governmental Authorities, (ii) other dossiers or compilations necessary to obtain or maintain any

Purchased Product Registrations with regard to such Product, (iii) literature safety reports and documents relating to good manufacturing practices or issues, animal clinical trials, animal research, including laboratory and target animal research and all veterinary master files contained or referenced in the Purchased Product Registrations with regard to such Product and (iv) data (including clinical and pre-clinical data) referenced in any of the documentation and materials referred to in the preceding clauses (a), (b)(i) and (b)(ii), in each case (clauses (a) and (b)), excluding the Excluded Assets and all intellectual property rights of any Third Party contained or depicted therein.

1.1.74 "Purchased Trademarks" means all Trademarks that are listed on Schedule 1.1.74.

1.1.75 "Quality Agreement" means the Quality Agreement with respect to the Manufacture of the Products to be entered into at the Closing by Seller or one of its Affiliates and Buyer (or their respective Affiliates).

1.1.76 "Rebates" means rebates, price reductions or other lagged price concessions or coupon programs, in each case, based on purchase or utilization of units of a Product.

1.1.77 "Representatives" means, with respect to either Party, its officers, employees, agents, attorneys, consultants, advisors, and other representatives.

1.1.78 "Sanctions Laws" means all Laws relating to economic or trade sanctions that are administered or enforced by the United States (including by the U.S. Department of Treasury Office of Foreign Assets Control ("OFAC") or the U.S. Department of State), the European Union or its Member States, or the United Nations Security Council.

1.1.79 "Sanctioned Person" means any Person that is designated on the U.S. List of Specially Designated Nationals and Blocked Persons ("SDN List") maintained by OFAC, the European Union's Consolidated list of persons, groups, and entities subject to EU financial sanctions, or the UN Security Council's Consolidated Sanctions List, or that is 50 percent or more owned or controlled, directly or indirectly, by one or more such Persons.

1.1.80 "Security Breach" means any (i) unauthorized access, acquisition, disclosure, modification, deletion, or destruction of Personal Information or Confidential Data; or (ii) compromise to the availability and integrity of the operations of the IT systems owned and operated by the Product Business, including any ransomware attack affecting such IT systems.

1.1.81 "Seller Business" means (a) the Exploitation of the Products outside of the Territory, (b) the Manufacture of the Products worldwide, (c) the export, import, use, research, development, registration, holding or keeping (whether for disposal or otherwise), disposition or transport of the Products in the applicable Territory for Exploitation outside of the applicable Territory and (d) the Manufacture or Exploitation of any product other than the Products worldwide.

1.1.82 "Seller's Knowledge" means the actual knowledge (as opposed to imputed or constructive knowledge) of the individuals listed on Schedule 1.1.82.

1.1.83 "Straddle Tax Period" means any Tax Period that begins on or before and ends after the Closing Date.

1.1.84" Tax" and "Taxes" means any and all domestic and foreign, federal, state, provincial, local, municipal and other taxes, fees, levies, duties, tariffs, imposts, and like assessments or charges of whatever kind, including taxes or other charges on, or measured by or with respect to, net or gross income, net or gross proceeds, gains, net or gross receipts, capital, franchise, windfall or other profits, withholding, real or personal property, intangible, real estate, environmental, license, employment, unemployment, social security, payroll, excise, use, sales, value added, goods and services, ad valorem, stamp, transfer, recording, registration, documentary, escheat, unclaimed property, capital gains, capital stock, user, leasing, lease, natural resources, gaming, estimated, severance, fuel, interest equalization, occupation, and the grant, subsidy, state aid or similar amount relating to Taxes and received or deemed received from any Governmental Authority, together with any interest, penalties and additions to such Taxes, and any penalties, interest and similar payments and fees imposed in respect of a failure to file any Tax Return in a timely, complete or correct manner, in each case, whether disputed or not.

1.1.85" Tax Period" means, with respect to any Tax, the period with respect to which the amount of the liability for such Tax is determined by the Taxing Authority responsible for the administration of such Tax.

1.1.86" Tax Proceeding" means any audit, examination, request for information, investigation, hearing, litigation, legal action, or administrative or judicial proceeding or contest relating to Taxes with a Governmental Authority.

1.1.87 "Tax Return" means any return, declaration, report, claim for refund, information return or statement relating to Taxes, including any schedule or attachment thereto or amendment thereof, filed or maintained, or required to be filed or maintained, in connection with the calculation, determination, assessment or collection of any Tax.

1.1.88 "Tax Sharing Agreement" means any agreement including any provision pursuant to which any Divesting Entity is obligated to indemnify any Person for, or otherwise pay, any Tax of another Person, or share any Tax benefit with another Person.

1.1.89 "Taxing Authority" means any Governmental Authority or any quasi-governmental body that administers, assesses or collects Taxes or Tax Returns.

1.1.90 "Territory" means the territories listed for each Product on Schedule 1.1.35.

1.1.91 "Third Party" means any Person other than Seller, Buyer and their respective Affiliates and permitted successors and assigns.

1.1.92 "Trademark" means all trademarks, service marks, trade names, brand names, sub-brand names, trade dress rights, product configuration rights, certification marks, collective marks, logos, taglines, slogans, designs or business symbols and all words, names, symbols, colors, shapes, designations or any combination thereof that function as an identifier of

source or origin or quality, whether or not registered, and all statutory and common law rights therein, and all registrations and applications therefor and all goodwill associated with any of the foregoing.

1.1.93 "Trademark Assignment" means the Trademark Assignment, in substantially the form of Exhibit C.

1.1.94 "Transfer" and "Transferred" means, for a Product Registration in a country in the Territory, as applicable, (a) the assignment of rights relating to such Product Registration for the applicable Product in such country to Buyer or Buyer's nominee in accordance with applicable Law, (b) to the extent the Product Registration cannot be transferred because applicable Law requires the Product Registration transferee to apply in its own name for a new Product Registration, the issuance of a new Product Registration for such Product and the withdrawal or termination of such Purchased Product Registration, as applicable, for such Product in such country, each in accordance with applicable Law, or (c) in the event Buyer requests the withdrawal or termination of a Product Registration for such Product for such country or Seller or the applicable holder of a Product Registration withdraws or terminates such Product Registration in accordance with Section 5.5.4, the termination, withdrawal, cancelation or lapse of such Product Registration for such Product for such country in accordance with applicable Law.

1.1.95 "Transfer Taxes" means any and all transfer, documentary, stamp, stamp duty, registration, recording and other similar Taxes (including any penalties, interest and additions thereto) incurred or imposed in respect of the transfer of the Product Business or Purchased Assets, or the assumption of the Assumed Liabilities, pursuant to this Agreement.

1.1.96 "Transitional Manufacturing and Supply Agreement" means the Transitional Manufacturing and Supply Agreement to be entered into at the Closing between Seller and Buyer (or their respective Affiliates), in substantially the form of Exhibit D.

1.1.97 "Transitional Services Agreement" means the Transitional Services Agreement, in substantially the form of Exhibit E.

1.2 Construction . Except where the context otherwise requires, wherever used, the singular includes the plural, the plural the singular, the use of any gender shall be applicable to all genders and the word "or" is used in the inclusive sense (and/or). The table of contents and captions of this Agreement are for convenience of reference only and in no way define, describe, extend or limit the scope or intent of this Agreement or the intent of any provision contained in this Agreement. The term "including" (or its variations) as used herein does not limit the generality of any description preceding such term. The language of this Agreement shall be deemed to be the language mutually chosen by the Parties and no rule of strict construction shall be applied against either Party. Unless otherwise specified or where the context otherwise requires, (a) references in this Agreement to any Article, Section, Schedule or Exhibit are references to such Article, Section, Schedule or Exhibit of this Agreement and references to this Agreement are references to this Agreement and all Exhibits and Schedules hereto; (b) references in any Section to any clause are references to such clause of such Section; (c) "hereof," "hereto," "hereby," "herein" and "hereunder" and words of similar import when

used in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement; (d) references to a Person are also to its permitted successors and assigns; (e) references to a Law include any amendment or modification to such Law and any rules, regulations or legally binding guidelines issued thereunder, in each case, as in effect at the relevant time of reference thereto; (f) references to any agreement, instrument or other document in this Agreement refer to such agreement, instrument or other document as originally executed or, if subsequently amended, replaced or supplemented from time to time, as so amended, replaced or supplemented and in effect at the relevant time of reference thereto; (g) "extent" in the phrase "to the extent" means the degree to which a subject or other thing extends, and such phrase does not mean simply "if"; (h) references to monetary amounts are denominated in United States Dollars; and (i) references to days (excluding Business Days) or months shall be deemed references to calendar days or months. As between the Parties, in the event of any conflict or difference of any kind between the provisions of any Ancillary Agreement, on the one hand, and the provisions of this Agreement (including the Exhibits or Schedules hereto), on the other hand, this Agreement shall control in all respects.

1.3 Consistency with Final Consent Orders . To the extent that any term or provision of this Agreement conflicts with any corresponding term or provision of any Final Consent Order, the Parties hereby agree that the terms or provisions of such Final Consent Order shall control the rights and obligations of the Parties, and the Parties hereby agree to negotiate in good faith to amend accordingly such term or provision of this Agreement; *provided* that (a) any such amendments shall be limited to the minimum extent necessary for this Agreement to comply with such Final Consent Order and (b) if any such amendments required by such Final Consent Order significantly alter the financial terms of the transactions contemplated hereby (which shall include, for the avoidance of doubt, any amendment that requires the transfer to Buyer of any asset other than those listed in Section 2.1.1 or any amendment that restricts the transfer to Buyer of any material Purchased Asset), then, without limitation of the rights of Seller under Section 8.1.4, the Parties agree to negotiate in good faith to seek to agree on mutually acceptable modifications (as determined by each Party in its sole judgment) to this Agreement (including to the Purchase Price) that are necessary or appropriate based on the nature of such amendments.

1.4 Disclosure Schedules . Disclosures in any section or subsection of the Disclosure Schedules are made generally and shall not only address the corresponding section or subsection of this Agreement, but also other sections or subsections of this Agreement to the extent that it is reasonably apparent from the text of such disclosure that such disclosure is applicable to such other sections or subsections. No reference to or disclosure of any matter or item in the Disclosure Schedules (a) shall be construed as an admission or indication that such matter or item is material or that such matter or item is required to be referred to or disclosed, nor shall it be deemed to establish a standard of materiality now or in the future (it being the intent that neither Seller nor any of its Affiliates shall be penalized for having disclosed more than may be required by the request); (b) represents a determination by Seller or any of its Affiliates that such matter or item did not arise in the ordinary course of business; (c) shall imply that such matter or item constitutes or would result in a Material Adverse Effect by the criteria set forth in this Agreement or (d) shall imply that disclosure of any such matter or item is required by Law or by any Governmental Authority. No dollar amount referenced herein is indicative of what is or is not material to Seller or its Affiliates.

ARTICLE 2
SALE AND PURCHASE OF ASSETS; LIABILITIES

2.1 Sale of Purchased Assets .

2.1.1 Purchase and Sale of Purchased Assets. Upon the terms and subject to the conditions of this Agreement and the Ancillary Agreements, at and effective as of the Closing, the Seller shall and shall cause the other Divesting Entities to sell, transfer, convey and assign to Buyer, and Buyer shall purchase and accept from the Divesting Entities, all of the Divesting Entities' right, title and interest in and to the following (collectively, the "Purchased Assets"), free and clear of any Encumbrances other than Permitted Encumbrances:

(a) the Contracts exclusively related to the Product Business, including those set forth on Schedule 2.1.1(a), in each case, excluding all (i) rights, claims or causes of action (including warranty claims) of Seller thereunder related to products supplied or services provided to the Divesting Entities prior to the Closing that are not included in the Purchased Assets and (ii) Accounts Receivable (such Contracts, the "Purchased Contracts");

(b) the Shared Contracts to be assigned to Buyer in accordance with Section 2.3.3;

(c) the Rebate, promotional and other similar programs related to the Product Business to be assigned to Buyer in accordance with Section 5.12;

(d) the Purchased Inventory;

(e) the Purchased Product Registrations;

(f) the Purchased Regulatory Documentation;

(g) the Purchased Product Records;

(h) the Purchased Product Promotional Materials;

(i) the Purchased Intellectual Property;

(j) all rights to claims, demands, causes of action or Litigation those set forth on Schedule 2.1.1(j); and

(k) all other assets specifically listed on Schedule 2.1.1(k).

2.1.2 Excluded Assets. Notwithstanding anything to the contrary in this Agreement or any Ancillary Agreement, Buyer shall not acquire, pursuant to this Agreement or any Ancillary Agreement, the Excluded Assets, and the Purchased Assets shall not include, and Seller or its Affiliates shall retain following the Closing Date, the Excluded Assets.

2.2 Licenses .

2.2.1 Effective from and after the Closing, and subject to the terms and conditions of this Agreement, Buyer, on behalf of itself and its Affiliates, hereby grants to Seller and its current and future Affiliates (for so long as they remain Affiliates), a nonexclusive, perpetual, irrevocable, royalty-free license and non-transferable (except in connection with any assignment of this Agreement permitted under Section 9.6), right to use and right of reference in, to and under the Purchased Assets described in Sections 2.1.1(e) through (i) and Buyer Know-How Improvements (as defined in the Transitional Manufacturing and Supply Agreement), in each case, solely to the extent necessary or useful for Seller or its Affiliates to (a) exercise its or such Affiliates' respective rights or perform its or such Affiliates' respective obligations under this Agreement or any Ancillary Agreement or (b) conduct the Seller Business. Seller and such Affiliates shall have the right to grant (through multiple tiers) sublicenses and further rights of use and reference of their rights under this Section 2.2.1 solely to the extent necessary or useful for Seller and such Affiliates to (i) exercise its or such Affiliates' respective rights or perform its or such Affiliates' respective obligations under this Agreement or any Ancillary Agreement or (ii) conduct the Seller Business; *provided* that (A) the scope of each such sublicense is consistent with this Section 2.2.1 and (B) Seller shall be responsible for any use of the Purchased Assets or Buyer Know-How Improvements, by any sublicensee that violates this Section 2.2.1.

2.2.2 Effective from and after the Closing, and subject to the terms and conditions of this Agreement, Seller, on behalf of itself and the other Divesting Entities, hereby grants to Buyer and its current and future Affiliates (for so long as they remain Affiliates), nonexclusive, perpetual, irrevocable, royalty-free and non-transferable (except in connection with any assignment of this Agreement permitted under Section 9.6) license, with respect to each Product and all Product Improvements thereto, to the applicable Licensed Product Know-How, including the rights to reproduce, use, modify, create derivative works of, develop and improve such Licensed Product Know-How, solely to the extent necessary or useful for Buyer and such Affiliates to Manufacture such Product or Product Improvement thereto for Exploitation in the applicable Field and the applicable Territory or maintain the Purchased Product Registrations. Buyer and such Affiliates shall have the right to grant (through multiple tiers) sublicenses of their rights under this Section 2.2.2 solely to the extent necessary or useful for Buyer and such Affiliates to Manufacture such Product and Product Improvements thereto for Exploitation in the applicable Field and the applicable Territory or maintain the Purchased Product Registrations; *provided* that (a) the scope of each such sublicense is consistent with this Section 2.2.2 and (b) Buyer shall be responsible for any use of the Licensed Product Know-How by any such sublicensee under this Section 2.2.2 that violates this Section 2.2.2.

2.2.3 Effective from and after the Closing, and subject to the terms and conditions of this Agreement, Seller, on behalf of itself and the other Divesting Entities, hereby grants to Buyer and its current and future Affiliates (for so long as they remain Affiliates), a nonexclusive, perpetual, irrevocable, royalty-free and non-transferable (except in connection with any assignment of this Agreement permitted under Section 9.6) license, with respect to each Product and all Product Improvements thereto, to the Licensed Copyrights used as of the Closing Date, including the rights to reproduce, use, modify, create derivative works of, develop, improve, publicly perform, publicly display and distribute the Licensed Copyrights, to Exploit such Product and Product Improvements in the applicable Field in the applicable Territory solely to the extent necessary or useful for Buyer and its Affiliates to Exploit such Product and Product Improvements in the applicable Field in the applicable Territory. Buyer and its Affiliates shall

have the right to grant (through multiple tiers) sublicenses of their rights under this Section 2.2.3 solely to the extent necessary or useful for Buyer and its Affiliates to Exploit such Product and Product Improvements in the applicable Field in the applicable Territory; *provided* that (a) the scope of each such sublicense is consistent with this Section 2.2.3 and (b) Buyer shall be responsible for any use of the Licensed Copyrights by any sublicensee under this Section 2.2.3 that violates this Section 2.2.3.

2.2.4 Buyer and such Affiliates shall have the right to grant sublicenses of their rights under Section 2.2.2 and Section 2.2.3 to any acquirer of the Product Business, whether by a stock sale, an assets sale, a merger, a consolidation or otherwise, which sublicense will not relieve Buyer and its Affiliates of any of its obligations under this Agreement.

2.2.5 Effective from and after the Closing, and subject to the terms and conditions of this Agreement, Seller, on behalf of itself and the other Divesting Entities, hereby grants to Buyer and its current and future Affiliates (for so long as they remain Affiliates), a nonexclusive, perpetual, irrevocable, royalty-free and non-transferable (except in connection with any assignment of this Agreement permitted under Section 9.6) license and right of reference and use to the Concurrent Use Assets to use such Concurrent Use Assets to the extent necessary or useful for Buyer and its Affiliates to Exploit animal health products covered by the Concurrent Use Registration for use in cats or dogs in the Territory. Buyer and its Affiliates shall have the right to grant (through multiple tiers) sublicenses of their rights under this Section 2.2.4 to the extent necessary or useful for Buyer and its Affiliates to Exploit animal health products covered by the Concurrent Use Registration for use in cats or dogs in the Territory; *provided* that (a) the scope of each such sublicense is consistent with this Section 2.2.4 and (b) Buyer shall be responsible for any use of the Concurrent Use Assets by any sublicensee that violates this Section 2.2.4. Buyer acknowledges and agrees that (x) Seller and its Affiliates no longer Manufacture or Exploit, and shall have no obligation hereunder or otherwise to Buyer or any of its Affiliates to Manufacture or Exploit, the product branded as PROGRAM (lufenuron) in the Territory and (y) except to the extent of the license and right of reference grant in this Section 2.2.4, neither Buyer nor any of its Affiliates is acquiring any rights of any kind under this Agreement or any Ancillary Agreement to the product branded as PROGRAM (lufenuron) or any intellectual property or other rights related thereto.

2.3 Consents to Certain Assignments; Shared Contracts .

2.3.1 Notwithstanding anything to the contrary contained in this Agreement or any Ancillary Agreement, neither this Agreement nor any Ancillary Agreement shall constitute an agreement to sell, transfer, assign or deliver, directly or indirectly, any Purchased Asset, or any benefit arising thereunder, if an attempted direct or indirect sale, transfer, assignment or delivery thereof, without the consent of a Third Party (including a Governmental Authority, but specifically excluding any Competition Authority and any consent required to be obtained under any applicable Competition Law), would constitute a breach, default, violation or other contravention of the rights of such Third Party, would be ineffective with respect to any party to a Contract concerning such Purchased Asset or would in any way adversely affect the rights of the Divesting Entities under such Purchased Asset. Buyer agrees that none of Seller or any of its Affiliates shall have any Liability whatsoever to Buyer or any other Person arising out of or relating to the failure to obtain any such consent (a "Required Consent"), and no representation,

warranty or covenant of Seller herein shall be breached or deemed breached, and no condition shall be deemed not satisfied, as a result of such failure or any Litigation or investigation commenced or threatened by or on behalf of any Person arising out of or relating to the failure to obtain any such Required Consent.

2.3.2 If any Required Consent is not obtained prior to the Closing, subject to satisfaction of the conditions to Closing set forth in Article 6, the Closing shall nonetheless take place on the terms set forth herein and, thereafter, other than with respect to the Transfer of the Purchased Product Registrations (which is governed by Section 5.5 and the Transitional Services Agreement), Buyer and Seller shall use their respective commercially reasonable efforts to secure such Required Consent as promptly as practicable after the Closing and, for the period commencing on the Closing Date and ending on the earlier to occur of the expiration or termination of the applicable Purchased Asset and the date that is twelve months after the Closing Date, Seller shall provide or cause to be provided all commercially reasonable assistance to Buyer reasonably requested by Buyer to secure such Required Consent (*provided*, that neither Buyer nor Seller nor any of their respective Affiliates shall be required to pay money to any Third Party, commence any Litigation or offer or grant any accommodation (financial or otherwise) to any Third Party in connection with such efforts or assistance), or cooperate in good faith with Buyer (with each Party being responsible for its own out-of-pocket expenses) in any lawful and commercially reasonable arrangement proposed by Buyer under which (a) Buyer shall obtain (without infringing upon the legal rights of such Third Party or violating any Law) the economic rights and benefits under the applicable Purchased Asset with respect to which the Required Consent has not been obtained and (b) Buyer shall assume any related economic burden with respect to such Purchased Asset. Following the Closing, until such Required Consent is obtained, Buyer will, and will cause each of its Affiliates to use commercially reasonable efforts to cooperate with Seller and its Affiliates to enable them to comply with the terms of such Contract.

2.3.3 Prior to the Closing, Seller shall use its commercially reasonable efforts to identify to Buyer each Contract that is material and necessary to, but not exclusively used in, the Product Business or the Manufacture of the Products (each such Contract, together with each Contract that is listed on Schedule 2.3.3, a "Shared Contract"). Seller shall update Schedule 2.3.3 not less than three Business Days prior to the Closing Date to reflect all Shared Contracts so identified and whether each such Shared Contract will be (i) assigned to Buyer at the Closing, (ii) retained by the applicable Divesting Entity following the Closing (with no further obligation of Seller or its Affiliates to Buyer with respect to such Shared Contract from and after the Closing, except as may be provided otherwise in the Transitional Manufacturing and Supply Agreement) or (iii) otherwise addressed in accordance with this Section 2.3.3. Seller shall use its commercially reasonable efforts, prior to the Closing and for the period commencing on the Closing Date and ending on the earlier to occur of the expiration or termination of the applicable Shared Contract and the date that is twelve months after the Closing, to cause each Shared Contract (other than any Shared Contract referred to in the immediately preceding clause (i) or (ii)) to be appropriately amended and a new Contract to be entered into prior to, on or after the Closing Date so that Buyer shall be entitled to the economic rights and benefits, and shall be responsible for any related economic burden, relating to the Product Business or the Manufacture of the Products, as applicable, thereunder and Seller or its Affiliates shall be entitled to the economic rights and benefits, and shall be responsible for any related economic burden, relating

to the balance of the subject matter of such Shared Contract. If any such Shared Contract cannot be so amended (and a new Contract cannot be entered into) within such period, or if either of the foregoing would impair the benefits that either Buyer or Seller would expect to derive from such amended Shared Contract, then the Parties shall cooperate with each other to obtain for Buyer an arrangement to provide Buyer with the benefits of such Shared Contract in some other manner, including Seller's entering into such lawful arrangements with Buyer to place Buyer in substantially the same economic and Liability position as if such amendments and new Contract were entered into in accordance with the foregoing. The obligations of Seller pursuant to this Section 2.3.3 shall not extend beyond the remaining term of the applicable Shared Contract as of the Closing Date.

2.3.4 Nothing in this Section 2.3 shall require Buyer or Seller or their respective Affiliates to make any payment (except to the extent advanced, assumed or agreed in advance to be reimbursed by the other Party), incur any obligation or grant any concession in order to effect any transaction contemplated by this Section 2.3.

2.4 Liabilities .

2.4.1 Assumed Liabilities. Upon the terms and subject to the conditions of this Agreement, at the Closing, the Divesting Entities shall assign to Buyer and Buyer shall unconditionally assume from the Divesting Entities and pay, perform and discharge when due, any and all Assumed Liabilities. The term "Assumed Liabilities" means:

(a) all Assumed Tax Liabilities;

(b)all Liabilities arising out of or related to, including all Liabilities arising out of or relating to Litigation in respect of, (i) the Manufacture of any Product (other than any liabilities of Seller or any of its Affiliates under the Transitional Manufacturing and Supply Agreement), (ii) the Product Business, (iii) the ownership, use, sale, license or other Exploitation of the Purchased Assets or (iv) any unit of any Product sold by or on behalf of Buyer or any of its Affiliates in the applicable Territory, in each case (clauses (i) through (iv)), from and after the Closing Date;

(c)all Liabilities (i) to customers under purchase orders for units of Product that have not yet been shipped as of the Closing and (ii) for accounts payable with respect to the Product Business, in each case (clauses (i) through (ii)), from and after the Closing Date;

(d)all Liabilities for any rebates in respect of any units of any Product sold by or on behalf of Buyer or any of its Affiliates in the applicable Territory from and after the Closing Date; and

(e)all Liabilities for any returns or recalls in respect of any unit of Product that is returned or recalled in the applicable Territory from and after the Closing Date and that was sold on or after the Closing Date.

2.4.2 Excluded Liabilities. Buyer shall not assume the Excluded Liabilities or, other than the Assumed Liabilities, any other Liabilities of Seller or any of its Affiliates.

2.5 Consideration .

2.5.1 Purchase Price. Upon the terms and subject to the conditions of this Agreement, in consideration of the conveyances contemplated under Section 2.1 and the license grants under Section 2.2.2 and Section 2.2.3, Buyer shall, on the Closing Date, (a) pay to Seller the sum of $95,000,000 plus the Estimated Inventory Value (together, the "Closing Payment") by wire transfer of immediately available funds to the account designated by Seller by written notice to Buyer at least two Business Days prior to the Closing Date, and (b) assume the Assumed Liabilities.

2.5.2 Allocation of Consideration. Buyer and Seller agree that, for purposes of Section 1060 of the Code, the Purchase Price and the Assumed Liabilities shall be allocated among the Purchased Assets as set forth on Schedule 2.5.2 (the "Allocation"). The Allocation shall be amended to reflect any adjustments to the Purchase Price or the Assumed Liabilities under this Agreement. The Allocation shall be consistent with the Estimated Inventory Value and shall be adjusted for any changes thereto to reflect the Closing Inventory Value. Each of Seller, Buyer and their respective Affiliates shall (a) prepare and file their respective Tax Returns (including IRS Form 8594) that are filed after the Closing Date as well as published financial statements prepared in accordance with GAAP on a basis consistent with the Allocation; (b) take no position inconsistent with the Allocation in any Tax Proceeding or otherwise in connection with their respective accounting or financial reporting unless otherwise required as a result of a change of applicable Law after the Execution Date or a contrary determination within the meaning of Section 1313 of the Code; (c) notify the respective other Party of any notice from any Taxing Authority disputing or reasonably expected to dispute the Allocation; and (d) use commercially reasonable efforts to defend the Allocation in any Tax Proceeding, unless otherwise required as a result of a change in applicable Law after the Execution Date or a contrary determination within the meaning of Section 1313 of the Code. Buyer and Seller shall cooperate fully, as and to the extent reasonably requested by the other applicable Party, and shall retain and (upon the other applicable Party's request) furnish or cause to be furnished to the other applicable Party, as promptly as practicable, such information and assistance relating to the Purchased Assets and the Assumed Liabilities as is reasonably necessary for the preparation and filing of any Tax Return.

2.5.3 Post-Closing Inventory Value Adjustment.

(a) Estimated Inventory Value Statement. Not less than three Business Days nor more than five Business Days prior to the Closing Date, Seller shall cause to be prepared and delivered to Buyer a statement calculating in reasonable detail the estimated amount and value of the Purchased Inventory as of the Closing Date in accordance with Schedule 2.5.3 and the books and records of Seller (the "Estimated Inventory Value"). Notwithstanding anything in Schedule 2.5.3 or the books and records of Seller to the contrary, neither the Estimated Inventory Value nor the Closing Inventory Value shall ascribe any value to units of any Purchased Inventory that [***].

(b) Closing Date Inventory Statement. Within 90 days after the Closing Date, Buyer shall cause to be prepared and delivered to Seller a statement (the "Closing Date Inventory Statement") calculating in reasonable detail the actual amount and value of the

Purchased Inventory as of the Closing Date in accordance with Schedule 2.5.3 (the "Closing Inventory Value").

(c) Objections; Resolutions of Disputes.

(i)Unless Seller notifies Buyer in writing within 30 days after Buyer's delivery of the Closing Date Inventory Statement (such 30-day period, the " Objection Period") of any good faith objection to the computation of the Closing Inventory Value set forth therein (a "Notice of Objection"), the Closing Date Inventory Statement shall be final and binding. Following the delivery of the Closing Date Inventory Statement and solely for purposes of Seller's review of the Closing Date Inventory Statement and preparation of any Notice of Objection, Buyer shall permit Seller and its Representatives to review the work papers of Buyer relating to the Closing Date Inventory Statement. Any Notice of Objection shall specify in reasonable detail each item that Buyer disputes, the amount in dispute for each such dispute and a description in reasonable detail of the basis for the objections set forth therein. Seller and Buyer acknowledge that the sole purpose of the determination of the Closing Inventory Value is to adjust the Purchase Price so as to reflect the difference between the Closing Inventory Value and the Estimated Inventory Value, and that in order to do so the Closing Inventory Value and the Estimated Inventory Value need to be calculated in the same manner, without regard to any changes in GAAP that become effective following Seller's calculation of the Estimated Inventory Value.

(ii)If Seller provides a Notice of Objection to Buyer within the Objection Period, Seller and Buyer shall, during the 30-day period following Buyer's receipt of the Notice of Objection (such 30-day period, the " Resolution Period"), attempt in good faith to resolve Seller's objections. During the Resolution Period, Buyer and its Representatives shall, in accordance with Section 2.5.3(e), be permitted to review the work papers of Seller and its accountants relating to the Notice of Objection and the basis therefor. If Seller and Buyer reach an agreement with respect to any of Seller's objections, such agreement shall be reduced to writing and shall be final and binding on the Parties. If Seller and Buyer are unable to resolve all such objections within the Resolution Period, the matters remaining in dispute shall be submitted to the Accountant. The Accountant shall be engaged pursuant to an engagement letter among Seller, Buyer and the Accountant on terms and conditions consistent with this Section 2.5.3(c). The Accountant shall be instructed, pursuant to such engagement letter, to resolve only those matters set forth in the Notice of Objection remaining in dispute and not to otherwise investigate any matter independently. Seller and Buyer each agree to furnish to the Accountant access to such individuals and such information, books and records as may be reasonably required by the Accountant to make its final determination (any such information, books and records shall be provided to the other Party prior to its submission or presentation to the Accountant). Seller and Buyer shall also instruct the Accountant to render its reasoned written decision as promptly as practicable but in no event later than 30 days from the date that the unresolved objections are submitted to the Accountant for review. With respect to each disputed line item, such decision, if not in accordance with the position of either Seller or Buyer, shall not be in excess of the higher, nor less than the lower, of the amounts advocated by Buyer in the Closing Date Inventory Statement or Seller in the Notice of Objection with respect to such disputed line item. Except as Seller and Buyer may otherwise agree, all communications between Seller and Buyer or any of their respective Representatives, on the one hand, and the Accountant, on the other hand, shall be

in writing with copies simultaneously delivered to the non-communicating Party. The resolution of disputed items by the Accountant shall be final and binding on the Parties (absent manifest error) and the determination of the Accountant shall constitute an arbitral award that is final, binding and non-appealable (absent manifest error) and upon which a Judgment may be entered by a court having jurisdiction thereover. The costs and expenses of the Accountant shall be borne by Buyer and Seller in inverse proportion to the difference between the Accountant's final determination and of the amounts advocated by Seller or Buyer with respect to such items, as applicable. For example, if (i) the Seller submits a Notice of Objection for $1,000, (ii) the Buyer contests only $500 of the amount claimed by the Seller, and (iii) the Accountant ultimately resolves the dispute by awarding the Seller $300 of the $500 contested, then the costs and expenses of the Accountant would be allocated 60% (*i.e.*, 300/500) to the Buyer and 40% (*i.e.*, 200/500) to the Seller.

(d) Adjustment Payment. Notwithstanding Section 9.1.2, within 10 Business Days after the date on which the Closing Date Inventory Statement (and the Closing Inventory Value contained therein) becomes final and binding on Seller and Buyer in accordance with Section 2.5.3(c), (i) if the Closing Inventory Value is more than $100,000 less than the Estimated Inventory Value, the Closing Payment shall be adjusted downward by the amount of such difference, and Seller shall pay the amount of such difference to Buyer, and (ii) if the Closing Inventory Value is more than $100,000 greater than the Estimated Inventory Value, the Closing Payment shall be adjusted upward by the amount of such excess, and Buyer shall pay the amount of such excess to Seller. Any payment under this Section 2.5.3(d) shall be made by wire transfer of immediately available funds to an account designated in writing by the payee (such designation to be made at least two Business Days prior to the date on which such payment is due).

(e) Access to Buyer's Books and Records. Following the Closing and until the date the Closing Date Inventory Statement has become final and binding pursuant to Section 2.5.3(c), Buyer shall (i) provide or cause to be provided to Seller and its Representatives access upon reasonable notice during normal business hours to the properties, books, Contracts, personnel and records of Buyer and its Affiliates, and Buyer's, its Affiliates' and its and their accountants' work papers relevant to the preparation of the Closing Date Inventory Statement and the adjustments contemplated by this Section 2.5.3, (ii) provide Seller, upon Seller's request, with copies of any such books, Contracts, records and work papers and (iii) cause its personnel to reasonably cooperate with Seller and respond to Seller's requests for information promptly with respect thereto; *provided*, *however*, that the Buyer and its Affiliates, including the Company Entities, shall not be required to provide any information the disclosure of which is restricted by Contract or applicable Law (including competition or antitrust Law) or which would, based on the advice of counsel, result in the waiver of any privileges (provided that Buyer shall cooperate to permit such disclosure in a manner consistent with the preservation of such privilege). The accountants of Buyer and its Affiliates shall not be obligated to make any work papers available to any Person under this Section 2.5.3 unless and until such Person has signed a customary confidentiality and hold harmless agreement relating to such access to work papers in form and substance reasonably acceptable to such accountants.

2.6 Closing .

2.6.1 Closing. Pursuant to the terms and subject to the conditions of this Agreement, the closing of the transactions contemplated hereby (the "Closing") shall take place at the Washington, D.C. office of Covington & Burling LLP, or remotely by electronic exchange of executed signature pages, at 10:00 a.m. Eastern time, on the first Business Day of the month following the date on which all conditions (other than those that by their terms are to be satisfied or taken at the Closing) set forth in Article 6 have been satisfied (or, to the extent permitted by applicable Law, waived by the Party entitled to the benefits thereof), but not earlier than July 1, 2020, or such other time, date and place as Buyer and Seller agree to in writing. Notwithstanding the foregoing, the Closing shall occur on or prior to the latest date by which the transactions contemplated by this Agreement must close under the Consent Order. The Closing shall be deemed to have occurred at 12:00 a.m., Eastern time, on the Closing Date, such that Buyer shall be deemed the owner of the Purchased Assets on and after the Closing Date.

2.6.2 Closing Deliveries.

(a)Except as otherwise indicated below, at the Closing, Seller shall, or shall cause the other Divesting Entities to (as applicable), deliver the following to Buyer:

(i)each of the Ancillary Agreements to which Seller or any Divesting Entity is a party, validly executed by a duly authorized Representative of Seller or the applicable Divesting Entity;

(ii) the tangible Purchased Assets; *provided*, that (A) delivery shall, unless the Parties otherwise mutually agree, be to the locations, in the formats and on the timeframes set forth in Schedule 2.6.2(a)(ii) or as otherwise set forth in this Agreement or the Transitional Services Agreement, and (B) the Divesting Entities shall have the right, on behalf of themselves and their Affiliates, licensees, sublicensees, licensors, sublicensors and distributors to (i) retain copies of the Purchased Regulatory Documentation, the Purchased Product Promotional Materials, the Purchased Product Records and the Purchased Contracts, in each case, as shall be reasonably required for them to comply with their respective legal, regulatory, stock exchange, Tax and financial reporting requirements, to exercise the rights provided under Section 2.2.1, and for any other reasonable business purpose, including in respect of Litigation and insurance matters, and (ii) prior to delivering or making available any Purchased Asset to Buyer in accordance with Section 2.1, redact from such Purchased Asset any information to the extent that (x) such information does not relate to the Manufacture of the Products or the Product Business or (y) such information constitutes any Excluded Assets; *provided, however*, that, notwithstanding the foregoing, the Divesting Entities shall not have the right to redact information from Purchased Regulatory Documentation or Purchased Product Registrations that is required to Manufacture or Exploit the Products in the applicable Field and in the applicable Territory;

(iii) a certificate, dated as of the Closing Date, validly executed by a duly authorized Representative of Seller, certifying that all of the conditions set forth in Section 6.1.1 and Section 6.1.2 have been satisfied; and

(iv)a properly executed, complete and correct IRS Form W-9 of Seller and any other Divesting Entity to which Buyer will make a payment at Closing.

(b)At the Closing, Buyer shall deliver the following to Seller:

(i)each of the Ancillary Agreements to which Buyer or its Affiliates is a party, validly executed by a duly authorized Representative of Buyer or its applicable Affiliate;

(ii)the Closing Payment (along with a U.S. Federal Reserve reference number or similar evidencing execution of each such payment); and

(iii) a certificate, dated as of the Closing Date, validly executed by a duly authorized Representative of Buyer, certifying that all of the conditions set forth in Section 6.2.1 and Section 6.2.2 have been satisfied.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of Seller . Seller represents and warrants to Buyer as of the date hereof and as of the Closing Date as follows; *provided*, that Seller's representations and warranties do not apply to or cover any activities of Buyer or its Affiliates in connection with the Product Business.

3.1.1 Entity Status. Each Divesting Entity is a legal entity duly organized, validly existing and, where applicable, in good standing under the Laws of its jurisdiction of its organization or incorporation.

3.1.2 Authority.

(a)Each Divesting Entity has the requisite corporate power and authority to (i) own, use and operate the Purchased Assets as now owned, used and operated and to conduct the Product Business as now being conducted and (ii) enter into this Agreement and the Ancillary Agreements to which it will be a party, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated to be consummated by it hereby and thereby. The execution and delivery of this Agreement and the Ancillary Agreements to which Seller will be a party and the consummation of the transactions contemplated to be consummated by it hereby and thereby have been duly authorized by all necessary corporate actions of Seller. This Agreement (assuming the due authorization, execution and delivery hereof by Buyer) constitutes, and each Ancillary Agreement to which Seller will be a party, when executed and delivered by Seller (assuming the due authorization, execution and delivery thereof by each other party thereto), will constitute, the valid and legally binding obligation of Seller, enforceable against Seller in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or similar Laws of general application affecting or relating to the enforcement of creditors' rights generally, and subject to equitable principles of general applicability, whether considered in a proceeding at law or in equity (the "Enforceability Exceptions").

(b)Each Divesting Entity that will enter into an Ancillary Agreement has the requisite entity power and authority to perform its obligations under each Ancillary Agreement to which it will be a party and to consummate the transactions contemplated to be consummated by it thereby. The execution and delivery of the Ancillary Agreements to which any Divesting Entity will be a party and the consummation of the transactions contemplated to be consummated by it thereby will, by the Closing, have been duly authorized by all necessary organizational actions of such Divesting Entity. Each Ancillary Agreement, when executed and delivered by a Divesting Entity that will be a party thereto (assuming the due authorization, execution and delivery thereof by each other party thereto), will constitute the valid and legally binding obligation of such Divesting Entity, enforceable against such Divesting Entity in accordance with its terms, subject to the Enforceability Exceptions.

3.1.3 Non-Contravention. The execution, delivery and performance by Seller of this Agreement and the consummation of the transactions contemplated hereby and the execution, delivery and performance by each Divesting Entity of each Ancillary Agreement to which such Divesting Entity will be a party, and the consummation of the transactions contemplated thereby, do not and will not, directly or indirectly, with or without due notice or lapse of time or both (a) violate the articles of incorporation or bylaws or comparable organizational documents of such Divesting Entity, as applicable, (b) subject to obtaining the Consent Orders and obtaining the consents, permits and authorizations, giving the notices and making the filings referred to in Section 3.1.5(b), violate any Law or other restriction of any Governmental Authority in the Territory applicable to such Divesting Entity, as applicable, the Product Business or the Purchased Assets or violate any Judgment of a Governmental Authority to which any Divesting Entity is subject in respect of the Product Business, (c) require any consent by any Person under, violate, breach or constitute a default under or result in the termination, cancellation. acceleration, revocation, withdrawal, suspension, imposition of additional obligations or loss of rights under, result in any payment becoming due under, or otherwise give rise to any right on the part of any Person to exercise any remedy or obtain any relief under any of the terms, conditions or provisions of any Purchased Contract or (d) result in the creation or imposition of any Encumbrance (other than Permitted Encumbrances) upon any Purchased Asset, except, in the case of (b), (c) or (d), as would not reasonably be expected to be material to the Product Business, taken as a whole.

3.1.4 No Broker. There is no broker, finder or financial advisor acting or who has acted on behalf of Seller or any of its Affiliates that is entitled to receive any brokerage or finder's or financial advisory fee from Buyer or any of its Affiliates in connection with the transactions contemplated by this Agreement.

3.1.5 No Litigation; Consents.

(a)Except as set forth in Schedule 3.1.5 of the Disclosure Schedules, there is no, and during the past three years prior to the Execution Date there has not been any (i) Litigation pending or, to Seller's Knowledge, threatened in writing by or against any other Divesting Entity before any Governmental Authority in the Territory in respect of the Product Business or the Purchased Assets or (ii) Judgment (other than the Consent Orders) in the Territory to which Seller or any other Divesting Entity is subject in respect of the Product Business or the Purchased Assets, except, in each case ((i) and (ii) immediately above), for such Litigation and

Judgments that would not reasonably be expected to be material to the Product Business, taken as a whole.

(b)Except for (i) the Consent Orders, (ii) consents, permits or authorizations that if not received, or declarations, filings or registrations that if not made, would have a materially adverse impact on the Product Business, taken as a whole, (iii) consents, permits, authorizations, declarations, filings or registrations that have become applicable solely as a result of the specific regulatory status of Buyer or its Affiliates and (iv) items disclosed in Schedule 3.1.5(b) of the Disclosure Schedules, no notice to, filing with, permit of, authorization of, exemption by, or consent of, any Governmental Authority is required for Seller or any other Divesting Entity to consummate the transactions contemplated hereby or by the Ancillary Agreements.

3.1.6 Title; Sufficiency.

(a)The Divesting Entities collectively have good title to, or valid contract rights in, as applicable, the Purchased Assets (other than the Purchased Intellectual Property), free and clear of all Encumbrances other than Permitted Encumbrances.

(b) The Purchased Assets (assuming the receipt of all Required Consents), together with (i) the rights, assets and services provided or granted to Buyer or its Affiliates under this Agreement and the Ancillary Agreements, (ii) the employees, real property and general corporate, finance and support services (including quality, pharmacovigilance and supply chain management services) and functions provided by Seller and its Affiliates to the Product Business prior to the Closing and (iii) the Shared Contracts, constitute all of the assets and rights necessary, and are sufficient to enable Buyer, immediately following the Closing, to continue to conduct the Product Business in all material respects in the same manner as currently conducted by Seller immediately prior to the Closing. Except as previously disclosed to Buyer, there are no pipeline projects using nitenpyram as an active pharmaceutical ingredient being developed or in development in the five years prior to the Execution Date by the Divesting Entities for sale in the applicable Field and the applicable Territory.

3.1.7 Contracts. Each Purchased Contract and Shared Contract is in full force and effect and constitutes a legal, valid and binding agreement of the Divesting Entity party thereto and, to Seller's Knowledge, each other party thereto, enforceable in accordance with its terms, subject to the Enforceability Exceptions. Each Divesting Entity party to a Purchased Contract or Shared Contract is not and, to Seller's Knowledge, no other party thereto is, in default any material respect in the performance, observance or fulfillment of any obligation or covenant contained in such Purchased Contract or Shared Contract, as applicable. As of the Execution Date, no Divesting Entity has provided to or received from any other party to a Purchased Contract or Shared Contract written notice of any such alleged default. As of the Execution Date, no Divesting Entity has given any written notice to a Third Party that is a party to any Purchased Contract or Shared Contract to which such Divesting Entity is a party that it intends to terminate such Purchased Contract or Shared Contract and has not received any written notice from any such Third Party stating that such Third Party intends to terminate any Purchased Contract or Shared Contract, as applicable. To Seller's Knowledge, no event or circumstance has occurred that, with or without notice or lapse of time or both, would constitute

a default in any material respect under any Purchased Contract or Shared Contract, as applicable, or would cause or permit any revocation, withdrawal, suspension, acceleration, cancellation, termination, modification of or other changes of or to any right or obligation or the loss of any benefit thereunder. True and complete copies of all Purchased Contracts have been made available to Buyer, except to the extent such Contracts have been redacted to (a) enable compliance with Laws relating to antitrust or the safeguarding of data privacy, (b) comply with confidentiality obligations owed to Third Parties, or (c) exclude information not related to the Product Business or the Products and the applicable Field and applicable Territories. Solely for purposes of this Section 3.1.7, all references to a "Shared Contract" refer to the Contracts set forth on Schedule 2.3.3(i) and Schedule 2.3.3(iii).

3.1.8 Compliance with Law. The Divesting Entities, with respect to the operation of the Product Business and Purchased Assets, are and during the three years prior to the Execution Date have been in compliance with all applicable Laws. During the three years prior to the Execution Date, no Divesting Entity has received any written notices or other written communication from any Governmental Authority regarding any actual, alleged or potential noncompliance with applicable Law with respect to the Product Business or the Purchased Assets. The Divesting Entities hold all material licenses, franchises, permits, certificates, consents approvals, filings, registrations, exemptions, classifications, variances or other similar authorizations, documents or rights issued by applicable Governmental Authorities necessary for the lawful conduct of the Product Business or Manufacture of the Products for Exploitation in the applicable Territory (each, a "Permit" and collectively, the "Permits").

3.1.9 Anti-Corruption; Trade.

(a)During the past three years, no Divesting Entity or, to Seller's Knowledge, any Representative acting on behalf of a Divesting Entity, in each case, in connection with the Product Business or Manufacture of the Products for Exploitation in the applicable Territory, has, in violation in any material respect of the U.S. Foreign Corrupt Practices Act (15 U.S.C. §§ 78dd-1, et seq.) or any similar Anti-Corruption Laws that apply to the Product Business, offered, given, promised or authorized the giving of anything of value, directly or indirectly, to any Person, including any Government Official, for the purpose of influencing any action or decision of a Government Official in his or her official capacity to assist the Divesting Entities in obtaining or retaining business or any business advantage, or directing business to, any Person. For purposes of this Section 3.1.9, "Anti-Corruption Laws", means the U.S. Foreign Corrupt Practices Act of 1977 (the "FCPA") or any similar applicable Laws regarding corruption, bribery, ethical business conduct, or gifts, hospitalities, or expense reimbursements to public officials and private persons which are applicable in countries in which the Divesting Entities conduct the Product Business or Manufacture the Products and "Government Official" means: (a) any officer, employee or representative of any foreign Governmental Authority; (b) any officer, employee or representative of any public international organization; (c) any person acting in an official capacity for any foreign Governmental Authority identified above; and (d) any foreign political party, party official or candidate for political office.

(b)Neither the Divesting Entities nor, to Seller's Knowledge, any Representative acting on behalf of a Divesting Entity, in each case, in connection with the

Product Business or the Manufacture of the Products for Exploitation in the applicable Territory is currently, or has in the past three years, in connection with the Product Business: (i) been or conducted business with a Sanctioned Person, (ii) operated in a country subject to a comprehensive embargo under Sanctions Laws or Ex-Im Laws (currently Cuba, Iran, North Korea, Syria, and the Crimea region of Ukraine) or conducted any dealings with the Government of Venezuela or any entity owned or controlled by the government of Venezuela, or (iii) been in violation of applicable Sanctions Laws or Ex-Im Laws.

(c)In the past three years, the Divesting Entities have not been, to Seller's Knowledge, the subject of any investigation, written inquiry or enforcement proceedings by any Governmental Authority regarding any violation or alleged violation under any Anti-Corruption Laws, Sanctions Laws, or Ex-Im Laws, and, to Seller's Knowledge, no such investigation, written inquiry or proceedings are pending or have been threatened.

3.1.10 Regulatory Matters.

(a) The Divesting Entities, collectively, are the registered holders of all Purchased Product Registrations. The Purchased Product Registrations are in full force and effect. No Litigation is pending or, to Seller's Knowledge, threatened in writing regarding the revocation of any Purchased Product Registration. As of the Execution Date, no Divesting Entity has received any written communication from any Governmental Authority threatening to withdraw or suspend any Purchased Product Registration that has not been withdrawn or otherwise remedied. No Divesting Entity is in material violation of the terms of any Purchased Product Registration.

(b) All units of Product Manufactured in the three years prior to the Execution Date were Manufactured in all material respects in accordance with the specifications contained in the applicable Purchased Product Registration and in accordance with applicable Law. During the three years prior to the Execution Date, there has not been any product recall, market withdrawal or replacement conducted by or on behalf of any Divesting Entity concerning the Products or, to Seller's Knowledge, any product recall, market withdrawal or replacement conducted by or on behalf of any Third Party due to any issues regarding the safety, quality or any manufacturing defect, impurity or adulteration in or of the Product, in each case, in the applicable Field in the applicable Territory. In the three years prior to the Execution Date, no Divesting Entity has received any written claim threatening or commencing Litigation as a result of any actual or alleged death or injury from use of any Product, .

(c) During the three years prior to the Execution Date, no Divesting Entity, with respect to the Manufacture of the Products or the Product Business, has been subject to physical inspections or received written inspection reports from the U.S. Food and Drug Administration or any comparable applicable Governmental Authority in the Territory, in which such Governmental Authority has asserted or alleged in writing that the operations of such Divesting Entity were or are not in compliance with any applicable Laws.

3.1.11 Intellectual Property.

(a)Seller or one of the other Divesting Entities is the sole and exclusive owner of the Purchased Intellectual Property, free and clear of all Encumbrances (other than Permitted Encumbrances).

(b)Schedule 3.1.11(b) of the Disclosure Schedules sets forth, as of the Execution Date, a true and complete list of all Purchased Intellectual Property owned or purported to be owned by the Divesting Entities in the Territory that has been issued, registered or granted, or that is the subject of an application for registration, issuance or grant, and has not been abandoned or withdrawn, including the registration or application date, as applicable and the record owner (" Owned Registered Product IP"). All required maintenance fees, annuity fees or renewal fees for the Owned Registered Product IP that are due and payable prior to the Closing Date have been or will be paid prior to the Closing Date. All unexpired Owned Registered Product IP that has been issued, registered or granted is valid and enforceable. No loss or expiration of any such Owned Registered Product IP due to any act or omission of Seller, any of its Affiliates or any of the Divested Entities is pending or, to Seller's Knowledge, threatened.

(c)The conduct of the Product Business and the Manufacture of Products for Exploitation in the applicable Field and in the applicable Territory, as currently conducted and Manufactured, respectively, by the Divesting Entities, does not infringe or misappropriate any Third Party's patent, trade secret, Copyright, Trademark or other intellectual property rights in the Territory, except as would not reasonably be expected to be material to the Product Business, taken as a whole, and (ii) as of the Execution Date, no Litigation is pending or threatened in writing against any Divesting Entity (A) based upon, challenging or seeking to deny or restrict the ownership, use, registration, validity or enforceability of any of the Purchased Intellectual Property or (B) alleging that the Divesting Entities' conduct of the Product Business and the Manufacture of the Products for Exploitation in the applicable Field and in the applicable Territory, infringes or misappropriates or otherwise violates the patent, trade secret, Copyright, Trademark or other intellectual property rights of any Third Party in the Territory, and no such claim has been asserted by any Third Party against any of the Divesting Entities in writing in the three years prior to the Execution Date.

(d) To Seller's Knowledge, as of the Execution Date, no Third Party is engaging in any activity that infringes or misappropriates or otherwise violates any Purchased Intellectual Property in the Territory, except as would not reasonably be expected to be material to the Product Business, taken as a whole, and, prior to the Execution Date, no such claim has been asserted by any Divesting Entity against any Person in writing, except as would not reasonably be expected to be material to the Product Business, taken as a whole, in the three years prior to the Execution Date.

(e) Except as would not reasonably be expected to be material to the Product Business, taken as a whole, the consummation of the transactions contemplated hereby will not result in the loss or impairment of the Buyer's right to own or use any Purchased Intellectual Property. Immediately subsequent to the Closing, and except as would not reasonably be expected to be material to the Product Business, taken as a whole, the Purchased Intellectual Property will be owned or available for use by the Buyer on terms and conditions

substantially identical in all material respect to those under which the Divested Entities own or use the Purchased Intellectual Property immediately prior to the Closing.

(f) The Divesting Entities have taken commercially reasonable measures consistent with industry practice in the animal health industry to maintain the confidentiality and value of all confidential information used or held for use in connection with, and material to, the Manufacture of the Products or conduct of the Product Business and included in the Purchased Assets. To Seller's Knowledge, no trade secrets included in the Purchased Assets that are material to the Manufacture of the Products or conduct of the Product Business have been disclosed by the Divesting Entities to any Person except pursuant to valid non-disclosure or license agreements. The Divesting Entities have taken commercially reasonable measures consistent with industry practice in the animal health industry to ensure that any Purchased Intellectual Property that is currently used in and is material to the Manufacture of the Products or conduct of the Product Business and that has been conceived, developed or created for the Divesting Entities by any other Person is the subject of a valid and legally enforceable written agreement or other valid and legally enforceable arrangement with such Person with respect thereto transferring to the Divesting Entities such Person's right, title and interest therein and thereto.

(g)The Product Business is and, in the three years prior to the Execution Date, has been operated, in material compliance with all applicable Privacy and Security Requirements. The Product Business has not, in the three years prior to the Execution Date, experienced any Security Breaches, and none of the Divesting Entities has received, in the three years prior to the Execution Date, any notices or complaints in writing from any Person regarding such a Security Breach, in each case, except as would not be material to the Product Business, taken as a whole. In connection with the Product Business, to Seller's Knowledge, none of the Divesting Entities has received in the three years prior to the Execution Date, any notices or complaints in writing from any Person (including any Governmental Entity) regarding noncompliance with applicable Privacy and Security Requirements.

(h)Except as would not reasonably be expected to be material to the Product Business, taken as a whole, (i) the execution, delivery, or performance of this Agreement will not violate any applicable Privacy and Security Requirements and (ii) the Divesting Entities, with respect to the Product Business, have in place reasonable physical, technical and administrative safeguards consistent with industry standards that are designed to protect Personal Information processed by or on behalf of the Divesting Entities in the conduct of the Product Business from unauthorized access by any Person, and to ensure compliance in all material respects with all applicable Privacy and Security Requirements. The Divesting Entities, with regard to the Product Business, have in place commercially reasonable data back-up or contingency operations plans consistent with industry standards.

3.1.12 Product Financial Information.

(a)Seller has made available to Buyer or its Representatives the annual net sales, cost of goods sold, and gross margin for each of the Products in the Territory for the calendar years ending December 31, 2017 and 2018 and for the nine months ending September 30, 2019 (the " Financial Information"). Such Financial Information presents fairly

and accurately in all material respects the net sales, cost of goods sold, and gross margin for the Products in the applicable Fields and in the applicable Territory as of the dates, and for the periods, indicated therein, and was prepared from and in accordance with the accounting books and records of the Divesting Entities. The accounting books and records of the Divesting Entities were maintained in accordance with GAAP during the calendar years ended December 31, 2017 and 2018 and for the nine months ending September 30, 2019.

(b)Since September 30, 2019 until the Execution Date, there has not been any event, change, occurrence or state of circumstances or facts which, individually or in the aggregate, has had or would reasonably be expected to have a Material Adverse Effect.

3.1.13 Taxes.

(a)There are no Encumbrances for Taxes on the Purchased Assets other than Permitted Encumbrances.

(b) The Divesting Entities have timely filed all material Tax Returns to the extent relating solely to the Products Business or Purchased Assets that were due in accordance with applicable Laws. All such Tax Returns are true, correct, and complete in all material respects. All Taxes shown as due and payable with respect to such Tax Returns have been timely paid to the appropriate Governmental Authority and the Divesting Entities have no liability for any delinquent Taxes (whether or not relating to a Tax Return) to the extent relating solely to the Products Business or Purchased Assets.

(c) No Purchased Contract or Shared Contract includes a Tax Sharing Agreement (other than a Tax Sharing Agreement entered into in the ordinary course of business that is not primarily related to Taxes but which typically includes in that type of contract Tax sharing responsibilities (such as paying real estate Taxes in leases or grossing up for withholding Taxes in a credit agreement)).

(d) No audits or other proceedings are in progress or pending, or to Seller's Knowledge, threatened with respect to any Tax Return or Taxes of any Divesting Entity with respect to the Products Business or Purchased Assets.

(e) No Purchased Asset represents an interest in a partnership for any applicable Tax purpose.

3.1.14 Purchased Inventory. The Purchased Inventory (a) is of a good and merchantable quality and is usable or saleable in the ordinary course of the Product Business (other than any Purchased Inventory as to which no value is ascribed in accordance with Section 2.5.3), (b) complies in all material respects with applicable Law and the specifications therefor included in the Purchased Regulatory Documentation, and (c) was Manufactured in all material respects with applicable Law and applicable Product Registrations. The Purchased Inventory is, and will be, in quantities sufficient for the normal operation of the Product Business in the ordinary course of business. None of the Purchased Inventory is obsolete or expired or held on a consignment basis (other than any Purchased Inventory as to which no value is ascribed in accordance with Section 2.5.3).

3.1.15 Material Customers; Material Suppliers.

(a) Schedule 3.1.15(a) of the Disclosure Schedules sets forth (i) a true and complete list of the names of the top twenty customers of the Product Business (the "Material Customers") based on the consolidated gross revenue per customer for the twelve months ended December 31, 2019. Since December 31, 2018 until the Execution Date, no Material Customer has made any written threat to (i) cancel or otherwise terminate its relationship with a Divesting Entity with respect to the Product Business, (ii) materially decrease its purchase of units of the Product or (iii) materially change the terms (whether related to payment, timing of payment, price or otherwise) with respect to its purchase of units of the Product (whether as a result of the consummation of the transactions contemplated hereby or otherwise). No Material Customer has any right to any credit or refund for units for Product Supplied or services rendered or to be rendered by the Divesting Entities as part of the Product Business other than pursuant to normal course credit or refund policies of the Divesting Entities with regard to the Product Business.

(b) Schedule 3.1.15(b) of the Disclosure Schedules sets forth (i) a true and complete list of the names of the top five suppliers of the Product Business (the "Material Suppliers"), based on the consolidated gross expenditure per supplier for the twelve months ended December 31, 2019. Since December 31, 2018 until the Execution Date, no Material Supplier has made any written threat to (i) cancel or otherwise terminate its relationship with a Divesting Entity with respect to the Product Business, or (ii) materially change the terms (whether related to payment, timing of payment, price or otherwise) with respect to its purchase of goods or services as applicable (whether as a result of the consummation of the transactions contemplated hereby or otherwise).

3.1.16 Affiliate Contracts. Section 3.1.16 of the Disclosure Schedules set forth a list of any Purchased Contract that a Divesting Entity or an Affiliate of a Divesting Entity will be a party to following the assignment of any Contract to Buyer in accordance with this Agreement.

3.2 Representations and Warranties of Buyer . Buyer represents and warrants to Seller as follows as of the date hereof and as of the Closing Date as follows:

3.2.1 Entity Status. Each of Buyer and each Affiliate of Buyer that is specified to be a party to any Ancillary Agreement is a legal entity duly organized, validly existing and, where applicable, in good standing under the Laws of the jurisdiction of its organization or incorporation.

3.2.2 Authority.

(a)Buyer has the requisite limited liability company power and authority to enter into this Agreement and the Ancillary Agreements to which it will be a party, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated to be consummated by it hereby and thereby. The execution and delivery of this Agreement and the Ancillary Agreements to which Buyer will be a party and the consummation of the transactions contemplated to be consummated by it hereby and thereby have been duly authorized by all necessary limited liability company actions of Buyer. This Agreement (assuming the due authorization, execution and delivery hereof by Seller) constitutes, and each

Ancillary Agreement to which Buyer will be a party, when executed and delivered by Buyer (assuming the due authorization, execution and delivery thereof by each other party thereto), will constitute, the valid and legally binding obligation of Buyer, enforceable against Buyer in accordance with its terms, subject to the Enforceability Exceptions.

(b) Each Affiliate of Buyer that will enter into an Ancillary Agreement has the requisite entity power and authority to perform its obligations under each Ancillary Agreement to which it will be a party and to consummate the transactions contemplated to be consummated by it thereby. The execution and delivery of the Ancillary Agreements to which any Affiliate of Buyer will be a party and the consummation of the transactions contemplated to be consummated by it thereby will, by the Closing, have been duly authorized by all necessary organizational actions of such Affiliate. Each Ancillary Agreement, when executed and delivered by an Affiliate of Buyer that is a party thereto (assuming the due authorization, execution and delivery thereof by each other party thereto), will constitute the valid and legally binding obligation of such Affiliate, enforceable against such Affiliate in accordance with its terms, subject to the Enforceability Exceptions.

3.2.3 Non-Contravention. The execution, delivery and performance by Buyer of this Agreement and of each Ancillary Agreement to which it will be a party, and the consummation of the transactions contemplated thereby, and the execution, delivery and performance by each Affiliate of Buyer of each Ancillary Agreement to which such Affiliate will be a party, and the consummation of the transactions contemplated thereby, do not and will not (a) violate the articles of incorporation or bylaws or comparable organizational documents of Buyer or such Affiliate, as applicable, (b) subject to obtaining the Consent Orders and obtaining the consents, permits and authorizations, giving the notices and making the filings referred to in Section 3.2.5(b), violate any Law or other restriction of any Governmental Authority applicable to Buyer or such Affiliate, as applicable, or violate any Judgment of a Governmental Authority to which Buyer or any of its Affiliates is subject or (c) violate, breach or constitute a default under or result in the termination or cancellation of any material Contract to which Buyer or any of its Affiliates is a party, except, in the case of (b) or (c), for such violations, breaches, defaults or terminations that would not reasonably be expected to constitute a Buyer Material Adverse Effect.

3.2.4 No Broker. There is no broker, finder or financial advisor acting or who has acted on behalf of Buyer or any of its Affiliates that is entitled to receive any brokerage or finder's or financial advisory fee from Seller or any of its Affiliates in connection with the transactions contemplated by this Agreement.

3.2.5 No Litigation; Consents.

(a) As of the Execution Date, (i) there is no Litigation pending or, to the knowledge of Buyer, threatened in writing against Buyer or any of its Affiliates before any Governmental Authority, and (ii) there is no Judgment of a Governmental Authority to which Buyer or any of its Affiliates is subject, except, in each case ((i) and (ii) immediately above) for such Litigation and Judgments that would not reasonably be expected to constitute a Buyer Material Adverse Effect.

(b) Except for (i) the Consent Orders, (ii) consents, permits or authorizations that if not received, or declarations, filings or registrations that if not made, would not reasonably be expected to constitute a Buyer Material Adverse Effect, and (iii) consents, permits, authorizations, declarations, filings or registrations that have become applicable solely as a result of the specific regulatory status of Seller or its Affiliate, no notice to, filing with, permit of, authorization of, exemption by, or consent of, any Governmental Authority or other Person is required for Buyer to consummate the transactions contemplated hereby or by the Ancillary Agreements.

3.2.6 Financing; Solvency.

(a) Notwithstanding anything in this Section 3.2.6 or elsewhere in this Agreement, Buyer affirms, represents and warrants that its obligations hereunder are not in any way contingent or otherwise subject to (i) the consummation of any financing arrangements or the obtaining of any financing by Buyer or any other Person or (ii) the availability of financing to Buyer or any other Person. Buyer acknowledges and agrees that the obtaining any financing is not a condition to Closing.

(b)Buyer and its Affiliates, as of the Closing Date will have, together with cash on hand, all of the funds necessary for the payment of the full consideration payable hereunder and to make all other payments required to be made by Buyer or its Affiliates in connection with the transactions contemplated hereby and by the Ancillary Agreements and to pay all fees and expenses of Buyer and its Affiliates incurred in connection with the transactions contemplated under this Agreement and the Ancillary Agreements.

(c)After giving effect to the transactions contemplated hereby, including the payment of the Purchase Price and all other amounts required to be paid by Buyer and its Affiliates in connection with the consummation of the transactions contemplated hereby and the occurrence of any financing, and assuming the accuracy of all of Seller's representations and warranties in all respects, Buyer will not (i) be insolvent (because (A) Buyer's financial condition is such that the sum of its debt is greater than the fair value of its assets, (B) the present fair saleable value of Buyer's assets will be less than the amount required to pay Buyer's probable liability on its debts as they become absolute and matured or (C) Buyer is unable to pay all of its debt as and when they become due and payable), (ii) have unreasonably small capital with which to engage in its business or (iii) have incurred or plan to incur debts beyond its ability to pay as they become absolute and matured.

3.3 Exclusivity of Representations .

3.3.1 Buyer, together with and on behalf of its Affiliates and Representatives, acknowledges and agrees that, except for the express representations and warranties of Seller contained in Section 3.1 or in any Ancillary Agreement, (a) Buyer is acquiring the Purchased Assets on an "as is, where is" basis and (b) neither Seller nor any of its Affiliates has made any representation or warranty either express or implied whatsoever herein or otherwise related to this Agreement, any Ancillary Agreement, any Product, the Product Business, the Purchased Assets, the Assumed Liabilities or the transactions contemplated hereby or by any Ancillary Agreement, individually or collectively, either in fact or by operation of Law, by statute or

otherwise, otherwise, including any warranty as to quality, non-infringement, fitness for a particular purpose, merchantability, condition of the Purchased Assets, the operation of the Product Business by Buyer or its Affiliates after the Closing, the probable success or profitability of the Product Business after the Closing or as to any other matter. Buyer, together with and on behalf of its Affiliates and Representatives, specifically disclaims that it is or they are relying upon or have relied upon any such other representations or warranties that may have been made by any Person, and Buyer, together with and on behalf of its Affiliates and Representatives, acknowledges and agrees that Seller and its Affiliates have specifically disclaimed and do hereby specifically disclaim any such other representation or warranty made by any Person.

3.3.2 Buyer acknowledges and agrees that, except to the extent provided in any Representation and Warranty Insurance Policy obtained by it with respect to the transactions contemplated hereby ("R&W Policy") or a claim for Fraud, neither it nor any other Buyer Indemnitee shall have any claim or right to recourse, except as pursuant to Article 7 hereof with respect to any information, documents, or materials furnished to or for Buyer or any of its Affiliates or Representatives by Seller or any of its Affiliates or any of their respective Representatives, including any information, documents, or material made available to Buyer or any of its Affiliates or Representatives in any "data room", management presentation, "teaser", information memorandum, or any other form in connection with this Agreement, any Ancillary Agreement, the Product, the Product Business, the Purchased Assets, the Assumed Liabilities or the transactions contemplated by this Agreement or any Ancillary Agreement.

3.3.3 Buyer has received and may continue to receive from Seller and its Affiliates certain estimates, projections, plans, budgets and other forecasts for the Product Business or Products. Buyer acknowledges that these estimates, projections, forecasts, plans and budgets, and the assumptions on which they are based, were prepared for specific purposes and may vary significantly from each other. Further, Buyer acknowledges that there are uncertainties inherent in attempting to make such estimates, projections, forecasts, plans and budgets, that Buyer is taking full responsibility for making its own evaluation of the adequacy and accuracy of all estimates, projections, forecasts, plans and budgets so furnished to it (including the reasonableness of the underlying assumptions) and that Buyer is not relying on any estimates, projections, forecasts, plans or budgets made available or otherwise furnished by Seller or its Affiliates, and Buyer shall not, and shall cause each other Buyer Indemnitee not to, hold any such Person liable with respect thereto (whether in warranty, contract, tort (including negligence or strict liability) or otherwise).

ARTICLE 4
PRE-CLOSING COVENANTS

4.1 Access and Information .

4.1.1 During the period commencing on the Execution Date and ending on the earlier to occur of (a) the Closing and (b) the termination of this Agreement in accordance with Article 8 (the "Pre-Closing Period"), Seller shall afford Buyer and its Representatives continued reasonable access through an electronic data room to the books and records of Seller, to the extent maintained exclusively or primarily in connection with the Product Business (other than the Excluded Assets and Excluded Liabilities), in each case for the sole purposes of facilitating

the Closing and facilitating the preparation for the transition of the Product Business to Buyer; *provided*, *however*, that such access shall not unreasonably disrupt Seller's ordinary course operations. Notwithstanding anything to the contrary contained in this Agreement, Seller shall not be required to disclose any information or provide any such access if such disclosure or access could, in Seller's reasonable judgment, (i) violate applicable Law (including the Consent Orders) or any binding agreement entered into prior to the Closing Date (including any confidentiality agreement with a Third Party to which Seller is a party), (ii) jeopardize any attorney/client privilege or other established legal privilege, unless the books and records can be shared without losing such privilege, or (iii) disclose any trade secrets not included in the Purchased Intellectual Property; *provided*, that Seller shall use commercially reasonable efforts to make such disclosure or provide such access in a manner that does not result in the occurrence of any of the items described in the preceding clauses (i) through (iv) (including through the sharing of books and records on an outside counsel basis or under a "clean team" arrangement). All requests for information made pursuant to this Section 4.1.1 shall be directed to such person or persons as may be designated by Seller, and Buyer shall not directly or indirectly contact any director or Representative of Seller or any of its Affiliates without the prior approval of such designated person(s). The auditors and independent accountants of any of the Divesting Entities shall not be obligated to make any work papers available to any Person under this Agreement unless and until such Person has signed a customary confidentiality and hold harmless agreement relating to such access to work papers in form and substance reasonably acceptable to such auditors or independent accountants. If so reasonably requested by Seller, Buyer shall, and shall cause its Affiliates (as applicable) to, enter into a customary joint defense agreement with Seller or its Affiliates with respect to any information to be provided to Buyer pursuant to this Section 4.1.1.

4.1.2 Buyer acknowledges and agrees that certain records may contain information relating to Seller or its Affiliates and that prior to making any such records available to Buyer, Seller or its Affiliates may redact any information to the extent that (x) such information does not relate to the Manufacture of the Products for Exploitation in the applicable Field and applicable Territory or the Product Business or (y) such information constitutes any Excluded Assets; *provided*, *however*, that, notwithstanding the foregoing, the Divesting Entities shall not have the right to redact information from Purchased Regulatory Documentation or Purchased Product Registrations that is required to Manufacture or Exploit the Products.

4.1.3 During the Pre-Closing Period, except in the ordinary course of Buyer's business as distributor and reseller of the Products, Buyer hereby agrees it will not contact, and it shall cause its Affiliates and Representatives to not contact, any licensor, licensee, competitor, supplier, distributor or customer of Seller or Bison with respect to the Bison Acquisition Agreement, Products, the Purchased Assets, the Product Business, this Agreement, the Ancillary Agreements or the transactions contemplated hereby or thereby, without the prior written consent of Seller, which consent may be withheld in Seller's sole and absolute discretion.

4.2 Ordinary Course of Business .

4.2.1 During the Pre-Closing Period, except (a) as set forth in Schedule 4.2 or as otherwise contemplated by this Agreement or any Ancillary Agreement, (b) as required by applicable Law (including the Consent Orders), (c) as required by the terms of the Bison

Acquisition Agreement (to the extent not resulting in any adverse impact on the Purchased Assets or Assumed Liabilities) that is available to Buyer, (d) for any actions taken by Seller that are reasonably necessary to consummate the transactions contemplated by this Agreement or any Ancillary Agreement or the Bison Acquisition Agreement (to the extent not resulting in any adverse impact on the Purchased Assets or Assumed Liabilities), or (e) as Buyer shall otherwise consent in writing (which consent shall not be unreasonably withheld, conditioned or delayed), (x) Seller shall, and shall cause the other Divesting Entities to, use its and their respective reasonable best efforts to conduct the Product Business in the ordinary course, including with respect to the maintenance of manufacturing facilities and relationships with suppliers, customers and distributors of the Product Business (*provided* that no action taken or not taken by the Divesting Entities in order to comply with any of clauses (i) through (xi) below shall be deemed a breach of this clause (x)) and (y) not take any of the following actions in respect of the Products or Product Business, as applicable:

(i)acquire (by merger, exchange, consolidation, purchase of stock, shares, assets or otherwise) any Person or asset, other than any acquisition which is not reasonably expected to impair in any material respect the operating cash flows of the Product Business;

(ii)sell, transfer, lease, license or otherwise dispose of any material Purchased Assets other than (A) pursuant to existing Contracts disclosed to Buyer or (B) assets at the end of their useful lives or out of redundancy or (C) sales of inventory in the ordinary course of business;

(iii)subject any Purchased Assets to any Encumbrance, other than a Permitted Encumbrance;

(iv) (A) amend, terminate, assign or waive any material provision under any Purchased Contract or (B) enter into any Contract that would be a Purchased Contract and that has a contract value of more than $100,000;

(v) abandon, fail to maintain or assign any Purchased Intellectual Property;

(vi) waive, release, assign, settle or compromise any material Litigation relating to the Purchased Assets or the Assumed Liabilities;

(vii) enter into any Contract with respect to the Product Business that would limit or restrict Buyer or its Affiliates, as owners of the Purchased Assets following the Closing, from engaging in any business in any geographic area;

(viii) intentionally or recklessly damage, destroy or permit any loss of any material Purchased Asset;

(ix) waive, release or assign any material rights or claims of any Purchased Asset held by a Divesting Entity;

(x)increase sales of the Products to such customers in a manner inconsistent with the ordinary course of business or past practices that constitutes "trade loading" or similar sales activities that would reasonably be expected to, through an over-supply of such Products to customers, materially reduce sales of the Products to customers after the Closing, taking into account any general fluctuations of commercial and market circumstances (it being understood that ordinary course price adjustments and promotional activities generally result in fluctuations in levels of sales and inventory levels and, provided they are consistent with past practices, would not constitute a breach of this Section 4.2.1(x)); or

(xi) commit to agree or take, or enter into any Contract to do any of the foregoing.

4.2.2 Nothing contained in this Agreement is intended to give Buyer or its Affiliates, directly or indirectly, the right to control or direct the Product Business prior to the Closing, and nothing contained in this Agreement is intended to give Seller or its Affiliates, directly or indirectly, the right to control or direct Buyer's operations. Prior to the Closing, each of Buyer, on the one hand, and Seller, on the other hand, shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its and its Affiliates' respective operations.

4.3 Obligation to Consummate the Transaction .

4.3.1 Subject to this Section 4.3 and Section 4.4, each Party shall use its reasonable best efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary, proper or advisable to the extent permissible under applicable Law, to consummate and make effective the transactions contemplated by this Agreement and to ensure that the conditions set forth in Article 6 are satisfied, insofar as such matters are within the control of either of the Parties. Without limiting the generality of the foregoing, during the Pre-Closing Period, commencing as soon as reasonably practicable after the Execution Date, Seller shall use its reasonable best efforts (not requiring the payment of money) to obtain the consents, permits and authorizations, make the filings and issue the notices (in each case, if any) disclosed in Schedule 3.1.3 of the Disclosure Schedules or Schedule 3.1.5(b)of the Disclosure Schedules. Prior to the Closing, Buyer shall cooperate with Seller, upon the request of Seller, in connection with Seller obtaining any such consent, permit or authorization, making such filings and issuing such notices; *provided*, that such cooperation shall not include any requirement of Buyer or any of its Affiliates to pay money to any Third Party, commence any Litigation or offer or grant any accommodation (financial or otherwise) to any Third Party in connection with such efforts. In addition to the foregoing, Buyer agrees, subject to any applicable obligations of confidentiality, to provide such evidence as to its financial capability, resources and creditworthiness as may be reasonably requested by any Third Party whose consent is sought hereunder.

4.3.2 Nothing in this Agreement shall obligate Seller or any of its Affiliates to take any action with respect to the Bison Acquisition Closing or the consummation of the transactions contemplated by the Bison Acquisition Agreement. Subject to Section 4.4, neither Seller nor its Affiliates nor Buyer nor its Affiliates shall be required to pay or commit to pay any amount to (or incur any obligation in favor of), commence any Litigation or offer or grant any

accommodation (financial or otherwise) to any Person from whom any consent may be required in order for the Closing to occur.

4.4 Governmental Consents .

4.4.1 Buyer and Seller shall, and shall cause their respective Affiliates to, use their respective reasonable best efforts to (a) promptly (and in any event, prior to Closing) obtain from the requisite Governmental Authorities any consents or Judgments that may be or become necessary or advisable for its execution and delivery of, and the performance of its obligations pursuant to, this Agreement and the Ancillary Agreements, (b) cooperate fully with each other in promptly seeking to obtain all such consents or Judgments and (c) promptly make all necessary filings, and thereafter make any other advisable submissions, with respect to this Agreement and the transactions contemplated hereby required under any applicable Law, including all filings with applicable Competition Authorities needed to obtain clearance or approval for the transactions contemplated by this Agreement and the Ancillary Agreements.

4.4.2 Where reasonably requested by Seller, Buyer shall (a) provide Seller and its Representatives with draft copies of all submissions and communications to or with applicable Governmental Authorities or other persons in relation to obtaining any consent or Judgment at such time as will allow Seller a reasonable opportunity to provide comments on such submissions and communications before they are submitted or sent and provide Seller and its Representatives with copies of all such submissions and communications in the form submitted or sent, and (b) where permitted by the applicable Governmental Authorities or other Person concerned, allow persons nominated by Seller to attend all meetings with applicable Governmental Authorities or other Persons and, where appropriate, to make oral submissions at such meetings.

4.4.3 Buyer understands that Buyer, this Agreement, the Ancillary Agreements and the transactions contemplated hereby and thereby are subject to the prior approval of applicable Competition Authorities and that Seller is entering into this Agreement and the Ancillary Agreements to comply with Consent Orders from such Competition Authorities in connection with the transactions contemplated by the Bison Acquisition Agreement. As promptly as practicable after the Execution Date, each Party shall, and shall cause its Affiliates to (as applicable), (a) promptly prepare and furnish all necessary information and documents reasonably requested by applicable Competition Authorities, each other Party or its Representatives in connection with the transactions contemplated by this Agreement and the Ancillary Agreements, (b) use its and their respective reasonable best efforts to demonstrate to applicable Competition Authorities that Buyer is an acceptable acquiror of the Product Business and that Buyer will compete effectively in conducting the Product Business, and (c) cooperate with the other Party in obtaining all necessary or advisable approvals of applicable Competition Authorities. In the event that any applicable Competition Authority disapproves of any provision of this Agreement or the Ancillary Agreements, and the proposed applicable Consent Order is withheld pending modification of any such provision or Buyer's commitment to alter its business, Buyer and Seller shall, subject to Buyer's obligations under Section 4.4.5 below, modify accordingly such provision of this Agreement or the Ancillary Agreements in good faith; provided that (x) any such modifications shall be limited to the minimum extent necessary to address the issues raised by such Competition Authority and (y) if any such modifications

required by such Competition Authority significantly alter the financial terms of the transactions contemplated hereby (which shall include, for the avoidance of doubt, any amendment that requires the transfer to Buyer of any asset other than the Purchased Assets or actions that Buyer may be required to undertake or agree to undertake to comply with Section 4.4.5 below), then, without limitation of the rights of Seller under Section 8.1.4 the Parties agree to negotiate in good faith to seek to agree on mutually acceptable modifications to this Agreement or any Ancillary Agreement as are necessary or appropriate based on the nature of the modifications required by such Competition Authority.

4.4.4 Buyer, on the one hand, and Seller, on the other hand, will, and will cause their respective Affiliates to, coordinate and cooperate fully with each other in exchanging such information and providing such assistance as the other may reasonably request in connection with this Section 4.4.

4.4.5 Buyer agrees to vigorously contest and resist any action, including legislative, administrative or judicial action, and to have vacated, lifted, reversed or overturned any Judgment (whether temporary, preliminary or permanent) that is in effect and that restricts, prevents or prohibits the consummation of the transactions contemplated by this Agreement or the Ancillary Agreements, including by vigorously pursuing all available avenues of administrative and judicial appeal and all available legislative action. Without limiting the foregoing and notwithstanding anything in this Agreement to the contrary, Buyer shall take any and all steps necessary or advisable to avoid the entry of or have lifted, vacated or terminated any order of a Governmental Authority or other action restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement. Notwithstanding anything herein to the contrary, Buyer shall not be required to take or agree or commit to take any action, including any sale, divestiture, or disposition, or to limit or agree to limit its freedom of action or that of its Affiliates in any respect except with respect to Buyer's and its Affiliate's pipeline product related to nitenpyram oral flea tablet or any assets related to any such pipeline product.

4.4.6 Buyer shall not, and shall cause its Affiliates not to, enter into any transaction or any Contract to effect any transaction (including any merger or acquisition) that would reasonably be expected to make it more difficult, or to increase the time required, to obtain from the requisite Governmental Authorities any consents or Judgments that may be or become necessary or advisable for its execution and delivery of, and the performance of its obligations pursuant to, this Agreement and the Ancillary Agreements.

4.5 Seller Guarantees . Buyer acknowledges that in the course of conduct of the Product Business, Seller and its Affiliates may have entered into various arrangements in which guarantees, letters of credit, bonds or similar arrangements were issued by Seller or its Affiliates to support or facilitate the Product as set forth on Schedule 4.5 (the "Seller Guarantees.") From and after the Closing, Buyer shall use commercially reasonable efforts to obtain replacement guarantees for each of the Seller Guarantees, which will include a guarantor other than Seller or any of its Affiliates.

4.6 Financing.

(a)Buyer shall, and shall cause its Affiliates to, use their respective reasonable best efforts to obtain financing sufficient to pay the full consideration payable hereunder and to make all other payments required to be made by Buyer and its Affiliates (the " Minimum Financing") as promptly as practicable following the Execution Date. Buyer and its Affiliates shall not take any actions that could reasonably be expected to (A) materially delay or prevent the funding of the Purchase Price on the Closing Date or (B) otherwise prevent, impede or materially delay the Closing.

(b)Buyer shall keep Seller informed on a current basis and in reasonable detail of the status of its efforts to obtain the Minimum Financing. Without limiting the generality of the foregoing, if Buyer believes for any reason in good faith that it will not be able to obtain all or any portion of the Minimum Financing, or if any portion of the Minimum Financing otherwise becomes unavailable or Buyer becomes aware of any event or circumstance that would reasonably be expected to make any portion of the Minimum Financing become so unavailable. Buyer shall, and shall cause its Affiliates to, use their respective reasonable best efforts to arrange or obtain in replacement thereof alternative financing from alternative sources in an amount sufficient to obtain the Minimum Financing. Buyer shall deliver to Seller complete and accurate copies of all Contracts or other arrangements pursuant to which any source shall have committed to provide any portion of the Minimum Financing.

(c)Prior to the Closing, Seller shall, and shall cause its Affiliates to, use their respective commercially reasonable efforts to provide to Buyer, at Buyer's sole expense, all cooperation reasonably requested by Buyer that is necessary, proper or advisable in connection with the arrangement of debt financing from one or more debt financing sources (the " Debt Financing") (in each case, *provided*, that (i) such requested cooperation does not unreasonably interfere with the business or ongoing operations of Seller or any of its Affiliates and (ii) except as required for Seller to comply with its obligations under Section 5.17, Seller and its Affiliates shall not be required to provide or create any financial information with respect to the Product Business not maintained by them in the ordinary course of business); *provided*, *however*, that none of Seller nor any of its Affiliates shall be required to (A) execute any agreement, certificate, document or instrument in connection therewith, (B) pay any commitment or other fee or incur any cost, expense or other liability that is not simultaneously reimbursed by Buyer in connection with the Debt Financing prior to the Closing, (C) provide cooperation to the extent that it could reasonably be expected to conflict with or violate any applicable Law or result in a breach of, or a default under, any Contract to which Sellers or their respective Affiliates is a party or (D) breach, waive or amend any terms of this Agreement, and no person that is a director or officer of Seller or any of its Affiliates shall be required to take any action in such capacity with respect to the Debt Financing (or any alternative financing). Buyer shall, promptly upon request by Seller, reimburse, or cause its Affiliates to reimburse, Seller for all reasonable and documented out-of-pocket costs and expenses incurred by Seller and its Affiliates in connection with such cooperation, including any costs and expenses of its Representatives to perform due diligence in connection with the arrangement of the Debt Financing, whether before or after the Execution Date. Buyer shall indemnify and hold harmless the Seller Indemnitees, from and against, and compensate and reimburse the Seller Indemnitees for, any and all Losses incurred by any Seller Indemnitee to the extent arising out of or related to the arrangement of the Debt Financing and any information utilized in connection therewith.

(d) All non-public information provided by or on behalf of Seller or its Affiliates to Buyer, its Affiliates or its Representatives pursuant to this Section 4.6 or otherwise in connection with the Debt Financing is subject to the terms of Section 5.4.

ARTICLE 5
ADDITIONAL COVENANTS

5.1 Cooperation in Litigation and Investigations .

5.1.1 Subject to Section 5.4 and except as set forth in any Ancillary Agreement, from and after the Closing Date until the third anniversary of the Closing Date, Buyer and Seller shall reasonably cooperate with each other in the defense or prosecution of any Litigation, examination or audit instituted prior to the Closing or that may be instituted thereafter against or by either Party or its Affiliates relating to or arising out of the conduct of the Product Business or the Exploitation or Manufacture of the Products prior to or after the Closing (other than Litigation between Buyer and Seller or their respective Affiliates arising out of the transactions contemplated hereby or by the Ancillary Agreements). In connection therewith, and except as set forth in any Ancillary Agreement, from and after the Closing Date until the third anniversary of the Closing Date, each of Seller and Buyer shall make available to the other Party and its Representatives during normal business hours and upon reasonable prior written notice, but without unreasonably disrupting its business, all records to the extent relating to the Purchased Assets, the Assumed Liabilities or the Excluded Liabilities held by it or its Affiliates and reasonably necessary to permit the defense or investigation of any such Litigation, examination or audit (other than Litigation between Buyer and Seller or their respective Affiliates arising out of the transactions contemplated hereby or by the Ancillary Agreements, with respect to which applicable rules of discovery shall apply).

5.1.2 Buyer shall, and shall cause its Affiliates to, preserve and retain all records referred to in Section 5.1.1 for the length of time contemplated by their respective standard record retention policies and schedules. After the Closing Date, Buyer shall, and shall cause its Affiliates to, on the one hand, and Seller shall, and shall cause the other Divesting Entities to, on the other hand, grant to the other such access to financial records and other information in their possession related to their conduct of the Product Business and such cooperation and assistance, in each case, as shall be reasonably required to enable them to complete their legal, regulatory, stock exchange and financial reporting requirements and for any other reasonable business purpose, including in respect of Litigation and insurance matters (other than in connection with any Litigation between or among the Parties hereto or their respective Affiliates arising out of the transactions contemplated hereby or by the Ancillary Agreements, with respect to which applicable rules of discovery shall apply). Buyer, on the one hand, and Seller, on the other hand, shall promptly reimburse the other for such other's reasonable out-of-pocket expenses associated with requests made by such first Party under this Section 5.1.2, but no other charges shall be payable by the requesting Party to the other Party in connection with such requests.

5.1.3 Notwithstanding the obligations in this Section 5.1, Seller shall not be required to make available such documents if such disclosure could, in Seller's reasonable judgment, (a) violate applicable Law (including the Consent Orders) or any binding agreement entered into prior to the Closing Date (including any confidentiality agreement to which Seller or any of its Affiliate is a party), (b) jeopardize any attorney/client privilege or other established legal privilege or (c) disclose any trade secrets (*provided* that Seller shall use commercially reasonable efforts to make such disclosure in a manner that does not result in the occurrence of any of the items described in the preceding clauses (a) through (c)) (such as the entry into a joint defense agreement or other arrangement to avoid loss of attorney-client privilege). The Party requesting any cooperation or books and records under this Section 5.1 shall pay the reasonable out-of-pocket costs and expenses of providing such cooperation (including legal fees and disbursements) incurred by the Party providing such cooperation and by its officers, directors, employees and agents, and any applicable Taxes in connection therewith.

5.2 Further Assurances .

5.2.1 Each of Seller and Buyer shall, at any time or from time to time after the Closing, at the request and expense of the other, execute and deliver to the other all such instruments and documents or further assurances as the other may reasonably request in order to (a) vest in Buyer all of Seller's right, title and interest in and to the Purchased Assets as contemplated hereby, (b) effectuate Buyer's assumption of the Assumed Liabilities and (c) grant to each Party all rights contemplated herein to be granted to such Party under the Ancillary Agreements; *provided*, *however*, that after the Closing, apart from such foregoing customary further assurances, neither Seller nor Buyer shall have any other obligations except as specifically set forth and described herein or in the Ancillary Agreements. Without limitation of the foregoing, except as expressly set forth herein or in the Ancillary Agreements, neither Seller nor Buyer shall have any obligation to assist or otherwise participate in the amendment or supplementation of the Purchased Product Registrations or otherwise to participate in any filings or other activities relating to the Purchased Product Registrations other than as necessary to effect the assignment thereof to Buyer in connection with the Closing pursuant to this Agreement.

5.2.2 Promptly, but in no event later than 30 days after the Closing Date, Seller shall prepare, execute and, if required under applicable Law, have notarized (or, as applicable, cause the applicable Divesting Entities to prepare, execute and, if required under applicable Law, have notarized) all intellectual property assignments not constituting Ancillary Agreements required to transfer to Buyer the Owned Registered Product IP. As between Seller and Buyer, Buyer shall be responsible for filing such intellectual property assignments and other instruments of transfer with applicable Governmental Authorities. Buyer shall be responsible for paying all costs and expenses associated with such transfer and filings, including filing fees.

5.2.3 After the Closing Date, at Buyer's request, Seller shall at its expense, and shall cause the other Divesting Entities to (as applicable) unlock the Purchased Domain Names and furnish to Buyer or the applicable domain name registrar, any authorization code or other information required by each applicable Internet domain name registrar for the Purchased Domain Names to transfer the rights in, and control over, the Purchased Domain Names to Buyer or its designee.

5.3 Publicity .

5.3.1 No public announcement related to this Agreement or the transactions contemplated herein will be issued without the approval of Seller and Buyer, which approval shall not be unreasonably withheld, conditioned or delayed, except any public disclosure which either Seller or Buyer, in its good faith judgment, believes is required by applicable Law or by any stock exchange on which its securities or those of its Affiliates are listed. If either Party, in its good faith judgment, believes such disclosure is required, such Party shall use its commercially reasonable efforts to consult with the other Party and its Representatives, and to consider in good faith any revisions proposed by the other Party or its Representatives, as applicable, prior to making (or prior to any of its Affiliates making) such disclosure, and shall limit such disclosure to only that information which is legally required to be disclosed. Notwithstanding the foregoing, without the approval of the other Party, Buyer and Seller and their respective Affiliates may, following the Execution Date and subject to the other terms and conditions of this Agreement (including Section 5.4), (a) communicate with Competition Authorities regarding this Agreement and the Ancillary Agreements and the transactions contemplated hereby or thereby, (b) communicate with Governmental Authorities, make internal announcements to their respective Affiliates and their and their Affiliates' respective employees (and Seller and its Affiliates may communicate with their customers, suppliers, distributors or other Persons engaged in the Product Business regarding this Agreement, the Ancillary Agreements and the transactions contemplated hereby or by the Ancillary Agreements, in a manner consistent with the terms of this Agreement, including in order to obtain consents of or from any such Person necessary or desirable to effect the consummation of the transactions contemplated hereby or by the Ancillary Agreements), and (c) make public announcements and engage in public communications regarding this Agreement, the Ancillary Agreements and the transactions contemplated hereby or by the Ancillary Agreements (in the case of this clause (c), to the extent such announcements or communications are consistent with a communications plan agreed upon by Seller and Buyer or the Parties' prior public communications made in compliance with this Section 5.3).

5.3.2 If Buyer or any of its Affiliates, based on the advice of its counsel, determines that this Agreement or any Ancillary Agreement must be publicly filed with a Governmental Authority, then Buyer or its applicable Affiliate, prior to making any such filing, shall provide Seller and its counsel with a redacted version of this Agreement (and any Ancillary Agreement) that it intends to file, consider in good faith any comments provided by Seller or its counsel and use commercially reasonable efforts to ensure the confidential treatment by such Governmental Authority of those sections specified by Seller or its counsel for redaction and confidentiality.

5.3.3 Notwithstanding any other provision of this Agreement, the requirements of this Section 5.3 shall not apply to any disclosure by Seller, Buyer, or any of their respective Affiliates of any information concerning this Agreement, any Ancillary Agreement or the transactions contemplated hereby or by any Ancillary Agreement in connection with any Dispute between the Parties or their respective Affiliates.

5.3.4 Buyer shall include, and use commercially reasonable efforts to maintain, a hyperlink on each primary gTLD domain/ URL that Buyer may use to Exploit the Products in

the Territory, the placement and form of such hyperlink to be reasonably acceptable to Seller, to re-direct Internet traffic from users outside the Territory seeking information about the Product to such domains/ URLs as Seller may designate in writing.

5.4 Confidentiality .

5.4.1 The Confidentiality Agreement shall govern the respective rights and obligations of the Parties and their respective Affiliates and Representatives with respect to Evaluation Material (as defined in the Confidentiality Agreement) during the Pre-Closing Period. From and after the Closing, all Confidential Information provided by one Party (or its Representatives or Affiliates) (collectively, the "Disclosing Party") to the other Party (or its Representatives or Affiliates) (collectively, the "Receiving Party") shall be subject to and treated in accordance with the terms of this Section 5.4. As used in this Section 5.4, "Confidential Information" means (a) all information disclosed to the Receiving Party by the Disclosing Party in connection with this Agreement or any Ancillary Agreement, including all information with respect to the Disclosing Party's licensors, licensees or Affiliates, (b) all information (if any) disclosed to the Receiving Party by the Disclosing Party under the Confidentiality Agreement, (c) the terms of this Agreement and any Ancillary Agreement and (d) all memoranda, notes, analyses, compilations, studies and other materials prepared by or for the Receiving Party to the extent containing or reflecting the information in the preceding clause (a), (b) or (c); *provided* that the terms of this Agreement and the Ancillary Agreements shall be deemed to be both Buyer Confidential Information and Seller Confidential Information. Notwithstanding the foregoing, Confidential Information shall not include information that, in each case as demonstrated by competent written documentation:

(i)was already known to the Receiving Party other than under an obligation of confidentiality, at the time of disclosure by the Disclosing Party;

(ii)became generally available to the public or otherwise part of the public domain after its disclosure to the Receiving Party other than through any act or omission of the Receiving Party in breach of this Agreement or the Confidentiality Agreement;

(iii)is subsequently disclosed to the Receiving Party by a Third Party without obligations of confidentiality with respect thereto; or

(iv)is independently developed by the Receiving Party without reference, reliance, or incorporation of Confidential Information.

5.4.2 The Confidentiality Agreement shall expire and be of no further force and effect upon the Closing solely with respect to the Confidential Information (but in no other respect); *provided*, *however*, such expiration of the Confidentiality Agreement shall in no way prejudice or adversely affect Seller's or its Affiliate's ability after the Closing to seek damages, or any other remedy available to Seller or its Affiliates, with respect to a violation by Buyer (or its Affiliates or Representatives) of the Confidentiality Agreement relating to Evaluation Material (as defined therein) prior to the Closing.

5.4.3 From and after the Closing, all Confidential Information obtained by Seller (or its Affiliates or Representatives) from Buyer (or its Affiliates or Representatives) and

all Confidential Information relating exclusively to the Product Business, the Purchased Assets and the Assumed Liabilities (the "Buyer Confidential Information") shall be deemed to be Confidential Information disclosed by Buyer to Seller or its Affiliates or Representatives for purposes of this Section 5.4 (and shall not be subject to Section 5.4.1(i)) and, during the period from the Closing through the third anniversary of the Closing Date (the "Confidentiality Period"), shall be used by Seller or its Affiliates or Representatives solely as required to (a) perform their respective obligations or exercise or enforce their respective rights and remedies, or to the extent reasonably necessary or useful to exploit their respective benefits, under this Agreement or any Ancillary Agreement, (b) conduct the Seller Business to the extent consistent with Section 2.2.1, (c) in connection with any Litigation or (d) comply with applicable Law or their respective regulatory, stock exchange, Tax or financial reporting requirements (each of (a) through (d), a "Seller Permitted Purpose"), and for no other purpose. During the Confidentiality Period, Seller shall (i) not disclose, or permit any of its Affiliates to disclose, any of the Buyer Confidential Information to any Person except those Persons to whom such disclosure is necessary in connection with any Seller Permitted Purpose and who are advised of the confidential nature of the Confidential Information and directed to comply with the confidentiality and non-use obligations under this Section 5.4; and (ii) treat, and cause its Affiliates to treat, the Buyer Confidential Information as confidential, using the same degree of care as Seller normally employs to safeguard its own confidential information from unauthorized use or disclosure, but in no event less than a reasonable degree of care; *provided, however*, that with respect to any Buyer Confidential Information that is a trade secret under applicable Law, neither Seller nor its Affiliates or Representatives, as the case may be, shall disclose or permit the disclosure of, such trade secret for the period of time that it is considered a trade secret under applicable Law. Seller shall be responsible for any use or disclosure of Buyer Confidential Information by any of Seller's Affiliates or Representatives that would breach this Section 5.4 if such Affiliate or Representative was a party hereto.

5.4.4 During the Confidentiality Period, all Confidential Information obtained by Buyer (or its Affiliates or Representatives) from Seller (or its Affiliates or Representatives) other than the Buyer Confidential Information (the "Seller Confidential Information") shall be used by Buyer or its Affiliates or Representatives solely as required (a) to perform their respective obligations or exercise or enforce their respective rights and remedies, or to the extent reasonably necessary or useful to exploit their respective benefits, under this Agreement or any Ancillary Agreement, (b) to conduct the Product Business, (c) in connection with any Litigation or (d) to comply with applicable Law or their respective regulatory, stock exchange, Tax or financial reporting requirements (each of (a) through (d), a "Buyer Permitted Purpose"), and for no other purpose. During the Confidentiality Period, Buyer shall (i) not disclose, or permit any of its Affiliates to disclose, any of the Seller Confidential Information to any Person except those Persons to whom such disclosure is necessary in connection with a Buyer Permitted Purpose to the extent such Persons are advised of the confidential nature of the Confidential Information and directed to comply with the confidentiality and non-use obligations under this Section 5.4; and (ii) treat, and cause its Affiliates to treat, Seller Confidential Information as confidential, using the same degree of care as Buyer normally employs to safeguard its own confidential information from unauthorized use or disclosure, but in no event less than a reasonable degree of care; *provided, however*, that with respect to any Seller Confidential Information that is a trade secret under applicable Law, neither Buyer nor its Affiliates or Representatives, as the case may be, shall disclose or permit the disclosure of, such trade secret for the period of time that it is

considered a trade secret under applicable Law. Buyer shall be responsible for any use or disclosure of Seller Confidential Information by any of Buyer's Affiliates or Representatives that would breach this Section 5.4 if such Affiliate or Representative was a party hereto.

5.4.5 In the event either Party or any of its Affiliates or Representatives is requested pursuant to, or required by, applicable Law to disclose any of the other Party's Confidential Information (*i.e*., Seller Confidential Information or Buyer Confidential Information, as applicable), such Party will notify the other Party in writing in accordance with Section 7.3.2(b) so that such other Party may seek a protective order or other appropriate remedy or, in such other Party's sole discretion, waive compliance with the confidentiality provisions of this Agreement. Each Party will, and will cause its Affiliates to, cooperate in all reasonable respects in connection with any reasonable actions to be taken for the foregoing purpose. In any event, the Party (or the Affiliate or Representative of a Party) requested or required to disclose such Confidential Information may furnish it as requested or required pursuant to applicable Law (subject to any such protective order or other appropriate remedy) without liability hereunder, *provided* that such Person furnishes only that portion of the Confidential Information which such Person is advised by an opinion of its counsel is legally required, and such Person exercises reasonable efforts to obtain reliable assurances that confidential treatment will be accorded such Confidential Information.

5.4.6 Subject to compliance with Section 5.4.5, nothing in this Section 5.4 shall be construed as preventing or in any way inhibiting either Party or any of their respective Affiliates or Representatives from complying with applicable Law governing activities and obligations undertaken pursuant to this Agreement or any Ancillary Agreement in any manner which it reasonably deems appropriate.

5.5 Regulatory Transfers .

5.5.1 As soon as practicable after the Execution Date and in any event within 30 days prior to the Closing Date, Buyer and Seller shall agree on a timetable and plan for the Transfer of the Purchased Product Registrations to Buyer and its Affiliates (the "Transfer Plan"), taking into account regulatory procedures relating to the Transfer of the Purchased Product Registrations. Buyer and Seller shall (and shall cause their respective Affiliates to) use their respective commercially reasonable efforts, in accordance with the Transfer Plan, to (a) cooperate with one another and (b) complete and execute all documentation required, in each case, to effect the Transfer of the Purchased Product Registration at Closing or as soon as reasonably practicable following the Closing. Buyer and Seller shall prepare and file all documents necessary to Transfer the Purchased Product Registrations as promptly and as diligently as possible in accordance with the Transfer Plan. In each case, the filing Party shall use commercially reasonable efforts to provide the non-filing Party with advanced drafts of any documents to be filed with a Governmental Authority pursuant to this Section 5.5.1 and give the non-filing Party the right and a reasonable amount of time to review and comment on the same prior to filing. The filing Party shall consider in good faith any reasonable comments timely provided by the non-filing Party.

5.5.2 Each Party that files (or causing the filing of) the documents with a Governmental Authority to Transfer a Purchased Product Registration will (a) promptly notify

the non-filing Party upon the making of any of its submissions to any Governmental Authority for the Transfer of such Purchased Product Registration (providing copies thereof) and the expected approval date (if any is communicated or indicated to the filing Party by the Governmental Authority); (b) provide the non-filing Party with material status updates as to such transfers on an ongoing basis and promptly notify the other Party of any material communication (whether written or oral) from a Governmental Authority in relation to a Transfer and give the non-filing Party reasonable notice of all meetings and telephone calls with any Governmental Authority expected to have a material impact upon a Transfer and give the non-filing Party a reasonable opportunity to participate at each such meeting or telephone call; and (c) notify the non-filing Party in writing of the effectiveness of the Transfer of such Purchased Product Registration and the applicable Transfer Date, promptly following the applicable Governmental Authority's approval of such transfer.

5.5.3 Each Party shall bear its own costs and expenses in connection with the Transfer of the Purchased Product Registrations to Buyer or its designee; *provided*, *however*, that Buyer shall be responsible for the payment of any filing or similar fees payable to the applicable Governmental Authorities with respect to the Transfer of the Purchased Product Registrations.

5.5.4 Unless otherwise required by applicable Law and subject to Section 5.5.6, from the Closing Date until the relevant Transfer Date for such Purchased Product Registration, Seller shall or shall cause the applicable Divesting Entity to use commercially reasonable efforts to maintain or cause to be maintained in force each Purchased Product Registration. Unless otherwise required by applicable Law and as may be agreed between the Parties, each Divesting Entity shall use commercially reasonable efforts to progress or cause to be progressed any pending application filed prior to the Closing Date for a Purchased Product Registration, at Buyer's cost.

5.5.5 Each Party shall, and shall cause its Affiliates to, provide such reasonable assistance to the other Party as is necessary for the other Party to make any filings contemplated to be made by it under this Section 5.5; *provided*, that in connection with the activities contemplated by this Section 5.5, neither Seller nor any of its Affiliates shall be required to (a) conduct any additional studies or research or generate any additional data, (b) reformat any Purchased Regulatory Documentation in connection with the activities contemplated under this Section 5.5; or (c) take any actions to change the status of a Purchased Product Registration.

5.5.6 Transfer of legal title to the Purchased Product Registrations that will be transferred to Buyer or any of its Affiliates or designees shall be effective as of the applicable Transfer Date. If, despite Seller complying with its obligations hereunder, any Purchased Product Registration has not been transferred to Buyer or its designee on or before the first anniversary of the Closing Date or, if later, on or before the date specified in the Transfer Plan for the Transfer of such Purchased Product Registration, Seller or the applicable Third Party Product Registration holder shall have the right to withdraw or terminate such Purchased Product Registration. Seller shall provide written notice to Buyer of any such withdrawal or termination.

5.6 Regulatory Responsibilities .

5.6.1 Post Transfer Date Regulatory Responsibilities. Except as required by a Party to comply with applicable Law or to exercise its rights and obligations hereunder or under any Ancillary Agreement, from and after the date on which the Purchased Product Registrations for a jurisdiction in the Territory are Transferred (each such date, a "Transfer Date"), Buyer or its applicable Affiliate shall have the sole right and responsibility for (and shall bear all costs and expenses of) (a) preparing, obtaining and maintaining all Product Registrations, (b) taking all actions, paying all fees, and conducting communications with Governmental Authorities of competent jurisdiction for each Product in the Field in such jurisdiction with respect to the Purchased Product Registrations, including preparing and filing all reports (including adverse event reports) with applicable Governmental Authorities, (c) taking all actions and conducting all communications with Third Parties in respect of Product sold pursuant to the Purchased Product Registrations in the Field in the Territory, including responding to all complaints in respect thereof, (d) investigating and reporting all adverse events in respect of Product sold pursuant to the Purchased Product Registrations and (e) handling and responding to all customer complaints and inquiries related to Product sold in the Field in the Territory. Without limitation of the foregoing, promptly following the Closing, but in any event within such periods required by applicable Law, Buyer shall obtain, with respect to each jurisdiction in the Territory, such Product Registrations as are necessary for Buyer's own Product labeling and shall comply with such Product Registrations upon receipt thereof. The Parties' respective rights and obligations with respect to the Purchased Product Registrations and communications with regulatory authorities related to the Products prior to each applicable Transfer Date shall be as set forth in the Transitional Services Agreement.

5.6.2 Right of Reference. Effective from and after the Closing, Buyer hereby grants to Seller, on behalf of itself and its Affiliates, licensees, sublicensees, licensors and distributors, a perpetual, irrevocable, worldwide, exclusive, royalty-free and non-transferable license and right of reference (with a right to grant sublicenses and further rights of reference) to the Buyer Regulatory Documentation and Purchased Regulatory Documentation, as may be necessary or useful to (a) exercise Seller's and its Affiliates' respective rights and perform its or their respective obligations under this Agreement or any Ancillary Agreement and (b) conduct the Seller Business. Promptly following Seller's or its applicable Affiliate's, licensee's, sublicensee's or distributor's request therefor, Buyer shall (i) provide to such Person copies of the Buyer Regulatory Documentation or Purchased Regulatory Documentation as shall be reasonably requested by such Person solely for purposes of (A) exercising Seller's or its Affiliates' respective rights or performing its or their respective obligations under this Agreement or any Ancillary Agreement or (B) conducting the Seller Business; and (ii) provide to Seller or its applicable Affiliate, licensee, sublicensee or distributor and to any Governmental Authority specified by such Person a letter, in the form reasonably requested by such Person, acknowledging that such Person has the rights of reference to the Buyer Regulatory Documentation and Purchased Regulatory Documentation granted pursuant to this Section 5.6.1 or such other rights of reference granted pursuant to Section 2.2.

5.6.3 Conduct of Business. Subject to the terms of this Agreement, the Transitional Services Agreement, and the Transfer Plan, Buyer is hereby granted permission to conduct the Product Business for its own account under the Purchased Product Registrations held by the Divesting Entities as of the Closing Date during the period from the Closing Date until the date on which all Purchased Product Registrations have been Transferred. The Parties shall

comply with the provisions of the Transitional Services Agreement with respect to the conduct of the Product Business and the performance of the regulatory obligations of the holder of the Product Registrations during such period.

5.7 Use of Retained Names and Marks.

5.7.1 Acknowledgement. Buyer hereby acknowledges that Seller or its Affiliates or its or their licensors own all right, title and interest in and to the company names, trade names, logos, trade dress and other Trademarks set forth on Schedule 5.7.1, together with all variations, translations, transliterations and acronyms thereof and all company names, Trademarks, domain names, social media handles and all other identifiers and other identifiers of source or goodwill containing, incorporating or associated with any of the foregoing (collectively, the "Retained Names and Marks"), and that, except as expressly provided below, neither Buyer nor any of its Affiliates shall have any right to use the Retained Names and Marks in connection with the Manufacture of the Products or conduct of the Product Business. Buyer further acknowledges that it has no rights in any of the Retained Names and Marks, and that it is not acquiring any rights, directly or indirectly, to use the Retained Names and Marks, except as expressly provided herein.

5.7.2 Right of Use. Buyer and its current and future Affiliates (for as long as they remain Affiliates) shall, during the Applicable Transition Period, be entitled to use (and shall have a limited nonexclusive, non-transferable license to use, without the right to sublicense, the Retained Names and Marks used therein or thereon), solely in connection with the operation of the Product Business as operated immediately prior to the Closing, all of the Product Business' existing stocks of signs, invoices, advertisements and promotional materials and all website content, Purchased Inventory, Transitional Inventory and other documents and materials in existence and used by Seller or its Affiliates in the Product Business as of the Closing, and contained in the Purchased Assets (collectively, the "Existing Stock") and, if and to the extent there is not a sufficient quantity of Purchased Inventory or any Existing Stock for Buyer's conduct of the Product Business prior to obtaining, on a Product-by-Product basis, (a) labeling approval from a Governmental Authority for the relevant Product and (b) the date on which all Purchased Product Registrations for such Product have been Transferred to Buyer or its Affiliates, to use Existing Stock and, if reasonably necessary, create and use a reasonable number of copies of Existing Stock, solely as reasonably necessary to Exploit Product Manufactured after the Closing ("Transitional Inventory") and conduct the Product Business with respect to such Transitional Inventory prior to receipt of such approval and Transfer of such Purchased Product Registrations, in each case, containing the Retained Names and Marks. Upon Seller's request, Buyer shall promptly execute all assignment, transfer and other documents, and take all steps, in each case, that are necessary or desirable to confirm, effectuate or otherwise evidence Seller's and its Affiliates' or any of its or their licensors' rights, title and interests in and to, and control over, the Retained Names and Marks, including any registration or application thereof.

5.7.3 Use Limitations. Except as expressly provided in this Section 5.7, no other right to use the Retained Names and Marks or, except to the extent provided in the Purchased Intellectual Property, any other Trademark of Seller or its Affiliates (or any of its or their licensors) is granted by Seller or its Affiliates to Buyer or its Affiliates, whether by implication or otherwise, and nothing hereunder permits Buyer or its Affiliates to use the

Retained Names and Marks in any manner, other than in connection with the Existing Stock and Transitional Inventory as set forth in this Section 5.7, or to register or seek to register, or to permit any Third Party to register or to seek to register, any of the Retained Names and Marks or any other Trademark of Seller or its Affiliates not transferred to Buyer or its Affiliates pursuant to this Agreement in any jurisdiction. Buyer shall ensure that all use of the Retained Names and Marks in connection with the Product Business after the Closing, as provided in this Section 5.7, shall (i) be only with respect to the Purchased Inventory and other goods and services of a level of quality equal to or greater than the quality of goods and services with respect to which Seller and its Affiliates used the Retained Names and Marks in connection with the Product Business immediately prior to the Closing, (ii) be used in the same form and manner in which Seller and its Affiliates used the Retained Names and Marks in connection with the Product Business immediately prior to the Closing and (iii) comply with all applicable Laws. Any and all goodwill generated by the use of the Retained Names and Marks as permitted under this Section 5.7 shall inure solely to the benefit of Seller and its Affiliates (or its or their licensors), and if Buyer or its Affiliates obtains any goodwill, right, title or interest in or to any of the Retained Names and Marks, Buyer (on behalf of itself and its Affiliates) shall assign and hereby irrevocably assigns to Seller or its Affiliates all such goodwill, rights, title and interests. In any event, Buyer shall not, and shall cause its Affiliates not to, use the Retained Names and Marks in any manner that may damage or tarnish the reputation of Seller or its Affiliates or the goodwill associated with the Retained Names and Marks, or take any action that may adversely affect Seller's or its Affiliates' (or its or their licensor(s)') rights in any of the Retained Names and Marks or the validity, enforceability or distinctiveness of any of the Retained Names and Marks or any registrations or applications therefor.

5.7.4 Termination of Transitional Licenses. Promptly following the Applicable Transition Period or the earlier termination of the license granted under this Section 5.7, (a) Buyer shall cause the removal or obliteration of all Retained Names and Marks from such Existing Stock and Transitional Inventory, or cease using such Existing Stock and Transitional Inventory, and (b) Buyer shall, and shall cause its Affiliates and distributors to, destroy (and provide proof of such destruction to Seller) all then remaining Purchased Inventory or Transitional Inventory at Buyer's sole cost and expense; provided that nothing herein requires Buyer to remove or obliterate any Retained Names and Marks from, or destroy, any Purchased Inventory or Transitional Inventory that is in the field for distribution. Following the Applicable Transition Period, Buyer shall cease all use of any of the Retained Names and Marks and it shall not, and shall cause its Affiliates not to, adopt, use, register or seek to register any Trademarks that are confusingly similar to any of the Retained Names and Marks (including the trade dress used with the Products prior to the Closing Date) with respect to the Products or the Product Business. After the Applicable Transition Period or the earlier termination of the rights of Buyer under this Section 5.7, all rights of Buyer to use the Retained Names and Marks will automatically terminate and Buyer promptly will cease using any Existing Stock.

5.7.5 Responsibility for Third Party Claims. Buyer agrees that none of Seller or its Affiliates (or any of its or their licensors) shall have any responsibility for claims by Third Parties arising out of, or relating to, the use by Buyer or its Affiliates of any Retained Names and Marks after the Closing in violation of this Agreement.

5.7.6 Remedies. Notwithstanding anything in this Agreement to the contrary, Buyer hereby acknowledges and agrees that, in the event of any breach or threatened breach of this Section 5.7, Seller, in addition to any other remedies available to Seller and its Affiliates under applicable Law, shall be entitled: (a) to terminate any rights of Buyer under this Section 5.7 to the extent that Buyer commits a material breach of this Section 5.7 and such material breach continues unremedied for a period of 30 days after Seller provides written notice to Buyer describing the nature of the material breach; provided that if the breach cannot be remedied within 30 days and Buyer is diligently pursuing a remedy, Buyer shall have an additional 30 day period to cure the breach, and such cure may consist of cessation of the allegedly breaching activity; and (b) subject to such cure period, to seek a preliminary injunction, temporary restraining order or other equitable relief restraining Buyer and any of its Affiliates from any such breach or threatened breach and Seller shall not be required to provide any bond or other security in connection with any such injunction, order or other relief.

5.8 Certain Tax Matters .

5.8.1 Withholding Taxes. Except as required by a change in Law occurring after the Execution Date or with regard to a failure to deliver an IRS Form W-9 as required by Section 2.6.2(a)(iv), the amounts payable under this Agreement by Buyer (or any Affiliate thereof) to Seller shall be paid free and clear of any deduction or withholding on account of Taxes. If Buyer determines that withholding is required due to a change in Law occurring after the Execution Date, Buyer shall provide Seller with reasonable notice of any such proposed deduction and withholding prior to making any deduction and withholding of any amount payable to Seller and shall consult in good faith with Seller to reduce or eliminate the amount of such deduction and withholding.

5.8.2 Transfer Taxes and Straddle Tax Periods.

(a)All amounts payable hereunder or under any Ancillary Agreement are exclusive of all Transfer Taxes. Buyer, on the one hand shall be responsible and liable for 50% of all Transfer Taxes and Seller, on the other hand, shall be responsible and liable for 50% of all Transfer Taxes. The Party (or its Affiliate) customarily filing a Tax Return with respect to any Transfer Tax shall, at its own expense, file such Tax Return (and other documentation) with respect to the relevant Transfer Tax, and, if required by applicable Law, the non-filing Party shall join in the execution of such Tax Return (and other documentation). The Parties shall reasonably cooperate with each other to file all Tax Returns required by applicable Laws related to such Transfer Taxes, to minimize any Transfer Taxes, and to issue valid invoices for Transfer Taxes due under this Agreement or any Ancillary Agreement in accordance with applicable Law. If Seller, or an Affiliate of Seller, is the filing Party, it shall provide Buyer with evidence that the relevant Transfer Taxes are required to be paid, and Buyer shall pay to Seller 50% of the amount of the relevant Transfer Tax due and payable at least three Business Days prior to the due date for the filing of the relevant Tax Return. If Buyer or Seller desires to avail itself with respect to any Purchased Asset of any available exemption from Transfer Tax, it shall deliver to the other (or the relevant Affiliate, if applicable) the appropriate exemption certificate, properly completed and, if applicable, validly executed, no later than five Business Days prior to the Closing Date. Notwithstanding the foregoing, Buyer shall be responsible and liable for any sales, use, value added, goods and services, and similar turnover or gross margin Taxes (including any penalties,

interest and additions thereto) incurred or imposed in respect of the transactions contemplated by this Agreement (" Indirect Taxes"), *provided, however*, that upon Buyer's reasonable request, Seller shall reasonably cooperate with Buyer to obtain any legally permissible exemption from Indirect Taxes.

(b) In the case of any Tax with respect to the Product Business or the Purchased Assets that is assessed with respect to a Straddle Tax Period: (A) in the case of property, ad valorem and other similar Taxes and any Taxes imposed on a periodic basis, the amount of Taxes attributable to the Pre-Closing Tax Period shall equal the amount of such Tax for the entire Straddle Tax Period multiplied by a fraction the numerator of which is the number of days in the portion of the Straddle Tax Period ending on the Closing Date and the denominator of which is the total number of days in such Straddle Tax Period; and (B) in the case of all other Taxes, the amount of Taxes attributable to the portion of the Straddle Tax Period ending on the Closing Date shall be determined based on an interim closing of the books as of the close of business on the Closing Date; *provided, however*, that for purposes of clause (B), exemptions, allowances, or deductions that are calculated on a periodic basis (including depreciation and amortization deductions) shall be apportioned between the Pre-Closing Tax Period and the Post-Closing Tax Period in proportion to the number of days in each such period. The paying Party shall be entitled to reimbursement from the non-paying Party for the amount of such Tax for which the non-paying Party is responsible under this Section 5.8.2(b). The paying Party shall promptly upon payment of such Tax to the applicable Taxing Authority furnish a statement to the non-paying Party setting forth the amount of reimbursement to which the paying Party is entitled under this Section 5.8.2(b), together with such supporting evidence as is reasonably necessary to calculate the amount for which the non-paying Party is responsible under this Section 5.8.2(b). The non-paying Party shall promptly reimburse the paying Party, but in no event later than five Business Days after receipt of such statement.

(c) Seller, at its sole cost and expense, shall timely file all Tax Returns to be filed prior to the Closing with respect to the Purchased Assets or Product Business and timely pay all Taxes required to be paid prior to the Closing with respect to the Purchased Assets or Product Business.

5.8.3 Cooperation and Exchange of Information. Each of Seller and Buyer shall (a) provide the other Party with such assistance as may reasonably be requested by the other (subject to reimbursement of reasonable out-of-pocket expenses) in connection with the preparation of any Tax Return or conduct of any Tax Proceeding relating to Liability for Taxes in connection with the Product Business or the Purchased Assets, (b) retain all records relating to Taxes with respect to the Purchased Assets for all Tax Periods ending on or prior to the Closing Date until the expiration of the statutes of limitation (including any extensions thereof) for the Tax Period or Tax Periods to which such records relate, (c) provide the other Party with any records or other information that may be relevant to such Tax Return or Tax Proceeding, (d) inform the other Party of any final determination of any such Tax Proceeding that affects any amount required to be shown on any Tax Return of the other Party for any Tax Period, and (e)

provide any information necessary or reasonably requested to allow Buyer to comply with any information reporting requirements contained in the Code or other applicable Tax Laws.

5.8.4 Tax Refunds. Seller shall be entitled to all refunds in respect of any Excluded Tax Liability (other than refunds of any Excluded Tax Liability that a Buyer Indemnitee has paid and Seller has not indemnified the Buyer Indemnitee for under this Agreement), and to the extent that Buyer receives a refund that is for the benefit of Seller, Buyer shall promptly pay over such refund (without interest, other than interest received from the applicable Governmental Authority, and net of all reasonable out-of-pocket expenses and costs and Taxes actually incurred by Buyer in obtaining such refund) to Seller. All refunds for Taxes relating to the Product Business or Purchased Assets for a Post-Closing Tax Period (determined in accordance with Section 5.8.2(b) in the case of Taxes relating to a Straddle Tax Period) shall be for the benefit of Buyer, and to the extent that Seller receives a refund for a Tax that is for the benefit of Buyer, Seller shall promptly pay such refund (net of all reasonable out-of-pocket expenses and costs and Taxes incurred in obtaining such refund) to Buyer.

5.8.5 Survival of Covenants. The covenants contained in this Section 5.8 shall survive until 60 days after the expiration of the applicable statute of limitations (including extensions thereof).

5.9 Accounts Receivable and Payable .

5.9.1 Accounts Receivable. The Parties acknowledge and agree that all Accounts Receivable outstanding on the Closing Date shall remain the property of Seller or its Affiliates and shall be collected by Seller or its Affiliates in the ordinary course of business subsequent to the Closing. In the event that, subsequent to the Closing, Buyer or an Affiliate of Buyer receives any payments from any obligor with respect to an Account Receivable, then Buyer shall, or shall cause its applicable Affiliate to, within 60 days after receipt of such payment, remit the full amount of such payment to Seller. In the case of the receipt by Buyer or any of its Affiliates of any payment from any obligor of both Seller or any of Seller's Affiliates (with respect to the Product Business), on the one hand, and Buyer or any of Buyer's Affiliates, on the other hand, then, unless otherwise specified by such obligor, such payment shall be applied first to amounts owed to Buyer or its applicable Affiliate with the excess, if any, remitted to Seller. Any account payable with respect to the Product Business outstanding prior to the Closing shall be paid (or, if applicable, disputed) by the Seller in the ordinary course of business. In the event that, subsequent to the Closing, Seller or any of its Affiliates receives any payments from any obligor with respect to an account receivable of Buyer or any of its Affiliates for any period after the Closing Date, then Seller shall, or shall cause its applicable Affiliate to, within 60 days after receipt of such payment, remit the full amount of such payment to Buyer. In the case of the receipt by Seller or any of its Affiliates of any payment from any obligor of both Seller or any of Seller's Affiliates (with respect to the Product Business), on the one hand, and Buyer or any of Buyer's Affiliates, on the other hand, then, unless otherwise specified by such obligor, such payment shall be applied first to amounts owed to Seller or its applicable Affiliate with the excess, if any, remitted to Buyer.

5.9.2 Accounts Payable. In the event that, subsequent to the Closing, Buyer or an Affiliate of Buyer receives any invoices from any Third Party with respect to any account

payable of the Product Business outstanding prior to the Closing, then Buyer shall, or shall cause its applicable Affiliate to, within 60 days after receipt of such invoice, provide such invoice to Seller. In the event that, subsequent to the Closing, Seller or any of its Affiliates receives any invoices from any Third Party with respect to any account payable of Buyer or any of its Affiliates for any period after the Closing, then Seller shall, or shall cause its applicable Affiliate to, within 30 days after receipt of such invoice, provide such invoice to Buyer.

5.10 Wrong Pockets .

5.10.1 Assets. For a period of up to one year after the Closing Date, if either Buyer or Seller becomes aware that any (i) of the Purchased Assets or (ii) Copyright, Domain Name or Trademark, in each case, that is owned as of the Closing Date solely by or jointly among the Divesting Entities and exclusively relates to the Product Business ("Wrong Pockets IP") has not been transferred to Buyer or that any of the Excluded Assets has been transferred to Buyer, it shall promptly notify the other Party in writing and the Parties shall, as soon as reasonably practicable, ensure that such asset is transferred, with any necessary prior Third Party consent or approval, to (a) Buyer, in the case of any Purchased Asset which was not transferred to Buyer at the Closing or any Wrong Pockets IP; or (b) Seller, in the case of any Excluded Asset which was transferred to Buyer at the Closing. From and after the transfer to Buyer of any Wrong Pockets IP, such Wrong Pockets IP shall constitute a Purchased Asset and all Liabilities related to or any Liabilities out of the ownership, use, sale, license or other Exploitation of such Wrong Pockets IP (to the extent arising from and after such transfer date) shall constitute Assumed Liabilities and be assumed, paid, performed or discharged when due by Buyer.

5.10.2 Payments. Subject to Section 5.9.1, if, on or after the Closing Date, either Party shall receive any payments or other funds due to the other pursuant to the terms of this Agreement or any Ancillary Agreement, then the Party receiving such funds shall, within 60 days after receipt of such funds, forward such funds to the proper Party. The Parties acknowledge and agree that, subject to Section 5.9.1, there is no right of offset regarding such payments and a Party may not withhold funds received from Third Parties for the account of the other Party in the event there is a dispute regarding any other issue under this Agreement or any of the Ancillary Agreements.

5.11 Product Returns . Buyer shall have sole responsibility for accepting and processing all returns following the Closing of units of Products sold and for disbursing refunds and credits in respect thereof (whether any such units of Product was sold prior to, on or after the Closing Date). If any units of Product that were sold in the Territory are received as returns by Seller or any of its Affiliates following the Closing, Seller shall, or shall cause its Affiliates to, ship such units of Product to Buyer or its designee, at Seller's sole cost and expense. In the event that, on or after the Closing Date, a customer makes a claim against Seller or Buyer (or any of their respective Affiliates) in connection with a return of Product (which may be in the form of invoice deductions for amounts associated with such returned units of Product) for which the other Party is responsible pursuant to Section 2.4, then such other Party shall reimburse the Party that received (or whose Affiliate received) such claim for any such customer claims within 30 days after the Party that received (or whose Affiliates received) such claim notifies such other Party of any such customer claim.

5.12 Rebates . Seller shall, and shall cause its applicable Affiliates to, (a) either assign to Buyer at the Closing or terminate prior to the Closing, as mutually agreed between the Parties as promptly as practicable after the Execution Date, each Rebate, promotional and other similar program relating to the sale of Products in the Territory and (b) with respect to each such program that is terminated pursuant to clause (a), within a reasonable period of time after the Closing, pay all amounts owing and accrued under each such program to the applicable customer. In the event that, on or after the Closing Date, Seller or Buyer (or any of their respective Affiliates) receives any request for a Rebate for which the other Party is responsible pursuant to this Section 5.12 or Section 2.4, then, at the option of Party that receives (or whose Affiliate receives) such Rebate request, either (x) the Party that receives (or whose Affiliate receives) such Rebate request shall submit such request to the other Party for payment by the other Party or (y) the Party that receives (or whose Affiliate receives) such Rebate request shall pay the amount of such Rebate and the other Party shall promptly (and in any event no later than 30 days following the receiving Party's request) reimburse the other Party for the amount thereof.

5.13 Notification to Customers . Seller and Buyer shall agree on, and document in writing, the method, content and timing of notifications of the Closing to customers, both direct and indirect, of the Product Business. Seller and Buyer acknowledge and agree that such notifications are intended to provide sufficient advance notice of the sales of the Purchased Assets and assumption of the Assumed Liabilities and the plans associated therewith, with the objective of minimizing any disruption of the Closing.

5.14 **Unauthorized Exploitation** . Except to the extent required to perform their respective obligations under this Agreement or any Ancillary Agreement, Buyer shall not, and shall cause its Affiliates, licensees, sublicensees and distributors not to, Exploit any Product or use any of the Purchased Assets to Exploit any Product outside of the applicable Field in the applicable Territory or outside of the applicable Territory. Notwithstanding the foregoing, Buyer shall be in violation of this Section 5.14 if such customers in fact sell any Product sold to them by Buyer or its Affiliates outside of the Territory.

5.15 **Covenant Not to Sue** .

(a)Effective as of the Closing, Buyer, on behalf of itself, its Affiliates and its and their respective transferees, successors and assigns (collectively, the " Buyer Group"), hereby irrevocably and perpetually covenants that no member of the Buyer Group shall, directly or indirectly, bring any Litigation against Seller or any of its Affiliates or any of its or their licensees, sublicensees, distributors or agents (collectively, the "Seller Group"), or commence, knowingly aid or prosecute or cause to be commenced, knowingly aided or prosecuted any action, suit, proceeding or other Litigation against any member of the Seller Group alleging that such Person or any member of the Seller Group is Exploiting any Product (or any product that contains the same active pharmaceutical ingredient as, and is substantially similar to, a Product) outside of the applicable Territory or Manufacturing any Product anywhere in the world for Exploitation outside of the applicable Territory. Buyer shall bind any assignee or transferee of any of the Purchased Assets and any (sub)licensee with respect to the Products to adhere to the foregoing as if such assignee, transferee or (sub)licensee were Buyer hereunder. Nothing in this Section 5.15 shall prohibit Buyer from exercising any remedies available to it under this

Agreement or any Ancillary Agreement as a result of any breach hereof or thereof by any Divesting Entity.

(b)Effective as of the Closing, Seller, on behalf of itself, its Affiliates and its and their respective transferees, successors and assigns (collectively, the " Divesting Group"), hereby irrevocably and perpetually covenants that no member of the Divesting Group shall, directly or indirectly, bring any Litigation against Buyer or any of its Affiliates or any of its or their licensees, sublicensees, distributors or agents (collectively, the "Buyer Covenantees"), or commence, knowingly aid or prosecute or cause to be commenced, knowingly aided or prosecuted any action, suit, proceeding or other Litigation against any member of the Buyer Covenantees based on any claim that the Exploitation of the Products in the applicable Field and in the applicable Territory or the Manufacture of the Products for Exploitation in the applicable Field and in the applicable Territory, in each case in substantially the manner in which the Divesting Entities Exploited the Products in the applicable Field and in the applicable Territory or Manufactured, as of or prior to the Closing Date, infringes any Existing Patent. Seller shall bind any assignee or transferee of any Existing Patent to the foregoing as if such assignee, transferee or (sub)licensee were Seller hereunder. Nothing in this Section 5.15 shall prohibit Seller from exercising any remedies available to it under this Agreement or any Ancillary Agreement as a result of any breach hereof or thereof by Buyer or any of its Affiliates.

5.16 **Non-Compete** . Notwithstanding anything to the contrary herein, as a material inducement to Buyer to enter into this Agreement, in respect of each Product, except as required to perform their respective obligations under the Ancillary Agreements, the Seller, the other Divesting Entities and their Affiliates shall not commercially sell or offer for sale, whether directly or indirectly through sublicensees, distributors, or other agents, an animal health pharmaceutical product that has nitenpyram as an active pharmaceutical ingredient in the Territory in the Field ("Restricted Activity") during the period from the Closing until the [***] of the Execution Date. Seller acknowledges that a violation of this Section 5.16 may cause Buyer irreparable harm which may not be adequately compensated for by money damages. Seller therefore agrees that in the event of any actual or threatened violation of this Section 5.16, Buyer shall be entitled, in addition to other remedies that it may have, to seek a temporary restraining order and to seek preliminary and final injunctive relief against Seller or its Affiliates to prevent any violations of this Section 5.16, without the necessity of posting a bond. Notwithstanding the foregoing, Seller and its Affiliates may, without violating this Section 5.16, (a) Manufacture animal health pharmaceutical products containing nitenpyram as an active pharmaceutical ingredient and sell such products to customers of their manufacturing business in the Territory to the extent such products are sold solely to customers for subsequent distribution and sale outside of the Territory (*provided*, that, Seller shall be in violation of this provision if such customers in fact sell such products sold to them by Seller or its Affiliates in the Territory) and (b) acquire or combine with (whether through merger, stock purchase, purchase of assets or otherwise) any Person engaged in any Restricted Activity or continue any Restricted Activities in the Territory that are engaged in by any Person that is acquired by or combined with Seller or any of its Affiliates after the date of this Agreement (whether through a merger, consolidation, acquisition or other business combination) if such Restricted Activities generated less than 10% of such Person's aggregate consolidated EBITDA in the last completed fiscal year prior to such acquisition or combination and Seller ceases such Restricted Activity during the three year

period covered by this Section 5.16 or uses commercially reasonable efforts to promptly divest such Restricted Activity.

5.17 **Financial Statements** . To the extent that Buyer or Buyer Guarantor is required by Form 8-K of the U.S. Securities and Exchange Commission (the "SEC") to file financial statements with respect to the Product Business with the SEC in connection with Buyer's acquisition of the Product Business, Seller will use commercially reasonable efforts to deliver to Buyer as soon as practicable after the Closing Date, but not later than 60 days following the Closing Date, audited and unaudited financial statements for the Product Business as of the dates and for the periods required to be filed by Buyer or Buyer Guarantor with the SEC under applicable Law (the "Product Business Financial Statements"). As promptly as practicable following the Execution Date, Buyer shall or shall cause Buyer Guarantor to request a waiver (the "Financial Statements Waiver") from the staff of the SEC to permit the Product Business Financial Statements to be "abbreviated financial statements" (as described in Section 2065 of the Financial Reporting Manual of the Division of Corporation Finance of the SEC), and Buyer shall notify Seller promptly following its receipt of the staff's response to such Financial Statements Waiver request. The Product Business Financial Statements will be prepared in accordance with (a) the books and records of the Divesting Entities and (b) subject to any Financial Statements Waiver received by Buyer or Buyer Guarantor, Regulation S-X to comply with the requirements of Rule 3-05 and GAAP. Subject to Buyer's entry into customary confidentiality agreements with Seller's auditors, Seller agrees to provide the Buyer with (i) a reasonable opportunity to review and comment on drafts of the Product Business Financial Statements and (ii) reasonable access in accordance with and subject to the provisions of Section 5.1 to the documents, schedules and work papers of Seller that are reasonably necessary for purposes of such review. Buyer and its Affiliates shall be solely responsible for any information they file with or furnish to the SEC and shall promptly pay or reimburse Seller for all audit and other out-of-pocket costs and expenses reasonably incurred by Seller and its Affiliates in connection with complying with this Section 5.17.

ARTICLE 6
CONDITIONS PRECEDENT

6.1 Conditions to Obligations of Buyer . The obligation of Buyer to complete the transactions contemplated by this Agreement is subject to the satisfaction or waiver by Buyer at or prior to the Closing of the following additional conditions:

6.1.1 Representations and Warranties. The representations and warranties of Seller contained in Section 3.1, other than the Fundamental Representations included in Section 3.1, shall be true and correct (disregarding any materiality or Material Adverse Effect qualifications within such representations and warranties) in all respects at and as of the Closing Date as if made at and as of such date (except that those representations and warranties that address matters only as of a particular date need only be true and correct as of such date), except for breaches of such representations and warranties that would not reasonably be expected to constitute a Material Adverse Effect, and each Fundamental Representation included in Section 3.1 shall be true and correct in all but immaterial respects at and as of the Closing Date as if made at and as of such date (except that those representations and warranties that address matters

only as of a particular date need only be true and correct in all but immaterial respects as of such date);

6.1.2 Covenants. Seller shall have performed and complied in all material respects with all material covenants, agreements and obligations required to be performed or complied with by it on or prior to the Closing Date;

6.1.3 No Material Adverse Effect. Since the Execution Date, no Material Adverse Effect shall have occurred and be continuing; and

6.1.4 Closing Deliveries. Seller shall have delivered to Buyer each of the items listed in Section 2.6.2(a).

6.2 Conditions to Obligations of Seller . The obligation of Seller to complete the transactions contemplated by this Agreement is subject to the satisfaction or waiver by Seller at or prior to the Closing of the following additional conditions:

6.2.1 Representations and Warranties. The representations and warranties of Buyer contained in Section 3.2, other than the Fundamental Representations included in Section 3.2, shall be true and correct (disregarding any materiality or Buyer Material Adverse Effect qualifications within such representations and warranties) in all respects at and as of the Closing Date as if made at and as of such date (except that those representations and warranties that address matters only as of a particular date need only be true and correct as of such date), except for breaches of such representations and warranties that would not reasonably be expected to constitute a Buyer Material Adverse Effect, each Fundamental Representation included in Section 3.2 shall be true and correct in all but immaterial respects at and as of the Closing Date as if made at and as of such date (except that those representations and warranties that address matters only as of a particular date need only be true and correct in all material respects as of such date);

6.2.2 Covenants. Buyer shall have performed and complied in all material respects with all material covenants, agreements and obligations required to be performed or complied with by it on or prior to the Closing Date;

6.2.3 Closing Deliveries. Buyer shall have delivered to Seller each of the items listed in Section 2.6.2(b) and Seller shall have received the Closing Payment; and

6.2.4 Competition Authority Preliminary Approval. The Federal Trade Commission shall have issued Proposed Consent Order(s) or Final Consent Order(s) relating to the transactions contemplated by the Bison Acquisition Agreement, and such Proposed Consent Order(s) or Final Consent Order(s) shall include, or the Federal Trade Commission shall have otherwise communicated (whether by separate Judgment or other form of communication, as is customary), (a) a requirement that the Divesting Entities divest the Purchased Assets, (b) approval of Buyer as an acquiror of the Purchased Assets and (c) approval of the terms and conditions under which Buyer will acquire the Purchased Assets pursuant to this Agreement and the Ancillary Agreements.

6.3 Frustration of Closing Conditions . With respect to the conditions to Buyer's and Seller's respective obligations to consummate the transactions contemplated by this Agreement as provided hereunder and each such Party's right to terminate this Agreement as provided in Section 8.1, neither Buyer nor Seller may rely on the failure of any condition set forth in this Article 6 to be satisfied if such failure was caused by such Party's failure to act in good faith or to use its reasonable best efforts to cause the conditions to be satisfied.

ARTICLE 7
INDEMNIFICATION

7.1 Indemnification .

7.1.1 Indemnification by Seller. Following the Closing, but subject to the provisions of this Article 7 and Section 9.10, Seller shall indemnify and hold harmless Buyer and its Affiliates and Buyer's and its Affiliates' respective officers, directors and employees (collectively, "Buyer Indemnitees") from and against, and compensate and reimburse the Buyer Indemnitees for, any and all Losses incurred by any Buyer Indemnitee solely to the extent arising out of or related to:

(a) any breach of any representation or warranty made by Seller in this Agreement or any certificate delivered pursuant hereto;

(b) any Excluded Liability; or

(c) any failure of Seller to perform or any breach by Seller of any of its covenants or agreements contained in this Agreement.

7.1.2 Indemnification by Buyer. Following the Closing, but subject to the provisions of this Article 7 and Section 9.10, Buyer shall indemnify and hold harmless Seller and its Affiliates and Seller's and its Affiliates' respective officers, directors and employees (collectively, "Seller Indemnitees") from and against, and compensate and reimburse the Seller Indemnitees for, any and all Losses incurred by any Seller Indemnitee solely to the extent arising out of or related to:

(a) any breach of any representation or warranty made by Buyer in this Agreement or in any certificate delivered pursuant hereto;

(b) any Assumed Liability, except to the extent Seller or any Affiliate of Seller is liable to Buyer for such Losses under the Transitional Manufacturing and Supply Agreement; or

(c) any failure of Buyer to perform or any breach by Buyer of any of its covenants, agreements or obligations contained in this Agreement that are to be performed following the Closing.

7.1.3 Materiality. For purposes of (x) determining whether there has been a breach of any representation or warranty contained in Article 3 and (y) calculating the Losses hereunder pursuant to such breach of any representation or warranty, the parties shall disregard

any materiality or Material Adverse Effect qualifications in the representations and warranties in Article 3.

7.2 Survival .

(a) All representations and warranties of Seller and Buyer contained in this Agreement or in any certificate delivered pursuant to this agreement shall survive the Closing for a period of twelve months after the Closing Date

(b)All of the covenants or agreements contained in this Agreement which by their terms are to be performed at or prior to the Closing Date shall survive the Closing Date for a period of twelve months after the Closing Date. All of the covenants or agreements contained in this Agreement that by their terms contemplate performance after the Closing Date shall survive the Closing until the earliest of (A) the time at which such agreements or covenants are fully performed in accordance with this Agreement, (B) the expiration of the term of the undertaking set forth in such agreements and covenants and (C) the expiration of the applicable statute of limitations; and

(c)The period for which a representation, warranty, covenant or agreement survives the Closing is referred to in this Agreement as the " Applicable Survival Period". Notwithstanding any provision to the contrary contained in this Agreement, in the event notice of a claim for indemnification under Section 7.1 is given within the Applicable Survival Period, the covenant or agreement that is the subject of such indemnification claim shall survive with respect to such claim until such claim is finally resolved.

7.3 Claim Procedure .

7.3.1 Indemnification Claim Procedure for Direct Claims.

(a)Except as provided in Section 7.3.2 with respect to Third Party Claims, in the event of a claim made by a Buyer Indemnitee or a Seller Indemnitee (the " Indemnified Party"), the Indemnified Party shall give reasonably prompt written notice to the other Party (the "Indemnifying Party"), which notice (an "Indemnification Certificate") shall: (i) state that the Indemnified Party has paid or properly accrued or reasonably anticipates that it will have to pay or accrue Losses that are subject to indemnification pursuant to Section 7.1.1 or Section 7.1.2, as applicable, (ii) specify in reasonable detail (to the extent known by the Indemnified Party) the individual items and amounts of such Losses, the date each such item was paid or properly accrued, or the basis for such anticipated Liability, and a description of the basis of such Indemnified Party's claim for indemnification and (iii) to the extent practicable, include any other material details pertaining thereto, along with copies of the relevant documents evidencing such claim and the basis for indemnification sought; *provided, however*, that the failure to give reasonably prompt notice shall not relieve the Indemnifying Party of its indemnification obligation under this Agreement with respect to such claim except to the extent that the Indemnifying Party is actually prejudiced by any delay in receiving such notice.

(b)Following receipt of an Indemnification Certificate from an Indemnified Party, the Indemnifying Party shall have 30 days following delivery of the Indemnification Certificate to make such investigation of the claims in such Indemnification

Certificate as the Indemnifying Party reasonably deems necessary or desirable. For purposes of such investigation, the Indemnified Party agrees to reasonably cooperate and assist the Indemnifying Party or its Representatives in connection with such investigation. If the Indemnifying Party objects to any claim made in the Indemnification Certificate, the Indemnifying Party shall deliver to the Indemnifying Party a written statement setting forth all such objections and the bases therefor within such 30-day period.

(c)If an Indemnifying Party so objects in writing to any claim or claims made in any Indemnification Certificate, the Indemnifying Party and the Indemnified Party shall attempt in good faith for a period of 20 days following the Indemnified Party's receipt of such objection notice to agree upon the respective rights of such parties with respect to each of such claims. If agreement on all of such disputed claims is not reached after such 20-day period of good faith negotiation, either the Indemnifying Party or the Indemnified Party may initiate the dispute resolution proceedings provided in Section 9.1.2 in accordance with the terms of this Agreement.

7.3.2 Third Party Claim Procedure.

(a)In the event an Indemnified Party becomes aware of a claim made by a Third Party (including any action, suit or proceeding commenced or threatened to be commenced by any Third Party) (each a " Third Party Claim") that such Indemnified Party reasonably believes may result in an indemnification claim pursuant to Section 7.1, such Indemnified Party shall promptly as practicable after becoming aware of such claim notify the Indemnifying Party in writing of such claim (such notice, the "Claim Notice"). The Claim Notice shall be accompanied by supporting documentation submitted by the Third Party making such claim and shall describe in reasonable detail (to the extent known by the Indemnified Party) the facts constituting the basis for such Third Party Claim and the amount of the claimed damages; *provided, however,* that no delay or failure on the part of the Indemnified Party in delivering a Claim Notice shall relieve the Indemnifying Party from any Liability hereunder except to the extent of any Loss or Liability caused by or arising out of such delay or failure.

(b) Within 45 days after receipt of any Claim Notice, the Indemnifying Party may, upon written notice thereof to the Indemnified Party, assume control of the defense of the Third Party Claim referred to therein at the Indemnifying Party's sole cost and expense (which shall be subject to Section 7.4) with counsel reasonably satisfactory to the Indemnified Party. The Indemnified Party shall, subject to this Section 7.3.2, diligently conduct such defense, appeal or settlement (including the making of all filings and responses due during such time) during the period prior to the assumption of such defense, appeal or settlement proceeding by the Indemnifying Party, or the expiration of such 45-day notice period. If the Indemnifying Party does not so assume control of the defense of such Third Party Claim, the Indemnified Party shall control the defense of such Third Party Claim. The Party not controlling the defense of such Third Party Claim (the "Non-Controlling Party") may participate therein at its own expense; *provided, however*, that if the Indemnifying Party assumes control of the defense of such Third Party Claim and the Indemnifying Party and the Indemnified Party have materially conflicting interests or different defenses available with respect to such Third Party Claim that cause the Indemnified Party to hire its own separate counsel with respect to such proceeding, the reasonable fees and expenses of a single counsel to the Indemnified Party shall be considered

"Losses" for purposes of this Agreement. The Person controlling the defense of such Third Party Claim (the "Controlling Party") shall keep the Non-Controlling Party reasonably advised of the status of such claim and the defense thereof and shall consider in good faith recommendations made by the Non-Controlling Party with respect thereto. The Non-Controlling Party shall furnish the Controlling Party with such information as it may have with respect to such Third Party Claim (including copies of any summons, complaint or other pleading that may have been served on such party and any written claim, demand, invoice, billing or other document evidencing or asserting the same) and shall otherwise cooperate with and assist the Controlling Party in the defense of such Third Party Claim; *provided*, that neither the Controlling Party nor the Non-Controlling Party will be required to furnish any such information which would (in the reasonable judgment of such party upon advice of counsel) be reasonably likely to (a) waive any privileges, including the attorney-client privilege, held by such party or any of its Affiliates or (b) breach any duty of confidentiality owed to any Person (whether such duty arises contractually, statutorily or otherwise) or any Contract with any other Person or violate any applicable Law (*provided*, that such party shall use commercially reasonable efforts to obtain any required consents and take such other reasonable action (such as the entry into a joint defense agreement or other arrangement to avoid loss of attorney-client privilege) to permit such access).

(c)Neither the Indemnified Party nor the Indemnifying Party shall agree to any settlement of, or the entry of any Judgment arising from, any Third Party Claim without the prior written consent of the other such party, which consent shall not be unreasonably withheld, conditioned or delayed; *provided*, *however*, that the consent of the Indemnified Party shall not be required with respect to any such settlement or Judgment if the Indemnifying Party agrees in writing to pay or cause to be paid any amounts payable pursuant to such settlement or Judgment (net of the applicable deductible amount specified in Section 7.4.1) and such settlement or Judgment includes no admission of liability or wrongdoing by or other obligation on the part of the Indemnified Party and includes a complete release of the Indemnified Party from further Liability with respect to such Third Party Claim. Whether or not the Indemnifying Party has assumed or controls the defense, appeal or settlement proceedings with respect to a Third Party Claim, such Indemnifying Party will not be obligated to indemnify the Indemnified Party hereunder for any settlement entered into or any Judgment that was consented to without the Indemnifying Party's prior written consent (such consent not to be unreasonably withheld, conditioned or delayed).

(d)Notwithstanding the foregoing, the Indemnifying Party shall not have the right to assume the defense of such Third Party Claim, if (i) the claim seeks only an injunction or other equitable relief, (ii) the Indemnitor shall not have assumed the defense of such Third-Party Claim in accordance with Section 7.3.2(b) or (iii) if the Third Party Claim involves a criminal matter.

7.3.3 Payment. In the event that the Indemnifying Party agrees to or is determined to have an obligation to reimburse the Indemnified Party for Losses as provided in this Article 7, the Indemnifying Party shall, subject to the provisions of this Article 7, including Section 7.4, promptly (but, in any event, within 30 days) following such agreement or determination pay such amount to the Indemnified Party by wire transfer of immediately available funds to the account specified in writing by the Indemnified Party.

7.4 Limitations on Indemnification .

7.4.1

(a)The provisions for indemnity under Section 7.1.1(c) or Section 7.1.2(c) shall be effective only for any individual claim or series of related claims arising from the same facts and circumstances where the Loss exceeds $25,000.

(b) Seller shall be obligated to indemnify Buyer Indemnitees as set forth in Section 7.1.1(a) only if and to the extent the aggregate of all Losses for which Seller is liable under Section 7.1.1(a) exceeds $475,000, in which event Seller shall be required to pay and be liable for all Losses in excess of $475,000 incurred by the Buyer Indemnitees for which Sellers are liable under Section 7.1.1(a); *provided* that Seller's aggregate liability under Section 7.1.1(a) shall not exceed $475,000 in the aggregate (the "Cap").

(c)Absent Fraud or Willful Breach, notwithstanding anything in this Agreement to the contrary, in no event shall Seller have liability under this Agreement or in connection with the transactions contemplated hereby or thereby for any amount exceeding, in the aggregate, the Purchase Price.

7.4.2 The Indemnified Party shall take use commercially reasonable efforts to mitigate any Losses incurred by such Party upon and after becoming aware of any event or condition that would reasonably be expected to give rise to any indemnification rights hereunder; provided, that the availability of such insurance shall not preclude a claim or recovery on a timely basis against an Indemnified Party. The amount of Losses recovered by an Indemnified Party under Section 7.1.1 or Section 7.1.2, as applicable, shall be reduced by (a) any amounts actually recovered by the Indemnified Party from a Third Party in connection with such claim and (b) the amount of any insurance proceeds paid to the Indemnified Party relating to such claim, in each case ((a) and (b)), net of the Indemnified Party's costs of recovery, including any insurance premium increases or loss of coverage resulting therefrom). Buyer shall use its commercially reasonable efforts to collect insurance proceeds for any Loss that is subject to indemnification by Seller under Section 7.1.1. If any amounts referenced in the preceding clauses (a) and (b) are received after payment by the Indemnifying Party of the full amount otherwise required to be paid to an Indemnified Party pursuant to this Article 7, the Indemnified Party shall repay to the Indemnifying Party, promptly after such receipt, any amount that the Indemnifying Party would not have had to pay pursuant to this Article 7 had such amounts been received prior to such payment.

7.4.3 For the avoidance of doubt, no Indemnified Party shall be entitled to indemnification under this Article 7 in respect of any Loss to the extent (a) the amount of such Loss was taken into account in the calculation of the Purchase Price pursuant to Section 2.5.3 or (b) such Indemnified Party has been previously indemnified or reimbursed in respect of such Loss pursuant to any other provision of this Agreement or any Ancillary Agreement.

7.5 Tax Treatment of Indemnification Payments . All payments made pursuant to this Article 7 shall be treated as adjustments to the Purchase Price for all Tax purposes, unless otherwise required by applicable Law.

7.6 Exclusive Remedy .

7.6.1 Except as expressly provided for in this Agreement (including in Section 2.5.3, Section 4.6, Section 5.8.2 and Section 9.9) and except for claims for Fraud, (a) Buyer acknowledges and agrees that, following the Closing, the remedies provided for in this Article 7 shall be the sole and exclusive remedies for any and all claims and damages available to the Buyer Indemnitees arising out of or relating to this Agreement, the Product Business, the Purchased Assets, the Assumed Liabilities or the transactions contemplated hereby, including the negotiation of this Agreement, any alleged non-disclosure or misrepresentations made hereunder or in any certificate delivered under Section 2.6.2 and Buyer's and its Affiliates' due diligence investigation with respect to the transactions contemplated hereby; and (b) subject to the indemnification provisions set forth in this Article 7, Buyer hereby waives, on behalf of itself and each other Buyer Indemnitee, any and all rights, claims and causes of action, whether based on or in warranty, contract, tort (including negligence or strict liability), that any such Person may have against Seller or any of its past, present or future Affiliates, Representatives, incorporators, members, partners, stockholders, successors or assigns (and any past, present or future Affiliate, Representative, incorporator, member, partner, stockholder, successor or assign of any of the foregoing) (each such Person, a "Released Party"), in each case to the extent such rights, claims and causes of action arise out of or relate to this Agreement, the Product Business, the Purchased Assets, the Assumed Liabilities or the transactions contemplated hereby, including the negotiation of this Agreement, any alleged non-disclosure or misrepresentations made hereunder or in any certificate delivered under Section 2.6.2 and Buyer's and its Affiliates' due diligence investigation with respect to the transactions contemplated hereby (collectively, "Released Claims") and subject to Buyer's rights pursuant to an Ancillary Agreement or the R&W Policy. Except as expressly provided for in this Agreement (including under this Article 7, in Section 2.5.3, in Section 4.6, in Section 5.8.2 and in Section 9.9) and except for claims for Fraud, Buyer hereby irrevocably agrees, on behalf of itself and each other Buyer Indemnitee, to refrain from directly or indirectly asserting, or assisting any other Person's assertion of, any right, claim or demand or commencing (or causing to be commenced) any Litigation of any kind, in any court or before any tribunal, against any Released Party based upon any Released Claim. Buyer, on behalf of itself and each other Buyer Indemnitee, hereby waives any rights it may have under any Law which provides that a general release does not extend to claims which the releasing Party does not know or suspect to exist in its favor at the time of executing the release, which if known by it may have materially affected its settlement.

7.6.2 Except to the limited extent set forth in Section 8.2.3, notwithstanding anything to the contrary contained in this Agreement, no breach of any representation, warranty, covenant or agreement contained herein shall, after the consummation of the transactions contemplated by this Agreement, give rise to any right on the part of Buyer, on the one hand, or Seller, on the other hand, to rescind this Agreement or any of the transactions contemplated hereby.

7.6.3 No Released Party other than Seller shall have any liability, whether based on or in warranty, contract, tort (including negligence or strict liability) or otherwise, for any Liabilities of Seller arising under, in connection with or related to this Agreement or for any claim based on, in respect of or by reason of the transactions contemplated hereby, including any alleged non-disclosure or misrepresentations made by any such Persons.

7.6.4 Except in the case of claims for Fraud, Buyer, on behalf of itself and each other Buyer Indemnitee, acknowledges and agrees that the sole and exclusive source of recovery for the Buyer Indemnitees with respect to a breach or inaccuracy of any representation or warranty of Seller in this Agreement or in any certificate delivered under Section 2.6.2 in excess of the Cap shall be to make a claim against a R&W Policy. Neither Seller nor any of its Affiliates shall have any direct or indirect Liability in connection with a R&W Policy and each insurer providing a R&W Policy shall waive in such policy all claims of subrogation against Seller or any of its Affiliates except in the case of Fraud.

7.6.5 This Section 7.6 shall not affect either Party's or any Affiliate of either Party's ability to exercise any rights or remedies available to such Person under any Ancillary Agreement with respect to claims arising under such Ancillary Agreement.

7.7 Setoff Rights . Except as expressly permitted under this Agreement, neither Party shall have any right of setoff of any amounts due and payable, or any Liabilities arising, under this Agreement against any other amounts due and payable under this Agreement or any amounts due and payable, or any Liabilities arising, under any Ancillary Agreement. The payment obligations under each of this Agreement and the Ancillary Agreements remain independent obligations of each Party, irrespective of any amounts owed to any other Party under this Agreement or the respective Ancillary Agreements.

ARTICLE 8
TERMINATION

8.1 Termination . Prior to the Closing, this Agreement may be terminated, and the transactions contemplated hereby abandoned:

8.1.1 by the mutual written agreement of Buyer and Seller;

8.1.2 by written notice delivered by either Buyer or Seller to the other, if the Closing shall not have occurred on or prior to December 31, 2020 (the "End Date") (other than due to a breach of any representation or warranty hereunder of the Party seeking to terminate this Agreement or as a result of the failure on the part of such Party to comply with or perform any of its covenants, agreements or obligations under this Agreement and other than as a result of any closing condition in favor of the non-terminating Party not being satisfied, which closing condition has been waived by the non-terminating Party); *provided*, *however*, that (A) right to terminate this Agreement under this Section 8.1.2 shall not be available to any Party whose failure to perform any of its obligations under this Agreement has been the cause of, or resulted in, the failure of the Closing not to have occurred on or before the End Date and (B) Buyer shall not have the right to terminate this Agreement pursuant to this Section 8.1.2 during the pendency of any proceeding brought by Seller for specific performance of this Agreement;

8.1.3 by written notice delivered by Buyer to Seller, if (a) there has been a breach by Seller of a representation or warranty of Seller contained in this Agreement or (b) there shall be a breach by Seller of any covenant, agreement or obligation of Seller in this Agreement, and such breach described in clause (a) or (b) would result in the failure of a condition set forth in Section 6.1.1 or Section 6.1.2 that has not been waived by Buyer, or in the

case of a breach of any covenant or agreement, is not cured upon the earlier to occur of (i) the 30th day after written notice thereof is given by Buyer to Seller and (ii) the day that is five Business Days prior to the End Date; provided, that Buyer may not terminate this Agreement pursuant to this Section 8.1.3 if Buyer is in breach of its representations, warranties, covenants or agreements contained in this Agreement and such breach would result in the conditions to Closing set forth in Section 6.2.1 or 6.2.2 not being satisfied (other than those conditions that (x) by their terms are to be satisfied at the Closing or (y) the failure of which to be satisfied is attributable primarily to a breach by Seller of its representations, warranties, covenants or agreements contained in this Agreement).

8.1.4 by written notice delivered by Seller to Buyer, if

(a) (i) there has been a breach by Buyer of a representation or warranty of Buyer contained in this Agreement or (ii) there shall be a breach by Buyer of any covenant, agreement or obligation of Buyer in this Agreement, and such breach described in clause (i) or clause (ii) would result in the failure of a condition set forth in Section 6.2.1 or Section 6.2.2 and has not been waived by Seller, or in the case of a breach of any covenant or agreement (excluding Section 4.4.5), is not cured upon the earlier to occur of (A) the 30th day after written notice thereof is given by Seller to Buyer and (B) the day that is five Business Days prior to the End Date; *provided*, that Seller may not terminate this Agreement pursuant to this Section 8.1.4(a) if Seller is in breach of its representations, warranties, covenants or agreements contained in this Agreement and such breach would result in the conditions to Closing set forth in 6.1.1 or Section 6.1.2 not being satisfied (other than those conditions that (x) by their terms are to be satisfied at the Closing or (y) the failure of which to be satisfied is attributable primarily to a breach by Buyer of its representations, warranties, covenants or agreements contained in this Agreement);

(b) (i) all of the conditions set forth in Section 6.1 have been satisfied and remain satisfied (other than those conditions that (A) by their terms are to be satisfied at the Closing or (B) the failure of which to be satisfied is attributable primarily to a breach by Buyer of its representations, warranties, covenants or agreements contained in this Agreement), (ii) Seller has confirmed by notice to Buyer that all conditions set forth in Section 6.2 have been satisfied or that it is willing to waive any unsatisfied conditions set forth in Section 6.2 and (iii) the transactions contemplated hereunder shall not have been consummated within one Business Day after delivery of such notice, and Seller stood ready, willing and able to consummate the transactions contemplated hereunder during such period;

(c) subject to the Parties' rights and obligations under this Agreement, Seller and Buyer have been informed orally or Seller or Buyer shall have been informed in writing by any applicable Competition Authority (or the staff thereof) that this Agreement or the Ancillary Agreements are determined by any applicable Competition Authority (or the staff thereof) to be an inadequate remedy under any Competition Law with respect to the transactions contemplated by the Bison Acquisition Agreement;

(d)Buyer is not approved as an acceptable purchaser by any applicable Competition Authority or the staff of any applicable Competition Authority informs both Seller and Buyer orally or informs Seller or Buyer in writing that the staff of such

Competition Authority will not recommend approval of Buyer as an acquiror of the Purchased Assets;

(e)if any applicable Competition Authority (including the staff thereof) informs Seller or Buyer that such Competition Authority (including the staff thereof) will require the transfer to Buyer of any material asset other than those that are Purchased Assets; or

(f)the Bison Acquisition Agreement shall have been terminated pursuant to its terms.

8.2 Procedure and Effect of Termination .

8.2.1 Notice of Termination. Termination of this Agreement by either Buyer or Seller shall be by delivery of a written notice to the other. Such notice shall state the termination provision in this Agreement that such terminating Party is claiming provides a basis for termination of this Agreement. Termination of this Agreement pursuant to the provisions of Section 8.1 shall be effective upon and as of the date of delivery of such written notice as determined pursuant to Section 9.2.

8.2.2 Effect of Termination. In the event of the termination of this Agreement pursuant to Section 8.1 by Buyer or Seller, this Agreement shall be terminated and have no further effect, and there shall be no liability hereunder on the part of Seller, Buyer or any of their respective Affiliates, except that Section 3.3 (*Exclusivity of Representations*), Section 5.3 (*Publicity*), Section 7.6.3 (*Nonrecourse*), Section 8.2.2 (*Effect of Termination*), Section 8.2.4 (*Withdrawal of Certain Filings*) and Article 9 (*Miscellaneous*) shall survive any termination of this Agreement. For the avoidance of doubt, in the event of termination of this Agreement pursuant to Section 8.1, the Parties shall not enter into any of the Ancillary Agreements or have any obligations thereunder. Nothing in this Section 8.2.2 shall relieve either Party of Liability for Fraud or Willful Breach by either Party of any covenant or agreement of such Party contained herein prior to the termination hereof. "Willful Breach" means a material breach that is a consequence of a deliberate act undertaken, or a deliberate failure to act, which the breaching party actually knew would, or would reasonably be expected or likely to, result in a material breach of this Agreement. In the event of the termination of this Agreement pursuant to Section 8.1.4(f) by Seller, Seller shall reimburse Buyer for its reasonable and documented out-of-pocket cost and expenses incurred in connection with its due diligence investigation and the negotiation of the transactions contemplated by this Agreement promptly following Seller's receipt of an invoice for and reasonable documentation evidencing such costs and expenses; *provided* Seller will not be responsible for reimbursing the Buyer more than $[***] under this Section 8.2.2. Except in the case of Fraud or Willful Breach, in the event that Seller reimburses Buyer for expenses under this Section 8.2.2, such reimbursement shall be Buyer's and its Affiliates' sole and exclusive monetary remedy with respect to, and shall be deemed to be liquidated damages for, any and all Losses suffered or incurred by Buyer or its Affiliates in connection with the termination of this Agreement and the transactions contemplated hereby, and neither Buyer nor any of its Affiliates shall be entitled to bring or maintain any Litigation against Seller or any of its Affiliates arising out of or in connection with termination of this Agreement and the transactions contemplated hereby.

8.2.3 Rescission. If at any time, any applicable Competition Authority formally notifies Seller that Buyer is not an acceptable acquiror of the Purchased Assets, then each of Seller and Buyer shall have the right immediately to rescind this Agreement, and the provisions of Section 8.2.2 and Section 8.2.4 shall be applicable as if a termination of this Agreement had occurred and Seller shall return to Buyer any delivered portions of the Purchase Price, and neither Seller nor any of its Affiliates shall have any other Liability to Buyer or otherwise resulting from such termination.

8.2.4 Withdrawal of Certain Filings. If the transactions contemplated by this Agreement are terminated as provided herein, (a) Buyer promptly shall, and shall cause each of its Affiliates and Representatives to, return to Seller or destroy (such destruction to be confirmed in writing between the Parties), all (i) documents, materials and other information (including all Evaluation Material (as defined in the Confidentiality Agreement)) received from Seller, any of its Affiliates or any of Seller's or its Affiliates' respective Representatives relating to the transactions contemplated by this Agreement or the Ancillary Agreements, whether so obtained before or after the execution hereof and (ii) documents, memoranda, notes, studies and analyses prepared by Buyer, its Affiliates or their respective Representatives that contain, incorporate or are derived from the documents, materials or other information referred to in the preceding clause (i); (b) all information received by Buyer or its Affiliates or Representatives with respect to the businesses of Seller and its Affiliates (including the Products and the Product Business) shall be treated in accordance with the Confidentiality Agreement, which shall remain in full force and effect notwithstanding the termination of this Agreement; and (c) Buyer and Seller shall, as soon as practicable, but in no event more than 30 days after such termination, to the extent practicable, withdraw all filings, applications and other submissions relating to the transactions contemplated by this Agreement filed or submitted on behalf of such Party with any Governmental Authority or other Person.

ARTICLE 9
MISCELLANEOUS

9.1 Governing Law, Dispute Resolution, Jurisdiction .

9.1.1 Governing Law. This Agreement shall be governed by and construed, and all Disputes relating to or arising out of this Agreement or the transactions contemplated hereby shall be resolved, in accordance with the Laws of the State of New York, excluding any conflicts or choice of Law rule or principle that would otherwise refer construction or interpretation of this Agreement or the resolution of any Dispute relating to or arising out of this Agreement or the transactions contemplated hereby to the Law of another jurisdiction.

9.1.2 Arbitration. Except as otherwise provided herein (including Section 2.5.3), the parties to any Dispute hereunder shall attempt to resolve such Dispute through good faith negotiations between senior executive officers of such parties (or their respective designees) with the authority to settle such Dispute. A Party shall notify the other Party promptly in writing of any Dispute to be referred to such senior executive officers (or their respective designees) for attempted resolution. If such Dispute cannot be resolved through such negotiations within 30 Business Days following the date on which Notice of such Dispute is delivered, any party to such Dispute wishing to initiate mediation may do so within 30 days thereafter or within such

other time period as the parties to the Dispute may agree. Any such mediation shall be conducted in accordance with the Mediation Procedures for Business Disputes of The International Institute for Conflict Prevention and Resolution as in effect on the date of such mediation. If no party to the Dispute issues a notice of mediation within such 30-day (or other agreed upon) period, or if the parties fail to settle such Dispute within 30 days following a notice of mediation, any such party shall have the right to submit the Dispute to resolution by final and binding arbitration. For the avoidance of doubt, except as otherwise expressly provided herein, no Party may seek a binding determination of a Dispute except through arbitration as provided for in this Section 9.1.2. The following provisions shall apply to arbitration proceedings pursuant to this Section 9.1.2:

(i)The place of arbitration will be New York, New York. The arbitration will be conducted in the English language and all documents filed or otherwise provided as part of the arbitration shall be in the English language.

(ii)The arbitral proceedings shall be carried out in accordance with the Rules of Arbitration of the International Chamber of Commerce (" ICC"). The arbitral tribunal shall be composed of (A) a sole arbitrator if the monetary value of the Dispute is $5,000,000 (or its currency equivalent) or less, and (B) three arbitrators if the monetary value of the Dispute is greater than $5,000,000 (or its currency equivalent) or if the relief sought includes any which is not monetary in nature. In the case of a sole arbitrator, the parties to the Dispute shall endeavor to mutually agree upon the identity of such arbitrator within 30 days after the date on which the respondent(s)' answer is filed in the arbitration. If there are to be three arbitrators, the claimant(s) and respondent(s) shall each nominate one arbitrator within 30 days after the date on which the respondent(s)' answer is filed and the two arbitrators will endeavor within the following 30 days to agree upon the third arbitrator who shall be the chairman of the arbitral tribunal. If any arbitrator is not nominated pursuant to the two immediately preceding sentences, the ICC shall appoint such arbitrator. Any monetary counterclaim of a party must be included in such party's answer, failing which, such claim cannot be made or considered by the arbitral tribunal.

(iii)Each party to a Dispute shall have the right to have recourse to and shall be bound by the Emergency Arbitrator procedure of the ICC in accordance with its Rules for the Emergency Arbitrator.

(iv)The parties to the Dispute shall submit true copies of all documents considered relevant with their respective statement of claim or defense and any counterclaim or reply. Further, the arbitral tribunal, at its own initiative or upon the request of a party to the Dispute may decide to require the submission of additional specific documents or specific, narrow and well-defined classes of documents that the arbitral tribunal considers relevant to the case and material to the outcome of an issue in the Dispute. In matters of document production, the arbitral tribunal and the parties shall be guided by the 2010 International Bar Association Rules on the Taking of Evidence in International Arbitration, with the intent of the parties to limit document production to what is essential in order to resolve the Dispute. The arbitral tribunal shall not have the power to award, nor shall the arbitral tribunal award, any punitive, indirect, incidental or consequential damages or awards for diminution in value or lost profits (however any such award is denominated). The arbitral tribunal is

authorized to take any interim measures as it considers necessary, including the making of interim orders or awards or partial final awards. An interim order or award may be enforced in the same manner as a final award using the procedures specified below. Further, the arbitral tribunal is authorized to make pre- or post-award interest at applicable statutory interest rates during the relevant period.

(v)The written award of the arbitral tribunal shall be final and binding. Except to the extent set forth in the following sentence, each Party hereby waives irrevocably and unconditionally any right to appeal such arbitration award and its rights to any form of review or recourse to any court or other judicial authority, in each case to the extent such rights may be waived. Notwithstanding anything to the contrary herein, each Party retains the right to seek judicial assistance (A) to compel arbitration; (B) to obtain interim measures of protection pending or during arbitration, including injunctive relief and declarations of specific performance pursuant to Section 9.9 and (C) to enforce any decision of the arbitral tribunal, including the final award. Judgment upon the award rendered by the arbitral tribunal may be entered by any court having jurisdiction thereof.

(vi)All arbitration costs and fees (including the costs of legal representation and witness expenses) incurred by the prevailing party or parties to a Dispute shall be borne by the party or parties against whom the applicable arbitral award is made. No arbitrator or arbitration panel under this Section 9.1.2 shall award any Losses for which recovery is prohibited under Section 9.10.

(vii)Each Dispute shall be resolved as quickly as reasonably possible. Any arbitration award must be issued within three months from completion of the hearing, or as soon as possible thereafter.

(viii)Any Dispute and any negotiations, mediation and arbitration proceedings between the parties thereto regarding such Dispute shall be confidential and shall be subject to Section 5.4.

9.1.3 Jurisdiction; Jury Trial Waiver. Subject to Section 9.9, for proceedings in aid of arbitration and to obtain interim measures of relief prior to, pending or during arbitration in accordance with Section 9.1.2, the Parties hereby irrevocably and unconditionally consent to the exclusive jurisdiction of the courts of the State of New York sitting in the Borough of Manhattan in the City of New York, New York and the United States District Court for the Southern District of New York (the "Chosen Courts"), and agree not to commence any action, suit or proceeding (other than appeals therefrom) related thereto except in such courts. EACH PARTY HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT TO ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR DISPUTES RELATING HERETO. EACH PARTY (a) CERTIFIES THAT NO REPRESENTATIVE OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (b) ACKNOWLEDGES THAT IT AND THE OTHER PARTY HAVE BEEN INDUCED TO

ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 9.1.3.

9.1.4 Venue. For proceedings in aid of arbitration and to obtain interim measures of relief prior to, pending or during arbitration in accordance with Section 9.1.2, the Parties further hereby irrevocably and unconditionally waive any objection to the laying of venue of any action, suit or proceeding (other than appeals therefrom) arising out of or relating to this Agreement in the Chosen Courts, and hereby further irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

9.1.5 Service. Each Party further agrees that service of any process, summons, notice or document by registered mail to its address set forth in Section 9.2.2 shall be effective service of process for any action, suit or proceeding brought against it under this Agreement.

9.2 Notices .

9.2.1 Notice Requirements. Any notice, request, demand, waiver, consent, approval or other communication permitted or required under this Agreement (each, a "Notice") shall be in writing, shall refer specifically to this Agreement and shall be deemed given only if delivered by hand or sent by email of a PDF attachment (with transmission confirmed) or by internationally recognized overnight delivery service that maintains records of delivery, addressed to the receiving Party at its address specified in Section 9.2.2 or to such other address as the Party to whom notice is to be given may have provided to the other Party at least five Business Days prior to such address taking effect in accordance with this Section 9.2. Such Notice shall be deemed to have been given as of the date delivered by hand or internationally recognized overnight delivery service or confirmed that it was received by email (by email or by delivery of such communication by internationally recognized overnight delivery service that maintains records of delivery). Any Notice delivered by email shall be confirmed by a hard copy delivered as soon as practicable thereafter.

9.2.2 Address for Notice.

If to Seller, to:

Elanco General Counsel
2500 Innovation Way
Greenfield, IN 46140
Email: [***]
and a copy (which shall not constitute effective notice) to:

Covington & Burling LLP
One CityCenter
850 Tenth Street, NW
Washington, DC 20001
Email: cdargan@cov.com; mriella@cov.com
Attention: Catherine J. Dargan; Michael J. Riella

If to Buyer, to:

PetIQ, Inc.
923 South Bridgeway Place
Eagle, Idaho 83616
Email: [***]
Attention: R. Michael Herrman, General Counsel

with a copy (which shall not constitute effective notice) to:

Winston & Strawn LLP
200 Park Avenue
New York, NY 10166
Email: ddechiara@winston.com; bgoldstein.com
Attention: Dominick P. DeChiara; Bryan C. Goldstein

9.3 No Benefit to Third Parties . The covenants and agreements set forth in this Agreement are for the sole benefit of the Parties and their successors and permitted assigns, and, except for the rights of Buyer Indemnitees or Seller Indemnitees under Section 5.7.5, Section 5.8.2 and Article 7, and Seller's Affiliates under Section 9.16, they shall not be construed as conferring any rights on any other Persons.

9.4 Waiver and Non-Exclusion of Remedies . Any term or condition of this Agreement may be waived at any time by the Party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the Party waiving such term or condition. The waiver by either Party of any right hereunder or of the failure to perform or of a breach by the other Party shall not be deemed a waiver of any other right hereunder or of any other breach or failure by said other Party whether of a similar nature or otherwise. The rights and remedies provided herein are cumulative and do not exclude any other right or remedy provided by applicable Law or otherwise available except as expressly set forth herein.

9.5 Expenses . Except as otherwise specified herein, and whether or not the Closing takes place, each Party shall bear any costs and expenses incurred by it with respect to the transactions contemplated herein. [***]

9.6 Assignment . Neither this Agreement nor either Party's rights or obligations hereunder may be assigned or delegated by such Party without the prior written consent of the other Party, and any attempted assignment or delegation of this Agreement or any of such rights or obligations by either Party without the prior written consent of the other Party shall be void and of no effect; provided that (i) Buyer may collaterally assign its rights and benefits hereunder, in whole or in part, to any financing source which assignment will not relieve Buyer of any of its obligations under this Agreement or any Ancillary Agreements and (ii) any Party may assign or delegate any or all of its rights or obligations hereunder to an Affiliate without the prior written consent of the other Party, which assignment will not relieve such Party of any of its obligations under this Agreement. Subject to the preceding sentence, this Agreement will be binding upon,

inure to the benefit of, and be enforceable by, the Parties and their respective successors and permitted assigns. Notwithstanding the foregoing, in the event a Party assigns its rights or obligations under this Agreement or otherwise makes payments from a jurisdiction other than the jurisdiction in which such party is organized (each an "Assignment"), and immediately after such Assignment the amount of Tax required to be withheld on any payment pursuant to this Agreement is greater than the amount of such Tax that would have been required to have been withheld absent such Assignment, then such increased withholding Tax shall be borne by the Party making such Assignment.

9.7 Amendment . This Agreement may not be modified, amended, altered or supplemented except upon the delivery of a written agreement executed by both Parties.

9.8 Severability . If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future Law, and if the rights or obligations of either Party under this Agreement will not be materially and adversely affected thereby, (a) such provision shall be fully severable, (b) this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, (c) the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom and (d) in lieu of such illegal, invalid or unenforceable provision, there shall be added automatically as a part of this Agreement a legal, valid and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible and reasonably acceptable to the Parties.

9.9 Equitable Relief . The Parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement (including failing to take such actions as are required of them hereunder to consummate this Agreement) were not performed in accordance with their specific terms or were otherwise breached for which monetary damages, even if available, would not be an adequate remedy. The Parties acknowledge and agree that (a) each Party shall be entitled to an injunction or injunctions, specific performance or other equitable relief to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of competent jurisdiction without proof of damages or otherwise, this being in addition to any other remedy to which it is entitled under this Agreement, and (b) the right of specific enforcement is an integral part of the transactions contemplated by this Agreement and without that right, neither Seller nor Buyer would have entered into this Agreement. Each Party agrees not to assert that (i) a remedy of specific enforcement is unenforceable, invalid, contrary to Law or inequitable for any reason and (ii) a remedy of monetary damages would provide an adequate remedy or that the other Party or its Affiliates otherwise has an adequate remedy at law. Each Party hereby waives any requirement that the other Party post a bond or other security as a condition for obtaining any injunction, specific performance or other equitable relief contemplated under this Section 9.9.

9.10 Damages Waiver . TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW OR TO THE EXTENT AWARDED TO A THIRD PARTY IN A THIRD PARTY CLAIM, NEITHER BUYER NOR SELLER SHALL BE LIABLE TO THE OTHER, OR THEIR AFFILIATES, FOR ANY CONSEQUENTIAL, INCIDENTAL, SPECIAL, EXEMPLARY, PUNITIVE, INDIRECT OR MULTIPLE DAMAGES, FOR LOSS OF PROFITS, REVENUE OR INCOME, DIMINUTION IN VALUE OR LOSS OF BUSINESS

OPPORTUNITY (WHETHER OR NOT FORESEEABLE ON THE EXECUTION DATE), IN CONNECTION WITH OR RESULTING FROM ANY BREACH OF THIS AGREEMENT, OR ANY ACTIONS UNDERTAKEN IN CONNECTION HEREWITH, OR RELATED HERETO OR TO THE TRANSACTIONS CONTEMPLATED HEREBY, INCLUDING ANY SUCH DAMAGES WHICH ARE BASED UPON BREACH OF CONTRACT, TORT (INCLUDING NEGLIGENCE AND MISREPRESENTATION), BREACH OF WARRANTY, STRICT LIABILITY, STATUTE, OPERATION OF LAW OR ANY OTHER THEORY OF RECOVERY.

9.11 English Language . This Agreement shall be written and executed in, and all other communications under or in connection with this Agreement shall be in, the English language. Any translation into any other language shall not be an official version thereof, and in the event of any conflict in interpretation between the English version and such translation, the English version shall control.

9.12 Bulk Sales Laws . Buyer hereby waives compliance by Seller with the requirements of any applicable bulk sales or bulk transfer Laws in any jurisdiction that may be applicable to the transactions contemplated by this Agreement.

9.13 Fulfillment of Obligations . Any obligation of any Party to any other Party under this Agreement or any of the Ancillary Agreements, which obligation is performed, satisfied or fulfilled completely by an Affiliate of such Party, shall be deemed to have been performed, satisfied or fulfilled by such Party.

9.14 Counterparts . This Agreement may be executed in any number of counterparts, and each such counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement. Delivery of an executed counterpart of a signature page of this Agreement by facsimile or other electronic transmission shall be effective as delivery of a manually executed original counterpart of this Agreement.

9.15 Entire Agreement . This Agreement, together with the Schedules and Exhibits expressly contemplated hereby and attached hereto, the Disclosure Schedules, the Confidentiality Agreement, the Ancillary Agreements and the other agreements, certificates and documents delivered in connection herewith or therewith or otherwise in connection with the transactions contemplated hereby and thereby, contain the entire agreement between the Parties with respect to the transactions contemplated hereby or thereby and supersede all prior agreements, understandings, promises and representations, whether written or oral, between the Parties with respect to the subject matter hereof and thereof.

9.16 Buyer Guarantor Guarantee .

9.16.1 In order to induce Seller to enter into this Agreement, the Buyer Guarantor hereby absolutely, irrevocably and unconditionally guarantees to Seller and its Affiliates, the payment in full of all amounts owed by Buyer or any of its Affiliates to Seller or its Affiliates when due and payable, in each case in accordance with the terms of this Agreement or the Ancillary Agreements. Such guarantee shall be as primary obligor and not merely as surety, shall be a guarantee of payment and not of collection and shall be a continuing guarantee

and shall remain in full force and effect until the indefeasible payment and satisfaction in full of all amounts payable by Buyer or any of its Affiliates under this Agreement or any Ancillary Agreement, shall be binding upon the Buyer Guarantor and its successors and permitted assigns (*provided* that Buyer Guarantor may not assign its rights or delegate its obligations under this Section 9.16 without the prior written consent of Seller), and shall inure to the benefit of, and be enforceable by, Seller and its Affiliates and their respective successors and permitted assigns. The Buyer Guarantor hereby waives acceptance, diligence, promptness, presentment, demand of payment or performance, filing of claims with a court in the event of insolvency or bankruptcy of the Buyer, any right to require a proceeding (or other exhaustion of remedies) first against the Buyer or to join the Buyer in any enforcement action or to first resort to any other means of obtaining payment or performance, protest, notice and all demands whatsoever. Notwithstanding anything contained herein to the contrary, the Buyer Guarantor shall be entitled to assert as a defense to any claim for payment of any amount under this Agreement or any Ancillary Agreement any defense that would be available to the Buyer if the claim were asserted directly against the Buyer.

9.16.2 The liability of Buyer Guarantor under this Section 9.16 shall be irrevocable, unconditional and absolute and, without limiting the generality of the foregoing, shall not be released, discharged or otherwise affected by:

(a)any extension, renewal, settlement, compromise, waiver or release in any respect of any obligation of Buyer or its Affiliates, by operation of Law or otherwise, unless and to the extent Seller consents to any such extension, renewal, settlement, compromise, waiver or release;

(b)any modification or amendment of, or supplement to, this Agreement or any Ancillary Agreement;

(c)any change in the corporate existence, structure or ownership of Buyer or its Affiliates, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting Buyer, its Affiliates or their respective assets, or any resulting release or discharge of any obligation of Buyer or its Affiliates;

(d)the existence of any claim, set-off or other right which Buyer Guarantor may have at any time against Buyer or its Affiliates; *provided* that nothing herein shall prevent the assertion of any such claim by separate suit or compulsory counterclaim;

(e)any invalidity or unenforceability of this Agreement, any Ancillary Agreement or any other document entered into in connection herewith or therewith relating to or against Buyer or its Affiliates for any reason, or any provision of any Law purporting to prohibit the performance by Buyer or its Affiliates of their respective obligations under this Agreement, any Ancillary Agreement or any other document; or

(f) any other act or omission to act or delay of any kind by Seller, Buyer or any other Person or any other circumstance whatsoever that might, but for the provisions of this Section 9.16, constitute a legal or equitable discharge of Buyer Guarantor’s obligations hereunder.

9.16.3 Buyer Guarantor is a corporation duly incorporated, validly existing and, where applicable, in good standing under the Laws of the jurisdiction of its incorporation. Buyer Guarantor has the requisite corporate power and authority to enter into this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated to be consummated by it hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated to be consummated by it hereby have been duly authorized by all necessary corporate actions of Buyer Guarantor. This Agreement has been duly executed and delivered by the Buyer Guarantor, and, assuming this Agreement constitutes the valid and binding obligation of the other parties hereto, this Section 9.16 constitutes the valid and binding obligation of the Buyer Guarantor, enforceable against the Buyer Guarantor in accordance with its terms, except as limited by (a) bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other similar Laws relating to creditors' rights generally and (b) general principles of equity, whether such enforceability is considered in a Proceeding in equity or at law.

[*Signature page follows*]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Execution Date.

ELANCO US, INC.

By: /s/ Aaron L. Schacht
Name: Aaron L. Schacht
Title: EVP – Innovation/Regulatory/Bus Dev't

PETIQ LLC

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

By: /s/ R. Michael Herrman
Name: R. Michael Herrman
Title: Secretary

PETIQ, INC., for purposes of Section 9.16 only

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

By: /s/ R. Michael Herrman
Name: R. Michael Herrman
Title: General Counsel and Secretary

[Signature Page to Asset Purchase Agreement]

Exhibit 4.4

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

The following descriptions of the capital stock of PetIQ, Inc. and of certain provisions of Delaware law are subject to and qualified in their entirety by reference to our Amended and Restated Certificate of Incorporation (the "Certificate") and our Bylaws (the "Bylaws") and the Registration Rights Agreements (defined below). Copies of the Certificate, the Bylaws and the Registration Rights Agreements have been filed with the Securities and Exchange Commission (the "SEC") and are incorporated by reference as exhibits to the Annual Report on Form 10-K of which this Exhibit is a part. Unless the context requires otherwise, all references to "we", "us," "our" and "PetIQ" in this section refer solely to PetIQ, Inc. and not to our subsidiaries.

General

Our authorized capital stock consists of 225,000,000 shares of common stock, par value $0.001 per share, and 12,500,000 shares of preferred stock, par value $0.001 per share. Our common stock is divided into two classes, Class A common stock and Class B common stock. Our authorized Class A common stock consists of 125,000,000 shares and our authorized Class B common stock consists of 100,000,000 shares.

As of March 11, 2020, there were 28,352,504 shares of common stock outstanding, comprised of 23,889,861 shares of Class A common stock and 4,462,643 shares of Class B common stock, and there were no shares of preferred stock outstanding.

Class A Common Stock

Voting Rights

Holders of our Class A common stock are entitled to cast one vote per share. Holders of our Class A common stock are not entitled to cumulate their votes. Generally, all matters to be voted on by stockholders must be approved by a majority (or, in the case of election of directors, by a plurality) of the votes entitled to be cast by all holders of Class A common stock and Class B common stock present in person or represented by proxy, voting together as a single class. Except as otherwise provided by law, amendments to the Certificate must be approved by a majority or, in some cases, a super-majority of the combined voting power of all shares of Class A common stock and Class B common stock, voting together as a single class.

Dividend Rights

Holders of Class A common stock share ratably (based on the number of shares of Class A common stock held) if and when any dividend is declared by the board of directors out of funds legally available therefor, subject to any statutory or contractual restrictions on the payment of dividends and to any restrictions on the payment of dividends imposed by the terms of any outstanding preferred stock.

Liquidation Rights

On our liquidation, dissolution or winding up, each holder of Class A common stock is entitled to a pro rata distribution of any assets available for distribution to common stockholders.

Other Matters

No shares of Class A common stock are subject to redemption or have preemptive rights to purchase additional shares of Class A common stock. Holders of shares of our Class A common stock do not have subscription, redemption or conversion rights. There are no redemption or sinking fund provisions applicable to the Class A common stock. All of the outstanding shares of Class A common stock are validly issued, fully paid and non-assessable. The rights powers, preferences and privileges of our Class A common stock are subject to those of the holders of any shares of our preferred stock or any other series or class of stock we may authorize and issue in the future.

Class B Common Stock

Issuance of Class B Common Stock with LLC Interests

Shares of Class B common stock are transferable only together with an equal number of membership units (the "LLC Interest") of PetIQ Holdings, LLC ("HoldCo"). Shares of Class B common stock will be cancelled on a one-for-one basis upon the exchange of LLC Interests pursuant to the terms of the Sixth Amended and Restated Limited Liability Agreement of Holdco (the "Holdco Agreement").

Voting Rights

Holders of Class B common stock are entitled to cast one vote per share. Holders of our Class B common stock are not entitled to cumulate their votes. Generally, all matters to be voted on by stockholders must be approved by a majority (or, in the case of election of directors, by a plurality) of the votes entitled to be cast by all holders of Class A common stock and Class B common stock present in person or represented by proxy, voting together as a single class. Except as otherwise provided by law, amendments to the Certificate must be approved by a majority or, in some cases, a super-majority of the combined voting power of all shares of Class A common stock and Class B common stock, voting together as a single class.

Dividend Rights

Holders of our Class B common stock do not participate in any dividend declared by the board of directors.

Liquidation Rights

On our liquidation, dissolution or winding up, holders of Class B common stock are not entitled to receive any distribution of our assets.

Transfers

Pursuant to the Holdco Agreement, each holder of Class B common stock agrees that:

- the holder will not transfer any shares of Class B common stock to any person unless the holder transfers an equal number of LLC Interests to the same person; and

- in the event the holder transfers any LLC Interests to any person, the holder will transfer an equal number of shares of Class B common stock to the same person.

Other Matters

No shares of Class B common stock are subject to redemption rights or have preemptive rights to purchase additional shares of Class B common stock. Holders of shares of our Class B common stock do not have subscription, redemption

or conversion rights. There are no redemption or sinking fund provisions applicable to the Class B common stock. All outstanding shares of Class B common stock are validly issued, fully paid and non-assessable.

Preferred Stock

Our Certificate provides that our board of directors has the authority, without action by the stockholders, to designate and issue up to 12,500,000 shares of preferred stock in one or more classes or series and to fix the powers, rights, preferences and privileges of each class or series of preferred stock, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences and the number of shares constituting any class or series, which may be greater than the rights of the holders of the common stock. There are no shares of preferred stock outstanding.

The purpose of authorizing our board of directors to issue preferred stock and determine its rights and preferences is to eliminate delays associated with a stockholder vote on specific issuances. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions, future financings and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or could discourage a third party from seeking to acquire, a majority of our outstanding voting stock. Additionally, the issuance of preferred stock may adversely affect the holders of our Class A common stock by restricting dividends on the Class A common stock, diluting the voting power of the Class A common stock or subordinating the liquidation rights of the Class A common stock. As a result of these or other factors, the issuance of preferred stock could have an adverse impact on the market price of our Class A common stock.

The particular terms of any series of preferred stock that we offer under this prospectus will be described in the applicable prospectus supplement relating to that series of preferred stock. Those terms may include:

- the title and liquidation preference per share of the preferred stock and the number of shares offered;
- the purchase price of the preferred stock;
- the dividend rate (or method of calculation), the dates on which dividends will be payable, whether dividends shall be cumulative and, if so, the date from which dividends will begin to accumulate;
- any redemption or sinking fund provisions of the preferred stock;
- any conversion, redemption or exchange provisions of the preferred stock;
- the voting rights, if any, of the preferred stock; and
- any additional dividend, liquidation, redemption, sinking fund and other rights, preferences, privileges, limitations and restrictions of the preferred stock.

You should refer to the certificate of designations establishing a particular series of preferred stock which will be filed with the Secretary of State of the State of Delaware and the SEC in connection with any offering of preferred stock.

Each prospectus supplement relating to a series of preferred stock may describe certain U.S. federal income tax considerations applicable to the purchase, holding and disposition of such series of preferred stock.

Exclusive Venue

Our Certificate requires, to the fullest extent permitted by law, that (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other

employees to us or our stockholders, (iii) any action asserting a claim against us arising pursuant to any provision of the General Corporation Law of the State of Delaware (the "DGCL") or our Certificate or Bylaws or (iv) any action asserting a claim against us governed by the internal affairs doctrine will have to be brought only in the Court of Chancery in the State of Delaware. Although we believe this provision benefits us by providing increased consistency in the application of Delaware law in the types of lawsuits to which it applies, the provision may have the effect of discouraging lawsuits against our directors and officers.

Anti-takeover Effects of Provisions of Our Amended and Restated Certificate of Incorporation, Our Bylaws and Delaware Law

Our Certificate and Bylaws also contain provisions that may delay, defer or discourage another party from acquiring control of us. We expect that these provisions, which are summarized below, will enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by our board of directors and discourage certain types of transactions that may involve an actual or threatened change of control. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal. The provisions also are intended to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for our shares and, as a consequence, they also may inhibit fluctuations in the market price of our shares of Class A common stock that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in our management or delaying or preventing a transaction that might benefit you or other minority stockholders.

Classified Board of Directors

Our Certificate provides that our board of directors is divided into three classes, with the classes as nearly equal in number as possible and each class serving three-year staggered terms. These provisions may have the effect of deferring, delaying or discouraging hostile takeovers, or changes in control of us or our management.

Authorized But Unissued Shares

The authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval, subject to any limitations imposed by the listing standards of the NASDAQ Global Select Market. These additional shares may be used for a variety of corporate finance transactions, acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved common stock and preferred stock could make more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Requirements for Advance Notification of Stockholder Meetings, Nominations and Proposals

Our Certificate provides that stockholders at an annual meeting may only consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of our board of directors, or by a qualified stockholder of record on the record date for the meeting who is entitled to vote at the meeting and who has delivered timely written notice in proper form to our secretary of such stockholder's intention to bring such business before the meeting. Our Certificate provides that, subject to applicable law, special meetings of the stockholders may be called only by a resolution adopted by the affirmative vote of the majority of the directors then in office or by the chairman of the board of directors, if any. Our Bylaws prohibit the conduct of any business at a special meeting other than as specified in the notice for such meeting. In addition, any stockholder who wishes to bring business before an annual meeting or nominate directors must comply with the advance notice and duration of ownership requirements set forth in our Bylaws and provide us with certain information. These provisions may have the effect of deferring, delaying or discouraging hostile takeovers or changes in control of us or our management.

Stockholder Action by Written Consent

Pursuant to Section 228 of the DGCL, any action required to be taken at any annual or special meeting of the stockholders may be taken without a meeting, without prior notice and without a vote if a consent or consents in

writing, setting forth the action so taken, is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares of our stock entitled to vote thereon were present and voted, unless our Certificate provides otherwise. Our Certificate provides that stockholder action by written consent is prohibited except as otherwise required by law.

Special Meetings of Stockholders

Our Certificate provides that, except as otherwise required by law, a special meeting of stockholders may be called only by the stockholders, the Chairman of the board of directors or the lead director.

Directors Removed Only for Cause

Our Certificate provides for the removal of directors only for cause and only upon the affirmative vote of the holders of at least 66 2/3 of the total voting power of the outstanding capital stock entitled to vote generally in the election of directors.

Amendment of Amended and Restated Certificate of Incorporation or Bylaws

The DGCL provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless a corporation's certificate of incorporation or bylaws, as the case may be, requires a greater percentage.

Pursuant to our Certificate, any amendment to the provisions thereof regarding the Bylaws, indemnification of directors, our board of directors, special meetings of stockholders, special stockholder notice provisions, special stockholder voting requirements, corporate opportunities or amendment of our Certificate requires the affirmative vote of at least 66-2/3% of the votes entitled to be cast on such matter, unless such amendment is deemed advisable by the affirmative vote of at least 75% of our board of directors, in which case such amendment requires the affirmative vote of a majority of the votes entitled to be cast on such matter.

The Bylaws may be amended or repealed by a majority vote of our board of directors or, in most cases, by the affirmative vote of the stockholders holding a majority in interest of all the votes entitled to vote upon such amendment or repeal.

Limitations on Liability and Indemnification of Officers and Directors

Our Certificate and Bylaws provide indemnification for our directors and officers to the fullest extent permitted by the DGCL. We have entered into indemnification agreements with each of our directors that, in some cases, provide indemnification provisions that are broader than the specific indemnification provisions contained under Delaware law. In addition, as permitted by Delaware law, our Certificate includes provisions that eliminate the personal liability of our directors for monetary damages resulting from breaches of certain fiduciary duties as a director. The effect of this provision is to restrict our rights and the rights of our stockholders in derivative suits to recover monetary damages against a director for breach of fiduciary duties as a director, except that a director is personally liable for:

- any breach of his duty of loyalty to us or our stockholders;
- acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- any transaction from which the director derived an improper personal benefit; or
- improper distributions to stockholders.

These provisions may be held not to be enforceable for violations of the federal securities laws of the United States.

Business Combinations

We have opted out of Section 203 of the DGCL.

Corporate Opportunities

In recognition that partners, principals, directors, officers, members, managers and/or employees of Eos Partners, L.P., Labore Et Honore LLC and Highland Consumer Partners and their affiliates and investment funds, which we refer to as the Corporate Opportunity Entities, may serve as our directors and/or officers, and that the Corporate Opportunity Entities may engage in activities or lines of business similar to those in which we engage, our Certificate provides for the allocation of certain corporate opportunities between us and the Corporate Opportunity Entities. Specifically, none of the Corporate Opportunity Entities has any duty to refrain from engaging, directly or indirectly, in the same or similar business activities or lines of business that we do. In the event that any Corporate Opportunity Entity acquires knowledge of a potential transaction or matter that may be a corporate opportunity for itself and us, we will not have any expectancy in such corporate opportunity, and the Corporate Opportunity Entity will not have any duty to communicate or offer such corporate opportunity to us and may pursue or acquire such corporate opportunity for itself or direct such opportunity to another person. In addition, if a director of our Company who is also a partner, principal, director, officer, member, manager or employee of any Corporate Opportunity Entity acquires knowledge of a potential transaction or matter that may be a corporate opportunity for us and a Corporate Opportunity Entity, we will not have any expectancy in such corporate opportunity. In the event that any other director of ours acquires knowledge of a potential transaction or matter that may be a corporate opportunity for us we will not have any expectancy in such corporate opportunity unless such potential transaction or matter was presented to such director expressly in his or her capacity as such.

Dissenters' Rights of Appraisal and Payment

Under the DGCL, with certain exceptions, our stockholders have appraisal rights in connection with a merger or consolidation of the Company. Pursuant to the DGCL, stockholders who properly request and perfect appraisal rights in connection with such merger or consolidation will have the right to receive payment of the fair value of their shares as determined by the Delaware Court of Chancery.

Stockholders' Derivative Actions

Under the DGCL, any of our stockholders may bring an action in our name to procure a judgment in our favor, also known as a derivative action; provided that the stockholder bringing the action is a holder of our shares at the time of the transaction to which the action relates or such stockholder's stock thereafter devolved by operation of law and such suit is brought in the Court of Chancery in the State of Delaware.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A. The transfer agent's address is 250 Royall Street, Canton, MA 02021 and its telephone number is (800) 884-4225.

Listing

Our common stock is listed on the NASDAQ Global Select Market under the symbol "PETQ."

List of Subsidiaries of PetIQ Inc.

Name of Subsidiary	State or Country of Incorporation or Organization
PetIQ Holdings, LLC	Delaware
PetIQ, LLC	Idaho
True Science Holdings, LLC	Florida
TruRX, LLC	Idaho
Tru Prodigy, LLC	Texas
M&C USA, LLC	Delaware
Mark and Chappell Limited	United Kingdom
Mark and Chappell (Ireland) Limited	Ireland
Prodex D.O.O.	Slovenia
HBH Enterprises, LLC	Utah
Community Veterinary Clinics, LLC dba VIP Petcare	Delaware
Pet Services Operating, LLC	Delaware
Pawsplus Management, LLC	Delaware
VIP PetCare, LLC	California
Community Clinics, Inc.	California
CVC MIP GP, Inc.	California
CVC Management Incentive Plan, LP	Delaware
Gentle Doctor (North Carolina) P.C.	North Carolina
Gentle Doctor (Texas) PLLC	Texas
Gentle Doctor (Tennessee) PLLC	Tennessee
Community Veterinary Clinics, PC	New Jersey
Community Veterinary Clinics Alabama LLC	Alabama
Sergeant’s Pet Care Products, Inc.	Nebraska

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
PetIQ, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-219455, 333-223635 and 333-231795) on Form S-8 and the registration statement (No. 333-227186) on Form S-3 of PetIQ, Inc. of our report dated March 11, 2020, with respect to the consolidated balance sheets of PetIQ, Inc. as of December 31, 2019 and 2018, the related consolidated statements of (loss) income, comprehensive (loss) income, members'/stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes, which report appears in the December 31, 2019 annual report on Form 10-K of PetIQ, Inc. Our report on the consolidated financial statements refers to a change in the method of accounting for revenue recognition as of January 1, 2018 due to the adoption of ASC Topic 606, *Revenue from Contracts with Customers,* and related amendments, and also refers to a change in the method of accounting for leases as of January 1, 2019 due to the adoption of Accounting Standard Update No. 2016-02, *Leases (Topic 842)*, and related amendments.

/s/ KPMG LLP

Boise, Idaho
March 11, 2020

Exhibit 31.1

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

I, McCord Christensen, certify that:

1. I have reviewed this Annual Report on Form 10-K of PetIQ, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: March 11, 2020

/s/ McCord Christensen

McCord Christensen
Chief Executive Officer

Exhibit 31.2

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

I, John Newland, certify that:

1. I have reviewed this Annual Report on Form 10-K of PetIQ, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: March 11, 2020

/s/ John Newland

John Newland
Chief Financial Officer

Exhibit 32.1

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

In connection with the Annual Report on Form 10-K of PetIQ, Inc. (the "Company") for the fiscal year ended December 31, 2019, 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: March 11, 2020

Exhibit 32.2

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

In connection with the Annual Report on Form 10-K of PetIQ, Inc. (the "Company") for the fiscal year ended December 31, 2019, 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: March 11, 2020