UNITED ANIMAL HEALTH, INC.

ANNUAL REPORT
with Consolidated Financial Statements

December 31, 2021

WEALTH ADVISORY | OUTSOURCING
AUDIT, TAX, AND CONSULTING

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CONTENTS

YEARS ENDED DECEMBER 31, 2021 AND 2020

CORPORATE INFORMATION

OFFICERS AND DIRECTORS

Stephen D. Biddle
Board Member

John M. Corbett
Secretary/Treasurer

Ellen S. Crabb
Chairperson of the Board

David W. Crabb
Board Member

Douglas M. Webel
President and Chief Executive Officer

Michael R. King
Managing Director, Microbial Discovery Group, LLC

John B. Swisher
Chairman Emeritus

Trenton S. Torrance
Chief Operating Officer

Greg E. Waddell
Chief Financial Officer

OTHER INFORMATION

CORPORATE ADMINISTRATIVE OFFICES

United Animal Health, Inc.
322 S. Main Street
Sheridan, IN 46069
Telephone: (317) 758-4495
Website: www.unitedanh.com

BANKING

JPMorgan Chase Bank, NA

INDEPENDENT AUDITORS

CliftonLarsonAllen LLP

LEGAL COUNSEL

Ice Miller LLP

STOCK APPRAISAL FIRM

BKD, LLP

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
United Animal Health, Inc. and Subsidiaries
Sheridan, Indiana

Unmodified Opinion on December 31, 2021 Consolidated Balance Sheet

We have audited the accompanying consolidated balance sheet of United Animal Health, Inc. and Subsidiaries as of December 31, 2021, and we were engaged to audit the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of changes in stockholders' equity, operations and cash flows for years ended December 31, 2021, and 2020 and the related notes to the consolidated financial statements.

In our opinion, the 2021 balance sheet referred to in the first paragraph presents fairly, in all material respects, the financial position of United Animal Health, Inc. and Subsidiaries as of December 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion on December 31, 2020 Consolidated Balance Sheet and Changes in Stockholders' Equity, Results of Operations, and Cash Flows for the Years Ended December 31, 2021 and 2020

We do not express an opinion on the December 31, 2020 consolidated balance sheet, results of changes in stockholders' equity, operations, and cash flows of United Animal Health, Inc. and Subsidiaries for the years ended December 31, 2021 and 2020. Because of the significance of the matter described in the Basis for Disclaimer Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations and cash flows for the years ended December 31, 2021 and 2020.

Basis for Opinion on December 31, 2021 Consolidated Balance Sheet

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of United Animal Health, Inc. and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified audit opinion on December 31, 2021 consolidated balance sheet.

Basis for Disclaimer of Opinion on December 31, 2020 Consolidated Balance Sheet and Changes in Stockholders' Equity, Results of Operations, and Cash Flows for the Years Ended December 31, 2021 and 2020

We were unable to observe the taking of physical inventories at December 31, 2020, stated at $19,079,812, because of restrictions caused by the COVID-19 global pandemic. Due to restrictions caused by the COVID-19 virus and client's decision to prohibit guests at their facilities, and we were unable to satisfy ourselves concerning inventory quantities on hand at that date by other auditing procedures. The amount of inventory materially affects the determination of the results of operations and cash flows for the years ended December 31, 2021 and 2020

Management's Responsibility for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about United Animal Health, Inc. and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement that exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of United Animal Health, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about United Animal Health, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control related matters that we identified during the audits.

Report on Supplementary Information

The accompanying supplementary information on pages 20-22 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Because of the significance of the matter discussed above in the Basis of Disclaimer for Opinion paragraph, it is inappropriate to, and we do not, express an opinion on the supplementary information referred to above.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Indianapolis, Indiana
April 19, 2022

	December 31 2021	December 31 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,837,741	$ 20,004,147
Trade accounts receivable, net	20,814,081	19,576,481
Inventories	26,292,694	19,079,812
Current derivative asset	1,827,280	1,859,490
Income tax refundable	5,747	630,527
Other current assets	4,509,618	4,016,400
Total current assets	72,287,161	65,166,857
Property and equipment, net	40,947,239	39,780,685
Investments in unconsolidated affiliates	3,784,375	3,666,319
Goodwill, net	854,452	1,087,448
Other intangible assets, net	135,385	143,384
Other assets	566,337	569,585
	$ 118,574,949	$ 110,414,278
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 12,756,572	$ 9,979,233
Accrued expenses	8,173,689	7,075,381
Current derivative liability	1,998,603	2,887,801
Total current liabilities	22,928,864	19,942,415
Long-term liabilities:		
Deferred compensation	1,808,443	1,019,931
Deferred income tax	2,158,000	2,310,000
Total liabilities	26,895,307	23,272,346
Stockholders' equity:		
Controlling interests:		
Class A common stock, voting, no par value; 3,000,000 shares authorized; 1,931,189 shares (2020; 1,953,044) issued and outstanding	10,351,093	10,455,978
Class B common stock, nonvoting, no par value; 3,000,000 shares authorized; 430,857 shares (2020; 454,320) issued and outstanding	5,837,027	5,895,216
Retained earnings	67,593,641	65,168,167
Total controlling interests stockholders' equity	83,781,761	81,519,361
Noncontrolling interests	7,897,881	5,622,571
Total stockholders' equity	91,679,642	87,141,932
	$ 118,574,949	$ 110,414,278

See accompanying Notes to Consolidated Financial Statements.

	Controlling Interests						
	Common Stock						Total
	Class A		Class B		Retained	Noncontrolling	Stockholders'
	Shares	Amount	Shares	Amount	Earnings	Interests	Equity
Balance, December 31, 2019	1,955,393	$ 10,467,248	495,486	$ 6,101,101	$ 62,960,632	$ 4,703,218	$ 84,232,199
Net income	-	-	-	-	4,104,731	2,277,353	6,382,084
Common stock issued	-	-	825	18,636	-	-	18,636
Common stock repurchased	(2,349)	(11,270)	(41,991)	(224,521)	(782,138)	-	(1,017,929)
Dividends paid ($0.458 per common share)	-	-	-	-	(1,115,058)	-	(1,115,058)
Distributions to noncontrolling interests	-	-	-	-	-	(1,358,000)	(1,358,000)
Balance, December 31, 2020	**1,953,044**	**10,455,978**	**454,320**	**5,895,216**	**65,168,167**	**5,622,571**	**87,141,932**
Net income	-	-	-	-	5,994,417	2,903,577	8,897,994
Purchase of noncontrolling interest	-	-	-	-	(247,388)	-	(247,388)
Common stock issued	-	-	1,880	77,311	-	-	77,311
Common stock repurchased	(21,855)	(104,885)	(25,343)	(135,500)	(1,505,679)	-	(1,746,064)
Dividends paid ($0.761 per common share)	-	-	-	-	(1,815,876)	-	(1,815,876)
Contributions from noncontrolling interests	-	-	-	-	-	17,733	17,733
Distributions to noncontrolling interests	-	-	-	-	-	(646,000)	(646,000)
Balance, December 31, 2021	**1,931,189**	**$ 10,351,093**	**430,857**	**$ 5,837,027**	**$ 67,593,641**	**$ 7,897,881**	**$ 91,679,642**

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
UNITED ANIMAL HEALTH, INC. AND SUBSIDIARIES

	Years Ended	
	December 31 2021	***December 31 2020***
Sales	**$ 267,554,597**	$ 227,043,882
Material costs	**182,463,534**	152,869,345
Production and operating expenses	**75,593,898**	66,640,108
Gain on sale of assets	**147,201**	20,978
Operating income	**9,644,366**	7,555,407
Income (loss) from investments in unconsolidated affiliates	**63,652**	(1,062,860)
Operating income and income from investments in unconsolidated affiliates	**9,708,018**	6,492,547
Other income (expense):		
Interest income	**199,070**	121,030
Interest expense	**(37,917)**	(59,255)
Other, net	**(84,177)**	(22,238)
Total other income	**76,976**	39,537
Income before income taxes	**9,784,994**	6,532,084
Provision for income taxes	**887,000**	150,000
Net income	**8,897,994**	**6,382,084**
Net income attributable to noncontrolling interests	**(2,903,577)**	(2,277,353)
Net income attributable to controlling interests	**$ 5,994,417**	$ 4,104,731

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
UNITED ANIMAL HEALTH, INC. AND SUBSIDIARIES

	Years Ended December 31 2021	December 31 2020
Cash flows from operating activities:		
Net income	$ 8,897,994	$ 6,382,084
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	4,935,348	4,908,650
Deferred income taxes	(152,000)	(775,000)
Provision for doubtful accounts (recoveries)	93,553	(546,365)
Equity in loss of unconsolidated affiliates, net of distributions	222,816	1,467,513
Gain on sale of assets	(147,201)	(20,978)
Unrealized (gains) losses on derivative activities	(856,988)	1,648,273
Changes in assets and liabilities, net of acquisitions and dispositions of businesses:		
Margin account deposit, net	-	723,262
Trade accounts receivable	(1,331,153)	(3,724,401)
Inventories	(7,212,882)	(4,352,332)
Income tax refundable	624,780	32,980
Other current assets	(150,121)	960,529
Accounts payable and accrued expenses	3,785,236	2,168,095
Deferred compensation	788,512	(19,659)
Net cash flows from operating activities	9,497,894	8,852,651
Cash flows from investing activities:		
Investment in property and equipment	(5,916,332)	(5,622,782)
Acquisition of patent	-	(147,384)
Contributions to unconsolidated affiliates	(590,311)	(490,809)
Proceeds from disposition of assets	202,627	140,873
Net cash flows from investing activities	(6,304,016)	(6,120,102)
Cash flows from financing activities:		
Payments to acquire common stock	(1,746,064)	(1,017,929)
Proceeds from issuance of common stock	77,311	18,636
Proceeds from Paycheck Protection Program Loan	-	6,136,594
Repayment of Paycheck Protection Program Loan	-	(6,136,594)
Noncontrolling interests' distributions	(646,000)	(1,358,000)
Noncontrolling interests' contributions	17,733	-
Purchase of noncontrolling interest	(247,388)	-
Dividends paid	(1,815,876)	(1,115,058)
Net cash flows from financing activities	(4,360,284)	(3,472,351)
Net change in cash and cash equivalents	(1,166,406)	(739,802)
Cash and cash equivalents, beginning of year	20,004,147	20,743,949
Cash and cash equivalents, end of year	$ 18,837,741	$ 20,004,147

See accompanying Notes to Consolidated Financial Statements.

1. Summary of Significant Accounting Policies

United Animal Health, Inc. and Subsidiaries (the Company) primarily manufactures, sells and distributes livestock nutrition and animal health products throughout the Midwestern United States. Through joint venture partners and sales affiliates, these products are also marketed globally.

Accounting Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventories may be included in the consolidated financial statements at net realizable values that utilize the market prices that were in effect as of the consolidated balance sheet date, which may differ from the amount ultimately realized at the time of sale. This difference may be material.

Principles of Consolidation – The consolidated financial statements include the accounts of United Animal Health, Inc. and its subsidiaries. Significant intercompany transactions and balances have been eliminated. Investments in affiliates are consolidated when the Company has a controlling financial interest represented by majority voting share or management authority and a significant capital investment. The following represents the consolidated affiliates and United Animal Health, Inc. ownership:

Subsidiary	Ownership Percentage
Continuing Entities:	
Microbial Discovery Group, LLC	70.00%
Mid-Central Products, LLC	100.00%
Pivotal Ingredients, LLC	85.00%
PrairiE Systems, LLC	95.00%
Royal Grain Properties, LLC	100.00%
Signature Farms, LLC	100.00%
Signature Farms, LP	100.00%
United - AH I, LLC	100.00%
United - AH II, LLC	75.00%
United - AH Trading, Inc.	100.00%
United Feeds Transit, Inc.	100.00%
UPPS, LLC	100.00%

The equity method of accounting is used for the Company's 50% or less owned investments over which the Company has the ability to exercise significant influence. Under the equity method, the Company's investment in affiliates is carried at cost, adjusted for the Company's proportionate share of the affiliates' income or loss. Losses are recorded to the extent of the carrying value of the investment unless the Company has or may be obligated to provide additional support to the investee. For the purposes of the statement of cash flows, the Company uses the cumulative earnings approach for reporting distributions from equity method investments. Under this approach the distributions are treated as returns on investment and classified as cash inflows from operating activities to the extent that cumulative distributions do not exceed the cumulative equity in earnings recognized from the related equity method investment.

1. Summary of Significant Accounting Policies (Continued)

Principles of Consolidation (Continued) – The following represents the Company's investments carried on the equity method:

Investee	Ownership Percentage
Continuing Entities:	
Apex Pork, LLC	50.00%
JBS Vland Life Sciences, LLC	50.00%
LeeO Precision Farming B.V.	50.00%
Shandong United Animal Nutrition Company, Ltd	33.40%
Superior Milling, LLC	50.00%

The Company has another investment that consists of a less than 1.00% interest in Presidio Holdings, LTD. It does not have a readily determinable fair value and management has elected to carry it on the cost method.

Cash and Cash Equivalents – The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Inventory Valuation Methods – Feed and ingredients inventories are valued at the lower of last in-first out (LIFO) cost or market. Farm-site feed and truck parts are valued at the lower of first in-first out (FIFO) cost or net realizable value. Hogs are valued at the lower of average cost or net realizable value. The net realizable value of hogs requires estimating the expected selling prices of hogs and the related costs of finishing and disposal in the ordinary course of business.

Revenue Recognition – The Company principally generates revenue from the sale of manufactured animal feeds, feed ingredients, and related merchandise. The Company follows a policy of recognizing revenue at a single point in time when it satisfies its performance obligation by transferring control over a product or service to a customer in accordance with the transfer of control guidance of Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (Topic 606). Revenue is measured based on the consideration specified in the contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. The majority of the Company's contracts with customers have one performance obligation and a contract duration of one year or less.

The pricing and payment terms for contracts are based on the Company's standard terms and conditions or the result of specific negotiations with each customer. Contracts do not contain a significant financing component as the Company's standard terms and conditions generally require payment within 30 days from the invoice date. Customers do not have the right to return products unless damaged or defective. Revenue is recorded, net of sales incentives, and includes shipping and handling charges billed to customers. Shipping and handling costs are treated as fulfilment costs and are primarily classified as a part of production and operating expenses.

The timing of revenue recognition, billings, and cash collections results in receivables, contract assets, and contract liabilities. Accounts receivables are recorded when the right to consideration becomes unconditional and are presented separately in the balance sheets. The Company did not have significant contract assets or contract liabilities as of December 31, 2021 and 2020.

Margin Accounts – At times, the Company has margin accounts comprised of futures contract margin account deposits. These cash deposits are valued at cost, which approximates market. When the value of open derivative contracts decrease, the Company may be required to post margin deposits with brokers to cover a portion of the decrease. Conversely, when the value of open derivative contracts increase, brokers may be required to deliver margin deposits to the Company for a portion of the increase. The net collateral position is recorded within margin account deposits or accounts payable depending on whether the net position is an asset or liability.

1. Summary of Significant Accounting Policies (Continued)

Trade Accounts Receivable – Accounts receivable are uncollateralized customer obligations which generally require payment within 30 days from the invoice date. Accounts receivables are stated at the invoice amount. Unpaid accounts over 30 days old bear interest at 1% per month but interest is not recorded as income until collected.

Account balances over 60 days old are considered delinquent, unless specific payment terms provide otherwise. Payments of accounts receivable are applied to the specific invoices identified on the customer's remittance advice or, if unspecified, to accrued interest, then to the earliest unpaid invoices. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts consists of the total balance of all delinquent accounts. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts.

Property and Equipment – Property and equipment is stated at cost and includes the cost of significant expenditures which substantially increase the useful lives of existing property and equipment. Construction in progress included as part of property and equipment in the financial statements includes deposits under contracts for long-lead-time assets. Repairs and minor replacements are expensed as incurred. Depreciation of property and equipment is calculated using straight-line and accelerated methods over estimated useful lives as follows:

Buildings and production equipment	7 to 50 years
Transportation equipment	3 to 7 years
Office equipment	5 to 15 years

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Goodwill and Other Intangible Assets – Goodwill represents the excess of the purchase price of the net assets of acquired businesses over their estimated fair value. The Company amortizes goodwill over a ten-year period. Goodwill is reviewed for potential impairment if a triggering event occurs that indicates the Company’s fair value may be below its carrying value. When impairment is likely, the Company calculates goodwill impairment as the amount the Company’s carrying value including goodwill exceeds its fair value.

Other intangible assets consist of patents, exclusive licenses of patentable technology and an intellectual property sub-license agreement. Costs incurred to acquire exclusive licenses of U.S. patentable technology and to apply for and obtain U.S. patents on internally developed technology are capitalized and amortized using the straight-line method. Exclusive licenses and the intellectual property sub-license are amortized over the contractual life or useful life of the license, whichever is less, and internally developed patents are amortized over the shorter of the useful or legal life of the patent.

Derivative Financial Instruments – All derivatives are reflected at their fair value and are recorded as current assets or current liabilities in the consolidated balance sheet. The Company uses commodity futures and forward contracts to reduce its exposure to various commodity market risks. Contracts that are designated and highly effective at reducing the identified risks are recorded using hedge accounting.

If a derivative instrument qualifies as a hedge under accounting standards, changes in the fair value of the instrument will either be offset against the change in fair value of the hedged asset, liability, or firm commitment through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings depending on the nature of the hedge. The ineffective portion of the hedging instrument’s change in fair value will be recognized in earnings immediately. Derivatives that the Company holds as part of its risk management activities that do not meet the criteria for hedge accounting are marked to fair value with unrealized gains and losses reported currently in earnings.

1. Summary of Significant Accounting Policies (Continued)

Income Taxes – Deferred income taxes are provided on temporary differences between financial statement and income tax reporting. Temporary differences are differences between the amounts of assets and liabilities reported for financial statement purposes and their tax bases.

Deferred tax assets are recognized for temporary differences that will be deductible in future years' tax returns and for operating loss and tax credit carryforwards. Deferred tax assets are recognized only if it is more likely than not that a tax position will be realized or sustained upon examination by the relevant taxing authority. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information.

Deferred tax assets are reduced by a valuation allowance if it is deemed more likely than not that some or all of the deferred tax assets will not be realized. Deferred tax liabilities are recognized for temporary differences that will be taxable in future years.

Foreign Currency – Significant foreign currency translation adjustments for investments in foreign operations are translated into U.S. dollars at the year-end rate of exchange and the statements of operations effect is translated at the weighted average exchange rates for the year. Any resulting translation adjustments are recognized in accumulated other comprehensive income. The translation adjustment has not been material to date.

Research and Development Costs – Research and development costs, including costs incurred on contract research, are charged to expense when incurred and are included in production and operating expenses. Total research and development expenses approximated $8,109,000 and $7,008,000 for the years ended December 31, 2021 and 2020, respectively.

Advertising – The Company expenses advertising costs as incurred.

Stock Appreciation Rights – The Company has elected the intrinsic value method for its share based payment plans that will likely be settled with cash payments.

New Accounting Standards – In February 2016, the Financial Accounting Standards Board issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the leasing activities. The standard is effective for fiscal years beginning after December 15, 2021, and early adoption is permitted. The Company is evaluating the impact of the amended lease guidance on its consolidated financial statements.

Subsequent Events – Management evaluated subsequent events through April 19, 2022, the date the consolidated financial statements were available to be issued.

2. Acquisitions and Divestitures

In the year ended December 31, 2021 the Company contributed $85,000 in exchange for an 85% ownership in a newly formed entity, Pivotal Ingredients, LLC. Also, during 2021, the Company purchased an additional 38% of a subsidiary, PrairiE Systems for $247,388.

3. Unconsolidated Affiliates

The Company has several investments in less than majority owned operations that are accounted for on the equity method. Investments in affiliates in which the Company has insignificant ownership and has little ability to exert significant influence over the affiliate are carried on the cost method.

3. Unconsolidated Affiliates (Continued)

The condensed results of operations and financial positions of these unconsolidated affiliates and their impact on the consolidated financial statements are summarized below.

	2021	2020
Net sales	$ 37,477,405	$ 37,306,109
Expenses	37,081,803	38,371,531
Net income	395,602	(1,065,422)
Company's share of net income (loss)	$ 63,652	$ (1,062,860)

	2021	2020
Current assets	$ 8,408,178	$ 8,580,590
Non-current assets	2,451,541	2,091,859
Current liabilities	1,771,222	2,352,715
Non-current liabilities	551,345	-
Net equity	8,537,152	8,319,734
Company's share of net equity	$ 3,748,375	$ 3,630,319
Investments carried at cost	$ 36,000	$ 36,000

4. Trade Accounts and Notes Receivables

.	2021	2020
Trade accounts receivable	$ 21,475,081	$ 20,280,481
Doubtful accounts allowance	(661,000)	(704,000)
Net trade accounts receivable	$ 20,814,081	$ 19,576,481
Trade notes receivable	$ 253,206	$ 259,994
Doubtful accounts allowance	(253,206)	(259,994)
Net trade notes receivable	$ -	$ -

	2021	2020
Bad debt expense (recovery)	$ 93,553	$ (546,365)

The Company has non-trade notes receivable from customers that have no maturity date. The notes are uncollateralized and do not earn interest. During the year presented, the Company did not record any impairment losses related to these notes. The balance of the notes at December 31, 2021 amounts to $102,688 (2020; $102,938), which is included in other assets in the consolidated balance sheet.

5. Inventories

	2021	2020
Feed and ingredients	$ 34,220,189	$ 25,084,498
Hogs	1,651,000	1,483,500
Farm-site feed	273,860	215,497
Truck parts and other	270,445	257,397
	36,415,494	27,040,892
Less LIFO reserve for feed and ingredients	(10,122,800)	(7,961,080)
	$ 26,292,694	$ 19,079,812

Use of the LIFO method decreased operating income by $2,161,720 and $188,127 in the years ended December 31, 2021 and 2020, respectively.

6. Property and Equipment

	2021	2020
Land	$ 1,982,190	$ 1,094,456
Buildings and production equipment	67,500,070	65,684,472
Transportation equipment	10,010,990	10,367,290
Office equipment	7,811,237	7,737,649
Construction in progress	4,980,471	2,258,174
	92,284,958	87,142,041
Less accumulated depreciation	51,337,719	47,361,356
Net property and equipment	$ 40,947,239	$ 39,780,685

Total depreciation expense was $4,694,352 and $4,671,653 in the years ended December 31, 2021 and 2020, respectively.

7. Goodwill and Other Intangible Assets

The following is a summary of goodwill activity:

	Gross Amount	Accumulated Amortization	Accumulated Impairment Losses	Net Amount
Balance at December 31, 2019	$ 4,840,656	$ (3,379,830)	$ (140,381)	$ 1,320,445
Amortization expense	-	(232,997)	-	(232,997)
Balance at December 31, 2020	4,840,656	(3,612,827)	(140,381)	1,087,448
Amortization expense	-	(232,997)	-	(232,996)
Balance at December 31, 2021	$ 4,840,656	$ (3,845,824)	$ (140,381)	$ 854,452

The following is a summary of other intangibles:

	2021	2020
Patents and licensed technology	$ 2,026,493	$ 2,026,493
Less accumulated amortization	1,891,108	1,883,109
Net amortizable intangibles	$ 135,385	$ 143,384

7. Goodwill and Other Intangible Assets (Continued)

Total amortization expense of goodwill and intangible assets was $240,996 and $236,997 in the years ended December 31, 2021 and 2020, respectively. The Company estimates that amortization expense of intangible assets for subsequent years will be as follows:

Year Ending December 31,	Amount
2022	$ 240,996
2023	240,996
2024	240,996
2025	163,459
2026	8,000
Later years	95,390
Total	$ 989,837

The intangible assets subject to amortization have a weighted average useful life of approximately five years.

8. Income Taxes

The provision for income taxes differs from the amount computed by applying the federal statutory rate of 21% to income before income taxes for the following reasons:

	2021	2020
Provision for federal income tax at statutory rates	$ 2,054,900	$ 1,371,700
State income taxes, net of federal benefit and state research credits	(45,000)	(5,500)
Effect of federal research tax credits	(529,600)	(335,400)
Tax effect of noncontrolling interest partnership income	(609,800)	(478,300)
Nondeductible expenses	39,800	51,400
Prior period over accruals	-	(414,000)
Other	(23,300)	(39,900)
Income tax provision	$ 887,000	$ 150,000

The provision for income taxes consists of:

	2021	2020
Current:		
Federal	$ 860,000	$ 568,000
State	179,000	357,000
	1,039,000	925,000
Deferred:		
Federal	84,000	(411,000)
State	(236,000)	(364,000)
	(152,000)	(775,000)
	$ 887,000	$ 150,000

8. Income Taxes (Continued)

The deferred benefit consists of:

	2021	2020
Inventory valuation	$ 43,000	$ (96,000)
Accelerated depreciation	383,000	153,000
Bad debt allowance	(29,000)	248,000
Property tax accruals	1,000	(2,000)
Pass-through entities	230,000	100,000
Interest limitation carryover	(325,000)	(776,000)
Goodwill	(5,000)	(6,000)
Vacation liability	17,000	27,000
Deferred compensation	(116,000)	36,000
Deferred profit on intra-company sales	(186,000)	(320,000)
State NOL carryforwards	4,000	(3,000)
State credit carryforward	(167,000)	(148,000)
Federal credit carryforward	-	15,000
Other deferrals	(2,000)	(3,000)
	$ (152,000)	$ (775,000)

Deferred tax assets and liabilities are summarized as follows:

	2021	2020
Gross deferred assets:		
Bad debt allowance	$ 174,000	$ 145,000
Inventory	1,472,000	1,329,000
Property tax accruals	11,000	12,000
Accrued vacation	43,000	60,000
Interest limitation carryover	2,250,000	1,925,000
Deferred compensation	217,000	101,000
State NOL carryforward	32,000	36,000
State credit carryforward	945,000	778,000
Federal credit carryforward	19,000	19,000
Other deferrals	24,000	25,000
	5,187,000	4,430,000
Gross deferred liabilities:		
Pass-through entities	(1,788,000)	(1,558,000)
Accelerated depreciation	(5,550,000)	(5,173,000)
Other deferrals	(7,000)	(9,000)
	(7,345,000)	(6,740,000)
Net deferred tax liability	$ (2,158,000)	$ (2,310,000)

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states. With few exceptions, the Company is no longer subject to federal, state, and local income tax examinations by tax authorities for years before 2018.

9. Debt

The Company has a line of credit available as follows:

JPMorgan Chase Bank, NA:	2021	2020
Line of credit amount	$ 5,000,000	$ 5,000,000
Outstanding balance	$ -	$ -
Maturity date	February 2022	February 2022

The interest rate on the line of credit is at a Company option of the Eurodollar rate plus a credit spread of 1.75% or Prime plus a credit spread of 0.00%.

The JPMorgan Chase Bank, NA line of credit is secured by substantially all assets of the Company, and is subject to certain restrictive covenants. Management believes the Company is in compliance with all such debt covenants at December 31, 2021. Costs of obtaining financing or refinancing consist of bank fees and legal fees to draft and review loan documents and are capitalized as deferred charges and amortized over the life of the related financing agreement.

In March of 2022, the company entered into a new line of credit agreement with JP Morgan Chase Bank which matures February 28, 2024. The credit limit on the new line of credit is $20,000,000 at a Company option interest rate of Secured Overnight Financing Rate plus 1.75% or CB floating rate (greater of Prime or 2.50%). The line of credit is secured by substantially all assets of the Company and is subject to certain restrictive covenants.

10. Retirement and Deferred Compensation Plans

The Company sponsors a 401(k) salary reduction plan that covers substantially all of its employees. The Company's contributions allow participants to earn a maximum match of 5% at an employee contribution rate of 5%. Total matching contributions for the year ended December 31, 2021 amounted to approximately $1,322,000 (2020; $1,337,000). Participants own Company shares in their 401(k) accounts with an aggregate appraised value of $3.4 million at December 31, 2021. The Company is obligated to repurchase the shares of its stock offered for sale by participants of the 401(k) Plan.

The Company has an irrevocable non-qualified deferred compensation plan for certain members of senior management whose purpose of the plan is to facilitate the transition of its participants into retirement. The plan has two components: the first is a fixed amount of post-retirement compensation based on each participant's salary at retirement; the second is a stock appreciation rights (SAR) plan, which allows additional post-retirement compensation based on appreciation in the Company's stock price. The plan is unfunded. Liability is recognized on the fixed portion of the plan at the time each participant meets all age and service requirements to receive payments. Liability is recognized on the SAR portion of the plan when the relevant stock price is determined, which indicates the prerequisite price appreciation. The accrued liability for the plan was $408,443 at December 31, 2021 (2020; $530,356). Plan expense recognized during the year ended December 31, 2021 was $48,702 (2020; $45,767). Consolidated entity UAH-II has a similar deferred compensation plan for one retired executive to be paid out in equal installments over the first five years of the individual's retirement. The accrued liability for the plan was $300,000 at December 31, 2021 (2020; $400,000).

United Animal Health, Inc. Stock Appreciation Rights Plan (the "Plan") was created January 1, 2019, with the purpose of providing an incentive to selected employees and Advisors of United Animal Health Inc., and its successors and Affiliates, by providing them an opportunity to earn long-term incentive compensation, based upon assumed increases in the value of the Company, so that they shall have an increased incentive to work towards the attainment of the long-term growth and profit objectives of the Company. The Company accounts for the Plan under ASC 718 - Stock Compensation. Under the Plan, the maximum number of stock appreciation right units (SAR), which may be granted under this plan, is limited to 100,000 shares or 5% of the Company common stock, whichever is less. Each SAR represents the contingent right to receive a cash payment from the Company based upon appreciation of the Company's stock during the performance period of an award. SAR awarded have performance periods from three to eighteen years and except for instances of separation of service by reason of death or disability, or a change in control, require the participant to be employed as of the end of the performance period to vest.

10. Retirement and Deferred Compensation Plans (Continued)

Compensation expense is recognized pro-rata over the remaining performance period based on the years of service rendered by the participants out of the total performance period. The accrued liability for the Plan was $1,100,000 at December 31, 2021 (2020; $260,190). Plan expense recognized during the year ended December 31, 2021 was $839,810 (2020; $105,190). At December 31, 2021, 40,000 SAR units (2020; 30,000 SAR units) were issued and outstanding. No units had vested at the end of either year.

11. Supplemental Cash Flows Information

Cash paid (refunded) during the year for:

	2021	2020
Interest	$ 41,917	$ 55,255
Income taxes	5,432	(171,734)

12. Financial Instruments

The Company is exposed to market risk, such as changes in commodity prices and interest rates. To manage volatility associated with these exposures, the Company routinely enters into various derivative transactions in accordance with established Company policies.

Commodity Price Management – The Company offers its customers a program involving forward purchase contracts to assist them in managing the risk associated with changing feed input prices. The Company generally, in turn, will enter into exchange-traded derivative instruments and forward purchase contracts with suppliers to hedge its net exposure to price changes under such arrangements. These derivative instruments have not been designated as fair value hedges. The gains and losses on these contracts are included in material costs.

The following tables present the gross fair values of the Company's derivative assets and liabilities as of December 31, 2021 and 2020:

2021

Derivative Instrument	Assets	Liabilities
Commodity derivatives	$ 1,827,280	$ 1,998,603

2020

Derivative Instrument	Assets	Liabilities
Commodity derivatives	$ 1,859,490	$ 2,887,801

The gains (losses) for derivatives recognized in the Company's consolidated statement of operations for the year ended December 31, 2021 and 2020 were as follows:

2021

Derivative Instrument	Location	Amount
Commodity derivatives	Sales	$ -
Commodity derivatives	Material costs	(811,099)

2020

Derivative Instrument	Location	Amount
Commodity derivatives	Sales	$ -
Commodity derivatives	Material costs	101,566

13. Fair Value of Financial Instruments

In determining fair value, the Company uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

The framework establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The framework defines levels within the hierarchy based on the reliability of inputs as follows:

- Level 1—Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2—Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and,
- Level 3—Valuations derived from valuation techniques in which one or more significant inputs or value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

Following is a description of the valuation methodologies used for instruments measured at fair value and their classification in the valuation hierarchy.

Derivatives and Hedging Contracts – The fair value of exchange-traded futures contracts are valued based on quoted market prices listed on a national market or exchange. Such contracts are classified within Level 1 of the valuation hierarchy.

Purchase and Sales Contracts – The Company's purchase and sales contracts consist of forward purchase and sales commitments. The fair value for the purchase and sales contracts was determined using quoted market prices from the Chicago Board of Trade (CBOT) for the specific commodity, adjusted for buy or sales basis, determined by the delivery terms and location of the contract and is designated as Level 2 within the valuation hierarchy.

The following table presents assets and liabilities measured at fair value on a recurring basis by classification within the fair value hierarchy as of December 31, 2021 and 2020:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
2021				
Assets:				
Futures contracts	$ 1,827,280	$ -	$ -	$ 1,827,280
Liabilities:				
Purchase and sales contracts	$ -	$ 1,998,603	$ -	$ 1,998,603
2020				
Assets:				
Futures contracts	$ 1,859,490	$ -	$ -	$ 1,859,490
Liabilities				
Purchase and sales contracts	$ -	$ 2,887,801	$ -	$ 2,887,801

There were no realized and unrealized gains and losses applicable to instruments valued using significant unobservable inputs (Level 3) included in net income for the years presented.

14. Commitments and Contingencies

Environmental Matters – All of the Company's past and present operations involve inherent risks of polluting the environment with the uncontrolled release of dust and other particles and the possible introduction of animal wastes into the water supply. These emissions could occur in amounts that exceed acceptable standards established by federal and state environment regulatory agencies and could result in remediation costs and fines being assessed against the Company.

Royalty Commitments – The Company has an agreement with a third party whereby the Company will pay a royalty on net sales of a product made to certain territories, as defined in the agreement. The Company was required to make a prepayment of royalties and other costs upon execution of the agreement. Future royalty payments owed by the Company will be charged against this amount as sales occur.

Operating Leases – In connection with the agreement to provide management services for an integrated producer, the Company is obligated under several lease agreements with various third-party swine producers. Building rent expense under these leases for the year ended December 31, 2021 was approximately $14,635,000 (2020; $13,623,000), substantially all of which was reimbursed through subleasing arrangements.

The Company also leases office space and warehouses with a third-party. Building rent expense under these leases for the year ended December 31, 2021 was approximately $566,000 (2020; $465,000)

Future minimum rental payments exclusive of subleases for the remaining term of operating leases are as follows:

Year Ending December 31,	Integrated Producer Leases	Other Leases
2022	$ 15,258,839	$ 559,662
2023	11,286,523	573,049
2024	9,955,583	586,758
2025	6,374,333	600,798
2026	3,334,475	615,176
Thereafter	2,699,508	1,174,898
Total	$ 48,909,261	$ 4,110,341

The Company's production management contract with the integrated producer, which can be canceled with a year's notice, provides for reimbursement of the above lease commitments.

Concentrations – The Company grants credit to livestock producers and distributors of livestock nutrition and animal health products globally. The Company generally does not require collateral on trade receivables and its customers' ability to honor those debts is dependent on the agribusiness economic sector.

The Company seeks to simplify its cash management activities by concentrating its cash deposits in selected financial institutions. At times, cash on deposit may be in excess of the available insurance limits.

15. Related Party Transactions

The Company routinely makes sales and purchases with unconsolidated affiliates and other entities related by common ownership. The amount of such sales were approximately $1,886,000 for the year ended December 31, 2021 (2020; $1,653,000). The amount of such purchases was approximately $135,000 for the year ended December 31, 2021 (2020; $99,000).

16. Self-Insured Plan

The Company provides medical benefits to its employees through a combination of self-insurance and a high-deductible insurance policy administered by a third party. Under its self-insurance plan, the Company accrues the estimated expense of health care claims costs based on claims filed subsequent to year-end and an additional amount for incurred but not yet reported claims based on prior experience. Claim payments based on actual claims ultimately filed could differ materially from these estimates. Claims incurred but not reported amounted to $752,000 at December 31, 2021 (2020; $1,101,000), and is included on the consolidated balance sheet. The Company purchases insurance policies to limit its risk from exposure to excessive medical claims cost.

FINANCIAL HIGHLIGHTS

(Amounts in thousands, except percentage information)

		2021		2020
Results of Operations				
Net sales	**$**	**267,555**	$	227,044
Operating income before depreciation and amortization		**14,580**		12,464
Operating income		**9,644**		7,555
Net income attributable to United Animal Health		**5,994**		4,105
At Fiscal Year-End				
Working capital	**$**	**49,358**	$	45,224
Total assets		**118,575**		110,414
Interest bearing debt		**-**		-
Stockholders' equity attributable to United Animal Health		**83,782**		81,519
Performance Information				
Operating income as a percent of sales		**3.6** %		3.3 %
Annual return on investment to stockholders		**44.0** %		56.6 %

SCHEDULES OF OPERATING INCOME AND INCOME FROM INVESTMENTS IN UNCONSOLIDATED AFFILIATES SUMMARY BY PROFIT CENTER

	Years Ended	
	December 31 2021	*December 31 2020*
Division and Segment		
United Animal Health Nutrition	$ 25,716,624	$ 22,562,141
Microbial Discovery Group	9,222,605	7,574,099
Intercompany profit in inventory	(765,292)	(1,144,700)
PrairiE Systems	(132,710)	(444,457)
United - AH II (Ovugel)	(486,114)	(848,151)
Pivotal Ingredients	940,596	-
United - AH Trading	538,076	176,519
Signature Farms	157,669	171,244
United Pig Placement Services	57,761	106,326
Mid-Central Products	176,747	55,061
Subtotal	35,425,962	28,208,082
R & I Tech Support	(7,344,008)	(5,774,682)
R & I Farms	(926,963)	(2,568,373)
Hedging (R&I & Apex)	(1,059,510)	-
Human Resources	(942,617)	(796,437)
Information Technology	(911,995)	(698,228)
Finance	(1,581,619)	(1,389,645)
Legal	(345,199)	(260,492)
Audit & Tax	(308,977)	(268,546)
Professional Services - Other	(207,797)	(174,564)
Product Management	(1,829,145)	(1,239,420)
Business Development	(684,002)	(888,420)
Marketing	(1,780,374)	(894,991)
Charitable Contributions	(132,092)	(169,934)
Employee Benefit Plan	(524,378)	(954,179)
Other	(5,188,401)	(4,407,615)
LIFO Adjustment	(2,161,720)	(188,127)
Subtotal	(25,928,797)	(20,673,653)
Gain on sale of assets	147,201	20,978
OPERATING INCOME	**9,644,366**	**7,555,407**
JBS Vland Life Sciences	-	(10,750)
LeeO Precision Farming	(241,371)	(290,217)
Shandong United Animal Nutrition	211,354	342,840
Apex Pork	97,046	(1,281,389)
Superior Milling	(3,377)	176,656
INCOME (LOSS) FROM INVESTMENTS IN UNCONSOLIDATED AFFILIATES	**63,652**	**(1,062,860)**
OPERATING INCOME AND INCOME FROM INVESTMENTS IN UNCONSOLIDATED AFFILIATES	**$ 9,708,018**	**$ 6,492,547**

(Amounts in thousands)

	Quarter				
	First	Second	Third	Fourth	Year
Year Ended December 31, 2021					
Sales	$ 67,362	$ 68,695	$ 64,416	$ 67,082	$ 267,555
Net income (loss) attributable to controlling interest	1,046	3,674	1,426	(152)	5,994
Year Ended December 31, 2020					
Sales	$ 56,770	$ 52,250	$ 55,433	$ 62,591	$ 227,044
Net income attributable to controlling interest	51	2,056	366	1,632	4,105

The information presented above has been derived from the Company's unaudited quarterly consolidated financial statements.

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