25 YEARS USPB

2022 ANNUAL REPORT

USPB BOARD OF DIRECTORS

USPB MANAGEMENT

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MESSAGE TO UNITHOLDERS

"December 1, 1997, marked the beginning of a new era for our members and the U.S. cattle industry." This was the first line from the Message to Shareholders in the U.S. Premium Beef (USPB) inaugural annual report for fiscal year 1998.

Many of our current members were some of the first to make the investment in shares of U.S. Premium Beef Ltd. in 1997. Thank you. We appreciate your leadership and support. USPB's existence today is a result of many beef producers who felt a tremendous need for change in the beef industry and took the time, energy and risk to ensure a sustainable future. Your vision and motivation ultimately became the reality that is USPB today.

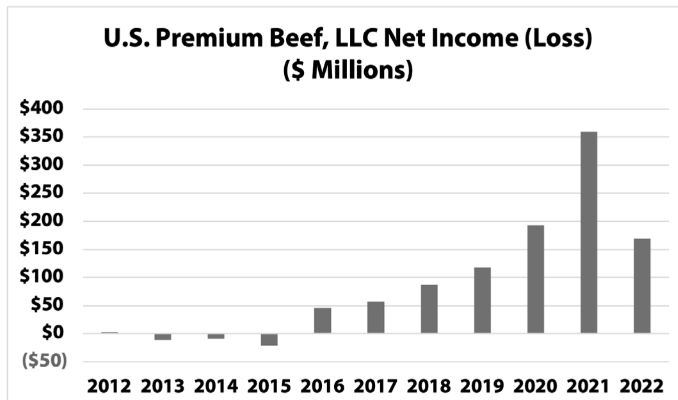
Our founders were motivated to create a company that had ownership, access to carcass data and market access. Fearing a lack of sustainability of the beef industry also motivated the founders to create change. USPB experienced many of the challenges that startup companies endure. Changing from selling on a live, cash basis to a value-based grid was a challenge for everyone. The tuition was high. However, a clear vision, a mission statement that defined USPB's goals, combined with grit, determination and a "failure is not an option" mentality, led to the success of USPB.

We have experienced many changes in the past 25 years. At times, the learning curve was steep. Yet from the start, it was clear USPB needed to partner with a beef processing company that was strong, efficient and growth oriented. Farmland National Beef, now National Beef Packing Company, LLC (NBP), was the perfect match in 1997, and even more so today.

The beef business in the '80s and '90s was an industry in trouble. Product quality was average, consumer confidence and demand were on the decline and beef was a commodity. Accessing the market to sell fed cattle on a timely basis was a major challenge. As members of USPB, you helped change this reality. In the early days of USPB, some people were pleasantly surprised with their carcass results and some were not. Data received confirmed what was working well and what was not. The data became a valuable part of determining where improvements were necessary.

From the plant fire in Holcomb, Kansas, to extreme weather, to the COVID-19 pandemic and all its associated challenges, we have experienced many black swan events in the past four years. The associated disruptions during the pandemic to processing affected slaughter numbers that took until mid-2022 to fully stabilize.

USPB's net income decreased in fiscal year 2022 as compared to the prior fiscal year. For the year, which ended December 31, 2022, USPB recorded net income of $169.4 million compared to $359.5 million in 2021, a decrease of approximately $190.1 million. The decrease in USPB's net income was due to significantly lower net income at NBP. For the year, NBP realized net income of $1.2 billion, a decrease of approximately $1.3 billion compared to the prior year. The combined effects of lower gross margins per head and higher costs led to lower profitability in 2022 as compared to 2021.



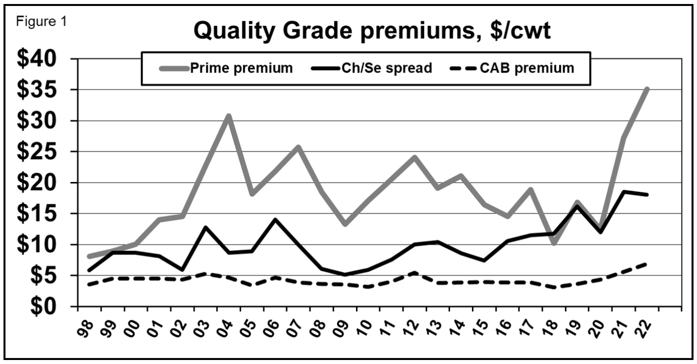
Although net income was down, USPB made substantial distributions to its members in 2022. In total, USPB distributed $237.7 million, or $315.52 per combined Class A and Class B unit, to our members. At fiscal year-end, USPB's balance sheet remained strong and well-positioned for the future.

GRID PERFORMANCE SUMMARY

Fiscal year 2022 was the 25th year of cattle delivery for USPB. Even after 25 years, our producers and our system of value-based marketing continues to improve and set new records.

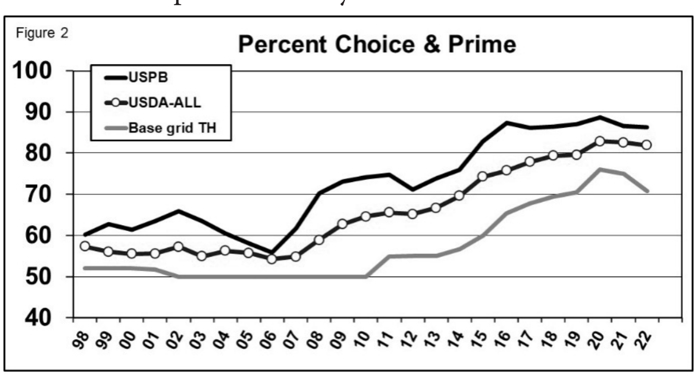
The demand for high quality beef was strong during 2022. Premiums in the marketplace set new record highs in multiple categories. USPB cattle continued to grade well, as they have in recent years. As a result, quality grade premium per head was record high. This pushed the overall, total premium per head to be record high. A new record was also set for the highest gross premium of $496.30 per head for an individual lot.

Quality grade premiums used on the grid are shown in Figure 1. The Prime and Certified Angus Beef® (CAB) premiums were both record high. In addition, the Choice/Select spread was the second highest in company history, down slightly from the record set the previous year.

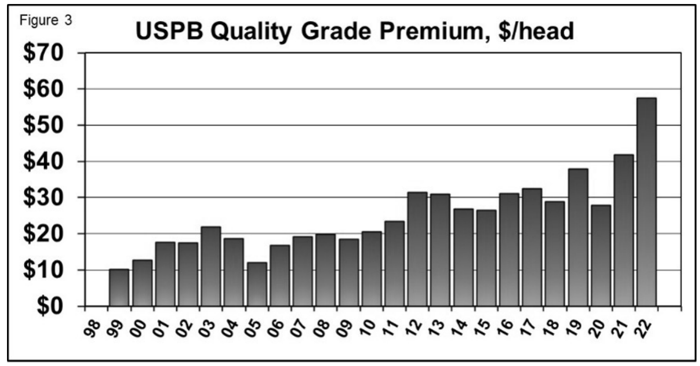


USPB cattle had the second highest Prime percentage. The CAB percentage was similar to the previous year. USPB carcasses have been greater than 25% CAB for the past 10 years after lows of approximately 9%. Choice and Prime percentage has been more than 80% for eight years. Compared to the first 10 years, USPB carcasses are now grading an impressive 25 percentage points higher.

Figure 2 shows the percent Choice and Prime for USPB cattle, industry average and the threshold used on the Base grid. Industry averages, reported by USDA, for Prime, Choice or better and upper two-thirds Choice were all down slightly but remained at high levels, similar to the previous two years.

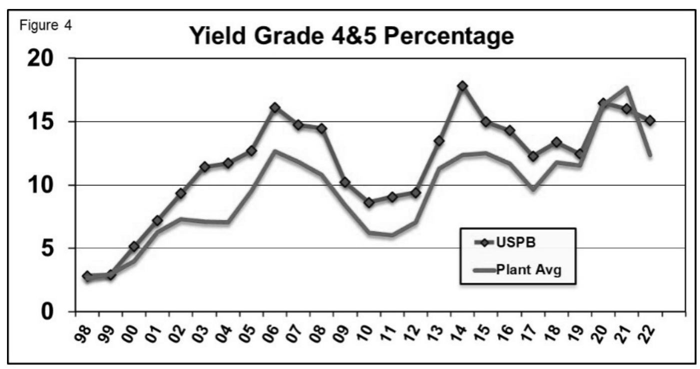


Quality grade premium per head, shown in Figure 3, was record high for the year, an impressive $15.76 per head more than the previous record set during 2021. This improvement was largely driven by the strong premiums used on the grid. These premiums are derived from wholesale boxed beef prices which are ultimately driven by consumer demand. Even though the industry is producing higher levels of quality in recent years, the demand for high quality grading beef is increasing.

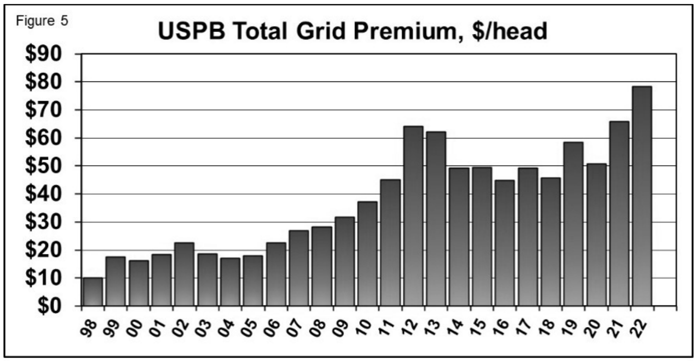


The percentage of yield grade 4 & 5 carcasses was similar to the previous two years. However, the plant average threshold on the grid decreased significantly from 2021, which was record high. Figure 4 includes the yield grade 4 & 5 percentage for USPB cattle and the plant average threshold.

Historically, USPB cattle were usually higher. Plant averages were driven to record high levels in recent years due to the backlog of fed cattle during the pandemic, but appear to have returned to typical levels. As a result, yield grade per head returned to a discount in 2022 after several years of premium.



Total premium, shown in Figure 5, was record high at $78.24 per head more than if cattle were marketed on the average cash, live market in Kansas. This premium was more than $12 per head greater than the record set during the previous year. Most of this increase was driven by quality grade premiums. In 25 years of delivering cattle on the USPB grid, quality grade has been the largest portion of the total premium for 24 of those years.



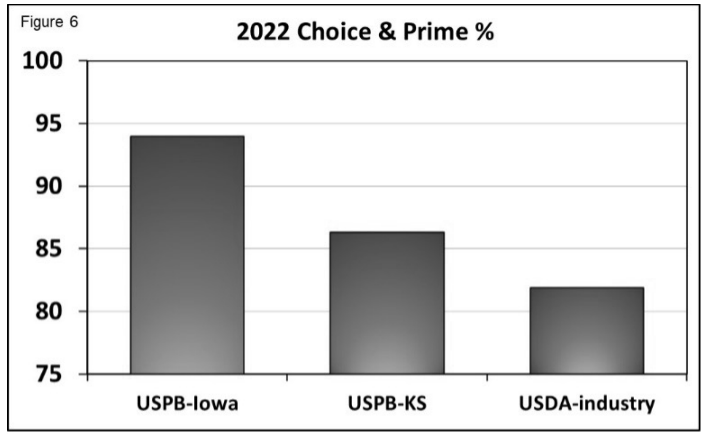
The top 25%, which are lots or groups with the highest premium that account for 25% of the total head count, was also record high at $146.68 per head. The range from the top 25% to the bottom 25% was also record large. Again, this was attributable to the large premiums for quality.

USPB delivery rights continue to be beneficial to market cattle on a value-based grid, especially when quality premiums are large. Even with the improvements in quality grading throughout the industry, rewards for quality were extremely high during fiscal year 2022 — surpassing the impressive records in 2021. The USPB grid continues to be a valuable tool for producers to be rewarded for quality cattle and a source of high-quality carcasses for NBP. In total, 17.8 million head of cattle have been delivered on USPB grids to NBP plants in Kansas during the company's history.

Fiscal year 2022 marked the third complete year of harvesting cattle on the USPB Iowa grid at the NBP plant in Tama, Iowa.

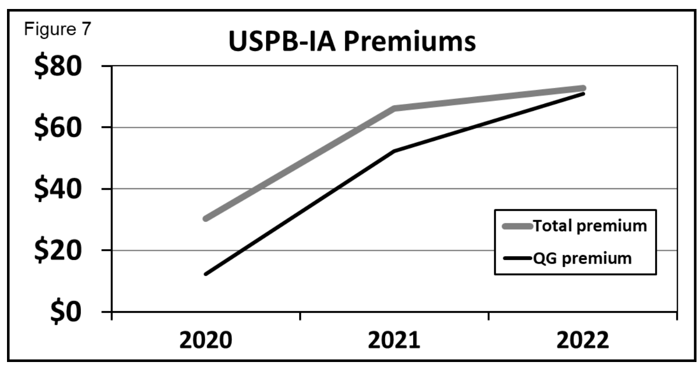
The total volume of cattle delivered increased an additional 40% from the previous year. This increase was less than the previous year, but the total head delivered reached 85% of the total Iowa delivery rights available for the year. More producers are utilizing this new grid in a region where grid marketing is less common. With this increase, a record-high number of total USPB cattle were delivered to all plants during fiscal year 2022.

USPB cattle delivered to Iowa are very high in quality grade. During the three years this grid has been available, the quality grading has been very consistent. Compared to national averages of all cattle graded by USDA within the entire industry, USPB Iowa grid cattle are far superior. Figure 6 shows the 2022 Choice & Prime percentage of all cattle delivered on the Iowa grid, the Kansas grid and the overall industry average reported by USDA.



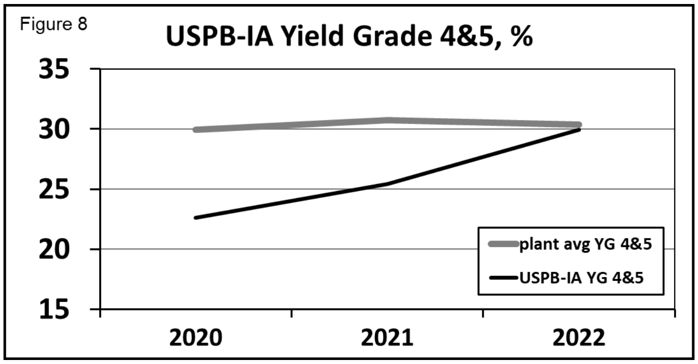
Iowa grid cattle are especially high in Prime percentage at approximately 21%, which is more than double the USDA national average of 9% during 2022. The CAB program quotes 31.4% of all black-hided cattle at CAB-licensed plants qualified for the brand within the Choice quality grade. By comparison, Iowa grid cattle averaged 33.4% in fiscal year 2022.

The superior quality grades were extremely valuable with the strong premiums in the marketplace, especially in the fourth quarter. Prime is especially impactful on the Iowa grid. Figure 7 shows the quality grade premium per head and the total overall premium for each of the three years the grid has been available.



Cattle on the Iowa grid have increased in yield grade 4 & 5 percentage over the past two years. Both of those years had high premiums for Prime which incentivized feeding longer for more quality premiums and added carcass weight. Furthermore, cattle feeders are learning the advantages of feeding cattle longer when marketing on a grid.

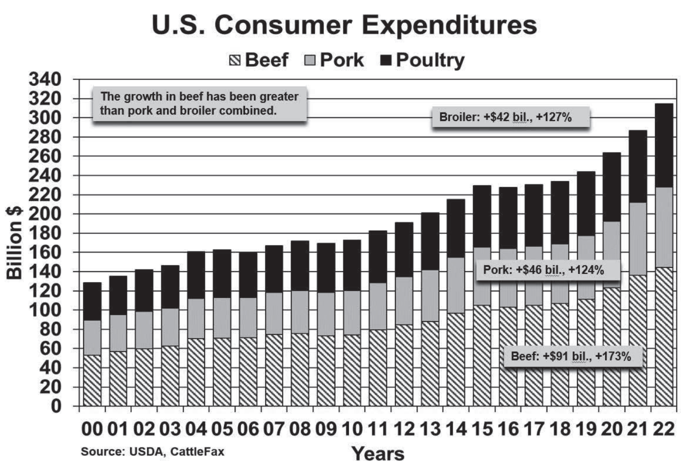
The Iowa grid has a fixed threshold of 90% Choice or better. However, it also has higher plant averages for yield grade 4s and 5s. With the higher Prime levels that are inherent in the Cornbelt, it makes sense to feed cattle to a highly finished endpoint, especially when quality rewards are high. Figure 8 shows yield grade 4 & 5 percentage for USPB Iowa cattle and the plant average for the Iowa grid. Even with the increase, USPB cattle have yet to exceed the plant average.



Total overall premium per head was record high at $72.88 per head, driven primarily by the quality grade premium. The top 25% averaged an impressive $158.61 per head. A new record was also set during fiscal year 2022 on USPB's Iowa grid for an individual lot that graded 77% Prime and earned a record premium of $406.65 per head.

STATE OF THE INDUSTRY

Chart 1



The data in Chart 1 provides a look at domestic consumer spending patterns for beef, pork and protein. From 2000-2022, beef has experienced more growth than pork and broilers combined.

Demand at the consumer level stayed strong during the pandemic. The data in Chart 2 is a retail beef demand index, compiled by multiple sources. The graph shows how consumer demand for beef has improved in recent years. Beef demand has been at a 30-year high in the past two years. Industry data also shows beef prices increased faster than inflation from 1998-2021.

Chart 2

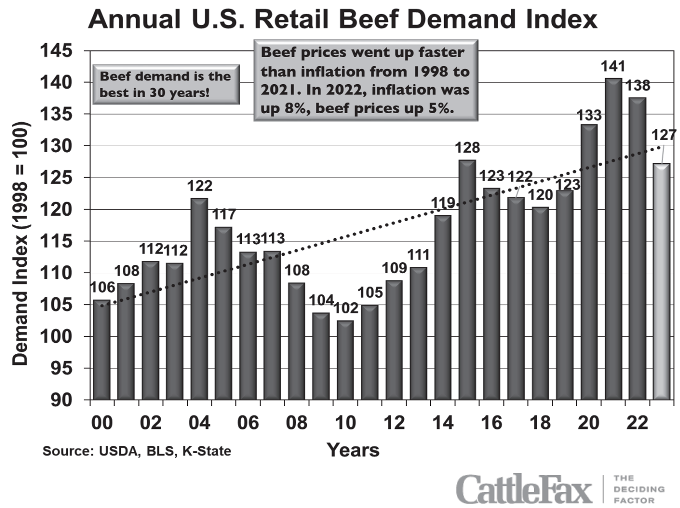


Chart 3

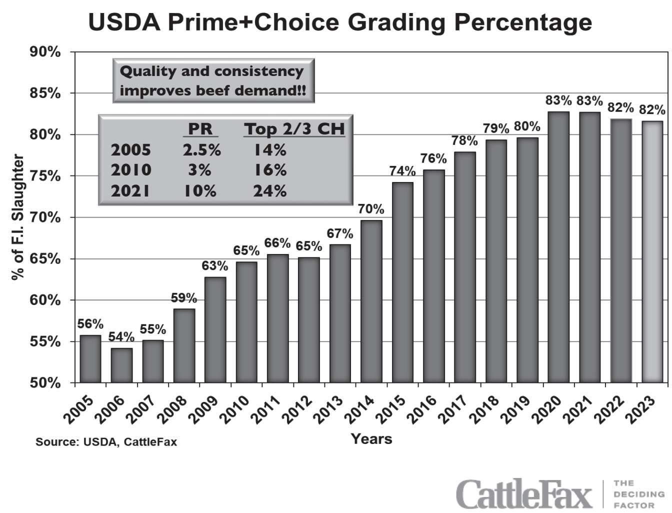
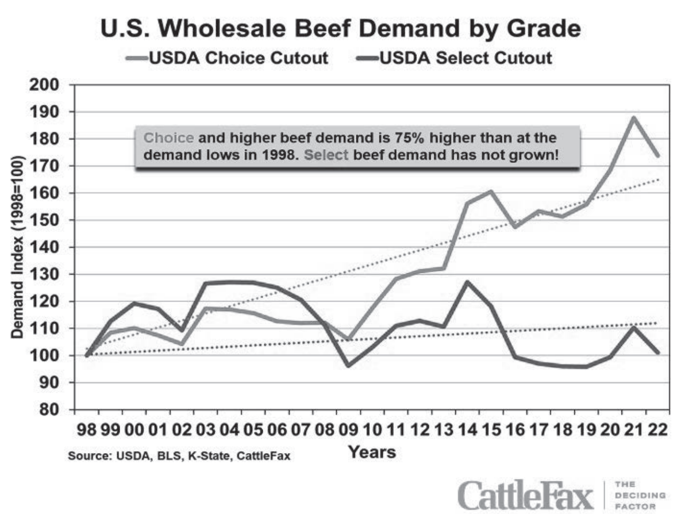


Chart 4



Equally impressive, the USDA Prime and Choice grading percentage shown in Chart 3 shows that increased quality has driven the improvement in beef demand. Chart 4 shows demand for Choice and higher grading beef has increased 75% since the demand lows of 1998. During this same time, demand for Select beef has generally remained stable.

Chart 5

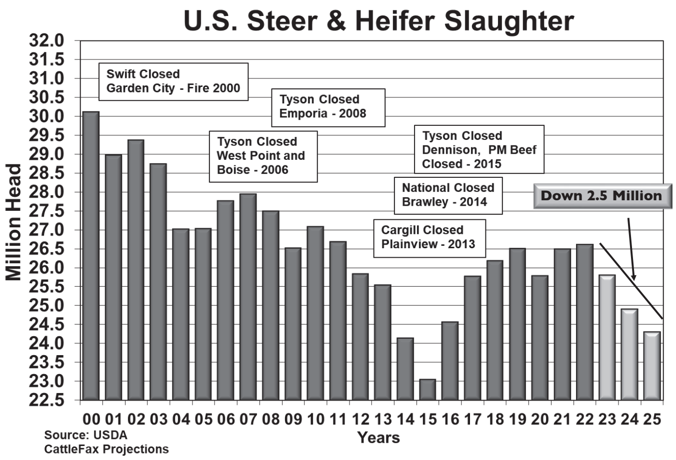
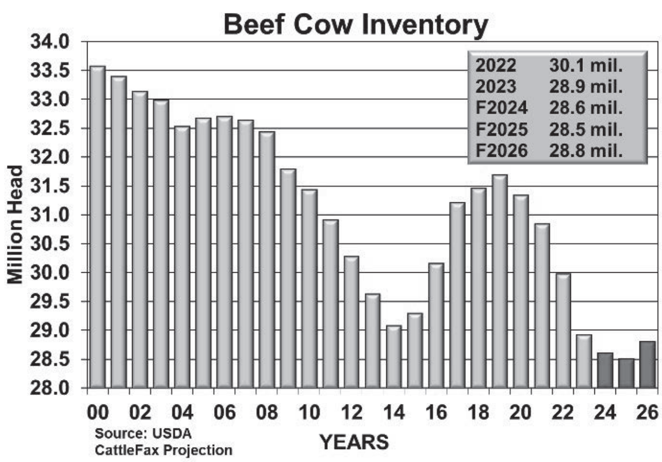


Chart 6



U.S. steer and heifer Slaughter, as described in Chart 5, details historic fed cattle supply and future projections. Chart 6 reflects beef cow inventory since 2000. The decrease in the number of cattle in 2013-2016 was drought induced, as herd liquidations were significant in many cow-calf states. Recent drought is once again decreasing the total number of cows and, in turn, available fed cattle supply for the next few years. Even in the face of drought and reduced supplies in 2013-2016, the percent Prime and Choice of finished cattle continued to climb, in response to consumer demand. USPB members responded to increased demand of high grading cattle in 2013-2016.

In summary, we offer our thanks for the opportunity to work for all of you. Many in the industry stood idle while USPB pioneered its way into partnership in processing. USPB's success can be attributed to motivated individuals who grasped the concept and joined our pursuit to transform the beef industry.

USPB has had great leaders over the years. We are reminded of Raymond Adams, Jr., USPB's first Secretary of the Board of Directors, who in 1996 said, *"This is the first real beef marketing innovation in my lifetime. If it flies, and I think it will, it will change the marketing system for cattle in the United States."*

No one can predict neither the future nor the challenges we will face in 2023 and beyond. Rest assured, your Board of Directors and management team at USPB will continue to respond to, learn from and take on the challenges ahead. Our uniqueness in the industry is the ability to interpret and respond to consumer demands. We are as committed to the USPB mission statement today as we were when the first load of USPB cattle was delivered December 1, 1997. We appreciate the opportunity to serve our members, and we hope each of you are as excited for the future as we are.

Thank you,

Mark R. Gardiner
Chairman

Stanley D. Linville
Chief Executive Officer

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."

NATIONAL BEEF PACKING COMPANY, LLC SUMMARY

In fiscal year 2022, NBP generated total revenues of $11.9 billion, an increase of approximately 2% in comparison to the prior fiscal year, primarily due to an increase in selling price per unit and volume. Cost of sales increased approximately 16% in 2022 as compared to 2021. The increase was due primarily to increased cattle prices and an increase in the costs for labor, packaging and supplies. Lower gross margin per head and higher costs led to lower profitability in 2022 as compared to 2021.

PLANT OPERATIONS

NBP is one of the largest beef processing companies in the U.S., accounting for approximately 14% 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 part of NBP's revenue is generated from the sale of boxed beef and beef by-products. NBP also generates revenues from value-added production of consumer-ready products.

PROCESSING FACILITIES

NBP owns two beef processing facilities located in Liberal and Dodge City, Kansas. Each can process approximately 6,000 cattle per day. A third beef processing facility in Tama, Iowa, 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 fed 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 commodity market, and it does not have much influence on 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, foodservice 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 2022, export sales represented approximately 12% of revenues. The demand for beef is generally strongest in the spring and summer months and 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 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 fed 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 2022, 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 owns two beef processing facilities located in Liberal and Dodge City, Kansas, which can each process approximately 6,000 cattle per day. A third beef processing facility in Tama, Iowa, can process approximately 1,200 head per day. 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 close 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, reducing its reliance on any one cattle supplier and lower in-bound transportation costs.

NATIONAL BEEF LEATHERS, LLC

NBP's wet blue tanning subsidiary is 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.

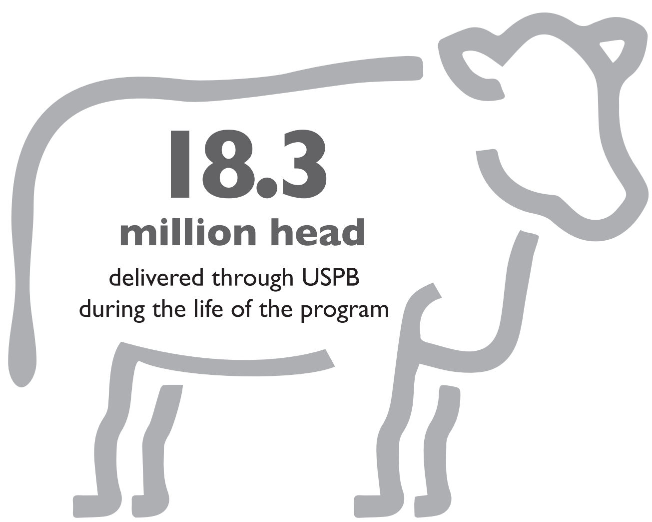
KANSAS CITY STEAK COMPANY

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 subsidiary that is one of the largest refrigerated and livestock carrier operations in the U.S. and transports products for NBP and 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.

REAL DOLLARS. REAL VALUE.



$730 million

in total premiums through USPB during the life of the program

FINANCIAL SUMMARY

Net Sales. There were no sales during the fifty-three week period ended December 31, 2022, and the fifty-two week period ended December 25, 2021.

Cost of Sales. There were no cost of sales during the fifty-three week period ended December 31, 2022, and the fifty-two week period ended December 25, 2021.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were approximately $7.1 million for the fifty-three weeks ended December 31, 2022, compared to approximately $6.2 million for the fifty-two weeks ended December 25, 2021, an increase of approximately $0.9 million. The increase is primarily due to higher phantom unit plan expense, which increased as a result of higher distribution dilution accruals and an increase in unit transfer prices.

Operating Loss. Operating loss was approximately $7.1 million for the fifty-three weeks ended December 31, 2022, compared to approximately $6.2 million for the fifty-two weeks ended December 25, 2021, an increase of approximately $0.9 million. The increase was due to the increase in Selling, General and Administrative Expenses discussed above.

Interest Income. Interest income was $1.1 million during the fifty-three weeks ended December 31, 2022, and $0.0 million in the fifty-two weeks ended December 25, 2021, an increase of approximately $1.1 million due to higher interest rates.

Equity in Income of National Beef Packing Company, LLC. Equity in NBP income was $174.7 million for the fifty-three weeks ended December 31, 2022, compared to $365.0 million for the fifty-two weeks ended December 25, 2021, a decrease of approximately $190.3 million. The combined effects of lower gross margins per head and higher costs led to lower profitability in 2022 as compared to 2021. 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-three weeks ended December 31, 2022, compared to $0.7 million for the fifty-two weeks ended December 25, 2021. Other, net is primarily due to 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-three weeks ended December 31, 2022, was approximately $169.4 million compared to approximately $359.5 million for the fifty-two weeks ended December 25, 2021, a decrease of approximately $190.1 million. The decrease was due to substantially lower net income at NBP.

Fiscal Year Ended December 25, 2021, compared to December 26, 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.

Liquidity and Capital Resources

As of December 31, 2022, we had net working capital (the excess of current assets over current liabilities) of approximately $93.8 million, which included cash and cash equivalents of $97.7 million. 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. Our primary sources of liquidity for fiscal years 2022 and 2021 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.

USPB's material contractual obligations include non-compete payments to be made to its Chief Executive Officer when he retires and payments for leased office space, the present value of which are approximately $0.3 million and $0.1 million, respectively.

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 31, 2022, 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 31, 2022, and December 25, 2021.

Operating Activities

Net cash provided by operating activities was $205.9 million in fiscal year 2022 as compared to $280.3 million in fiscal year 2021. The $74.4 million decrease was primarily due to decreased distributions received from NBP that were classified as a distribution from 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.

Investing Activities

Net cash used in investing activities was $0.1 million and $0.0 million in fiscal years 2022 and 2021, respectively.

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

Financing Activities

Net cash used in financing activities was $238.5 million in fiscal year 2022 as compared to $226.6 million in fiscal year 2021. The $11.9 million increase was due to an increase in distributions to members in fiscal year 2022, compared to fiscal year 2021.

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.

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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 31, 2022, and December 25, 2021, the related statements of operations, members’ capital and cash flows for each of the three years in the period ended December 31, 2022, 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 31, 2022, and December 25, 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, 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 Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Our audits included performing procedures to assess the risks of material misstatement of the 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 3, 2023

U.S. PREMIUM BEEF, LLC

Balance Sheets

(thousands of dollars, except unit information)

Assets	December 31, 2022	December 25, 2021
Current assets:		
Cash and cash equivalents	$ 97,732	$ 130,400
Accounts receivable	9	48
Due from affiliates	921	58
Other current assets	4	3
Total current assets	98,666	130,509
Property, plant, and equipment, at cost	266	243
Less accumulated depreciation	212	222
Net property, plant, and equipment	54	21
Right of use assets, net	114	168
Investment in National Beef Packing Company, LLC	179,556	213,290
Other assets	1	2
Total assets	$ 278,391	$ 343,990
Liabilities and Members' Capital		
Current liabilities:		
Accounts payable - trade	$ 36	$ 14
Due to National Beef Packing Company, LLC	1,132	—
Due to other affiliates	25	7
Accrued compensation and benefits	2,667	2,106
Lease obligations	57	54
Other accrued expenses and liabilities	969	1,110
Distributions payable	1	833
Total current liabilities	4,887	4,124
Long-term liabilities:		
Lease obligations	57	114
Other liabilities	9,506	7,480
Total long-term liabilities	9,563	7,594
Total liabilities	14,450	11,718
Commitments and contingencies	—	—
Members' capital		
Members' contributed capital, 735,385 Class A units and 755,385 Class B units authorized, issued and outstanding	263,941	332,272
Total members' capital	263,941	332,272
Total liabilities and members' capital	$ 278,391	$ 343,990

See accompanying notes to financial statements.

U.S. PREMIUM BEEF, LLC

Statements of Operations

(thousands of dollars, except unit and per unit data)

	53 weeks ended December 31, 2022	52 weeks ended December 25, 2021	52 weeks ended December 26, 2020
Net sales	$ —	$ —	$ —
Costs and expenses:			
Cost of sales	—	—	—
Selling, general, and administrative expenses	7,089	6,220	7,866
Depreciation and amortization	20	12	16
Total costs and expenses	7,109	6,232	7,882
Operating loss	(7,109)	(6,232)	(7,882)
Other income:			
Interest income	1,091	11	165
Interest expense	(3)	—	(2)
Equity in income of National Beef Packing Company, LLC	174,670	365,023	199,703
Other, net	710	695	697
Total other income	176,468	365,729	200,563
Net income	$ 169,359	$ 359,497	$ 192,681
Income per unit:			
Basic and diluted			
Class A units	$ 23.03	$ 48.89	$ 26.20
Class B units	$ 201.78	$ 428.32	$ 229.57
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 consolidated financial statements.

U.S. PREMIUM BEEF, LLC

Statements of Members' Capital

(thousands of dollars)

	Members' capital
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
Net income for the year ended December 31, 2022	169,359
Member distributions	(237,690)
Balance at December 31, 2022	$ 263,941

See accompanying notes to consolidated financial statements.

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

	53 weeks ended December 31, 2022	52 weeks ended December 25, 2021	52 weeks ended December 26, 2020
Cash flows from operating activities:			
Net income	$ 169,359	$ 359,497	$ 192,681
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	20	12	16
Equity in net income of National Beef Packing Company, LLC	(174,670)	(365,023)	(199,703)
Distributions from National Beef Packing Company, LLC	208,404	283,227	199,995
Changes in assets and liabilities:			
Accounts Receivable	39	269	(317)
Due from affiliates	(863)	(3)	(14)
Other assets	0	36	31
Accounts payable	22	(3)	(11)
Due to affiliates	1,150	2	(24)
Accrued compensation and benefits	2,587	1,722	2,264
Other accrued expenses and liabilities	(141)	531	(728)
Net cash provided by operating activities	205,907	280,267	194,190
Cash flows from investing activities:			
Capital expenditures	(53)	—	(6)
Net cash used in investing activities	(53)	—	(6)
Cash flows from financing activities:			
Member distributions	(238,522)	(226,636)	(195,324)
Net cash used in financing activities	(238,522)	(226,636)	(195,324)
Net (decrease) increase in cash	(32,668)	53,631	(1,140)
Cash and cash equivalents at beginning of period	130,400	76,769	77,909
Cash and cash equivalents at end of period	$ 97,732	$ 130,400	$ 76,769
Supplemental cash disclosures:			
Cash paid during the period for interest	$ 3	$ —	$ —
Supplemental noncash disclosures of operating activities:			
Right of use assets and lease obligations	$ —	$ —	$ 36

See accompanying notes to consolidated financial statements.

U.S. PREMIUM BEEF, LLC

Notes to Financial Statements

NOTE 1. DESCRIPTION OF BUSINESS

U.S. Premium Beef, LLC (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 December 5, 2011, USPB sold the majority of its membership interests in NBP to Leucadia National Corporation ("Leucadia Transaction"). Following the sale, USPB owned 15.0729% of NBP's membership interests.

On November 29, 2019, Jefferies Financial Group, Inc. ("Jefferies", 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. Fiscal year 2022 was a 53-week year and fiscal years 2021 and 2020 were 52-week years.

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 31, 2022, and December 25, 2021, the Company's balance sheet reflected Cash and cash equivalents of $97.7 million and $130.4 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 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.

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

	December 31, 2022	December 25, 2021
	(thousands of dollars)	
Beginning Investment Balance	$ 213,290	$ 131,494
Equity in net income	174,670	365,023
Distributions	(208,404)	(283,227)
Ending Investment Balance	$ 179,556	$ 213,290

The difference between USPB's percentage ownership share of NBP earnings and the recorded amount of Equity in income of National Beef Packing Company, LLC is attributable to the amortization of a basis difference related to the purchase accounting for NBP's acquisition of Ohio Beef in 2019.

For fiscal years 2022 and 2021, 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 31, 2022, and December 25, 2021.

Beginning on January 1, 2023, and annually thereafter, NBP's minority members, including USPB, are eligible to deliver a put notice to NBM US Holdings, Inc., a Delaware corporation owned by Marfrig Global Foods S.A. (NBM). The put period begins January 1 and ends January 31 of each year. During the put period, a NBP minority member can put to NBM a maximum of one third of the aggregate units owned by such minority member as of February 28, 2019, and a minimum of 20% of the aggregate units owned by the applicable minority member as of February 28, 2019. USPB's Board of Directors gave consideration to USPB's put option in December 2022 and chose to not exercise the put option for the January 2023 put period.

On November 29, 2019, 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 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 31, 2022, and December 25, 2021, follows (thousands of dollars):

	December 31, 2022	December 25, 2021
Machinery and equipment	$ 24	$ 24
Furniture and fixtures	147	147
Trailers and automotive equipment	95	72
Total property, plant, and equipment, at cost	266	243
Accumulated depreciation	212	222
Property, plant, and equipment, net	$ 54	$ 21

Depreciation expense was less than $0.1 million for fiscal years ended December 31, 2022; December 25, 2021; and December 26, 2020.

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 $0.1 million as of December 31, 2022, and $0.9 million as of December 25, 2021.

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 31, 2022, and December 25, 2021, Other accrued expenses and liabilities on the Company’s balance sheet reflected state taxes payable of $0.9 million and $1.0 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 2022 and 2021, the former CEO was paid $0.0 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 31, 2022, and December 25, 2021, the Company had accrued $0.3 million and $0.3 million, respectively, for the noncompetition agreements. The accrued amounts are included in Other liabilities, respectively, on the balance sheet. The CEO's employment agreement expires on December 26, 2026.

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	**53 weeks ended**	**52 weeks ended**	**52 weeks ended**
(thousands of dollars, except unit and per unit data)	**December 31, 2022**	**December 25, 2021**	**December 26, 2020**
Basic and diluted earnings per unit:			
Income attributable to USPB available to unitholders (numerator)			
Class A	$ 16,936	$ 35,950	$ 19,268
Class B	$ 152,423	$ 323,547	$ 173,413
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	$ 23.03	$ 48.89	$ 26.20
Class B	$ 201.78	$ 428.32	$ 229.57

NOTE 3. LONG-TERM DEBT AND LOAN AGREEMENTS

(a) Credit Agreement

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 31, 2022, USPB had no long-term debt outstanding. USPB 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 31, 2022, and December 25, 2021.

(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 2.1 years. The Dodge City, Kansas, office renewed its office lease in 2020 and has a remaining term of approximately 0.9 years. Neither lease agreement provides for renewals beyond the remaining terms. The monthly lease payment for the Kansas City office is $4,006, 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 31, 2022, the present value of the remaining operating lease payments for the offices equaled $0.1 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 2022 and 2021, 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 $2.6 million, $1.8 million and $3.2 million was recognized in fiscal years 2022, 2021 and 2020, 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 2022 and 2021. Compensation expense of $0.7 million, $0.8 million and $0.9 million was recognized in fiscal years 2022, 2021 and 2020, respectively.

As of December 31, 2022, and December 25, 2021, the Company had accrued $10.4 million and $7.9 million, respectively, for the management phantom plans. The accrued amounts are included in Accrued compensation and benefits and Other liabilities on the balance sheet.

	December 31, 2022	December 25, 2021
	(thousands of dollars)	
Current phantom unit	$ 1,210	$ 707
Long-term phantom unit	9,202	7,157
	$ 10,412	$ 7,864

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 31, 2022, and December 25, 2021, the Company had accrued $1.5 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 2022, 2021 and 2020, respectively.

NOTE 5. OTHER EXPENSE OR INCOME

Other non-operating income, net was $0.7 million for fiscal years 2022, 2021 and 2020, 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 is 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 $0.4 million in tax year 2022, and less than $0.2 million in tax years 2021 and 2020.

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 2022, 2021 and 2020, 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 2022, 2021, and 2020, 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 for 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.

At December 31, 2022, and December 25, 2021, the Company had receivables of approximately $0.5 million and less than $0.1 million, respectively, due from unitholders and associates. At December 31, 2022, the Company had receivables of approximately $0.4 million due from NBP.

At December 31, 2022, and December 25, 2021, the Company had payables of less than $0.1 million due to unitholders and associates. At December 31, 2022, the Company had payables of approximately $1.1 million due to NBP.

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.

NBP is a defendant in (i) five putative class action lawsuits in the United States District Court, Minnesota District, alleging that it violated the Sherman Antitrust Act, the Packers and Stockyards Act, the Commodity Exchange Act, and various state laws and (ii) putative class action lawsuits in the Supreme Court of British Columbia and the Superior Court of Quebec, Montreal District, alleging that it violated the Canadian Competition Act and various provincial laws (the "Beef Class Actions"). The Beef Class Actions 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; *Erbert & Gerbert's, Inc. v. JBS USA Food Company Holdings, et al.*, which was filed originally on June 18, 2020; *Specht v. Tyson Foods, Inc., et al.*, which was filed originally on October 31, 2022; *Giang Bui v. Cargill, Incorporated, et al.,* which was filed originally on February 18, 2022; and

Sylvie De Bellefeuille v. Cargill, Inc. et al., which was filed originally on March 24, 2022. Since the original filings, certain putative class members of the *Peterson* case have opted out of the matter and are proceeding with eighteen individual direct actions making similar claims (the "Opt-Out Cases"), and others may do so in the future. The Opt-Out Cases are entitled *Winn-Dixie Stores, Inc. and Bi-Lo Holding, LLC v. Cargill, Inc., et al.*, which was filed on August 2, 2021, in the United States District Court, Minnesota; *Cheney Brothers, Inc. v. Cargill, Inc., et al.*, which was filed on January 31, 2022, in the United States District Court, Southern District of Florida; *Subway v. Cargill, Inc. et al.*, which was filed on February 22, 2022, in the United States District Court, Connecticut; *Amory Investments LLC v. Cargill, Inc. et al.*, which was filed originally on March 8, 2022, in the United States District Court, Northern District of New York; *Associated Grocers, Inc., et al. v. Cargill, Inc., et al.*, which was filed originally on May 12, 2022, in the United States District Court, Northern District of Illinois; *Giant Eagle, Inc. v. Cargill, Inc., et al.*, which was filed originally on June 8, 2022, in the United States District Court, Northern District of Illinois; *Sysco Corporation v. Cargill, Inc., et al.*, which was filed originally on June 24, 2022, in the United States District Court, Southern District of Texas; *John Soules Foods, Inc. v. Cargill, Inc., et al.*, which was filed originally on August 5, 2022, in the United States District Court, Eastern District of Texas; *Associated Grocers of the South et al. v. Cargill, Inc., et al.*, which was filed originally on September 15, 2022, in the United States District Court, District of Montana; *The Kroger Co. et al. v. Cargill, Inc., et al.*, which was filed originally on September 15, 2022, in the United States District Court, District of Montana; *Kraft Heinz Food Company v. Cargill Inc., et al.*, which was filed originally on September 30, 2022, in the United States District Court, Eastern District of New York; *Aramark Food and Support Services Group., Inc. v. Cargill Inc., et al.*, which was filed originally on September 30, 2022, in the United States District Court, Eastern District of New York; *ARCOP, Inc. v. Cargill, Inc., et al.*, which was filed originally on December 19, 2022, in the United States District Court, Southern District of Florida; *CKE Restaurant Holdings, Inc. v. Cargill, Inc., et al.*, which was filed originally on December 19, 2022, in the United States District Court, Southern District of Florida; *Sonic Industries Services Inc. v. Cargill, Inc. et al.*, which was filed originally on December 19, 2022, in the United States District Court, Southern District of Florida; *Restaurant Services, Inc. v. Cargill, Inc., et al.*, which was filed originally on December 19, 2022, in the United States District Court, Southern District of Florida; and *Whatabrands LLC et al. vs. Cargill, Inc., et al.,* which was filed originally on December 19, 2022, in the United States District Court, Southern District of Florida. On October 4, 2022, the United States Beef Class Actions and Opt-Out Cases were consolidated for pretrial proceedings in the United States District Court, Minnesota District under the style *In re: Cattle and Beef Antitrust Litigation*. The plaintiffs in these cases seek treble damages and other relief under various laws including the Sherman Antitrust Act, the Canadian Competition Act, the Packers & Stockyards Act, and/or the Commodities Exchange Act and various state and provincial laws and attorneys' fees. NBP believes it has meritorious defenses to the claims in these cases and intends to defend them vigorously. There can be no assurances, however, as to the outcome of these matters 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 an investigation by the United States Department of Justice ("DOJ") and approximately 30 state attorneys general regarding fed cattle and beef packing markets. NBP is cooperating with these investigations and is working with the DOJ 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 and one of its subsidiaries are defendants in a putative class action lawsuit entitled *Brown, et al. v. JBS USA Food Company et al.* and filed in the United States District Court, Colorado District on November 16, 2022, alleging that (i) the defendants directly and through a wage survey and benchmarking service exchanged information regarding labor rates in an effort to depress and fix the rates of wages in violation of federal antitrust laws and (ii) one of NBP's subsidiaries entered into an employee non-poach agreement with a competitor in violation of federal antitrust laws. The plaintiffs seek, among other things, treble monetary damages, punitive damages, restitution, and pre- and post-judgment interest, as well as declaratory and injunctive relief. NBP believes it has meritorious defenses to the claims in this case and intends to defend the case vigorously. There can be no assurances, however, as to the outcome of this case or the impact on NBP's consolidated financial position, results of operations and cash flows.

On September 19, 2022, NBP received a grand jury subpoena from the DOJ seeking documents and information regarding the solicitation, recruitment and hiring of employees in the meatpacking industry. NBP cooperated with DOJ and provided the information requested by the grand jury subpoena. NBP was informed by the DOJ on February 17, 2023, that the grand jury investigation has been closed.

NBP is a party to various other lawsuits and claims arising out of the operation of its business. Management of NBP 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. SUBSEQUENT EVENTS

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
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Managers
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 31, 2022, and December 25, 2021, 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 31, 2022, 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 31, 2022, and December 25, 2021, and the results of its operations and its cash flows for each of the three fiscal years in the period ended December 31, 2022, 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.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 31, 2022	December 25, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 39,308	$ 109,746
Accounts receivable, less allowance for returns and expected credit losses of $3,075 and $3,223, respectively	298,608	336,071
Due from affiliates	3,835	7,089
Other receivables	5,615	4,655
Inventories	420,149	416,163
Other current assets	64,726	63,222
Total current assets	832,241	936,946
Property, plant and equipment, at cost:		
Land and improvements	92,096	88,368
Buildings and improvements	327,099	302,253
Machinery and equipment	701,163	618,855
Trailers and automotive equipment	4,172	3,758
Furniture and fixtures	22,678	19,182
Construction in progress	247,585	164,459
	1,394,793	1,196,875
Less accumulated depreciation	571,864	500,145
Net property, plant and equipment	822,929	696,730
Goodwill	30,634	30,634
Other intangibles, net of accumulated amortization of $511,590 and $462,464, respectively	358,698	407,824
Right of use assets, net of accumulated amortization of $61,394 and $61,498, respectively	65,070	63,932
Other assets	42,199	50,668
Total Assets	$ 2,151,771	$ 2,186,734
Liabilities and Members' Capital		
Current liabilities:		
Current installments of long-term debt	$ 26,048	$ 1,625
Current portion of right of use liabilities	20,536	23,680
Cattle purchases payable	201,555	135,521
Accounts payable — trade	145,344	147,831
Due to affiliates	5,409	5,037
Accrued compensation and benefits	194,809	366,183
Accrued insurance	11,471	23,545
Other accrued expenses and liabilities	43,987	55,916
Distribution payable	—	350,000
Total current liabilities	649,159	1,109,338
Long-term debt, excluding current installments	299,052	5,027
Long-term portion of right of use liabilities	44,939	41,745
Other liabilities	17,632	19,692
Total liabilities	1,010,782	1,175,802
Commitments and contingencies		
Members' capital:		
Members' capital	1,141,258	1,011,064
Accumulated other comprehensive loss	(269)	(132)
Total members' capital	1,140,989	1,010,932
Total Liabilities and Members' capital	$ 2,151,771	$ 2,186,734

See accompanying notes to consolidated financial statements.

NATIONAL BEEF PACKING COMPANY, LLC AND SUBSIDIARIES

Consolidated Statements of Operations
(in thousands)

	53 weeks ended December 31, 2022	52 weeks ended December 25, 2021	52 weeks ended December 26, 2020
Net sales	$ 11,876,074	$ 11,674,676	$ 9,442,036
Costs and expenses:			
Cost of sales	10,475,341	9,031,603	7,911,900
Selling, general and administrative	103,173	94,727	84,781
Depreciation and amortization	124,357	115,471	108,348
Total costs and expenses	10,702,871	9,241,801	8,105,029
Operating income	1,173,203	2,432,875	1,337,007
Other income (expense):			
Interest income	167	103	414
Interest expense	(5,650)	(7,766)	(8,751)
Income before taxes	1,167,720	2,425,212	1,328,670
Income tax expense	4,885	3,494	3,759
Net income	$ 1,162,835	$ 2,421,718	$ 1,324,911

See accompanying notes to consolidated financial statements.

NATIONAL BEEF PACKING COMPANY, LLC AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income
(in thousands)

	53 weeks ended December 31, 2022	52 weeks ended December 25, 2021	52 weeks ended December 26, 2020
Net income	$ 1,162,835	$ 2,421,718	$ 1,324,911
Other comprehensive income (loss):			
Foreign currency translation adjustments	(137)	(114)	81
Comprehensive income	$ 1,162,698	$ 2,421,604	$ 1,324,992

See accompanying notes to consolidated financial statements.

NATIONAL BEEF PACKING COMPANY, LLC AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(in thousands)

	53 weeks ended December 31, 2022	52 weeks ended December 25, 2021	52 weeks ended December 26, 2020
Cash flows from operating activities:			
Net income	$ 1,162,835	$ 2,421,718	$ 1,324,911
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	124,357	115,471	108,348
Provision for returns and doubtful accounts	12,980	14,878	10,144
Deferred income tax provision	497	(243)	—
Loss on disposal of property, plant and equipment	1,438	90	1,082
Amortization of debt issuance costs	822	1,687	1,034
Change in assets and liabilities:			
Accounts receivable	24,483	(64,888)	(5,814)
Due from affiliates	3,254	(5,830)	(298)
Other receivables	(960)	1,447	(215)
Inventories	(3,986)	(126,222)	(2,146)
Other assets	6,468	(28,774)	(26,738)
Right of use assets and lease liabilities, net	(1,088)	39	36
Cattle purchases payable	66,034	7,985	11,256
Accounts payable	(4,906)	33,077	15,867
Due to affiliates	372	598	1,677
Accrued compensation and benefits	(171,374)	126,542	87,721
Accrued insurance	(12,074)	1,324	402
Other accrued expenses and liabilities	(13,989)	301	8,910
Net cash provided by operating activities	1,195,163	2,499,200	1,536,177
Cash flows from investing activities:			
Capital expenditures, including interest capitalized	(200,782)	(165,307)	(142,724)
Proceeds from sale of property, plant and equipment	382	2,087	1,372
Net cash used in investing activities	(200,400)	(163,220)	(141,352)
Cash flows from financing activities:			
Receipts under revolving credit lines	892,000	660,000	537,434
Payments under revolving credit lines	(892,000)	(686,434)	(523,696)
Receipts under reducing revolving credit lines	1,745,000	1,022,000	545,000
Payments under reducing revolving credit lines	(1,425,000)	(1,347,000)	(626,000)
Repayments of other indebtedness/capital leases	(2,420)	(2,256)	(2,619)
Cash paid for financing costs	—	(4,050)	—
Member distributions	(1,382,641)	(1,879,047)	(1,326,850)
Net cash used in financing activities	(1,065,061)	(2,236,787)	(1,396,731)
Effect of exchange rate changes on cash	(140)	(116)	68
Net increase (decrease) in cash	(70,438)	99,077	(1,838)
Cash and cash equivalents at beginning of period	109,746	10,669	12,507
Cash and cash equivalents at end of period	$ 39,308	$ 109,746	$ 10,669
Supplemental disclosures:			
Cash paid during the period for interest	$ 8,310	$ 7,870	$ 10,769
Cash paid during the period for taxes	$ 2,963	$ 2,365	$ 1,153
Supplemental non-cash disclosures of investing and financing activities:			
Non-cash additions to property, plant and equipment	$ 3,625	$ 1,206	$ 661
Distributions declared but unpaid	$ —	$ 350,000	$ —

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 28, 2019	$ 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
Net income	1,162,835	—	1,162,835
Distributions	(1,032,641)	—	(1,032,641)
Foreign currency translation adjustments	—	(137)	(137)
Balance at December 31, 2022	$ 1,141,258	$ (269)	$ 1,140,989

See accompanying 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 produce and sell meat products to customers in the retail, distribution, food service, international, and further processor channels. The Company also produces and sells by-products, that are derived from its meat processing operations, 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 to 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 31, 2022, and December 25, 2021, approximately 57% of our employees were represented by collective bargaining agreements. The Company makes certain contributions for the benefit of employees (see Note 6).

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 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 2022 was a 53-week fiscal year. Fiscal 2021 and 2020 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 31, 2022; December 25, 2021; and December 26, 2020 (in thousands):

Period Ended	Beginning Balance		Provision		Charge Off		Ending Balance	
December 26, 2020	$	(2,540)	$	(10,144)	$	10,057	$	(2,627)
December 25, 2021	$	(2,627)	$	(14,878)	$	14,282	$	(3,223)
December 31, 2022	$	(3,223)	$	(12,980)	$	13,128	$	(3,075)

Inventories

Inventories consist primarily of beef, beef by-products, 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 31, 2022, and December 25, 2021, consisted of the following (in thousands):

	December 31, 2022		December 25, 2021	
Dressed and boxed beef products	$	319,221	$	319,091
Beef by-products		44,473		50,453
Parts, supplies and other		56,455		46,619
Total inventory	$	420,149	$	416,163

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 $75.3 million, $66.4 million and $59.2 million for the fiscal years ended December 31, 2022; December 25, 2021; and December 26, 2020, 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 $4.2 million, $1.7 million and $1.9 million for the fiscal years ended December 31, 2022; December 25, 2021; and December 26, 2020, 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 2022, 2021 or 2020.

Goodwill and Other Intangible Assets

Accounting Standards Codification (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 in the periods presented. 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 2022, 2021 or 2020 related to the Company's long-lived assets, thus no impairment charge was recorded.

The amounts of other intangible assets are as follows (in thousands):

		December 31, 2022			
	Weighted Average Amortization Period	Gross Carrying Amount		Accumulated Amortization	
Intangible assets subject to amortization:					
Customer relationships	18	$	433,300	$	254,819
Trade names	20		290,148		148,479
Cattle supply relationships	15		143,600		105,307
Other	6		3,240		2,985
Total intangible assets		$	870,288	$	511,590

		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		$	870,288	$	462,464

For the fiscal years ended December 31, 2022; December 25, 2021; and December 26, 2020, the Company recognized $49.1 million, $49.1 million and $49.1 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 31, 2022, for each of the next five years and thereafter (in thousands):

Estimated amortization expense for fiscal years ending:		
2023	$	48,701
2024		48,445
2025		48,445
2026		48,445
2027		38,872
Thereafter		125,790
Total	$	358,698

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 was a current liability at December 25, 2021, and paid in fiscal 2022.

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 these foreign offices, 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 2022, 2021, 2020 and 2019.

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 31, 2022, and December 25, 2021, 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 $25.7 million, $25.3 million and $23.6 million for the fiscal years ended December 31, 2022; December 25, 2021; and December 26, 2020.

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 which 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 ASC 340 Other Assets and Deferred Costs, 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, product returns, 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):

	53 weeks ended December 31, 2022		52 weeks ended December 25, 2021		52 weeks ended December 26, 2020	
Beef, pork, & beef by-products	$	12,238,662	$	12,008,507	$	9,664,604
Other		299,729		276,508		272,336
Intercompany		(662,317)		(610,339)		(494,904)
Net Sales	$	11,876,074	$	11,674,676	$	9,442,036

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 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 2022 are as follows (in thousands):

	December 31, 2022		December 25, 2021		Change	
Contract liabilities	$	18,594	$	31,310	$	(12,716)

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

Substantially all of the contract liability as of December 25, 2021, was recognized in revenue during 2022. The Company expects to recognize substantially all of the current year liability in 2023.

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 *Leases*. 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.

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 31, 2022; December 25, 2021; and December 26, 2020, we recognized rent expense associated with our leases as follows (in thousands):

	December 31, 2022	December 25, 2021	December 26, 2020
Operating lease cost:			
Fixed rent expense	$ 26,865	$ 28,250	$ 28,560
Variable rent expense	61	36	26
Finance lease cost:			
Amortization of ROU assets	2,326	2,356	2,137
Interest expense	320	404	479
Short-term lease cost	4,642	5,376	4,514
Net lease cost	$ 34,214	$ 36,422	$ 35,716
Lease cost – Cost of sales	29,772	31,153	30,593
Lease cost – SG&A	1,796	2,509	2,507
Lease cost – Depreciation & Amortization	2,326	2,356	2,137
Lease cost – Interest expense	320	404	479
Net lease cost	$ 34,214	$ 36,422	$ 35,716

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 31, 2022, and December 25, 2021, right-of-use assets and lease liabilities related to finance leases were as follows (in thousands):

	December 31, 2022	December 25, 2021
Finance lease ROU assets	$ 5,911	$ 8,193
Finance lease liabilities:		
Current installments of long-term debt	1,858	2,435
Long-term debt	4,345	6,142

During the fiscal years ended December 31, 2022; December 25, 2021; and December 26, 2020, we had the following cash and non-cash activities associated with our leases (in thousands):

	December 31, 2022	December 25, 2021	December 26, 2020
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	$ 28,605	$ 28,580	$ 28,621
Operating cash flows from finance leases	346	408	485
Financing cash flows from finance leases	2,461	2,247	2,200
Supplemental non-cash information			
Additions to ROU assets obtained from:			
New operating lease liabilities	22,663	12,370	7,676
New finance lease liabilities	46	170	1,145

The future payments due under operating and finance leases as of December 31, 2022, is as follows (in thousands):

	Operating	Finance
Due in:		
2023	$ 22,228	$ 2,047
2024	16,599	2,188
2025	10,960	2,179
2026	8,056	171
2027	4,965	—
Thereafter	7,772	—
Total	70,580	6,585
Future interest	(5,105)	(381)
Lease liabilities recognized	$ 65,475	$ 6,204

As of December 31, 2022, the weighted-average remaining lease term for all operating leases is 3.86 years, while the weighted-average remaining lease term for all finance leases is 3.02 years. 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 31, 2022, the weighted-average discount rate associated with operating leases is 3.36%, while the weighted-average discount rate associated with finance leases is 4.23%. 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%.

NOTE 5. 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 31, 2022, and December 25, 2021, debt consisted of the following (in thousands):

	December 31, 2022	December 25, 2021
Short-term debt:		
Reducing revolver credit facility (a)	$ 25,000	$ —
Current portion of loan costs (c)	(810)	(810)
Current portion of finance lease obligations	1,858	2,435
	26,048	1,625
Long-term debt:		
Reducing revolver credit facility (a)	295,000	—
Industrial Development Revenue Bonds (b)	2,000	2,000
Revolving credit facility (a)	—	—
Long-term portion of loan costs (c)	(2,293)	(3,115)
Long-term finance lease obligations	4,345	6,142
	299,052	5,027
Total debt	$ 325,100	$ 6,652

(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 31, 2022, the Company was in compliance with the financial covenant.

At December 31, 2022, the Company's outstanding debt balance under the Debt Agreement was $320.0 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. As of December 31, 2022, the interest rate on the reducing revolver credit facility was 5.8%.

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 $13.9 million outstanding at December 31, 2022. 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 31, 2022, after deducting outstanding amounts and issued letters of credit, $285 million of the unused revolving credit facility and $205 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, NBL entered into various agreements with the city of St. Joseph, Missouri, designed to provide the Company 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 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.

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 purchased 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 conjunction with the Debt Agreement, the Company paid financing charges of approximately $4.1 million which are being amortized over the life of the loan.

Amortization of $0.8 million, $1.7 million and $1.0 million was charged to interest expense during the fiscal years ended December 31, 2022; December 25, 2021; and December 26, 2020, respectively.

The aggregate minimum principal maturities of the long-term debt for each of the five fiscal years and thereafter following December 31, 2022, are as follows (in thousands):

	Minimum Principal Maturities	
Fiscal year ending December:		
2023	$	26,048
2024		1,243
2025		1,191
2026		294,490
2027		1,128
Thereafter		1,000
Total minimum principal maturities	$	325,100

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 2022, 2021 and 2020, respectively. Payments under the commitment will be $0.8 million in fiscal year 2023.

NOTE 6. 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 $4.4 million, $4.0 million and $2.4 million for the fiscal years 2022, 2021 and 2020, 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 $14.8 million and $15.6 million as of December 31, 2022, and December 25, 2021, and is included in Other liabilities on the consolidated balance sheets.

NOTE 7. INCOME TAXES

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

	53 weeks ended December 31, 2022	52 weeks ended December 25, 2021	52 weeks ended December 26, 2020
Current provision:			
Federal	$ 2,095	$ 1,158	$ 1,827
State	2,166	2,475	1,838
Foreign	127	104	94
Total current tax expense	4,388	3,737	3,759
Deferred provision:			
Federal	415	(202)	—
State	82	(41)	—
Foreign	—	—	—
Total deferred tax expense	497	(243)	—
Total income tax expense	$ 4,885	$ 3,494	$ 3,759

NOTE 8. 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 2022, 2021 and 2020, the Company had sales and purchases with the following related parties (in thousands):

	53 weeks ended December 31, 2022	52 weeks ended December 25, 2021	52 weeks ended December 26, 2020
Sales to:			
Empirical Foods, Inc. (1)	$ 129,732	$ 89,894	$ 46,735
MF Foods USA, LLC (2)	1,869	1,302	820
Total sales to affiliate	$ 131,601	$ 91,196	$ 47,555
Purchases from:			
Empirical Foods, Inc. (1)	$ 9,664	$ 8,015	$ 8,653
Marfrig affiliates (3)	72,619	42,903	32,455
Total purchases from affiliate	$ 82,283	$ 50,918	$ 41,108

(1) Empirical Foods, Inc. (Empirical) is an affiliate of NBPCo Holdings, formerly Beef Products, Inc. (BPI)
(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 Empirical for Empirical to manufacture and install a grinding system in one of our plants. In accordance with the agreement with Empirical, we are to pay Empirical 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 2022, $1.5 million during 2021 and $1.7 million during fiscal years 2020 to Empirical 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 fiscal years 2022, 2021 and 2020.

NOTE 9. 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 31, 2022, and December 25, 2021. 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 31, 2022, and December 25, 2021 (in thousands):

	Derivative Asset As of December 31, 2022		Derivative Liability As of December 31, 2022	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Commodity contracts	Other current assets	$ 396	Other accrued expenses and liabilities	$ 395
Totals		$ 396		$ 395

	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

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 31, 2022; December 25, 2021; and December 26, 2020 (in thousands):

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives — Fiscal Year Ended December 31, 2022	Fiscal Year Ended December 25, 2021	Fiscal Year Ended December 26, 2020
Commodity contracts	Net sales	$ 7,832	$ 4,421	$ (12,569)
Commodity contracts	Cost of sales	605	(105)	3,376
Totals		$ 8,437	$ 4,316	$ (9,193)

NOTE 10. LEGAL PROCEEDINGS AND CONTINGENCIES

The Company is a defendant in (i) five putative class action lawsuits in the United States District Court, Minnesota District alleging that it violated the Sherman Antitrust Act, the Packers and Stockyards Act, the Commodity Exchange Act, and various state laws and (ii) putative class action antitrust lawsuits in the Supreme Court of British Columbia and the Superior Court of Quebec, Montreal District, alleging that it violated the Canadian Competition Act and various provincial laws (the "Beef Antitrust Cases"). The Beef 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; *Erbert & Gerbert's, Inc. v. JBS USA Food Company Holdings, et al.*, which was filed originally on June 18, 2020; *Specht v. Tyson Foods, Inc., et al.*, which was filed originally on October 31, 2022; *Giang Bui v. Cargill, Incorporated, et al.*, which was filed originally on February 18, 2022; and S*ylvie De Bellefeuille v. Cargill, Inc. et al.*, which was filed originally on March 24, 2022. Since the original filings, certain putative class members of the *Peterson* case have opted out of the matter and are proceeding with individual direct actions making similar claims, and others may do so in the future. The plaintiffs in the Beef Antitrust Cases generally seek treble damages and other relief under the Sherman Antitrust Act and various state laws or general damages, aggravated, exemplary, and punitive damages, injunctive relief, costs, and interest and other damages under the Canadian Competition Act and various provincial laws. Some of Beef Antitrust Cases also allege that the Company violated the Packers & Stockyards Act and the Commodities Exchange Act. In addition to the Beef Antitrust Cases, the Company is subject to investigations by the United States Department of Justice (the "DOJ") and approximately 30 state attorneys general regarding fed cattle and beef packing markets. 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 the claims in the Antitrust Cases and any potential claims that might arise out of these government investigations and intends to defend these matters vigorously. Given these factors and the stages of each of these matters, management believes a loss is not probable and reasonably estimable at this time.

The Company and one of its subsidiaries are also defendants in a putative class action lawsuit entitled *Brown, et al. v. JBS USA Food Company et al.,* and filed in the United States District Court, Colorado District on November 16, 2022, alleging that (i) the defendants directly and through a wage survey and benchmarking service exchanged information regarding labor rates in an effort to depress and fix the rates of wages in violation of federal antitrust laws and (ii) one of the Company's subsidiaries entered into an employee non-poach agreement with a competitor in violation of federal antitrust laws (the "Wage Rate Case"). The plaintiffs seek, among other things, treble monetary damages, punitive damages, restitution, and pre- and post-judgment interest, as well as declaratory and injunctive relief. The Company believes it has meritorious defenses to the claims in the Wage Rate Case and intends to defend these matters vigorously. Given these factors and the stage of this matter, management believes a loss is not probable and reasonably estimable at this time.

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 11. SUBSEQUENT EVENTS

The Company evaluated subsequent events and transactions for potential recognition or disclosure in the consolidated financial statements through February 24, 2023, the date the consolidated financial statements were available for issuance.

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