U.S. PREMIUM BEEF®

2021 ANNUAL REPORT

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Ashland, Kansas

Joe Morgan, *Vice Chairman*
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Scott Miller
Chief Financial Officer

Danielle Imel
Senior Vice President & Treasurer

Brian Bertelsen
Vice President Field Operations

Tracy Thomas
Vice President Marketing

Lisa Phillips
Director of Operations

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MESSAGE TO UNITHOLDERS

Fiscal year 2021 will be remembered as an excellent year in terms of financial performance, cattle deliveries and grid results. Adversity oftentimes helps usher in opportunity. Certainly, this rings true as U.S. Premium Beef, LLC (USPB) begins its 25th year of operations. To sum up 2021, we are reminded of a quote from the late, great John Wayne: "Life is getting up one more time than you've been knocked down." At this time last year, we all expected to return to what we experienced prior to the onset of COVID-19 in early 2020. During 2021, the pandemic continued to affect personal and business life, both in the U.S. and abroad. It will be difficult to define and determine what "normal" might look like going forward. Perhaps the only sure thing is constant change. As we reflect on 2021, our message is to remember to maintain our focus.

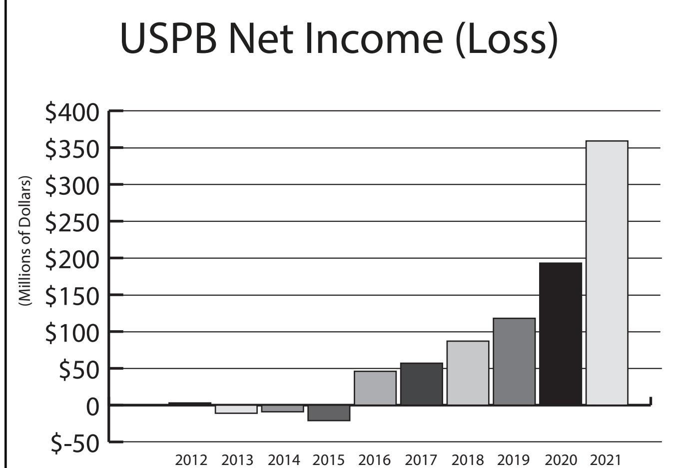
The USPB staff and board of directors have never lost sight of this fact, and realize our company is based on the cornerstone of ownership, market access, quality-based grid premiums and individual carcass data. Our mission statement still serves us very well: *"To increase the quality of beef and long-term profitability of cattle producers by creating a fully integrated producer-owned beef processing system that is a global supplier of high quality value-added beef products responsive to consumer desires."*

As the beef industry works through political issues, we understand the importance of being informed, and informing others. Many challenging issues and introduced bills in Congress have been described that are not necessarily positive for Alternative Marketing Arrangements (AMAs). The opportunities experienced in 2021 also highlight the importance of remaining focused, making necessary changes and continuing to listen to what consumers are telling us. Demand at the consumer level for beef products has recently experienced a 30-year high. Grid premiums for USDA Prime products were the second highest in company history. The USDA Choice/Select spread, and branded products such as Certified Angus Beef (CAB) were record high in 2021.

The challenges and havoc COVID-19 caused the beef industry is well documented. USPB staff work daily with our colleagues at National Beef Packing Company, LLC (NBP) to raise the right high-quality cattle so they can market the right product, to the right customer, for the right price, at the right time.

NBP profitability continued to improve in fiscal year 2021. In fiscal year 2021, NBP's profitability increased to a record high of $2,421.7 million, a substantial increase over the $1,324.9 million of net income recognized in 2020. The combined effects of increased margin per head and an increase in volume led to higher profitability in 2021 as compared to 2020. The improvement in NBP's net income significantly impacted USPB. In 2021, USPB realized net income of $359.5 million, an improvement of $166.8 million over the prior fiscal year.

Figure 1



The improved financial results enabled USPB to make substantial distributions to its members in 2021. In total, USPB distributed $227.5 million ($85.2 million in discretionary distributions and $142.3 million in tax distributions). On a per unit basis, USPB distributed $301.94 per combined Class A and Class B unit. At fiscal year-end, USPB's balance sheet remained strong, which positions the organization well for the future.

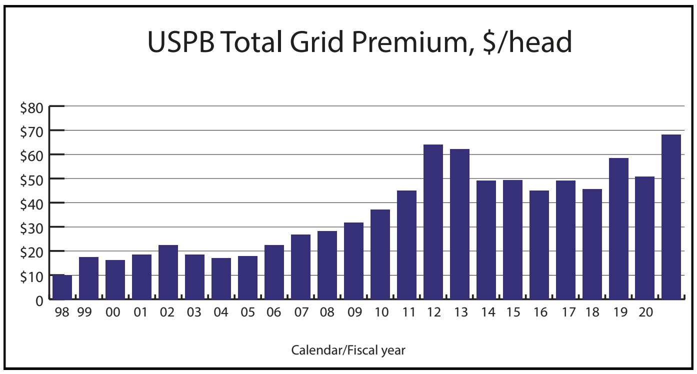
CATTLE PERFORMANCE SUMMARY

Once again, ownership of USPB delivery rights proved extremely beneficial for cattle feeders to have market access for finished cattle.

USPB grid premiums were especially strong during 2021 for higher quality cattle, particularly in the second half of the year. High-quality cattle that were managed well experienced favorable premiums on the USPB value-based grid, setting new records. Cattle delivered on the USPB grid with superior genetics for carcass traits were well rewarded and captured record-high premiums. Even with high feed costs, quality grade rewards justified keeping cattle on feed longer.

USPB's quality-based grids have always recognized and provided a means to market value-based finished cattle. Fiscal year 2021 was no exception. USPB cattle marketed to NBP's Kansas plants during the year earned a record average premium of $65.82 per head more than if they were marketed on the average cash, live market, as indicated in Figure 2. This was $15.05 per head more than the average during 2020. An impressive 140,598 head of cattle were in lots that captured over $100/head premiums on the USPB grid. Of those, 10,237 head were in lots with premiums of $200/head or greater.

Figure 2



Average Prime premium for the year was the second highest in company history. During the week ending Nov. 6, the USPB grid offered a Prime premium of $49.86/cwt — the highest weekly premium in company history. Average premium for the Choice/Select spread, shown in Figure 3, was record high during 2021.

Figure 3

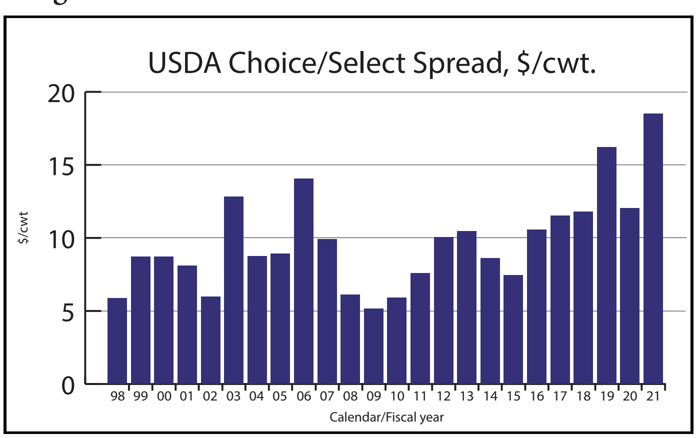
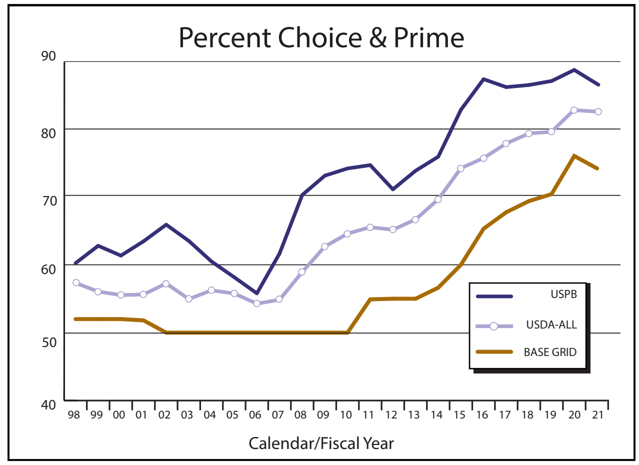


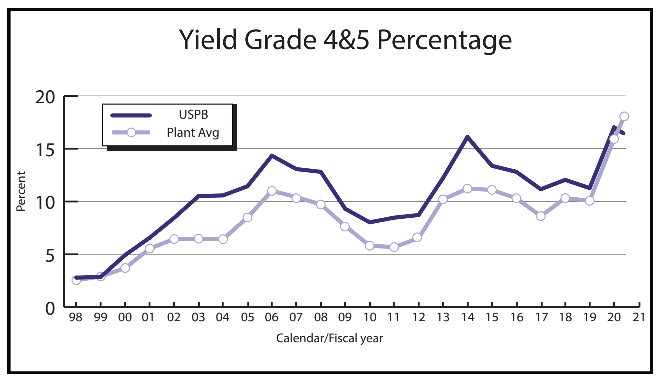
Figure 4 shows the annual Choice and Prime averages for USPB cattle, the total industry and the threshold on the USPB base grid.

Figure 4



Yield Grade 4 and 5 percentage decreased slightly from the previous year, yet remained the fourth highest in USPB history. During 2020, decreased slaughter capacity at packing plants during the pandemic caused a backlog of market-ready cattle, resulting in increased yield grades, or fatter cattle. Figure 5 shows the Yield Grade 4 and 5 percentage for USPB cattle and plant average used on the grid. Cattle purchased by NBP that make up the plant average, or thresholds, on the grid increased in percentage of Yield Grade 4 and 5 carcasses to a new record high. As a result, USPB cattle had a record yield grade premium per head.

Figure 5



Fiscal year 2021 marks the second year of harvesting cattle on the USPB grid at the NBP plant in Tama, Iowa. There are several key differences between the Tama and Kansas grids. The Tama grid is specific to the market in the region, and represents different cattle, harvested at a different plant, on a different grid. The Tama plant only accepts black-hided cattle. USPB cattle on the Tama grid compares back to a dressed delivered price in Iowa and Minnesota instead of a live price at the feedyard in Kansas.

The total volume of cattle delivered to Tama increased 261% from the previous year. With this increase, a record number of total cattle were delivered to all plants in fiscal year 2021. During 2021, USPB cattle delivered to Tama improved slightly in quality grade. Prime, Choice and Prime, and CAB percentages were all numerically higher than the previous year. This is impressive when compared to national averages of all USDA-graded cattle within the entire industry, which had a slight numeric decrease from the previous year.

Figure 6 shows the Choice and Prime percentage of all cattle delivered on the Iowa grid, the Kansas grid and the overall industry average reported by USDA. Prime percentage is shown in Figure 7. The superior quality grades of cattle delivered on the Iowa grid was extremely valuable with the strong premiums in the marketplace. Prime is especially impactful on the Iowa grid. Those high rewards and superior grading resulted in an average quality grade premium that was nearly $40/head more than the previous year.

Figure 6

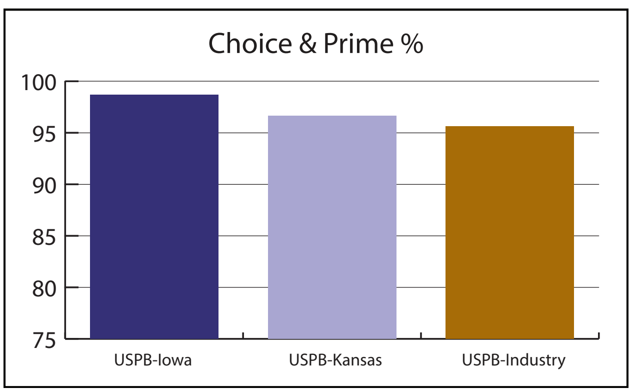
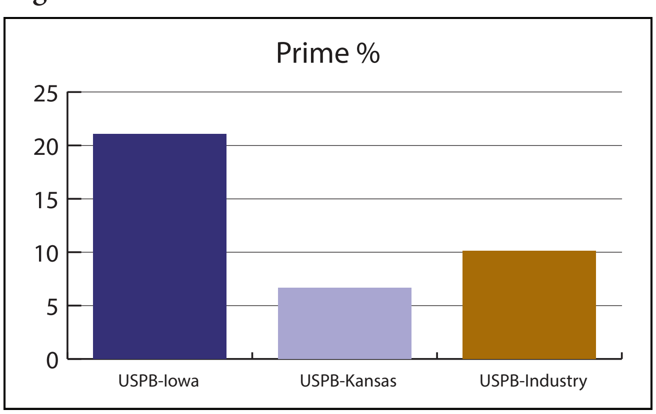


Figure 7



The average overall premium improved almost $36, and the top 25% improved an impressive $69/head to average $136.23/head on the Iowa grid. Even though the industry now has higher quality grades in recent years, the rewards in the marketplace were even larger in 2021. Consumer demand for high-quality grading beef continued to provide producers incentive for improving quality.

STATE OF THE INDUSTRY

Data from CattleFax in charts 1-6 provide an observation of the current state of the beef industry. Although many of the effects of COVID-19 from 2020 continued into 2021, demand at the consumer level was strong. The data in Chart 1 is a retail beef demand index, taking into consideration such factors as price of various products at various times of the year, quality grade and consumer willingness to purchase specific products. The chart confirms demand is at a 30-year high. Likewise, data in Chart 2 details the additional value in premium grades above Choice.

Chart 1

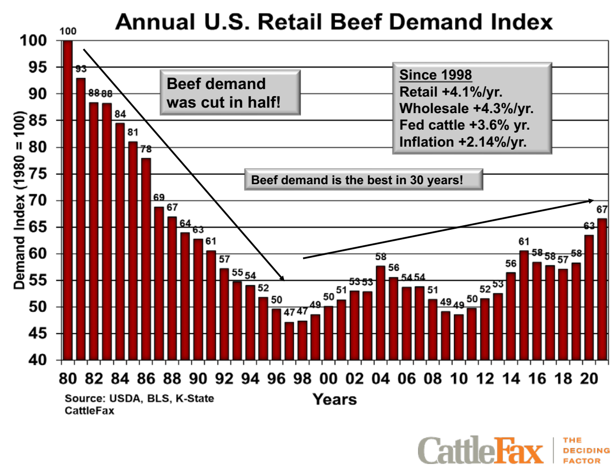


Chart 2

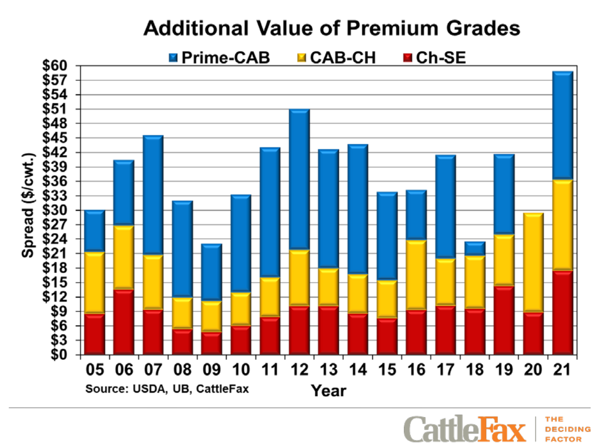
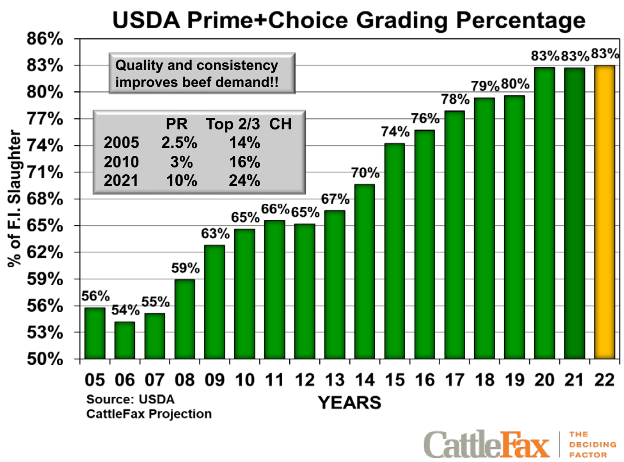


Chart 3 shows the increase in Choice and Prime carcasses that has taken place in the industry since 2005 because of increased consumer demand for higher quality beef products.

Chart 3



The import and export markets for beef products has played a big part in increased industry profitability in 2021. Chart 4 details data for export values on a per head basis during 2021, which achieved a record-high of $407.22 per head. This value is 35% higher compared to 2020. Delays in shipping and reported bottlenecks at U.S. ports have been an issue for beef exports. Even so, U.S. beef and variety meat export volume were up 15% during 2021, as detailed in Chart 5.

Chart 4

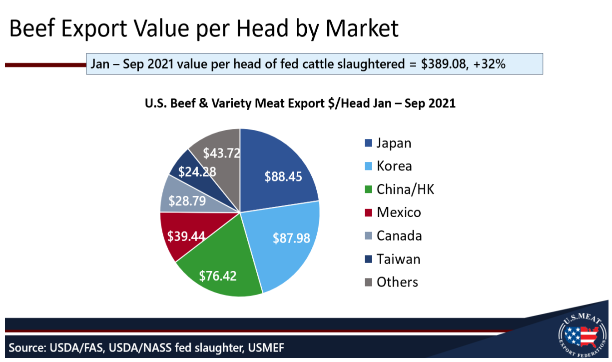
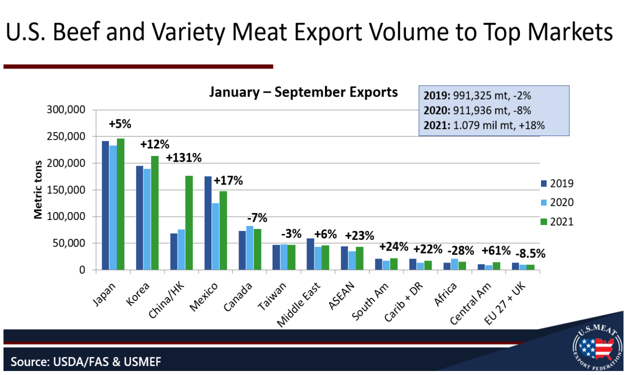
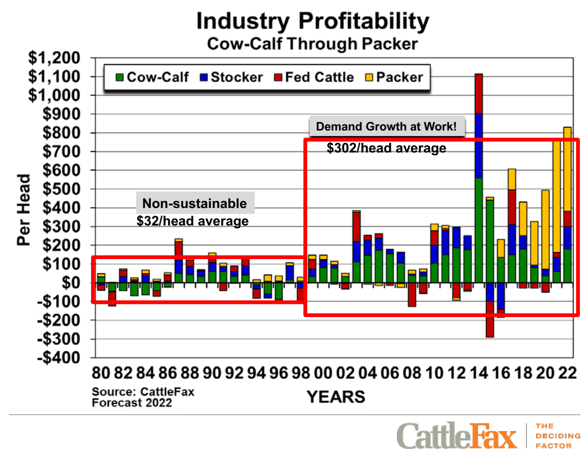


Chart 5



Ownership in beef processing has always been a key piece of USPB operations since the company was formed. Data outlined in Chart 6 shows total industry profitability averaged $32 per head from 1980 through 1998. From 1999 to 2021, the industry averaged profitability of $302 per head. Leverage and available supplies of finished cattle have played a part in how this profitability has been distributed. Increased quality and improving demand for beef products since the late 1990s has led to more total dollars distributed to the industry.

Chart 6



Since operations began Dec. 2, 1997, and through fiscal year 2021, USPB producers have shipped more than 17.4 million head of cattle during the life of the program. These cattle have earned total premiums of nearly $662 million.

In summary, we remain focused as we continue to seek opportunities in 2022 and beyond. Aligning producers with consumers through processing is what USPB was founded upon and works for us today. We continue to adjust as necessary. It is our hope that you all take a great level of satisfaction in your part in helping to move our industry forward in our strategy of pricing our product based on the meat case instead of the farm gate. No one can predict the future; however, we can realize great pride knowing we are part of a system capable of analyzing and responding to change.

We thank you for the opportunity to work on your behalf. Ours is a team approach that has survived and succeeded since 1997. USPB's success is a reflection of the men and women who have shaped the company into what it is today. We appreciate being a key part of your marketing plan for finished cattle.

Thank you,

Mark R. Gardiner
Chairman

Stanley D. Linville
Chief Executive Officer

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NATIONAL BEEF PACKING COMPANY, LLC (NBP) SUMMARY

In fiscal year 2021, NBP generated total revenues of $11.7 billion, an increase of approximately 24% in comparison to the prior fiscal year. The increase was primarily due to an increase in the average selling price of beef products, cattle weights and number of cattle processed. Cost of sales increased by approximately 14% in 2021 as compared to 2020. The increase is due primarily to higher volumes, increased cattle weights and an increase in the average price of fed cattle. The combined effects of increased margin per head and an increase in volume led to higher profitability in 2021 as compared to 2020.

PLANT OPERATIONS

NBP is one of the largest beef processing companies in the U.S., accounting for approximately 14.5% of fed cattle slaughter in the U.S. NBP processes and markets fresh and chilled boxed beef, ground beef, beef by-products, consumer-ready beef and pork, and wet blue leather for domestic and international markets. The largest share of NBP's revenue is generated from the sale of boxed beef and beef by-products. NBP also generates revenues through value-added production with its consumer-ready products.

PROCESSING FACILITIES

NBP owns two beef processing facilities located in Liberal and Dodge City, Kansas, which can each process approximately 6,000 cattle per day and a third beef processing facility in Tama, Iowa, which can process approximately 1,200 head per day. NBP's three consumer-ready facilities are in Hummels Wharf, Pennsylvania; Moultrie, Georgia; and Kansas City, Kansas. Its ground beef patty facility is in North Baltimore, Ohio, and its tannery is in St. Joseph, Missouri.

BEEF PROCESSING

NBP's profitability is dependent, in large part, on the spread between its cost for live cattle, the primary raw material for its business, and the value received from selling boxed beef and beef by-products coupled with its overall volume. NBP operates in a large and liquid commodity market, and it does not have much influence over the price it pays for cattle or the selling price it receives for the products it produces. NBP's profitability typically fluctuates seasonally and cyclically with relatively higher margins in the spring and summer months and during times of ample cattle availability.

SALES AND MARKETING

NBP markets its products to national and regional retailers, including supermarket chains, independent grocers, club stores, wholesalers and distributors, food service providers and further processors. In addition, NBP sells beef by-products to the medical, feed processing, fertilizer and pet food industries. NBP exported products to 36 countries; in 2021, export sales represented approximately 11.6% of revenues. The demand for beef is generally strongest in the spring and summer months and generally decreases during the winter months.

NBP emphasizes the sale of higher-margin, value-added products, which include branded boxed beef, consumer-ready beef and pork, portion-control beef and wet blue hides. NBP believes its value-added products can command higher prices than commodity products because of its ability to consistently meet product specifications, based on quality, trim, weight, size, breed or other factors, tailored to the needs of its customers. In addition to the value-added brands that NBP owns, it licenses the use of Certified Angus Beef®, a registered trademark of Certified Angus Beef LLC, and Certified Hereford Beef®, a registered trademark of Certified Hereford Beef LLC.

COMPETITION

Competitive conditions exist both in the purchase of live cattle, as well as in the sale of beef products. Beef products compete with other protein sources, including pork and poultry, but NBP's principal competition comes from other beef processors. NBP believes the principal competitive factors in the beef processing industry are price, quality, food safety, customer service, product distribution, technological innovations (such as food safety interventions and packaging technologies) and brand loyalty. Some of NBP's competitors have substantially larger beef operations, greater financial and other resources and wider brand recognition for their products.

CATTLE PROCUREMENT

During fiscal year 2021, NBP obtained approximately 23% of the cattle it processed from USPB producers using the USPB pricing grids. It also purchases cattle through cash bids and other arrangements from cattle producers in its primary and secondary markets. We believe NBP is a first-choice processor for suppliers seeking to attain premium pricing for their high-quality cattle and cattle suppliers view NBP more favorably due to its business model, which emphasizes building relationships and cooperating with suppliers and paying a premium for high-quality cattle.

NBP has two beef processing facilities located in southwest Kansas and a third beef processing plant in central Iowa. The primary market area for the purchase of cattle for those facilities includes Kansas, Texas, Nebraska, Iowa and Oklahoma. A significant portion of USPB's unitholders and associates are located in this area. The proximity of NBP's facilities to large supplies of cattle gives its buyers the ability to visit feedlots on a regular basis, which enables NBP to develop strong working relationships with its suppliers, reduce its reliance on any one cattle supplier and lower in-bound transportation costs.

NATIONAL BEEF LEATHERS, LLC

NBP's wet blue tanning subsidiary is located in St. Joseph, Missouri, in relative proximity to its beef processing facilities and is at the junction of major transportation routes. The facility is one of the largest hide tanning facilities in the world, selling wet blue leather to tanners that produce finished leather for the automotive, luxury goods, apparel and furniture industries.

KANSAS CITY STEAK COMPANY

NBP owns Kansas City Steak Company, LLC, which sells portioned beef and other products directly to consumers through internet, direct mail and direct response television, and service revenues generated by National Carriers, Inc., a wholly owned transportation and logistics company that is one of the largest refrigerated and livestock carrier operations in the U.S. and transports products for NBP and a variety of other customers.

REGULATION AND ENVIRONMENTAL

NBP's operations are subject to extensive regulation by the U.S. Department of Agriculture (USDA) including its Food Safety and Inspection Service (FSIS), Animal and Plant Health Inspection Service (APHIS) and Grain Inspection, Packers and Stockyards Administration (GIPSA), the Food and Drug Administration (FDA), the U.S. Environmental Protection Agency (EPA) and other federal, state, local and foreign authorities regarding the processing, packaging, storage, safety, distribution, advertising and labeling of its products.

OUR MISSION

"To increase the quality of beef and long-term profitability of cattle producers by creating a fully integrated producer-owned beef processing system that is a global supplier of high quality value-added beef products responsive to consumer desires."

USPB FINANCIAL SUMMARY

FY 2021 COMPARED TO 2020

Net Sales. There were no sales during the fifty-two week periods ended December 25, 2021, and December 26, 2020.

Cost of Sales. There were no cost of sales during the fifty-two week periods ended December 25, 2021, and December 26, 2020.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were approximately $6.2 million for the fifty-two weeks ended December 25, 2021, compared to approximately $7.9 million for the fifty-two weeks ended December 26, 2020, a decrease of approximately $1.7 million. The decrease is primarily due to lower phantom unit plan expense, which decreased as a result of a smaller year over year increase in unit transfer prices and lower distribution dilution accruals.

Operating Loss. Operating loss was approximately $6.2 million for the fifty-two weeks ended December 25, 2021, compared to approximately $7.9 million for the fifty-two weeks ended December 26, 2020, a decrease of approximately $1.7 million.

Interest Income. Interest income was $0.0 million during the fifty-two weeks ended December 25, 2021, and $0.2 million in the fifty-two weeks ended December 26, 2020, a decrease of $0.2 million due to lower interest rates.

Equity in Income of National Beef Packing Company, LLC. Equity in NBP income was $365.0 million for the fifty-two weeks ended December 25, 2021, compared to $199.7 million for the fifty-two weeks ended December 26, 2020, an increase of approximately $165.3 million. The combined effects of increased margin per head and an increase in volume led to higher profitability in 2021 as compared to 2020. USPB carries its 15.0729% investment in NBP under the equity method of accounting.

Other, net. Other income was $0.7 million for the fifty-two weeks ended December 25, 2021, compared to $0.7 million for the fifty-two weeks ended December 26, 2020. Other, net is primarily delivery right lease income on company-owned delivery rights.

Income Tax Expense. USPB is structured as an LLC and is therefore not subject to income taxes at the company level. See USPB's Notes to Financial Statements (Note 2) for further information.

Net Income. Net income for the fifty-two weeks ended December 25, 2021, was approximately $359.5 million compared to approximately $192.7 million for the fifty-two weeks ended December 26, 2020, an improvement of approximately $166.8 million. The improvement was due to substantially higher net income at NBP.

FY 2020 COMPARED TO 2019

Net Sales. There were no sales during the fifty-two week periods ended December 26, 2020, and December 28, 2019.

Cost of Sales. There were no cost of sales during the fifty-two week periods ended December 26, 2020, and December 28, 2019.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were approximately $7.9 million for the fifty-two weeks ended December 26, 2020, compared to approximately $5.1 million for the fifty-two weeks ended December 28, 2019, an increase of approximately $2.8 million. The increase is primarily due to higher phantom unit plan expense, which increased as a result of higher unit transfer prices, and higher accounting expense.

Operating Loss. Operating loss was approximately $7.9 million for the fifty-two weeks ended December 26, 2020, compared to approximately $5.1 million for the fifty-two weeks ended December 28, 2019, an increase of approximately $2.8 million.

Interest Income. Interest income was $0.2 million during the fifty-two weeks ended December 26, 2020, and $1.2 million in the fifty-two weeks ended December 28, 2019, a decrease of $1.0 million due to lower interest rates.

Equity in Income of National Beef Packing Company, LLC. Equity in NBP income was $199.7 million for the fifty-two weeks ended December 26, 2020, compared to $121.5 million for the fifty-two weeks ended December 28, 2019, an increase of approximately $78.2 million. The combined effects of increased margin per head and an increase in volume led to higher profitability in 2020 as compared to 2019. USPB carries its 15.0729% investment in NBP under the equity method of accounting.

Other, net. Other income was $0.7 million for the fifty-two weeks ended December 26, 2020, compared to $0.4 million for the fifty-two weeks ended December 28, 2019. The increase is primarily due to higher delivery right lease income on company owned delivery rights.

Income Tax Expense. USPB is structured as an LLC and is therefore not subject to income taxes at the company level. See USPB's Notes to Financial Statements (Note 2) for further information.

Net Income. Net income for the fifty-two weeks ended December 26, 2020, was approximately $192.7 million compared to approximately $118.0 million for the fifty-two weeks ended December 28, 2019, an improvement of approximately $74.7 million. The improvement was due to substantially higher net income at NBP.

LIQUIDITY AND CAPITAL RESOURCES

As of December 25, 2021, we had net working capital (the excess of current assets over current liabilities) of approximately $126.4 million, which included cash and cash equivalents of $130.4 million. As of December 26, 2020, we had net working capital (the excess of current assets over current liabilities) of approximately $74.3 million, which included cash and cash equivalents of $76.8 million. Our primary sources of liquidity for fiscal years 2021 and 2020 were cash, cash flows from operating activities, which includes distributions received from NBP, and available borrowings under the Credit Agreement and Master Loan Agreement with CoBank. Our principal uses of cash are distributions to our members and working capital.

COBANK DEBT

USPB's Amended and Restated Revolving Term Supplement's matured on June 30, 2020. On June 24, 2020, CoBank unilaterally extended the Term Expiration Date under USPB's Amended and Restated Revolving Term Supplement from June 30, 2020, up to and including August 31, 2020. On July 13, 2020, USPB, and CoBank, ACB (CoBank), entered into a Credit Agreement, Amended and Restated Revolving Term Promissory Note (Promissory Note), and an Affirmation of Pledge Agreement (New Loan Agreements). The New Loan Agreements replace, amend and restate the arrangements between CoBank and USPB contained in that certain Master Loan Agreement, Revolving Term Loan Supplement to the Master Loan Agreement, Pledge Agreement and Security Agreement dated July 26, 2011, as amended.

The New Loan Agreements provide for a $1.0 million Revolving Term Commitment, carries a term of five years and matures on June 30, 2025. The Promissory Note defines Interest as equal to the One-Month LIBOR Index Rate or if LIBOR quotes are no longer available, CoBank will replace the LIBOR Index Rate with a replacement benchmark rate. The other terms and conditions of the Credit Agreement and the Revolving Term Loan Supplement continue the terms and conditions of the Prior Agreements without material modifications. The Affirmation of Pledge Agreement provides CoBank with a first-priority security interest in USPB's Membership Interests in, and Distributions from, National Beef Packing Company, LLC.

As of December 25, 2021, USPB had no long-term debt outstanding. We had a $1.0 million Revolving Term Commitment with CoBank, all of which was available. USPB was in compliance with the financial covenant under its Credit Agreement as of December 25, 2021, and December 26, 2020.

OPERATING ACTIVITIES

Net cash provided by operating activities was $280.3 million in fiscal year 2021 as compared to $194.2 million in fiscal year 2020. The $86.1 million increase was primarily due to increased distributions received from NBP that were classified as a distribution from Operating Activities.

Net cash provided by operating activities was $194.2 million in fiscal year 2020 as compared to $130.1 million in fiscal year 2019. The $64.1 million increase was primarily due to the higher distributions received from NBP that were classified as a distribution from Operating Activities.

INVESTING ACTIVITIES

Net cash used in investing activities was $0.0 million and less than $0.1 million in fiscal years 2021 and 2020.

Net cash used in investing activities was less than $0.1 million in fiscal years 2020 and 2019.

FINANCING ACTIVITIES

Net cash used in financing activities was $226.6 million in fiscal year 2021 as compared to $195.3 million in fiscal year 2020. The $31.3 million increase was due to an increase in distributions to members in fiscal year 2021, as a result of an increase in earnings, compared to fiscal year 2020.

Net cash used in financing activities was $195.3 million in fiscal year 2020 as compared to $140.6 million in fiscal year 2019. The $54.7 million increase was due to higher distributions to members in fiscal year 2020, as a result of an increase in earnings, compared to fiscal year 2019.

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U.S. PREMIUM BEEF, LLC
INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Members

U.S. Premium Beef, LLC

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying balance sheets of U.S. Premium Beef, LLC (a Delaware limited liability company) (the "Company") as of December 25, 2021, and December 26, 2020, the related statements of operations, members' capital and cash flows for each of the three fiscal years in the period ended December 25, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 25, 2021, and December 26, 2020, and the results of its operations and its cash flows for each of the three fiscal years in the period ended December 25, 2021, in conformity with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the 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 financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

CRITICAL AUDIT MATTERS

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

Grant Thornton LLP

We have served as the Company's auditor since 2018.

Kansas City, Missouri
March 4, 2022

U.S. PREMIUM BEEF, LLC

Balance Sheets

(thousands of dollars, except unit information)

Assets		December 25, 2021		December 26, 2020
Current assets:				
Cash and cash equivalents	$	130,400	$	76,769
Accounts receivable		48		317
Due from affiliates		58		55
Other current assets		3		29
Total current assets		130,509		77,170
Property, plant, and equipment, at cost		243		243
Less accumulated depreciation		222		210
Net property, plant, and equipment		21		33
Right of use assets, net		168		219
Investment in National Beef Packing Company, LLC		213,290		131,494
Other assets		2		12
Total assets	$	343,990	$	208,928
Liabilities and Members' Capital				
Current liabilities:				
Accounts payable - trade	$	14	$	17
Due to affiliates		7		5
Accrued compensation and benefits		2,106		2,243
Lease obligations		54		51
Other accrued expenses and liabilities		1,110		579
Distributions payable		833		2
Total current liabilities		4,124		2,897
Long-term liabilities:				
Lease obligations		114		168
Other liabilities		7,480		5,621
Total long-term liabilities		7,594		5,789
Total liabilities		11,718		8,686
Commitments and contingencies		—		—
Members' capital				
Members' contributed capital, 735,385 Class A units and 755,385 Class B units authorized, issued and outstanding		332,272		200,242
Total members' capital		332,272		200,242
Total liabilities and members' capital	$	343,990	$	208,928

See accompanying notes to financial statements.

U.S. PREMIUM BEEF, LLC
Statements of Operations
(thousands of dollars, except unit and per unit data)

	52 weeks ended December 25, 2021	52 weeks ended December 26, 2020	52 weeks ended December 28, 2019
Net sales	$ —	$ —	$ —
Costs and expenses:			
Cost of sales	—	—	—
Selling, general, and administrative expenses	6,220	7,866	5,079
Depreciation and amortization	12	16	17
Total costs and expenses	6,232	7,882	5,096
Operating loss	(6,232)	(7,882)	(5,096)
Other income:			
Interest income	11	165	1,167
Interest expense	—	(2)	(15)
Equity in income of National Beef Packing Company, LLC	365,023	199,703	121,464
Other, net	695	697	481
Total other income	365,729	200,563	123,097
Net income	$ 359,497	$ 192,681	$ 118,001
Income per unit:			
Basic and diluted			
Class A units	$ 48.89	$ 26.20	$ 16.05
Class B units	$ 428.32	$ 229.57	$ 140.59
Outstanding weighted-average Class A and Class B units:			
Basic and diluted			
Class A units	735,385	735,385	735,385
Class B units	755,385	755,385	755,385

See accompanying notes to financial statements.

U.S. PREMIUM BEEF, LLC
Statements of Members' Capital
(thousands of dollars)

	Members' Capital
Balance at December 29, 2018	$ 219,756
Net income for the year ended December 28, 2019	118,001
Member distributions	(134,920)
Balance at December 28, 2019	$ 202,837
Net income for the year ended December 26, 2020	192,681
Member distributions	(195,276)
Balance at December 26, 2020	$ 200,242
Net income for the year ended December 25, 2021	359,497
Member distributions	(227,467)
Balance at December 25, 2021	$ 332,272

See accompanying notes to financial statements.

U.S. PREMIUM BEEF, LLC
Statements of Cash Flows
(thousands of dollars)

	52 weeks ended December 25, 2021	52 weeks ended December 26, 2020	52 weeks ended December 28, 2019
Cash flows from operating activities:			
Net income	$ 359,497	$ 192,681	$ 118,001
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12	16	17
Equity in net income of National Beef Packing Company, LLC	(365,023)	(199,703)	(121,464)
Distributions from National Beef Packing Company, LLC	283,227	199,995	133,039
Changes in assets and liabilities:			
Accounts Receivable	269	(317)	—
Due from affiliates	(3)	(14)	(20)
Other assets	36	31	24
Accounts payable	(3)	(11)	16
Due to affiliates	2	(24)	(15)
Accrued compensation and benefits	1,722	2,264	(292)
Other accrued expenses and liabilities	531	(728)	792
Net cash provided by operating activities	280,267	194,190	130,098
Cash flows from investing activities:			
Capital expenditures, including interest capitalized	—	(6)	(43)
Net cash used in investing activities	—	(6)	(43)
Cash flows from financing activities:			
Member distributions	(226,636)	(195,324)	(140,557)
Net cash used in financing activities	(226,636)	(195,324)	(140,557)
Net increase (decrease) in cash	53,631	(1,140)	(10,502)
Cash and cash equivalents at beginning of period	76,769	77,909	88,411
Cash and cash equivalents at end of period	$ 130,400	$ 76,769	$ 77,909
Supplemental cash disclosures:			
Cash paid during the period for interest	$ —	$ —	$ 18
Supplemental noncash disclosures of operating activities:			
Right of use assets and lease obligations	$ —	$ 36	$ 232
Supplemental noncash disclosures of investing activities:			
Required contribution of purchased ownership interest to National Beef Packing Company, LLC	$ —	$ —	$ 23,692

See accompanying notes to financial statements.

U.S. PREMIUM BEEF, LLC
Notes to Financial Statements

NOTE 1. DESCRIPTION OF BUSINESS

U.S. Premium Beef (USPB or the Company) was formed as a closed marketing cooperative on July 1, 1996. Its mission is to increase the quality of beef and long-term profitability of cattle producers by creating a fully integrated producer-owned beef processing system that is a global supplier of high quality, value-added beef products responsive to consumer desires. USPB operates an integrated cattle processing and beef marketing enterprise where consumer and processor demands and requirements are implemented through changes in genetics, feeding, and management. USPB's unitholders benefit from its supplier alliance with National Beef Packing Company, LLC (NBP) through (i) premiums received in excess of cash market prices for higher quality cattle, (ii) allocations of profits and potential distributions, (iii) potential unit price appreciation, and (iv) information that permits unitholders to make informed production decisions.

On August 18, 2004, the shareholders of U.S. Premium Beef, Ltd. approved the conversion of the cooperative into a Delaware LLC.

On December 5, 2011, USPB sold the majority of its membership interests in NBP to Leucadia National Corporation. Following the sale, USPB owned 15.0729% of NBP's membership interests.

On November 29, 2019, Jefferies Financial Group, Inc. (formerly Leucadia National Corporation) sold its remaining ownership interest in NBP to a combination of NBM US Holdings, Inc., a Delaware corporation owned by Marfrig Global Foods S.A.; NBPCo Holdings, LLC; and TMK Holdings, LLC. USPB elected to not participate in the acquisition and, as a result, USPB's ownership interest in National Beef remained at 15.0729%.

Ownership Structure

As USPB is structured as a Limited Liability Company, its members are not personally liable for liabilities of USPB. USPB's members are taxed on their proportionate share of USPB's taxable income.

Class A Units. There are 735,385 Class A units outstanding. Class A unitholders are allocated 10% of the Company's profits and losses. Holders of USPB Class A units, committed under Uniform Cattle Delivery and Marketing Agreements, have the right and obligation to deliver one head of cattle to USPB annually for each unit held.

Class B Units. There are 755,385 Class B units outstanding. Class B unitholders are allocated 90% of the Company's profits and losses. Holders of USPB Class B units have no cattle delivery commitment.

NOTE 2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation

USPB's investment in NBP is accounted for using the equity method of accounting as the Company has the ability to exercise significant influence, but does not have financial or operational control.

Fiscal Year

The Company's fiscal year ends on the last Saturday in December. The Company files annual reports for each 52 week or 53 week period ended on the last Saturday in December.

Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, using management's best estimates and judgments where appropriate. These estimates and judgments affect the reported amounts of assets and liabilities at the date of the financial statements. The estimates and judgments will also affect the reported amounts for certain revenues and expenses during the reporting period. Actual results could differ materially from these estimates and judgments.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. As of December 25, 2021, and December 26, 2020, the Company's balance sheet reflected Cash and cash equivalents of $130.4 million and $76.8 million, respectively. The cash is invested in CoBank's overnight investment account. Investments are not deposits and are not insured by the Federal Deposit Insurance Corporation or the Farm Credit System Insurance Corporation.

Investment in National Beef Packing Company, LLC

USPB's 15.0729% investment in NBP accounted for using the equity method of accounting as the Company has the ability to exercise significant influence, but does not have financial or operational control.

The table below summarizes the changes to USPB's investment in NBP.

	December 25, 2021	December 26, 2020
	(thousands of dollars)	
Beginning Investment Balance	$ 131,494	$ 131,786
Equity in net income	365,023	199,703
Distributions	(283,227)	(199,995)
Ending Investment Balance	$ 213,290	$ 131,494

For fiscal years 2021 and 2020, USPB conducted an evaluation to determine if its investment in NBP was impaired as of the end of the fiscal year in accordance with Auditing Standards Codification (ASC) 323 *Investments Equity Method and Joint Ventures*. The evaluation included both quantitative and qualitative factors. The quantitative approach computed the fair value of the investment using a market-based approach and resulted in a fair value that exceeded the carrying value. There were no qualitative items that indicated that the quantitative determination was not correct. As a result of the analysis, USPB concluded that the carrying value of its investment in NBP was not impaired as of December 25, 2021, and December 26, 2020.

On June 10, 2019, the members of NBP acquired 100% of the ownership interests in Iowa Premium, LLC (Iowa Premium) from Sysco Holdings, LLC for $153.2 million in cash after customary working capital adjustments. The cash utilized by NBP's members for the acquisition was distributed from NBP and immediately upon closing of the acquisition, each of the members of NBP contributed all its Iowa Premium ownership interests to NBP. The distribution, acquisition and contribution transactions were governed by several related agreements that resulted in NBP, in substance, acquiring 100% of the Iowa Premium ownership interests.

On November 29, 2019, Jefferies Financial Group, Inc. sold its remaining ownership interest in NBP to a combination of NBM US Holdings, Inc., a Delaware corporation owned by Marfrig Global Foods S.A.; NBPCo Holdings, LLC; and TMK Holdings, LLC. USPB elected to not participate in the acquisition and, as a result, USPB's ownership interest in National Beef remained at 15.0729%. In conjunction with the sale, NBP's members, including USPB, received proportionate special distributions and tax distributions from NBP.

Property, Plant, and Equipment

Property, plant, and equipment are recorded at cost. Property, plant, and equipment are depreciated principally on a straight-line basis over the estimated useful life (based upon original acquisition date) of the individual asset by major asset class as follows:

Machinery and equipment	2 to 15 years
Furniture and fixtures	3 to 5 years
Trailers and automotive equipment	2 to 5 years

Normal repairs and maintenance costs are charged to Selling, general and administrative expenses, as incurred.

A summary of cost and accumulated depreciation for property, plant, and equipment as of December 25, 2021, and December 26, 2020, follows (thousands of dollars):

	December 25, 2021	December 26, 2020
Machinery and equipment	$ 24	$ 24
Furniture and fixtures	147	147
Trailers and automotive equipment	72	72
Total property, plant, and equipment, at cost	243	243
Accumulated depreciation	222	210
Property, plant, and equipment, net	$ 21	$ 33

Depreciation expense was less than $0.1 million for fiscal years ended December 25, 2021, December 26, 2020, and December 28, 2019.

Distributions Payable

USPB utilizes a controlled disbursement account to fund cash distribution checks presented for payment by the holder. Checks that have been issued but have not cleared are reflected on the balance sheet as a reduction in cash. Amounts for checks that have not yet been issued are included in Distributions payable and the change in the related balances are reflected in financing activities on the statement of cash flows. Distributions payable were less than $0.9 million as of December 25, 2021, and $0.1 million as of December 26, 2020.

Income Taxes

Effective August 29, 2004, the Company converted to an LLC, and under this structure, taxes are not assessed at the Company level as the results of operations are included in the taxable income of the individual members.

Although income taxes are assessed to the individual members, USPB is required to withhold state income taxes from the cash distributions it makes to it members. As of December 25, 2021, and December 26, 2020, Other accrued expenses and liabilities on the Company's balance sheet reflected state taxes payable of $1.0 million and $0.5 million, respectively.

Selling, General, and Administrative

Selling expenses consist primarily of salaries, bonuses, phantom unit option expense, trade promotions, advertising, commissions and other marketing costs. General and administrative costs consist primarily of general management, insurance and professional expenses.

Noncompetition Payments

The former CEO's employment agreement provided for him to receive noncompetition payments in connection with the Leucadia Transaction. During fiscal years 2021 and 2020, the former CEO was paid $0.8 million and $0.8 million, respectively, in noncompetition payments.

The current CEO's employment agreement provides for him to receive noncompetition payments for a twelve-month period following his termination of employment with USPB.

As of December 25, 2021, and December 26, 2020, the Company had accrued $0.3 million and $1.2 million, respectively, for the noncompetition agreements. The current and long-term portion of the accrued amounts are included in Accrued compensation and benefits and Other liabilities, respectively, on the balance sheet. The table below summarizes the current and long-term portions of the accrued non-compete amounts:

	December 25, 2021	December 26, 2020
	(thousands of dollars)	
Current non-compete	$ —	$ 849
Long-term non-compete	323	308
	$ 323	$ 1,157

Business Segments

USPB is not organized by multiple operating segments for the purpose of making operating decisions or assessing performance. Accordingly, USPB has one reportable segment.

Earnings Per Unit

Under the LLC structure, earnings of the Company are to be distributed to unitholders based on their proportionate share of underlying equity, and, as a result, earnings per unit (EPU) has been presented in the accompanying Statement of Operations and in the table that follows.

Basic EPU excludes dilution and is computed by first allocating 10% of net income or loss attributable to USPB to Class A units and the remaining 90% is allocated to Class B units. Net income or loss allocated to the Class A and Class B units is then divided by the weighted-average number of Class A and Class B units outstanding for the period to determine the basic EPU for each respective class of unit.

Diluted EPU reflects the potential dilution that could occur to the extent that any outstanding dilutive Class A or Class B units were exercised. There are no potentially dilutive Class A or Class B units outstanding.

Income Per Unit Calculation	**52 weeks ended**	**52 weeks ended**	**52 weeks ended**
(thousands of dollars, except unit and per unit data)	**December 25, 2021**	**December 26, 2020**	**December 28, 2019**
Basic and diluted earnings per unit:			
Income attributable to USPB available to unitholders (numerator)			
Class A	$ 35,950	$ 19,268	$ 11,800
Class B	$ 323,547	$ 173,413	$ 106,201
Weighted average outstanding units (denominator)			
Class A	735,385	735,385	735,385
Class B	755,385	755,385	755,385
Per unit amount			
Class A	$ 48.89	$ 26.20	$ 16.05
Class B	$ 428.32	$ 229.57	$ 140.59

NOTE 3. LONG-TERM DEBT AND LOAN AGREEMENTS

(a) Credit Agreement

USPB's Amended and Restated Revolving Term Supplement's matured on June 30, 2020. On June 24, 2020, CoBank unilaterally extended the Term Expiration Date under USPB's Amended and Restated Revolving Term Supplement from June 30, 2020, up to and including August 31, 2020. On July 13, 2020, USPB, and CoBank, ACB ("CoBank"), entered into a Credit Agreement, Amended and Restated Revolving Term Promissory Note ("Promissory Note"), and an Affirmation of Pledge Agreement ("2020 Loan Agreements"). The 2020 Loan Agreements replace, amend and restate the arrangements between CoBank and USPB contained in that certain Master Loan Agreement, Revolving Term Loan Supplement to the Master Loan Agreement, Pledge Agreement, and Security Agreement dated July 26, 2011, as amended.

The 2020 Loan Agreements provide for a $1.0 million Revolving Term Commitment, carries a term of five years and matures on June 30, 2025. The Promissory Note defines Interest as equal to the One-Month LIBOR Index Rate or if LIBOR quotes are no longer available, CoBank will replace the LIBOR Index Rate with a replacement benchmark rate. The other terms and conditions of the Credit Agreement and the Revolving Term Loan Supplement continue the terms and conditions of the Prior Agreements without material modifications. The Affirmation of Pledge Agreement provides CoBank with a first-priority security interest in USPB's Membership Interests in, and Distributions from, National Beef Packing Company, LLC.

As of December 25, 2021, USPB had no long-term debt outstanding. We had a $1.0 million Revolving Term Commitment with CoBank all of which was available. USPB was in compliance with the financial covenant under its Credit Agreement as of December 25, 2021, and December 26, 2020.

(b) Operating Leases

USPB's two office leases are accounted for under ASC 842. The Kansas City, Missouri, office lease has a remaining term of approximately 3.2 years. The Dodge City, Kansas, office renewed its office lease in 2020 and has a remaining term of approximately 2.0 years. Neither lease agreement provides for renewals beyond the remaining terms. The monthly lease payment for the Kansas City office is $3,939, subject to annual Consumer Price Index adjustments, which are capped at 3% per year. The monthly lease payment for the Dodge City office is $1,025, which is not subject to adjustment. Both offices are used for general office use only. As of December 25, 2021, the present value of the remaining operating lease payments for the offices equaled $0.2 million and USPB's balance sheet reflected Right of Use Assets and Lease Obligations equal to that amount. The discount rate used to compute the present value was USPB's incremental borrowing rate adjusted for lease term.

NOTE 4. EMPLOYEE OPTIONS AND BENEFIT PLANS

In September 2010, USPB's Board of Directors approved a management phantom unit plan. The phantom unit plan provides for the award of unit appreciation rights to management employees of USPB. USPB's CEO administers the phantom unit plan and awards "Phantom Units" (Class A and Class B Units) to employees in amounts determined by the CEO, subject to the total Phantom Unit amount approved by the Board of Directors of USPB. A total of 5,000 Class A phantom units and 5,000 Class B phantom units were awarded to management employees, with a strike price of $118 and $157, respectively. The closing of the Leucadia Transaction resulted in management employees receiving a payment under the management phantom unit plan. The payment to management was reduced by the strike price for both the Class A phantom units and Class B phantom units and is now $0. As a result of the retirement of one of USPB's employees on December 31, 2014, 50 Class A phantom units and 50 Class B phantom units were forfeited as they were not vested. One third of the retiring employee's vested phantom units were exercised and the appreciation rights paid in three tranches (retirement, and first and second anniversary of retirement). At the end of fiscal years 2021 and 2020, 4,750 Class A phantom units and 4,750 Class B phantom units remain outstanding. The phantom units became fully vested in August 2015. For the management phantom unit plan, compensation expense of $1.8 million, $3.2 million, and $1.0 million was recognized in fiscal years 2021, 2020, and 2019, respectively.

On November 16, 2012, USPB's Board of Directors approved the issuance of an additional 1,500 Class A phantom units, with a strike price of $66.04 and 1,500 Class B phantom units, with a strike price of $73.70, to certain members of management, to be effective on January 28, 2013. The phantom units became fully vested in January 2018 and remain outstanding at the end of fiscal years 2021 and 2020. Compensation expense of $0.8 million, $0.9 million, and $0.3 million was recognized in fiscal years 2021, 2020, and 2019, respectively.

As of December 25, 2021, and December 26, 2020, the Company had accrued $7.9 million and $5.3 million, respectively, for the management phantom plans. The accrued amounts are included in Accrued compensation and benefits and Other liabilities on the balance sheet.

USPB provides its employees the opportunity to earn cash incentives and bonuses. The cash incentive and bonus plans were designed to provide the financial incentive to the employees to influence USPB unitholder benefits and are only paid after certain levels of benefits have been achieved. As of December 25, 2021, and December 26, 2020, the Company had accrued $1.4 million and $1.4 million, respectively, for the cash incentive and bonus plans. The accrued amounts are included in Accrued compensation and benefits on the balance sheet.

The Company maintains a tax-qualified employee savings and retirement plan (401(k) Plan) covering the Company's non-union employees. Pursuant to the 401(k) Plan, eligible employees may elect to reduce their current compensation by up to the lesser of 75% of their annual compensation or the statutorily prescribed annual limit and have the amount of such reduction contributed to the 401(k) Plan. The 401(k) Plan provides for additional matching contributions by the Company, based on specific terms contained in the 401(k) Plan. The trustee of the 401(k) Plan, at the direction of each participant, invests the assets of the 401(k) Plan in designated investment options. The 401(k) Plan is intended to qualify under Section 401 of the Internal Revenue Code. Expenses related to the 401(k) Plan totaled approximately $0.1 million, $0.1 million, and $0.1 million for fiscal years 2021, 2020, and 2019, respectively.

NOTE 5. OTHER INCOME

Other non-operating income, net was $0.7 million, $0.7 million, and $0.5 million, for fiscal years 2021, 2020, and 2019, respectively. Other non-operating income primarily includes income related to lease income on additional delivery rights made available by the Company.

NOTE 6. INCOME TAXES

USPB is structured as an LLC and is taxed as a partnership for federal income tax purposes. As a result, its taxable income/loss are passed through to the unitholders at the end of each tax year. Certain states assess an entity level tax, which is paid by USPB. Such taxes were less than $0.2 million in tax years 2021, 2020, and 2019.

NOTE 7. RELATED PARTY TRANSACTIONS

All of the Company's directors hold Class A units of the Company. By virtue of their ownership of the units, each of these individuals is obligated to deliver cattle to the Company. The amount and terms of the payments received by these individuals (or the entities they represent) for the delivery of cattle are made on exactly the same basis as those received by other unitholders of the Company for the delivery of their cattle.

On June 10, 2019, USPB entered into the First Amended and Restated Cattle Purchase and Sale Agreement with NBP (Amended Agreement). Per the terms and conditions of the Amended Agreement, NBP is required to purchase from USPB Class A unitholders, and USPB is required to cause to be sold and delivered from its Class A unitholders to NBP, a base amount of 735,385 (subject to adjustment) head of cattle per year. In fiscal years 2021, 2020, and 2019, USPB elected to increase the number of cattle that its Class A unitholders could deliver during USPB's delivery year by up to 10%. During fiscal years 2021, 2020, and 2019, USPB's Class A unitholders and associates provided approximately 23% of NBP's total cattle requirements, under the Amended Agreement. The purchase price for the cattle is determined by pricing grids, which, at all times, are required to be no less favorable than any other pricing grid being utilized by NBP and the pricing grid shall be competitive with NBP's major competitors for the purchase of cattle. The terms and conditions of the Amended Agreement are substantially the same as the previous agreement except in the following material ways:

- Under the Amended Agreement, if NBP acquires or develops new processing (slaughter) facilities, then USPB has a first right to provide 25% of the cattle to the new NBP facility.

- The purchase price of cattle delivered by USPB Class A unitholders to the Tama, Iowa processing facility shall be no less favorable than any other pricing grid that NBP offers to any other seller of cattle delivering to the Tama, Iowa processing facility or to non-grid cattle with comparable performance.

- On each anniversary of the Amended Agreement, the term of the Amended Agreement shall be extended be five years from the date of such anniversary, unless either party elects to not extend the term. The Amended Agreement currently extends through June 10, 2026.

NBP also purchased additional cattle from certain USPB members and associates outside of the Amended Agreement.

On June 10, 2019, the members of NBP acquired 100% of the ownership interests in Iowa Premium, LLC (Iowa Premium) from Sysco Holdings, LLC for $153.2 million in cash after customary working capital adjustments. The cash utilized by NBP's members for the acquisition was distributed from NBP and immediately upon closing of the acquisition, each of the members of NBP contributed all its Iowa Premium ownership interests to NBP. The distribution, acquisition and contribution transactions were governed by several related agreements that resulted in NBP, in substance, acquiring 100% of the Iowa Premium ownership interests.

On November 29, 2019, Jefferies Financial Group, Inc. (Jefferies) sold its remaining ownership interest in NBP to a combination of NBM US Holdings, Inc., a Delaware corporation owned by Marfrig Global Foods S.A.; NBPCo Holdings, LLC; and TMK Holdings, LLC. USPB's Board of Directors elected to not participate in the acquisition and, as a result, USPB's ownership interest in National Beef remained at 15.0729%.

In conjunction with its sale of ownership interests, NBP's members, including USPB, received proportionate special distributions and tax distributions from NBP.

At December 25, 2021, and December 26, 2020, the Company had receivables of less than $0.1 million due from unitholders and associates.

At December 25, 2021, and December 26, 2020, the Company had payables of less than $0.1 million due to unitholders and associates.

NOTE 8. LEGAL PROCEEDINGS

As of December 25, 2021, USPB is not currently involved in any litigation. However, because its ownership interest in NBP is USPB's largest asset and because of the cattle procurement and distribution relationship between USPB and NBP, litigation involving NBP may impact USPB.

NPB is a defendant in four class action lawsuits, one single-plaintiff lawsuit in the United States District Court, Minnesota District, one single-plaintiff lawsuit in the United States District Court, Southern District of Florida and one single-plaintiff lawsuit in the United States District Court, Connecticut, all of which allege that the Company violated the Sherman Antitrust Act and some of which allege that the Company violated the Packers and Stockyards Act, the Commodity Exchange Act, and various state laws (the "Antitrust Cases"). The class-action Antitrust Cases are entitled In re Cattle Antitrust Litigation, which was filed originally on April 23, 2019, Peterson et al. v. JBS USA Food Company Holdings, et al., which was filed originally on April 26, 2019; In re DPP Beef Litigation, which was filed originally on April 26, 2019; and Erbert & Gerbert's, Inc. v. JBS USA Food Company Holdings, et al., which was filed originally on June 18, 2020. The single-plaintiff Antitrust Cases are entitled Winn-Dixie Stores, Inc. and Bi-Lo Holding, LLC v. Cargill, Inc., et al., which was filed on August 2, 2021; Cheney Brothers, Inc. v. Cargill, Inc., et al,, which was filed on January 31, 2022, and Subway v. Cargil, Inc. et al., which was filed on February 22, 2022. The plaintiffs in the Antitrust Cases seek treble damages and other relief under the Sherman Antitrust Act, the Packers & Stockyards Act, and/or the Commodities Exchange Act and attorneys' fees. NBP is also a defendant in two class action lawsuits filed on January 7, 2020, alleging that it misrepresented the origin of its products in violation of the New Mexico Unfair Practices Act (the "Labelling Cases"). The Labelling Cases are entitled Thornton v. Tyson Foods, Inc., et al., filed in the New Mexico Second Judicial District Court, Bernalillo County, and Lucero v. Tyson Foods, et al., filed in the New Mexico Thirteenth Judicial District Court, Sandoval County. The Labelling Cases were subsequently removed to the United States District Court, New Mexico District. The plaintiffs in the Labelling Cases seek treble damages and other relief and attorneys' fees. NBP believes it has meritorious defenses to the claims in the Antitrust Cases and the Labelling Cases and intends to defend these cases vigorously, although there can be no assurance as to the outcome of these cases or the impact on NBP's consolidated financial position, results of operations and cash flows.

In addition to the antitrust litigation, NBP is subject to investigations by the United States Department of Justice and approximately 30 state attorneys general regarding industry cattle procurement practices. NBP is cooperating with these investigations and is working with the Department of Justice and the relevant states to provide information requested in connection with the investigations. NBP believes it has meritorious defenses to any potential claims that might arise out of these government investigations, although there can be no assurance as to the outcome of these investigations or the impact on NBP's consolidated financial position, results of operations and cash flows.

NBP is a party to various other lawsuits and claims arising out of the operation of its business. Management believes the ultimate resolution of such matters should not have a material adverse effect on NBP's financial condition, results of operations or liquidity.

USPB is not able to assess what impact, if any, the actions described above will have on NBP or USPB.

NOTE 9. QUARTERLY RESULTS (UNAUDITED)

On December 28, 2021, USPB received a $52.8 million distribution from NBP. On December 29, 2021, USPB's Board of Directors approved a $52.7 million discretionary cash distribution to be made payable to members of record as of December 29, 2021.

USPB has evaluated subsequent events through the date the financial statements were issued and determined there were no such events to report.

NATIONAL BEEF PACKING COMPANY, LLC
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Members

National Beef Packing Company, LLC

We have audited the consolidated financial statements of National Beef Packing Company, LLC (a Delaware limited liability company) and subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 25, 2021, and December 26, 2020, and the related consolidated statements of operations, comprehensive income, cash flows, and members' capital for each of the three fiscal years in the period ended December 25, 2021, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 25, 2021, and December 26, 2020, and the results of its operations and its cash flows for each of the three fiscal years in the period ended December 25, 2021, in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

We conducted our audits of the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company 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 audit opinion.

RESPONSIBILITIES OF MANAGEMENT FOR THE 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 consolidated 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 the Company's ability to continue as a going concern for one year after the date the financial statements are issued.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE 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 US GAAS will always detect a material misstatement when it 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 US GAAS, we:

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

- 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 the Company's 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 the Company's 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 audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Grant Thornton LLP

Kansas City, Missouri
February 25, 2022

NATIONAL BEEF PACKING COMPANY, LLC AND SUBSIDIARIES
Consolidated Balance Sheets
(in thousands)

	December 25, 2021	December 26, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 109,746	$ 10,669
Accounts receivable, less allowance for returns and expected credit losses of $3,223 and $2,627, respectively	336,071	286,061
Due from affiliates	7,089	1,259
Other receivables	4,655	6,102
Inventories	416,163	289,941
Other current assets	63,222	45,279
Total current assets	936,946	639,311
Property, plant and equipment, at cost:		
Land and improvements	88,368	58,398
Buildings and improvements	302,253	278,291
Machinery and equipment	618,855	559,912
Trailers and automotive equipment	3,758	3,460
Furniture and fixtures	19,182	16,926
Construction in progress	164,459	140,810
	1,196,875	1,057,797
Less accumulated depreciation	500,145	458,577
Net property, plant and equipment	696,730	599,220
Goodwill	30,634	30,634
Other intangibles, net of accumulated amortization of $462,464 and $413,330, respectively	407,824	456,958
Right of use assets, net of accumulated amortization of $61,498 and $43,307, respectively	63,932	73,422
Other assets	50,668	39,594
Total Assets	$ 2,186,734	$ 1,839,139
Liabilities and Members' Capital		
Current liabilities:		
Current installments of long-term debt	$ 1,625	$ 19,888
Current portion of right of use liabilities	23,680	25,403
Cattle purchases payable	135,521	127,536
Accounts payable — trade	147,831	114,209
Due to affiliates	5,037	4,439
Accrued compensation and benefits	366,183	239,641
Accrued insurance	23,545	22,221
Other accrued expenses and liabilities	55,916	54,547
Distribution payable	350,000	—
Total current liabilities	1,109,338	607,884
Long-term debt, excluding current installments	5,027	342,649
Long-term portion of right of use liabilities	41,745	49,473
Other liabilities	19,692	20,758
Total liabilities	1,175,802	1,020,764
Commitments and contingencies		
Members' capital:		
Members' capital	1,011,064	818,393
Accumulated other comprehensive loss	(132)	(18)
Total members' capital	1,010,932	818,375
Total Liabilities and Members' capital	$ 2,186,734	$ 1,839,139

See accompanying notes to consolidated financial statements.

NATIONAL BEEF PACKING COMPANY, LLC AND SUBSIDIARIES

Consolidated Statements of Operations
(in thousands)

	52 weeks ended December 25, 2021	52 weeks ended December 26, 2020	52 weeks ended December 28, 2019 (a)
Net sales	$ 11,674,676	$ 9,442,036	$ 8,579,568
Costs and expenses:			
Cost of sales	9,031,603	7,911,900	7,554,273
Selling, general and administrative	94,727	84,781	83,005
Depreciation and amortization	115,471	108,348	121,598
Total costs and expenses	9,241,801	8,105,029	7,758,876
Operating income	2,432,875	1,337,007	820,692
Other income (expense):			
Interest income	103	414	465
Interest expense	(7,766)	(8,751)	(11,515)
Income before taxes	2,425,212	1,328,670	809,642
Income tax expense	3,494	3,759	3,038
Net income	$ 2,421,718	$ 1,324,911	$ 806,604

(a) Financial information has been recast to include results attributable to Ohio Beef

See accompanying notes to consolidated financial statements.

NATIONAL BEEF PACKING COMPANY, LLC AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
(in thousands)

	52 weeks ended December 25, 2021	52 weeks ended December 26, 2020	52 weeks ended December 28, 2019 (a)
Net income	$ 2,421,718	$ 1,324,911	$ 806,604
Other comprehensive income:			
Foreign currency translation adjustments	(114)	81	(20)
Comprehensive income	$ 2,421,604	$ 1,324,992	$ 806,584

(a) Financial information has been recast to include results attributable to Ohio Beef

See accompanying notes to consolidated financial statements.

NATIONAL BEEF PACKING COMPANY, LLC AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(in thousands)

	52 weeks ended December 25, 2021	52 weeks ended December 26, 2020	52 weeks ended December 28, 2019 (a)
Cash flows from operating activities:			
Net income	$ 2,421,718	$ 1,324,911	$ 806,604
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	115,471	108,348	121,598
Provision for returns and doubtful accounts	14,878	10,144	11,294
Deferred income tax provision	(243)	—	166
Loss (Gain) on disposal of property, plant and equipment	90	1,082	(93)
Amortization of debt issuance costs	1,687	1,034	735
Changes in assets and liabilities, net of acquisition of businesses:			
Accounts receivable	(64,888)	(5,814)	(57,561)
Due from affiliates	(5,830)	(298)	(158)
Other receivables	1,447	(215)	(1,169)
Inventories	(126,222)	(2,146)	(12,980)
Other assets	(28,774)	(26,738)	(17,480)
Right of use assets and lease liabilities, net	39	36	1,418
Cattle purchases payable	7,985	11,256	(11)
Accounts payable	33,077	15,867	8,674
Due to affiliates	598	1,677	2,612
Accrued compensation and benefits	126,542	87,721	40,874
Accrued insurance	1,324	402	(2,696)
Other accrued expenses and liabilities	301	8,910	4,633
Net cash provided by operating activities	2,499,200	1,536,177	906,460
Cash flows from investing activities:			
Capital expenditures, including interest capitalized	(165,307)	(142,724)	(91,553)
Acquisition of Iowa Premium, LLC, net of cash acquired	—	—	(145,195)
Proceeds from sale of property, plant and equipment	2,087	1,372	1,916
Net cash used in investing activities	(163,220)	(141,352)	(234,832)
Cash flows from financing activities:			
Receipts under revolving credit lines	660,000	537,434	167,696
Payments under revolving credit lines	(686,434)	(523,696)	(200,000)
Receipts under reducing revolving credit lines	1,022,000	545,000	741,250
Payments under reducing revolving credit lines	(1,347,000)	(626,000)	(470,250)
Repayments of other indebtedness/capital leases	(2,256)	(2,619)	(1,429)
Cash paid for financing costs	(4,050)	—	(450)
Cash paid for common control acquisition	—	—	(60,000)
Member distributions	(1,879,047)	(1,326,850)	(882,637)
Net cash used in financing activities	(2,236,787)	(1,396,731)	(705,820)
Effect of exchange rate changes on cash	(116)	68	(47)
Net increase (decrease) in cash	99,077	(1,838)	(34,239)
Cash and cash equivalents at beginning of period	10,669	12,507	46,746
Cash and cash equivalents at end of period	$ 109,746	$ 10,669	$ 12,507
Supplemental disclosures:			
Cash paid during the period for interest	$ 7,870	$ 10,769	$ 11,409
Cash paid during the period for taxes	$ 2,365	$ 1,153	$ 1,458
Supplemental non-cash disclosures of investing and financing activities:			
Non-cash additions to property, plant and equipment	$ 1,206	$ 661	$ 11,551
Distributions declared but unpaid	$ 350,000	$ —	$ —

(a) Financial information has been recast to include results attributable to Ohio Beef

See accompanying notes to consolidated financial statements.

NATIONAL BEEF PACKING COMPANY, LLC AND SUBSIDIARIES
Consolidated Statements of Members' Capital
(in thousands)

	Members' Capital	Accumulated Other Comprehensive (Loss) Income	TOTAL
Balance at December 29, 2018	$ 956,365	$ (79)	$ 956,286
Net income	806,604	—	806,604
Contributions	157,181		157,181
Common control transaction distribution	(60,000)	—	(60,000)
Distributions	(1,039,818)	—	(1,039,818)
Foreign currency translation adjustments	—	(20)	(20)
Balance at December 28, 2019 (a)	$ 820,332	$ (99)	$ 820,233
Net income	1,324,911	—	1,324,911
Distributions	(1,326,850)	—	(1,326,850)
Foreign currency translation adjustments	—	81	81
Balance at December 26, 2020	$ 818,393	$ (18)	$ 818,375
Net income	2,421,718	—	2,421,718
Distributions	(2,229,047)	—	(2,229,047)
Foreign currency translation adjustments	—	(114)	(114)
Balance at December 25, 2021	$ 1,011,064	$ (132)	$ 1,010,932

(a) Financial information has been recast to include results attributable to Ohio Beef

See accompanying notes to consolidated financial statements.

NATIONAL BEEF PACKING COMPANY, LLC AND SUBSIDIARIES

Consolidated Financial Statements

Notes to Consolidated Financial Statements

NOTE 1. DESCRIPTION OF BUSINESS

National Beef Packing Company, LLC (the Company) is a Delaware limited liability company. The Company and its subsidiaries sell meat products to customers in the food service, international, further processor and retail distribution channels. The Company also produces and sells by-products that are derived from its meat processing operations and variety meats to customers in various industries.

The Company operates beef slaughter and fabrication facilities in Liberal and Dodge City, Kansas, and Tama, Iowa, consumer-ready beef and pork processing facilities in Hummels Wharf, Pennsylvania; Moultrie, Georgia; and Kansas City, Kansas, and a beef patty manufacturing facility in North Baltimore, Ohio. National Carriers, Inc., or National Carriers, a wholly-owned subsidiary located in Dallas, Texas, provides trucking services to the Company and third parties and National Elite Transportation, LLC, or National Elite, a wholly-owned subsidiary located in Springdale, Arkansas, provides third-party logistics services to the transportation industry. National Beef Leathers, LLC, or NBL, a wholly-owned subsidiary located in St. Joseph, Missouri, provides hide tanning services for the Company. Kansas City Steak Company, LLC, or Kansas City Steak, includes a direct to consumer business and operates a warehouse and fulfilment facility in Kansas City, Kansas. As of December 25, 2021, and December 26, 2020, approximately 57% of our employees were represented by collective bargaining agreements. The Company makes certain contributions for the benefit of employees (see Note 7).

NOTE 2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of the Company and its direct and indirect subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. All amounts in the accompanying consolidated financial statements and related notes are presented in U.S. dollars.

Recent Accounting Standards

In June 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which, in an effort to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments, replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables and any other financial assets not excluded from the scope that have the contractual right to receive cash. The provisions of the new guidance were effective as of the beginning of our 2020 fiscal year. The adoption of this guidance did not have a material impact on our consolidated financial statements.

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, new accounting guidance to improve the effectiveness of disclosures related to fair value measurements. The new guidance removes certain disclosure requirements related to transfers between Level 1 and Level 2 of the fair value hierarchy along with the policy for timing of transfers between levels and the valuation processes for Level 3 fair value measurements. Additions to the disclosure requirements include more quantitative information related to significant unobservable inputs used in Level 3 fair value measurements and gains and losses included in other comprehensive income. The provisions of the new guidance were effective as of the beginning of our 2020 fiscal year. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. These amendments apply only to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform. The amendments are effective prospectively for all entities as of March 12, 2020, through December 31, 2022. The Company's credit facility bears a variable interest rate that can be indexed off LIBOR rates, for which publication is expected to be discontinued in 2023. The Company's credit facility includes a provision to provide an alternative benchmark rate in place of LIBOR rates once it is discontinued. The Company has not yet adopted this guidance and is currently evaluating the potential impact the adoption of this standard will have on its consolidated financial statements and related disclosures.

Fiscal Year

The Company's fiscal year consists of 52 or 53 weeks, ending on the last Saturday in December. Fiscal 2021, 2020 and 2019 were each 52-week fiscal years. All references to years in these notes to consolidated financial statements represent fiscal years unless otherwise noted.

Use of Estimates

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, using management's best estimates and judgments where appropriate. These estimates and judgments affect the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements. The estimates and judgments will also affect the reported amounts for certain revenues and expenses during the reporting period. Actual results could differ materially from these estimates and judgments.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Company's cash deposits are held at multiple financial institutions. At times, deposits held with financial institutions may exceed the amount of insurance provided by the Federal Deposit Insurance Corporation. The Company has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Allowance for Returns and Expected Credit Losses

The allowance for returns and expected credit losses is the Company's best estimate of the amount of probable returns and credit losses in the Company's existing accounts receivable. The Company closely monitors accounts receivable balances and estimates the allowance for expected credit losses. The estimates are based primarily on historical collection experience, customer conditions and other factors. Management considers factors such as changes in the economy and industry. Specific accounts are reviewed individually for collectability. Historically, the expected credit losses associated with accounts receivable have not been material. The majority of the provision and charge offs noted below were done in relation to product and pricing claims, not credit losses.

The following table represents the rollforward of the allowance for returns and expected credit losses for the fiscal years ended December 25, 2021, December 26, 2020, and December 28, 2019 (in thousands):

Period Ended	Beginning Balance		Provision		Charge Off		Ending Balance	
December 28, 2019	$	(2,584)	$	(11,294)	$	11,338	$	(2,540)
December 26, 2020	$	(2,540)	$	(10,144)	$	10,057	$	(2,627)
December 25, 2021	$	(2,627)	$	(14,878)	$	14,282	$	(3,223)

Inventories

Inventories consist primarily of beef, beef by-products, and parts and supplies and are stated at the lower of cost or net realizable value, with cost principally determined under the first-in-first-out method for beef products and average cost for supplies.

Inventories at December 25, 2021, and December 26, 2020, consisted of the following (in thousands):

	December 25, 2021		December 26, 2020	
Dressed and boxed beef products	$	319,091	$	219,135
Beef by-products		50,453		29,612
Parts, supplies and other		46,619		41,194
Total inventory	$	416,163	$	289,941

Property, plant and equipment

Property, plant and equipment are recorded at cost. Property, plant and equipment are depreciated principally on a straight-line basis over the estimated useful life of the individual asset by major asset class as follows:

Buildings and improvements	15 to 25 years
Machinery and equipment	2 to 15 years
Automotive equipment	2 to 4 years
Furniture and fixtures	3 to 5 years

Depreciation expense was $66.4 million, $59.2 million and $74.2 million for the fiscal years ended December 25, 2021, December 26, 2020, and December 28, 2019, respectively.

Upon disposition of these assets, any resulting gain or loss is included in selling, general, and administrative. Major repairs and maintenance costs that extend the useful life of the related assets are capitalized. Normal repairs and maintenance costs are charged to operations as incurred.

The Company capitalizes the cost of interest on borrowed funds which are used to finance the construction of certain property, plant and equipment. Such capitalized interest costs are charged to the property, plant and equipment accounts and are amortized through depreciation charges over the estimated useful lives of the assets. Interest capitalized was $1.7 million, $1.9 million and $1.4 million for the fiscal years ended December 25, 2021, December 26, 2020, and December 28, 2019, respectively.

The Company reviews its 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 held and used is assessed based on estimated undiscounted future cash flows. Impairment, if any, is recognized based on fair value of the assets.

Assets to be disposed of are reported at the lower of cost or fair value less costs to sell and are no longer depreciated. There were no events or circumstances which would indicate that the carrying amount of our property plant, and equipment may not be recoverable during 2021, 2020 or 2019.

Goodwill and Other Intangible Assets

ASC 350, *Intangibles - Goodwill and Other*, provides that goodwill shall not be amortized but shall be tested for impairment on an annual basis. Identifiable intangible assets with definite lives are amortized over their estimated useful lives. The Company evaluates goodwill annually for impairment at the end of December and this test involves comparing the fair value of a reporting unit to the reporting unit's book value to determine if any impairment exists. Fair values are based on valuation techniques we believe market participants would use, although the valuation process requires significant judgment and often involves the use of significant estimates and assumptions. The Company calculates the fair value of the reporting unit using estimates of future cash flows and other market comparable information deemed appropriate. The estimates and assumptions used in determining fair value could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge. If the book value of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. As a result of the testing performed on the Company's goodwill, the fair value exceeded the carrying value of the reporting unit and thus no impairment charge was recorded. Adverse market or economic events could result in impairment charges in future periods.

ASC 360, *Impairment and Disposal of Long-Lived Assets*, provides that we evaluate our long-lived assets for impairment whenever events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. When testing for impairment, we group our long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (or asset group). The determination of whether an asset group is recoverable is based on management's estimate of undiscounted future cash flows directly attributable to the asset group as compared to its carrying value. If the carrying amount of the asset group is greater than the undiscounted cash flows, an impairment loss would be recognized for the amount by which the carrying amount of the asset group exceeds its estimated fair value. As a result of the review performed, no triggering events occurred during 2021, 2020 or 2019 related to the Company's intangible assets, thus no impairment charge was recorded.

The amounts of goodwill are as follows (in thousands):

		December 25, 2021	
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization:			
Customer relationships	18	$ 433,300	$ 230,415
Trade names	20	290,148	133,945
Cattle supply relationships	15	143,600	95,733
Other	6	3,240	2,371
Total intangible assets	18	$ 870,288	$ 462,464

		December 26, 2020			
	Weighted Average Amortization Period	Gross Carrying Amount		Accumulated Amortization	
Intangible assets subject to amortization:					
Customer relationships	18	$	433,300	$	206,045
Trade names	20		290,148		119,439
Cattle supply relationships	15		143,600		86,160
Other	6		3,240		1,686
Total intangible assets	18	$	870,288	$	413,330

For the fiscal years ended December 25, 2021, December 26, 2020, and December 28, 2019, the Company recognized $49.1 million, $49.1 million and $47.4 million, respectively, of amortization expense on intangible assets. The following table reflects the anticipated amortization expense relative to intangible assets recognized in the Company's consolidated balance sheet as of December 25, 2021, for each of the next five years and thereafter (in thousands):

Estimated amortization expense for fiscal years ending:		
2022	$	49,051
2023		48,713
2024		48,445
2025		48,445
2026		48,445
Thereafter		164,725
Total	$	407,824

Overdraft Balances

The majority of the Company's bank accounts are zero balance accounts where cash needs are funded as checks are presented for payment by the holder. Checks issued pending clearance that result in overdraft balances for accounting purposes are included in the trade accounts payable and cattle purchases payable balances, and the change in the related balances are reflected in operating activities on the Company's consolidated statement of cash flows.

Self-insurance

The Company is self-insured for certain losses relating to workers' compensation, automobile liability, general liability and employee medical and dental benefits. The Company has purchased stop-loss coverage in order to limit its exposure to any significant levels of claims. Self-insured losses are accrued in accrued insurance and other long-term liabilities in the Company's consolidated balance sheets based upon the Company's estimates of the aggregate uninsured claims incurred using actuarial assumptions accepted in the insurance industry and the Company's historical experience rates.

Distribution Payable

Distribution payables represent cash distributions to our members that have been declared but not paid as of the end of the period. The distribution is a current liability as they are expected to be paid to the members in the following period.

Environmental Expenditures and Remediation Liabilities

Environmental expenditures that relate to current or future operations and which improve operational capabilities are capitalized at the time of expenditure. Expenditures that relate to an existing or prior condition caused by past operations, and do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated.

Foreign Currency Translation

The Company has representative offices located in Tokyo, Japan; Seoul, South Korea; and Hong Kong. The primary activity of these offices is to assist customers with product and order related issues. For foreign operations, the local currency is the functional currency. Translation into U.S. dollars is performed for assets and liabilities at the exchange rates as of the balance sheet date. Income and expense accounts are recorded at average exchange rates for the period. Adjustments resulting from the translation are reflected as a separate component of other comprehensive income.

Income Taxes

The provision for income taxes is computed on a separate legal entity basis. Accordingly, as the Company is a limited liability company, the separate legal entity does not provide for income taxes, as the results of operations are included in the taxable income of the individual members. However, certain states impose privilege taxes on the apportioned taxable income or income related measurements of the Company. To the extent that entities provide for income taxes, deferred tax assets and liabilities are recognized based on the differences between the financial statement and tax basis of assets and liabilities at each balance sheet date using enacted tax rates expected to be in effect in the year the differences are expected to reverse and are thus included in the consolidated financial statements of the Company. Based on federal income tax statute of limitations, National Carriers remains subject to examination of its income taxes for fiscal years 2021, 2020, 2019 and 2018.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, short-term trade and other receivables and payables, approximate their fair values due to the short-term nature of the instruments. The carrying value of debt approximates its fair value at December 25, 2021, and December 26, 2020, as substantially all debt carries variable interest rates.

Selling, General and Administrative Costs

Selling expenses consist primarily of salaries, trade promotions, advertising, commissions and other marketing costs. General and administrative costs consist primarily of general management, insurance and professional expenses. Selling, general and administrative costs consist of aggregated expenses that generally apply to multiple locations.

Shipping Costs

Pass-through finished goods delivery costs reimbursed by customers are reported in sales, while an offsetting expense is included in cost of sales.

Advertising

Advertising expenses are charged to operations in the period incurred and were $25.3 million, $23.6 million and $17.5 million for the fiscal years ended December 25, 2021, December 26, 2020, and December 28, 2019.

Comprehensive Income

Comprehensive income consists of net income and foreign currency translation adjustments.

Derivative Activities

The Company uses futures contracts in order to reduce exposure associated with entering into firm commitments to purchase live cattle at prices determined prior to the delivery of the cattle as well as firm commitments to sell certain beef products at sales prices determined prior to shipment. In accordance with ASC 815, Derivatives and Hedging, the Company accounts for futures contracts and their related firm purchase commitments at fair value. Firm commitments for sales are treated as normal sales and therefore not marked to market. Certain firm commitments to purchase cattle, are marked to market when a price has been agreed upon, otherwise they are treated as normal purchases and, therefore, not marked to market. ASC 815 imposes extensive recordkeeping requirements in order to treat a derivative financial instrument as a hedge for accounting purposes. Derivatives qualify for treatment as hedges when there is a high correlation between the change in fair value of the instrument and the related change in fair value of the underlying commitment. For derivatives that qualify as effective hedges, the change in fair value has no net effect on earnings until the hedged transaction is settled. For derivatives that are not designated as hedging instruments, or for the ineffective portion of a hedging instrument, the change in fair value does affect current period net earnings.

While management believes each of these instruments help mitigate various market risks, they are not designated and accounted for as hedges under ASC 815 as a result of the extensive recordkeeping requirements of this statement. Accordingly, the gains and losses associated with the change in fair value of the instrument and the offsetting gains and losses associated with changes in the market value of certain of the firm purchase commitments related to the futures contracts are recorded to income and expense in the period of change.

The fair value of derivative assets is recognized within Other current assets, while the fair value of derivative liabilities is recognized within Other accrued expenses and liabilities.

NOTE 3. REVENUE RECOGNITION

The Company generates revenue primarily from customers in the retail, foodservice, international, and other channels. Our revenues primarily result from contracts with customers and are generally short term in nature with the delivery of product as the single performance obligation. We recognize revenue from the sale of the product at the point in time when our performance obligation has been satisfied and control of the product has transferred to our customer, which generally occurs upon shipment or delivery to a customer based on terms of the sale. In accordance with Topic 340, an entity may elect a practical expedient that allows the entity to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the entity otherwise would have recognized is one year or less. Our contracts are generally less than one year, therefore we have elected this practical expedient and have recognized costs paid to obtain contracts as expense when incurred. Additionally, items that are not material in the context of the contract are recognized as expense. Any taxes collected on behalf of government authorities are excluded from net revenues.

Revenue is measured by the transaction price, which is defined as the amount of consideration we expect to receive in exchange for providing goods to customers. The transaction price is adjusted for estimates of known or expected variable consideration, which includes consumer incentives, trade promotions, and allowances, such as discounts, rebates, volume-based incentives, cooperative advertising, and other programs. Variable consideration related to these programs is recorded as a reduction to revenue based on amounts we expect to pay. We base these estimates on current performance, historical utilization, and projected redemption rates of each program. We review and update these estimates regularly until the incentives or product returns are realized and the impact of any adjustments are recognized in the period the adjustments are identified. In many cases, key sales terms such as pricing and quantities ordered are established on a regular basis such that most customer arrangements and related incentives have a duration of less than one year. Amounts billed and due from customers are short term in nature and are classified as receivables since payments are unconditional and only the passage of time is required before payments are due. Additionally, we do not grant payment financing terms greater than one year.

Disaggregated Revenue

The following table further disaggregates our sales by major revenue stream for the fiscal years ended (in thousands):

	52 weeks ended December 25, 2021	52 weeks ended December 26, 2020	52 weeks ended December 28, 2019
Beef, pork, & beef by-products	$ 12,008,507	$ 9,664,604	$ 8,735,243
Other	276,508	272,336	229,174
Intercompany	(610,339)	(494,904)	(384,849)
Net Sales	$ 11,674,676	$ 9,442,036	$ 8,579,568

Contract Balances

Nearly all of the Company's contracts with its customers are short-term, defined as less than one year. The Company receives payment from customers based on terms established with the customer. Payments are typically due within seven days of delivery. There are rarely contract assets related to costs incurred to perform in advance of scheduled billings. The Company, which ships internationally, requires certain customers to pay in advance to avoid collection risk. Revenue contract liabilities relate to payments received in advance of satisfying the performance under the customer contract and are included in Other accrued expenses and liabilities in the consolidated balance sheets.

Changes in the contract liability balances during 2021 are as follows (in thousands):

	December 25, 2021	December 26, 2020	Change
Contract liabilities	$ 31,310	$ 24,070	$ 7,240

Changes in the contract liability balances during 2020 are as follows (in thousands):

	December 26, 2020	December 28, 2019	Change
Contract liabilities	$ 24,070	$ 21,079	$ 2,991

Substantially all of the contract liability as of December 26, 2020, was recognized in revenue during 2021. The Company expects to recognize substantially all of the current year liability in 2022.

NOTE 4. LEASES

The Company reviews all agreements entered into in order to determine if the contract contains a lease which will be accounted under ASC 842. Our portfolio of leases primarily consists of machinery, equipment and railcars for our slaughter and fabrication facilities and tractors and trailers for our wholly owned trucking subsidiary, National Carriers. In addition, we lease our corporate headquarters facility and various regional offices.

Many of our tractor and trailer leases include a terminal rental adjustments clause (“TRAC”). Under these arrangements, at the end of the lease term and upon the lessor’s sale or disposition of the assets, if the amount received by the lessor is less than an amount predetermined and agreed upon in the lease arrangement, or the TRAC value, the Company is liable to the Lessor and shall immediately pay to the Lessor the amount of the deficiency as additional rental payments. The additional amount is typically limited to the TRAC value less a percentage of the original fair value of the leased assets. The Company considers these potential incremental lease payments as residual value guarantees and only includes the probable portion as lease payments upon lease commencement.

The majority of our leases include fixed rental payments. Certain of our lease agreements contain options or renewals that extend the lease term. Upon lease commencement, we only reflect the payments related to options or renewals within the right of use asset and lease liability balances when the option or renewals are reasonably certain to be exercised. The Company generally expects that it will renew lease agreements or enter new leases as the existing leases expire.

Upon adoption of ASC 842, we elected the package of practical expedients whereby the Company will not assess whether any expired or existing contracts are leases or contain leases under ASC 842, classification of any expired or existing leases under ASC 842 and whether unamortized initial direct costs for existing leases meet the definition of initial direct costs under ASC 842. In addition, we have elected the practical expedient to keep short-term leases (defined as less than 12 months without a purchase option that is likely to be exercised) off of our balance sheet and the practical expedient to combine lease and non-lease components by class of underlying asset.

When capitalizing right of use assets and lease liabilities, the Company uses the rate implicit in the lease, if it is readily available, otherwise, we use or our incremental borrowing rate.

During our fiscal years ended December 25, 2021, and December 26, 2020, we recognized rent expense associated with our leases as follows (in thousands):

	December 25, 2021	December 26, 2020	December 28, 2019
Operating lease cost:			
Fixed rent expense	$ 28,250	$ 28,560	$ 25,494
Variable rent expense	36	26	14
Finance lease cost:			
Amortization of ROU assets	2,356	2,137	1,752
Interest expense	404	479	437
Short-term lease cost	5,376	4,514	6,448
Net lease cost	$ 36,422	$ 35,716	$ 34,145
Lease cost – Cost of sales	31,153	30,593	29,388
Lease cost – SG&A	2,509	2,507	2,568
Lease cost – Depreciation & Amortization	2,356	2,137	1,752
Lease cost – Interest expense	404	479	437
Net lease cost	$ 36,422	$ 35,716	$ 34,145

Amounts recognized as right-of-use assets related to finance leases are included in Property, plant and equipment, at cost in the accompanying consolidated balance sheet, while amounts related to finance lease liabilities are included in Current installments of long-term debt and Long-term debt. As of December 25, 2021, and December 26, 2020, right-of-use assets and lease liabilities related to finance leases were as follows (in thousands):

	December 25, 2021	December 26, 2020
Finance lease ROU assets	$ 8,193	$ 10,385
Finance lease liabilities:		
Current installments of long-term debt	2,435	2,239
Long-term debt	6,142	8,427

During the fiscal years ended December 25, 2021 and December 26, 2020, we had the following cash and non-cash activities associated with our leases (in thousands):

	December 25, 2021	December 26, 2020	December 28, 2019
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	$ 28,580	$ 28,621	$ 24,928
Operating cash flows from finance leases	408	485	401
Financing cash flows from finance leases	2,247	2,200	1,429
Supplemental non-cash information			
Additions to ROU assets obtained from:			
New operating lease liabilities	12,370	7,676	112,218
New finance lease liabilities	170	1,145	12,849

The future payments due under operating and finance leases as of December 25, 2021, is as follows (in thousands):

	Operating	Finance
Due in:		
2022	$ 25,429	$ 2,768
2023	16,151	2,030
2024	10,454	2,171
2025	6,246	2,175
2026	4,155	171
Thereafter	8,170	—
Total	70,605	9,315
Future interest	(5,180)	(738)
Lease liabilities recognized	$ 65,425	$ 8,577

As of December 25, 2021, the weighted-average remaining lease term for all operating leases is 3.46 years, while the weighted-average remaining lease term for all finance leases is 3.92 years. As of December 26, 2020, the weighted-average remaining lease term for all operating leases is 3.44 years, while the weighted-average remaining lease term for all finance leases is 4.84 years.

As of December 25, 2021, the weighted-average discount rate associated with operating leases is 3.4%, while the weighted-average discount rate associated with finance leases is 4.2%. As of December 26, 2020, the weighted-average discount rate associated with operating leases is 3.6%, while the weighted-average discount rate associated with finance leases is 4.2%.

NOTE 5. ACQUISITIONS

On February 28, 2019, we acquired 100% of the ownership interests in Ohio Beef USA, LLC (Ohio Beef) from NBM US Holdings, Inc., a subsidiary of Marfrig, for $60.0 million in cash. Ohio Beef is a fresh and frozen beef patty processor in North Baltimore, Ohio. The Company determined this acquisition to be a common control transaction under ASC 805, "Business Combinations." Therefore, we accounted for this transaction at the carrying amount of the net assets acquired.

As a result of the Ohio Beef transaction, the prior period consolidated financial statements for the periods in which both entities were under common control have been adjusted. Accordingly, the Company's prior period consolidated financial statements from the date of common control under Marfrig, or June 5, 2018, have been adjusted to include the financial information of Ohio Beef for that same period. The $60.0 million cash payment in fiscal 2019 was treated as an equity distribution.

On June 10, 2019, the members of the Company acquired 100% of the ownership interests in Iowa Premium, LLC ("Iowa Premium") from Sysco Holdings, LLC, which included $8.0 million of cash, for $153.2 million. The cash utilized by the members for the acquisition was distributed from the Company and immediately upon closing of the acquisition, each of the members of the Company contributed all its Iowa Premium ownership interests to the Company. The distribution, acquisition and contribution transactions were governed by several related agreements that resulted in the Company, in substance, acquiring 100% of the Iowa Premium ownership interests.

NOTE 6. LONG-TERM DEBT AND LOAN AGREEMENTS

The Company has entered into various debt agreements to finance acquisitions and provide liquidity to operate the business on a going forward basis. As of December 25, 2021, and December 26, 2020, debt consisted of the following (in thousands):

	December 25, 2021	December 26, 2020
Short-term debt:		
Reducing revolver credit facility (a)	$ —	$ 18,750
Current portion of loan costs (c)	(810)	(1,101)
Current portion of capital lease obligations (c)	2,435	2,239
	1,625	19,888
Long-term debt:		
Reducing revolver credit facility (a)	—	306,250
Industrial Development Revenue Bonds (b)	2,000	2,000
Revolving credit facility (a)	—	26,434
Long-term portion of loan costs (c)	(3,115)	(462)
Long-term capital lease obligations (c)	6,142	8,427
	5,027	342,649
Total debt	$ 6,652	$ 362,537

(a) Senior Credit Facilities - In November 2021, the Company entered into a Fourth Amended and Restated Credit Agreement (Debt Agreement). The Debt Agreement matures in November 2026. The Debt Agreement includes a $550.0 million reducing revolver loan and a $350.0 million revolving credit facility. The reducing revolver loan commitment decreases by $25.0 million on each annual anniversary of the Debt Agreement. The Debt Agreement is secured by a first priority lien on substantially all of the assets of the Company and its subsidiaries and includes customary covenants including a financial covenant that requires the Company to maintain a minimum tangible net worth; at December 25, 2021, the Company was in compliance with the financial covenant.

At December 25, 2021, the Company's outstanding debt balance under the Debt Agreement was $0.0 million. The reducing revolving loan and the revolving credit facility bear interest at the Base Rate or the LIBOR Rate (as defined in the Debt Agreement), plus a margin ranging from 0.5% to 2.75% depending upon certain financial ratios and the rate selected.

Borrowings under the reducing revolver loan and the revolving credit facility are available for the Company's working capital requirements, capital expenditures and other general corporate purposes. Unused capacity under the revolving credit facility can also be used to issue letters of credit. There were letters of credit aggregating $14.1 million outstanding at December 25, 2021. Amounts available under the revolving credit facility are subject to a borrowing base calculation primarily comprised of receivable and inventory balances; amounts available under the reducing revolver facility are constrained only by the annual reduction in the commitment amount. On December 25, 2021, after deducting outstanding amounts and issued letters of credit, $335.9 million of the unused revolving credit facility and $550.0 million of the reducing revolver commitment was available to the Company.

(b) Industrial Development Revenue Bonds - Effective December 30, 2004, the Company entered into a transaction with the City of Dodge City, Kansas, designed to provide property tax savings. Under the transaction, the City purchased the Company's Dodge City facility, or the facility, by issuing $102.3 million in bonds due in December 2019, used the proceeds to purchase the facility and leased the facility to the Company for an identical term under a capital lease. The Company purchased the City's bonds with proceeds of its term loan under the Debt Agreement. Because the City has assigned the lease to the bond trustee for the benefit of the Company as the sole bondholder, the Company, effectively controls enforcement of the lease against itself. As a result of the capital lease treatment, the facility remains a component of property, plant and equipment in the Company's consolidated balance sheets. As a result of the legal right of offset, the capital lease obligation and the corresponding bond investments have been eliminated in consolidation. The transaction provides the Company with property tax exemptions for the leased facility, that, after netting payments to the City and local school district under payment in lieu of tax agreements, result in an annual property tax savings of approximately 25%. The facility remains subject to a prior mortgage and security interest in favor of the lenders under the Debt Agreement. Additional revenue bonds may be issued to cover the costs of certain improvements to this facility. The total amount of revenue bonds authorized for issuance is $120.0 million. During 2019 the Company extended the basic term of the bonds based on the original agreement and exercised its right to purchase the project. The purchase closed in 2020.

The cities of Liberal and Dodge City, Kansas, issued an aggregate of $13.9 million of industrial development revenue bonds on the Company's behalf to fund the purchase of equipment and construction improvements at the Company's facilities in those cities. These bonds were issued in four series of $1.0 million, $1.0 million, $6.0 million and $5.9 million. Of the four series of bonds, only the $1.0 million and $1.0 million due on demand or on February 1, 2029, and March 1, 2027, respectively remain outstanding. The bonds issued in 1999 and 2000 are variable rate demand obligations that bear interest at a rate that is adjusted weekly, which rate will not exceed 10% per annum. The Company has the option to redeem a series of bonds at any time for an amount equal to the principal plus accrued interest to the date of such redemption. The holders of the bonds have the option to tender the bonds upon seven days' notice for an amount equal to par plus accrued interest. To the extent that the remarketing agent for the bonds is unable to resell any of the bonds that are tendered, the remarketing agent could use the letter of credit to fund such tender. Because each series of bonds is backed by a letter of credit under our Debt Agreement, these due-on-demand bonds have been presented as non-current obligations until twelve months prior to their maturity.

On December 17, 2010, National Beef Leathers, LLC, or Leathers, a subsidiary of NBP, entered into various agreements with the city of St. Joseph, Missouri, designed to provide NBP property tax savings. Under the transaction, the city of St. Joseph issued $12.7 million in bonds due in December 2022, used the proceeds to purchase the equipment within the Leathers facility and subsequently leased the equipment back to us for an identical term under a capital lease. The Company purchased the City's bonds with proceeds of our term loan under the Debt Agreement. Because the city of St. Joseph has assigned the lease to the bond trustee for our benefit as the sole bondholder, the Company, effectively controls enforcement of the lease against ourselves. As a result of the capital lease treatment, the equipment remains a component of property, plant and equipment in NBP's consolidated balance sheets. As a result of the legal right of offset, the capital lease obligation and the corresponding bond investments have been eliminated in consolidation.

Effective April 3, 2020, the Company entered a transaction with the City of Liberal, Kansas, designed to provide property tax savings. Under the transaction, the City intends to purchase certain assets of the Company's Liberal, Kansas, facility (the facility) by issuing federally taxable industrial revenue bonds in an amount not to exceed $65.0 million with a stated maturity of December 31, 2032. The City then leased the assets to the Company under a capital lease with a basic term expiring when any and all principal, redemption premium, and interest on said bonds are redeemed and paid in full. The Company purchased the City's bonds with proceeds of its loans under the Debt Agreement. Because the City has assigned the lease to the bond trustee for the benefit of the Company as the sole bondholder, the Company, effectively controls enforcement of the lease against itself. As a result of the capital lease treatment, the facility remains a component of property, plant and equipment in the Company's consolidated balance sheets. As a result of the legal right of offset, the capital lease obligation and the corresponding bond investments have been eliminated in consolidation. The facility remains subject to a prior mortgage and security interest in favor of the lenders under the Debt Agreement. The total amount of revenue bonds authorized for issuance is $65.0 million.

(c) Debt issuance costs - In November 2021, the Company entered into a Fourth Amended and Restated Credit Agreement (Debt Agreement). The Debt Agreement matures in November 2026. The Debt Agreement includes a $550.0 million reducing revolver loan and a $350.0 million revolving credit facility. The related financing charges of approximately $4.1 million will be amortized over the life of the loan.

Amortization of $1.7 million, $1.0 million and $0.7 million was charged to interest expense during the fiscal years ended December 25, 2021, December 26, 2020, and December 28, 2019, respectively.

The aggregate minimum principal maturities of the long-term debt for each of the five fiscal years and thereafter following December 25, 2021, are as follows (in thousands):

	Minimum Principal Maturities	
Fiscal year ending December:		
2022	$	1,625
2023		1,022
2024		1,212
2025		671
2026		—
Thereafter		2,122
Total minimum principal maturities	$	6,652

Other Commitments

Utilities Commitment - Effective December 30, 2004, the Company finalized an agreement with the City of Dodge City, Kansas, whereby in consideration of certain improvements made to the city water and wastewater systems, the Company committed to make a series of service charge payments totaling $19.3 million over a 20-year period, of which $0.8 million was paid in each of the fiscal years 2021, 2020 and 2019, respectively. Payments under the commitment will be $0.8 million in each of the fiscal years 2022 through 2023.

NOTE 7. RETIREMENT PLANS

The Company maintains tax-qualified employee savings and retirement plans, or the 401(k) Plans, covering certain of the Company's employees. Pursuant to the 401(k) Plans, eligible employees may elect to reduce their current compensation by up to the lesser of 75% of their annual compensation or the statutorily prescribed annual limit and have the amount of such reduction contributed to the 401(k) Plans. The

401(k) Plans provide for additional matching contributions by the Company, based on specific terms contained in the 401(k) Plans. The trustees of the 401(k) Plans, at the direction of each participant, invest the assets of the 401(k) Plan in designated investment options. The 401(k) Plans are intended to qualify under Section 401 of the Internal Revenue Code. Expenses related to the 401(k) Plans totaled approximately $4.0 million, $2.4 million and $1.9 million for the fiscal years 2021, 2020 and 2019, respectively.

During 2017, the Company bargained with the United Food and Commercial Workers International Union (UFCW) Local 2 for a complete withdrawal from a UFCW sponsored retirement plan in which certain of our employees participate (the "UFCW Plan"). As a result, the Company is required to make withdrawal payments into the fund over a 20-year period. The Company recorded expenses related to the UFCW Plan withdrawal of approximately $18.6 million which was included in Cost of sales during 2017. Payments into the UFCW Plan began during 2018. The current portion of the withdrawal liability is approximately $0.8 million and is included in Other accrued expenses and liabilities on the consolidated balance sheets. The long-term portion of the withdrawal liability is approximately $15.6 million and $16.4 million for the periods ending December 25, 2021, and December 26, 2020, and is included in Other liabilities on the consolidated balance sheets.

NOTE 8. INCOME TAXES

Income tax expense includes the following current and deferred provisions (in thousands):

	52 weeks ended December 25, 2021	52 weeks ended December 26, 2020	52 weeks ended December 28, 2019
Current provision:			
Federal	$ 1,158	$ 1,827	$ 1,442
State	2,475	1,838	1,338
Foreign	104	94	92
Total current tax expense	3,737	3,759	2,872
Deferred provision:			
Federal	(202)	—	136
State	(41)	—	30
Foreign	—	—	—
Total deferred tax expense	(243)	—	166
Total income tax expense	$ 3,494	$ 3,759	$ 3,038

NOTE 9. RELATED PARTY TRANSACTIONS

The Company entered into various transactions with various Marfrig affiliates, and a company affiliated with NBPCo Holdings, which holds an ownership interest in the Company, in the ordinary course of business.

During fiscal years 2021, 2020 and 2019, the Company had sales and purchases with the following related parties (in thousands):

	52 weeks ended December 25, 2021		52 weeks ended December 26, 2020		52 weeks ended December 28, 2019	
Sales to:						
Beef Products, Inc. (1)	$	89,894	$	46,735	$	34,773
MF Foods USA, LLC (2)		1,302		820		57
Total sales to affiliate	$	91,196	$	47,555	$	34,830
Purchases from:						
Beef Products, Inc. (1)	$	8,015	$	8,653	$	12,565
Marfrig affiliates (3)		42,903		32,455		656
Total purchases from affiliate	$	50,918	$	41,108	$	13,221

(1) Beef Products, Inc. (BPI) is an affiliate of NBPCo Holdings

(2) MF Foods USA, LLC is a wholly owned subsidiary of Marfrig

(3) Marfrig affiliates include Weston Importers, LTD, Establecimientos Colonia, Frigorifico Tacuarem, Inaler SA, and Frigorifico LaCaballada

In January 2007, we entered into an agreement with BPI for BPI to manufacture and install a grinding system in one of our plants. In accordance with the agreement with BPI, we are to pay BPI a technology and support fee based on the number of pounds of product produced using the grinding system. The installation of the grinding system was completed in fiscal year 2008. We paid approximately $1.5 million during 2021, $1.7 million during 2020 and $1.6 million during fiscal years 2019 to BPI in technology and support fees.

We are party to a long-term cattle supply agreement with U.S. Premium Beef, LLC (US Premium Beef), a minority owner of the Company. Under this agreement we have agreed to purchase from the members of US Premium Beef, and US Premium Beef has agreed to cause its members to deliver, 735,385 head of cattle each year (subject to adjustment) at prices based on those published by the U.S. Department of Agriculture, subject to adjustments for cattle performance. We obtained approximately 23% of our cattle requirements under this agreement during each of the years 2021, 2020 and 2019.

NOTE 10. DISCLOSURE ABOUT DERIVATIVE INSTRUMENTS

As part of the Company’s ongoing operations, the Company is exposed to market risks such as changes in commodity prices. To manage these risks, the Company may enter into the following derivative instruments pursuant to our established policies:

- Forward purchase contracts for cattle for use in our beef plants
- Exchange traded futures contracts for cattle
- Exchange traded futures contracts for agricultural products

While management believes each of these instruments help mitigate various market risks, they are not designated and accounted for as hedges as a result of the extensive recordkeeping requirements associated with hedge accounting. Accordingly, the gains and losses associated with the change in fair value of the instruments are recorded to net sales and cost of goods sold in the period of change. Certain firm commitments for live cattle purchases and all firm commitments for boxed beef sales are purchased in the normal course of business and are treated as normal purchases and sales and not recorded at fair value.

The Company enters into certain commodity derivatives, primarily with a diversified group of counterparties. The maximum amount of loss due to the credit risk of the counterparties, should the counterparties fail to perform according to the terms of the contracts, is deemed to be immaterial as of December 25, 2021, and December 26, 2020. The exchange-traded contracts have been entered into under a master netting agreement. None of the derivatives entered into have credit-related contingent features.

The following table presents the fair values regarding derivative instruments not designated as hedging instruments as of December 25, 2021, and December 26, 2020 (in thousands):

	Derivative Asset As of December 25, 2021		Derivative Liability As of December 25, 2021	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Commodity contracts	Other current assets	$ 1,527	Other accrued expenses and liabilities	$ 494
Totals		$ 1,527		$ 494

	Derivative Asset As of December 26, 2020		Derivative Liability As of December 26, 2020	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Commodity contracts	Other current assets	$ 86	Other accrued expenses and liabilities	$ 77
Totals		$ 86		$ 77

The following table presents the unrealized and realized gains (losses) on derivative contracts as reflected in the consolidated statement of operations for the fiscal years ended December 25, 2021, December 26, 2020, and December 28, 2019 (in thousands):

		Amount of Gain or (Loss) Recognized in Income on Derivatives		
Derivatives Not Designated as Hedging Instruments	**Location of Gain or (Loss) Recognized in Income on Derivatives**	**Fiscal Year Ended December 25, 2021**	**Fiscal Year Ended December 26, 2020**	**Fiscal Year Ended December 28, 2019**
Commodity contracts	Net sales	$ 4,421	$ (12,569)	$ (11)
Commodity contracts	Cost of sales	(105)	3,376	2,443
Totals		$ 4,316	$ (9,193)	$ 2,432

NOTE 11. LEGAL PROCEEDINGS AND CONTINGENCIES

The Company is a defendant in four class action lawsuits, one single-plaintiff lawsuit in the United States District Court, Minnesota District, one single-plaintiff lawsuit in the United States District Court, Southern District of Florida and one single-plaintiff lawsuit in the United States District Court, Connecticut, all of which allege that the Company violated the Sherman Antitrust Act and some of which allege that the Company violated the Packers and Stockyards Act, the Commodity Exchange Act, and various state laws (the "Antitrust Cases"). The class-action Antitrust Cases are entitled In re Cattle Antitrust Litigation, which was filed originally on April 23, 2019, Peterson et al. v. JBS USA Food Company Holdings, et al., which was filed originally on April 26, 2019; In re DPP Beef Litigation, which was filed originally on April 26, 2019; and Erbert & Gerbert's, Inc. v. JBS USA Food Company Holdings, et al., which was filed originally on June 18, 2020. The single-plaintiff Antitrust Cases are entitled Winn-Dixie Stores, Inc. and Bi-Lo Holding, LLC v. Cargill, Inc., et al., which was filed on August 2, 2021; Cheney Brothers, Inc. v. Cargill, Inc., et al,, which was filed on January 31, 2022, and Subway v. Cargil, Inc. et al., which was filed on February 22, 2022. The plaintiffs in the Antitrust Cases seek treble damages and other relief under the Sherman Antitrust Act, the Packers & Stockyards Act, and/or the Commodities Exchange Act and attorneys' fees. The Company is also a defendant in two class action lawsuits filed on January 7, 2020, alleging that it misrepresented the origin of its products in violation of the New Mexico Unfair Practices Act (the "Labelling Cases"). The Labelling Cases are entitled Thornton v. Tyson Foods, Inc., et al., filed in the New Mexico Second Judicial District Court, Bernalillo County, and Lucero v. Tyson Foods, et al., filed in the New Mexico Thirteenth Judicial District Court, Sandoval County. The Labelling Cases were subsequently removed to the United States District Court, New Mexico District. The plaintiffs in the Labelling Cases seek treble damages and other relief and attorneys' fees. The Company believes it has meritorious defenses to the claims in the Antitrust Cases and the Labelling Cases and intends to defend these cases vigorously. There can be no assurances, however, as to the outcome of these matters or the impact on the Company's consolidated financial position, results of operations and cash flows.

In addition to the antitrust litigation, the Company is subject to an investigation by the United States Department of Justice and approximately 30 state attorneys general regarding industry cattle procurement practices. The Company is cooperating with these investigations and is working with the Department of Justice and the relevant states to provide information requested in connection with the investigations. The Company believes it has meritorious defenses to any potential claims that might arise out of these government investigations, although there can be no assurance as to the outcome of these investigations or the impact on the Company's consolidated financial position, results of operations and cash flows.

The Company is a party to various other lawsuits and claims arising out of the operation of its business. Management believes the ultimate resolution of such matters should not have a material adverse effect on the Company's financial condition, results of operations or liquidity.

NOTE 12. LEGAL PROCEEDINGS AND CONTINGENCIES

The Company evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through February 25, 2022, the date the consolidated financial statements were available for issuance.

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