

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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2023

OR

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

For the transition period from _____ to _____

Commission file number **001-40336**

Karat Packaging Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

83-2237832

(I.R.S. Employer Identification No.)

**6185 Kimball Avenue
Chino , CA**

(Address of principal executive offices)

91708

(Zip Code)

(626) 965-8882

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value	KRT	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (\$232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

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

The number of shares of Common Stock, \$0.001 par value, outstanding on November 6, 2023 was 19,964,413 shares.

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KARAT PACKAGING INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands, except share and per share data)

PART I - FINANCIAL INFORMATION

	September 30, 2023	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents (including \$ 7,770 and \$ 2,022 associated with variable interest entity at September 30, 2023 and December 31, 2022, respectively)	\$ 28,162	\$ 16,041
Short-term investments (including \$ 8,000 and \$ 0 associated with variable interest entity at September 30, 2023, and December 31, 2022, respectively)	18,063	—
Accounts receivable, net of allowance for doubtful accounts of \$ 430 and \$ 1,260 at September 30, 2023 and December 31, 2022, respectively (including \$ 0 and \$ 6 associated with variable interest entity at September 30, 2023 and December 31, 2022, respectively)	33,984	29,912
Inventories	71,657	71,206
Prepaid expenses and other current assets (including \$ 25 and \$ 191 associated with variable interest entity at September 30, 2023 and December 31, 2022, respectively)	6,823	6,641
Total current assets	158,689	123,800
Property and equipment, net (including \$ 44,489 and \$ 45,399 associated with variable interest entity at September 30, 2023 and December 31, 2022, respectively)	96,690	95,568
Deposits	1,672	12,413
Goodwill	3,510	3,510
Intangible assets, net	333	353
Operating right-of-use assets	17,068	15,713
Other assets (including \$ 55 and \$ 38 associated with variable interest entity at September 30, 2023 and December 31, 2022, respectively)	2,002	818
Total assets	\$ 279,964	\$ 252,175
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable (including \$ 60 and \$ 2 associated with variable interest entity at September 30, 2023 and December 31, 2022, respectively)	\$ 19,384	\$ 18,559
Accrued expenses (including \$ 461 and \$ 625 associated with variable interest entity at September 30, 2023 and December 31, 2022, respectively)	8,858	9,005
Related party payable	2,555	4,940
Income taxes payable	8,010	—
Customer deposits (including \$ 116 and \$ 165 associated with variable interest entity at September 30, 2023 and December 31, 2022, respectively)	803	1,281
Long-term debt, current portion (including \$ 1,111 and \$ 957 associated with variable interest entity at September 30, 2023 and December 31, 2022, respectively)	1,111	957
Operating lease liabilities, current portion	4,927	4,511
Other payables	49	—
Total current liabilities	45,697	39,253

	September 30, 2023	December 31, 2022
Deferred tax liability	5,156	5,156
Long-term debt, net of current portion and debt discount of \$ 219 and \$ 216 at September 30, 2023 and December 31, 2022, respectively (including \$ 48,668 and \$ 41,558 associated with variable interest entity at September 30, 2023 and December 31, 2022, respectively, and debt discount of \$ 219 and \$ 216 associated with variable interest entity at September 30, 2023 and December 31, 2022, respectively)	48,668	41,558
Operating lease liabilities, net of current portion	12,866	11,623
Other liabilities (including \$ 1,302 associated with variable interest entity at both September 30, 2023 and December 31, 2022)	2,824	2,652
Total liabilities	115,211	100,242
Commitments and Contingencies (Note 17)		
Karat Packaging Inc. stockholders' equity		
Preferred stock, \$ 0.001 par value, 10,000,000 shares authorized, no shares issued and outstanding, at both September 30, 2023 and December 31, 2022	—	—
Common stock, \$ 0.001 par value, 100,000,000 shares authorized, 19,916,839 and 19,893,839 shares issued and outstanding, respectively, as of September 30, 2023 and 19,908,005 and 19,885,005 shares issued and outstanding, respectively, as of December 31, 2022	20	20
Additional paid in capital	86,620	85,792
Treasury stock, \$ 0.001 par value, 23,000 shares at both September 30, 2023 and December 31, 2022	(248)	(248)
Retained earnings	67,773	56,118
Total Karat Packaging Inc. stockholders' equity	154,165	141,682
Noncontrolling interest	10,588	10,251
Total stockholders' equity	164,753	151,933
Total liabilities and stockholders' equity	\$ 279,964	\$ 252,175

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

KARAT PACKAGING INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(In thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net sales	\$ 105,528	\$ 109,996	\$ 310,069	\$ 330,290
Cost of goods sold	66,584	75,828	191,120	227,869
Gross profit	38,944	34,168	118,949	102,421
Operating expenses				
Selling expense	8,004	9,413	25,500	28,218
General and administrative expense (including \$ 702 and \$ 665 associated with variable interest entity for the three months ended September 30, 2023 and 2022, respectively; \$ 2,020 and \$ 1,899 associated with variable interest entity for the nine months ended September 30, 2023 and 2022, respectively)	19,870	16,861	53,767	49,033
Impairment expense and (gain) loss, net, on disposal of machinery	(310)	(16)	2,231	(33)
Total operating expenses	27,564	26,258	81,498	77,218
Operating income	11,380	7,910	37,451	25,203
Other income (expense)				
Rental income (including \$ 235 and \$ 239 associated with variable interest entity for the three months ended September 30, 2023 and 2022, respectively; and \$ 721 and \$ 715 associated with variable interest entity for the nine months ended September 30, 2023 and 2022, respectively)	259	239	781	715
Other income (expense), net	32	28	(58)	(235)
Gain on foreign currency transactions	455	369	350	1,352
Interest income (including \$ 80 and \$ 0 interest income associated with variable interest entity for the three months ended September 30, 2023 and 2022, respectively; and \$ 278 and \$ 2,160 interest income associated with variable interest entity for the nine months ended September 30, 2023 and 2022, respectively)	454	—	1,040	2,160
Interest expense (including \$ 528 and \$ 470 interest expense associated with variable interest entity for the three months ended September 30, 2023 and 2022, respectively; and \$ 1,499 and \$ 1,379 interest expense associated with variable interest entity for the nine months ended September 30, 2023 and 2022, respectively)	(536)	(493)	(1,516)	(1,576)
Total other income, net	664	143	597	2,416
Income before provision for income taxes	12,044	8,053	38,048	27,619
Provision for income taxes	2,904	1,900	9,045	6,323
Net income	9,140	6,153	29,003	21,296
Net income attributable to noncontrolling interest	75	57	431	2,189
Net income attributable to Karat Packaging Inc.	\$ 9,065	\$ 6,096	\$ 28,572	\$ 19,107
Basic and diluted earnings per share:				
Basic	\$ 0.46	\$ 0.31	\$ 1.44	\$ 0.96
Diluted	\$ 0.45	\$ 0.31	\$ 1.43	\$ 0.96
Weighted average common shares outstanding, basic	19,890,646	19,809,417	19,888,244	19,808,813
Weighted average common shares outstanding, diluted	19,994,648	19,938,042	19,962,999	19,922,047

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

KARAT PACKAGING INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
(In thousands, except share and per share data)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity Attributable to Karat Packaging Inc.	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance, January 1, 2022	19,827,417	\$ 20	(23,000)	\$ (248)	\$ 83,694	\$ 39,434	\$ 122,900	\$ 9,125	\$ 132,025
Stock-based compensation	—	—	—	—	611	—	611	—	611
Exercise of common stock options	5,000	—	—	—	51	—	51	—	51
Noncontrolling interest tax withholding	—	—	—	—	—	—	—	(387)	(387)
Net income	—	—	—	—	—	6,667	6,667	1,276	7,943
Balance, March 31, 2022	19,832,417	\$ 20	(23,000)	\$ (248)	\$ 84,356	\$ 46,101	\$ 130,229	\$ 10,014	\$ 140,243
Stock-based compensation	—	—	—	—	565	—	565	—	565
Noncontrolling interest tax withholding	—	—	—	—	—	—	—	(487)	(487)
Net income	—	—	—	—	—	6,344	6,344	856	7,200
Balance, June 30, 2022	19,832,417	\$ 20	(23,000)	\$ (248)	\$ 84,921	\$ 52,445	\$ 137,138	\$ 10,383	\$ 147,521
Issuance of common stock upon vesting of restricted stock units, net shares withheld to cover taxes	—	—	—	—	598	—	598	—	598
Stock-based compensation	—	—	—	—	—	—	—	(190)	(190)
Net income	—	—	—	—	—	6,096	6,096	57	6,153
Balance, September 30, 2022	19,832,417	\$ 20	(23,000)	\$ (248)	\$ 85,519	\$ 58,541	\$ 143,832	\$ 10,250	\$ 154,082

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity Attributable to Karat Packaging Inc.	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance, January 1, 2023	19,908,005	\$ 20	(23,000)	\$ (248)	\$ 85,792	\$ 56,118	\$ 141,682	\$ 10,251	\$ 151,933
Issuance of common stock upon vesting of restricted stock units, net shares withheld to cover taxes	2,452	—	—	—	(14)	—	(14)	—	(14)
Stock-based compensation	—	—	—	—	277	—	277	—	277
Net income	—	—	—	—	—	9,005	9,005	181	9,186
Balance, March 31, 2023	19,910,457	\$ 20	(23,000)	\$ (248)	\$ 86,055	\$ 65,123	\$ 150,950	\$ 10,432	\$ 161,382
Cash dividends declared (\$ 0.35 per share)	—	—	—	—	—	(6,965)	(6,965)	—	(6,965)
Issuance of common stock upon vesting of restricted stock units, net shares withheld to cover taxes	582	—	—	—	(4)	—	(4)	—	(4)
Stock-based compensation	—	—	—	—	216	—	216	—	216
Net income	—	—	—	—	—	10,502	10,502	175	10,677
Balance, June 30, 2023	19,911,039	\$ 20	(23,000)	\$ (248)	\$ 86,267	\$ 68,660	\$ 154,699	\$ 10,607	\$ 165,306
Cash dividends declared (\$ 0.50 per share)	—	—	—	—	—	(9,952)	(9,952)	—	(9,952)
Stock-based compensation	—	—	—	—	250	—	250	—	250
Exercise of stock options	5,800	—	—	—	103	—	103	—	103
Noncontrolling interest tax withholding	—	—	—	—	—	—	—	(94)	(94)
Net income	—	—	—	—	—	9,065	9,065	75	9,140
Balance, September 30, 2023	19,916,839	\$ 20	(23,000)	\$ (248)	\$ 86,620	\$ 67,773	\$ 154,165	\$ 10,588	\$ 164,753

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

KARAT PACKAGING, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities		
Net income	\$ 29,003	\$ 21,296
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including \$ 910 associated with variable interest entity for both the nine months ended September 30, 2023 and 2022)	8,058	7,752
Adjustments to allowance for doubtful accounts	(673)	1,112
Adjustments to inventory reserve	(27)	441
Write-off of inventory	3,225	—
Impairment of deposits	523	—
Loss (gain), net, on disposal of machinery and equipment	1,708	(33)
Change in fair value of interest rate swap (including \$ 0 and \$ 2,159 associated with variable interest entity for the nine months ended September 30, 2023 and 2022, respectively)	—	(2,159)
Amortization of loan fees (including \$ 41 and \$ 28 associated with variable interest entity for the nine months ended September 30, 2023 and 2022, respectively)	57	28
Accrued interest on certificates of deposit	(63)	—
Stock-based compensation	743	1,774
Amortization of operating right-of-use assets	3,617	2,897
(Increase) decrease in operating assets		
Accounts receivable (including \$ 6 and \$ 21 associated with variable interest entity for the nine months ended September 30, 2023 and 2022, respectively)	(3,399)	(5,068)
Inventories	(3,649)	(15,255)
Prepaid expenses and other current assets (including \$ 22 and \$ 396 associated with variable interest entity for the nine months ended September 30, 2023 and 2022, respectively)	431	(2,264)
Other assets (including \$ 34 and \$ 458 associated with variable interest entity for the nine months ended September 30, 2023 and 2022, respectively)	(75)	(43)
Increase (decrease) in operating liabilities		
Accounts payable (including \$ 57 and \$ 470 associated with variable interest entity for the nine months ended September 30, 2023 and 2022, respectively)	1,701	459
Accrued expenses (including \$ 163 and \$ 414 associated with variable interest entity for the nine months ended September 30, 2023 and 2022, respectively)	(147)	1,130
Related party payable	(2,385)	2,855
Income taxes payable	8,010	111
Customer deposits (including \$ 49 and \$ 156 associated with variable interest entity for the nine months ended September 30, 2023 and 2022, respectively)	(478)	(29)
Operating lease liability	(3,313)	(2,897)
Other liabilities (including \$ 0 and \$ 1 associated with variable interest entity for the nine months ended September 30, 2023 and 2022, respectively)	172	150
Other payables	49	242
Net cash provided by operating activities	\$ 43,088	\$ 12,499

	Nine Months Ended September 30,	
	2023	2022
Cash flows from investing activities		
Purchases of property and equipment	(2,870)	(2,007)
Proceeds from disposal of property and equipment	605	76
Payments for costs incurred from sale of machinery and equipment	(189)	—
Deposits paid for joint venture investment	(2,900)	(4,000)
Deposits refunded from joint venture investment	6,900	—
Deposit refund from cancelled property and equipment purchase	503	—
Deposits paid for property and equipment	(5,390)	(11,471)
Proceeds from settlement of interest rate swap (including \$ 0 and \$ 825 associated with variable interest entity for the nine months ended September 30, 2023 and 2022, respectively)	—	825
Purchase of short-term investments (including \$ 8,000 and \$ 0 associated with variable interest entity for the nine months ended September 30, 2023 and 2022, respectively)	(28,000)	—
Redemption of short-term investments	10,000	—
Net cash used in investing activities	<u>\$ (21,341)</u>	<u>\$ (16,577)</u>
Cash flows from financing activities		
Proceeds from line of credit	—	21,100
Payments on line of credit	—	(21,100)
Proceeds from long-term debt (including \$ 8,000 and \$ 27,477 associated with variable interest entity for the nine months ended September 30, 2023 and 2022, respectively)	8,000	27,477
Payments for lender fees	(61)	—
Payments on long-term debt (including \$ 733 and \$ 21,338 associated with variable interest entity for the nine months ended September 30, 2023 and 2022, respectively)	(733)	(21,338)
Tax withholding on vesting of restricted stock units	(18)	—
Proceeds from exercise of common stock options	103	51
Dividends paid to shareholders	(16,917)	—
Payments of noncontrolling interest tax withholding (including \$ 0 and \$ 1,064 associated with variable interest entity for the nine months ended September 30, 2023 and 2022, respectively)	—	(1,064)
Net cash (used in) provided by financing activities	<u>\$ (9,626)</u>	<u>\$ 5,126</u>
Net increase in cash and cash equivalents	<u>12,121</u>	<u>1,048</u>
Cash and cash equivalents		
Beginning of period	<u>\$ 16,041</u>	<u>\$ 6,483</u>
End of period	<u>\$ 28,162</u>	<u>\$ 7,531</u>
Supplemental disclosures of non-cash investing and financing activities:		
Transfers from deposit to property and equipment	\$ 8,953	\$ 6,639
Non-cash purchases of property and equipment	\$ 71	\$ —
Supplemental disclosures of cash flow information:		
Cash paid for income tax	\$ 309	\$ 7,069
Cash paid for interest	\$ 1,493	\$ 1,541

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

KARAT PACKAGING INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations

Lollicup USA Inc. ("Lollicup") was incorporated on January 21, 2001 under the laws of the State of California as an S-corporation. Effective January 1, 2018, Lollicup elected to convert from an S-Corporation to a C-Corporation. Karat Packaging Inc. ("Karat Packaging") was incorporated on September 26, 2018 as a Delaware corporation and became the holding company for Lollicup (collectively, the "Company") through a share exchange with the shareholders of Lollicup.

The Company is a manufacturer and distributor of single-use disposable products used in a variety of restaurant and foodservice settings. The Company supplies a wide range of products such as food containers, tableware, cups, lids, cutlery, and straws. The products are available in plastic, paper, biopolymer-based and other compostable forms. In addition to manufacturing and distribution, the Company offers customized solutions to customers, including new product development, design, printing, and logistics services, and distributes certain specialty food and beverages products, such as boba and coffee drinks.

The Company supplies products to national and regional distributors, supermarkets, restaurants, and convenience stores as well as to smaller chains and businesses including boutique coffee houses, bubble tea cafes, pizza parlors and frozen yogurt shops.

The Company currently operates manufacturing facilities and distribution and fulfillment centers in Chino, California; Rockwall, Texas and Kapolei, Hawaii. In addition, the Company operates seven other distribution centers located in Sumner, Washington; Summerville, South Carolina; Branchburg, New Jersey; Kapolei, Hawaii; City of Industry, California, Aurora, Illinois; and Sugar Land, Texas .

2. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles as promulgated in the United States of America ("US GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. Accordingly, these condensed consolidated financial statements do not include all the information and footnotes required by US GAAP for complete financial statements. The financial information as of September 30, 2023 and for the three and nine months ended September 30, 2023 and 2022 is unaudited; however, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair statement have been included. Operating results for the three and nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2023.

The condensed consolidated balance sheet at December 31, 2022 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by US GAAP for complete financial statements. These financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2022, as included in the Company's Annual Report on Form 10-K filed on March 16, 2023.

Principles of Consolidation: The condensed consolidated financial statements include the accounts of Karat Packaging and its wholly-owned and controlled operating subsidiaries, Lollicup, Lollicup Franchising, LLC ("Lollicup Franchising") and Global Wells, a variable interest entity wherein the Company is the primary beneficiary. All intercompany accounts and transactions have been eliminated.

Variable Interest Entities: In 2017, Lollicup along with three other unrelated parties formed Global Wells. Lollicup has a 13.5 % ownership interest and a 25 % voting interest in Global Wells, which is located in Rockwall, Texas. The purpose of this entity is to own, construct, and manage warehouses and manufacturing facilities. Global Wells' operating agreement may require its members to make additional contributions upon the unanimous decision of the members or when the cash in Global Wells' bank account falls below \$ 50,000 . In the event that a member is unable to make an additional capital contribution, the other members will be required to make contributions to offset the amount that member cannot contribute, up to \$ 25,000 .

In 2018, Lollicup entered into an operating lease with Global Wells for a facility in Rockwall, Texas. Upon the execution of this lease, it was determined that Lollicup holds current and potential rights that give it the power to direct activities of Global Wells that most significantly impact Global Wells' economic performance, receive significant benefits, or the obligation to absorb potentially significant losses, resulting in Lollicup having a controlling financial interest in

KARAT PACKAGING INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Global Wells. As a result, Lollicup was deemed to be the primary beneficiary of Global Wells and has consolidated Global Wells under the risk and reward model of ASC Topic 810, *Consolidations*.

Assets recognized as a result of consolidating Global Wells do not represent additional assets that could be used to satisfy claims against the Company's general assets. Conversely, liabilities recognized as a result of consolidating Global Wells do not represent additional claims of the Company's general assets; they represent claims against the specific assets of Global Wells. See Note 9 — *Long-Term Debt* for a description of the two term loans that Global Wells had with financial institutions as of September 30, 2023.

Noncontrolling Interests: The Company consolidates its variable interest entity, Global Wells, in which the Company is the primary beneficiary. Noncontrolling interests represent third-party equity ownership interests in Global Wells. The Company recognizes noncontrolling interests as equity in the condensed consolidated financial statements separate from the Company's stockholders' equity. The amount of net income attributable to noncontrolling interests is disclosed in the condensed consolidated statements of income. Tax payments made by the Company on behalf of the noncontrolling interests are deducted from their equity balances, as shown in the condensed consolidated statements of stockholders' equity.

Estimates and Assumptions: Management uses estimates and assumptions in preparing financial statements in accordance with US GAAP. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ materially from the estimates that were assumed in preparing the condensed consolidated financial statements. Estimates that are significant to the condensed consolidated financial statements include stock-based compensation, allowance for doubtful accounts and reserve for slow-moving and obsolete inventory.

Reporting Segments: The Company manages and evaluates its operations in one reportable segment. This segment consists of manufacturing and supply of a broad portfolio of single-use products that are used to serve food and beverages and are available in plastic, paper, foam, post-consumer recycled content and renewable materials. It also consists of the distribution of certain specialty food and beverage products, such as boba and coffee drinks, and certain restaurant and warehouse supplies. The Company's long-lived assets are all located in the United States, and its revenues are all generated in the United States.

Fair Value Measurements: The Company has financial instruments classified within the fair value hierarchy, which consist of the following:

- At September 30, 2023, the Company had money market accounts and short-term investments classified as Level 1 within the fair value hierarchy. The short-term investments comprise of certificates of deposits with an original maturity of longer than 90 days and are reported at their carrying value as current assets on the condensed consolidated balance sheet. The carrying value of these short-term investments approximates fair value as they were purchased near or on September 30, 2023. At December 31, 2022, the Company had money market accounts classified as Level 1 within the fair value hierarchy, and reported as current assets on the condensed consolidated balance sheet.

The following table summarizes the Company's fair value measurements by level at September 30, 2023:

	Level 1	Level 2	Level 3
	(in thousands)		
Cash equivalents	\$ 19,024	\$ —	\$ —
Short-term investments	18,063	—	—
Fair value, September 30, 2023	\$ 37,087	\$ —	\$ —

The following table summarize the Company's fair value measurements by level at December 31, 2022:

	Level 1	Level 2	Level 3
	(in thousands)		
Cash equivalents	\$ 10,609	\$ —	\$ —
Fair value, December 31, 2022	\$ 10,609	\$ —	\$ —

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, related-party payable, accrued and other liabilities and other payables at September 30, 2023 and December 31, 2022, approximated fair value

KARAT PACKAGING INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

because of the short maturity of these instruments. The following is a summary of the carrying amount and estimated fair value of the \$ 23,000,000 and \$ 28,700,000 term loans that mature in September 2026 and July 2027, respectively (the "2026 Term Loan" and "2027 Term Loan," respectively):

	September 30, 2023	
	Carrying Amount	Estimated Fair Value
	(in thousands)	
2026 Term Loan	\$ 21,640	\$ 19,496
2027 Term Loan	28,139	27,090
	\$ 49,779	\$ 46,586

	December 31, 2022	
	Carrying Amount	Estimated Fair Value
	(in thousands)	
2026 Term Loan	\$ 22,079	\$ 20,115
2027 Term Loan	20,436	18,918
	\$ 42,515	\$ 39,033

The fair value of these financial instruments was determined using Level 2 inputs.

New and Recently Adopted Accounting Standards: The Company is an emerging growth company as that term is used in the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), and as such, the Company have elected to take advantage of certain reduced public company reporting requirements. In addition, Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, or the Securities Act, for complying with new or revised accounting standards, as a result, the Company will adopt new or revised accounting standards on the relevant dates in which adoption of such standards is required for private companies.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which adds to US GAAP an impairment model known as the current expected credit loss ("CECL") model that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which the FASB believes will result in more timely recognition of such losses. The ASU is also intended to reduce the complexity of US GAAP by decreasing the number of credit impairment models that entities use to account for debt instruments. The FASB subsequently issued ASU 2019-10 (Topic 326), "Financial Instruments-Credit Losses: Effective Dates" which amends the effective date for SEC filers that are eligible to be 'smaller reporting companies', non-SEC filers and all other companies, including not-for-profit companies and employee benefit plans. The Company adopted this new standard using the modified retrospective adoption method beginning with its first quarter in 2023. The application of this new standard did not have a material impact on its consolidated financial statements.

3. Goodwill

The following table summarizes the activity in the Company's goodwill from December 31, 2022 to September 30, 2023:

	(in thousands)
Balance at December 31, 2022	\$ 3,510
Goodwill acquired	—
Balance at September 30, 2023	\$ 3,510

4. Joint Venture

On April 6, 2022, the Company entered into a joint venture agreement (the "JV Agreement") to establish a new corporation, Bio Earth, to build a bagasse factory in Taiwan. The JV Agreement stipulated an investment by the Company of approximately \$ 6,500,000 for a 49 % interest in Bio Earth. Through December 31, 2022, the Company made net

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payments totaling \$ 4,000,000 under the JV Agreement. During the three months ended March 31, 2023, the Company made additional payments of \$ 2,900,000 and received a refund of \$ 900,000 under the JV Agreement.

On May 8 2023, the Company entered into a Share Transfer Agreement (the "Share Transfer Agreement"), with approval of the Board of Directors, to sell all of its equity interest in Bio Earth to Keary Global for a total consideration of approximately \$ 6,100,000 (the "Share Transfer"), representing the total net deposits made by the Company of \$ 6,000,000 under the JV Agreement as discussed above and interest accruing at 5 % per annum. Keary Global and its affiliate, Keary International are both owned or controlled by Jeff Yu, brother of our Chief Executive Officer, Alan Yu. Concurrent with the Share Transfer Agreement, the Company also entered into an agreement with Keary Global, Bio Earth and Happiness Moon Co., Ltd. ("Happiness Moon") pursuant to which (i) Lollicup agreed to transfer all Bio Earth shares, as well as its rights and obligations under the JV Agreement to Keary Global, (ii) Happiness Moon and Bio Earth agree to foregoing and (iii) Bio Earth shall manage the regulatory and registration requirements related to the Share Transfer.

As of the end of the second quarter of 2023, the Company had completed the Share Transfer to Keary Global and received the total consideration of \$ 6,100,000 in full.

See Note 15 — *Related Party Transactions* for further discussion on our business activities with Keary Global.

5. Inventories

Inventories consist of the following:

	September 30, 2023	December 31, 2022
	(in thousands)	
Raw materials	\$ 9,427	\$ 18,061
Semi-finished goods	2,413	1,850
Finished goods	60,539	52,044
Subtotal	72,379	71,955
Less inventory reserve	(722)	(749)
Total inventories	\$ 71,657	\$ 71,206

The Company incurred inventory adjustments and write-off of \$ 281,000 and \$ 3,225,000 for the three and nine months ended September 30, 2023, respectively. There were no inventory adjustments and write-offs for the three and nine months ended September 30, 2022. Included within the amount for the nine months ended September 30, 2023, was a \$ 1,710,000 write-off of raw materials, as the Company disposed of certain machinery and equipment in executing the strategy to scale back production in certain locations. Inventory adjustments and write-offs are included in cost of goods sold on the accompanying condensed consolidated statements of income. See Note 14 — *Impairment Expense and (Gain) Loss, Net, on Disposal of Machinery* for further discussion about the disposal of machinery.

6. Property and Equipment

	September 30, 2023	December 31, 2022
	(in thousands)	
Machinery and equipment	\$ 70,150	\$ 70,234
Leasehold improvements	19,070	19,063
Vehicles	7,480	6,725
Furniture and fixtures	1,141	1,016
Building	38,505	36,599
Land	11,907	11,907
Computer hardware and software	593	593
	148,846	146,137
Less: accumulated depreciation and amortization	(52,156)	(50,569)
Total property and equipment, net	\$ 96,690	\$ 95,568

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Depreciation and amortization expense on property and equipment was \$ 2,701,000 and \$ 2,597,000 for the three months ended September 30, 2023 and 2022, respectively. Depreciation and amortization expense on property and equipment was \$ 8,038,000 and \$ 7,732,000 for the nine months ended September 30, 2023 and 2022, respectively. Depreciation and amortization expense is reported within general and administrative expense except for depreciation and amortization expense related to manufacturing facilities and equipment, which is included in cost of goods sold on the accompanying condensed consolidated statements of income.

7. Line of Credit

Pursuant to the terms of the Business Loan Agreement, dated February 23, 2018, between Lollicup, as borrower, and Hanmi Bank, as lender (as amended, the "Loan Agreement"), the Company has a line of credit with a maximum borrowing capacity of \$ 40,000,000 (the "Line of Credit") secured by the Company's assets. The Company is not required to pay a commitment (unused) fee on the undrawn portion of the Line of Credit and interest is payable monthly. The Company is required to comply with certain financial covenants, including a minimum current ratio, minimum debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio and a minimum fixed charge coverage ratio.

On March 14, 2023, the Company amended the Line of Credit. Prior to March 14, 2023, interest accrued at the annual rate of prime less 0.25 % with a minimum floor of 3.25 %. The amendment on March 14, 2023, among other things, (1) extended the maturity date to March 14, 2025, and (2) revised the interest on any Line of Credit borrowings to an annual rate of one month term Secured Overnight Financing Rate ("SOFR") plus 2.50 %, with a SOFR floor of 1.0 %.

The Line of Credit also includes a standby letter of credit sublimit, which was amended and increased to \$ 5,000,000 from \$ 2,000,000 on June 20, 2023.

The Company had no borrowings outstanding under the Line of Credit as of both September 30, 2023 and December 31, 2022. The amount issued under the standby letter of credit was \$ 3,736,000 and \$ 1,070,000 as of September 30, 2023 and December 31, 2022, respectively. As of September 30, 2023, the maximum remaining amount that could be borrowed under the Line of Credit was \$ 36,264,000 . As of both September 30, 2023 and December 31, 2022, the Company was in compliance with the financial covenants under the Line of Credit.

8. Accrued Expenses

The following table summarizes information related to accrued expense liabilities:

	September 30, 2023	December 31, 2022
	(in thousands)	
Accrued miscellaneous expenses	\$ 2,368	\$ 1,646
Accrued interest	73	108
Accrued payroll	1,180	1,586
Accrued vacation and sick pay	834	543
Accrued shipping expenses	1,478	1,918
Accrued professional services fees	499	600
Accrued property tax	876	1,164
Accrued sale taxes and use taxes	1,021	992
Accrued sales discount	529	448
Total accrued expenses	<u>\$ 8,858</u>	<u>\$ 9,005</u>

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9. Long-Term Debt

Long-term debt consists of the following:

	September 30, 2023	December 31, 2022
	(in thousands)	
The 2026 Term Loan, with an initial balance of \$ 16,115,000 and an option to request for additional advances up to a maximum of \$ 6,885,000 through September 2022, which the Company exercised in February 2022. Interest accrues at a fixed rate of 3.5 % per annum. Principal and interest payments of \$ 116,000 are due monthly throughout the term of the loan, with the remaining principal balance due at maturity. The loan is collateralized by substantially all of Global Wells' assets and is guaranteed by Global Wells and one of the Company's stockholders. In accordance with the loan agreement, Global Wells is required to comply with certain financial covenants, including a minimum debt service coverage ratio.	\$ 21,711	\$ 22,168
The 2027 Term Loan, with an initial balance of \$ 20,700,000 and an option to request for additional advances up to a maximum of \$ 8,000,000 through June 30, 2023, which the Company exercised in March 2023. Interest accrues at a fixed rate of 4.375 % per annum. Prior to August 1, 2023, principal and interest payments of \$ 104,000 are due monthly. Beginning August 1, 2023, monthly principal and interest payments increased to \$ 144,000 for the remainder of the loan term, with the remaining principal balance due at maturity. The loan is collateralized by substantially all of Global Wells' assets and is guaranteed by one of the Company's stockholders. In accordance with the loan agreement, Global Wells is required to comply with certain financial covenants, including a minimum debt coverage ratio.	\$ 28,287	\$ 20,563
Long-term debt	49,998	42,731
Less: unamortized loan fees	(219)	(216)
Less: current portion	(1,111)	(957)
Long-term debt, net of current portion	\$ 48,668	\$ 41,558

At September 30, 2023, future maturities are:

	(in thousands)
2023 (remainder)	\$ 277
2024	1,122
2025	1,179
2026	20,798
2027	26,622
	\$ 49,998

The 2027 Loan was a refinance in June 2022 from a previous \$ 21,580,000 term loan, and was accounted for as a debt modification. The Company was in compliance with all of its financial covenants as of both September 30, 2023 and December 31, 2022.

10. Interest Rate Swap

In June 2022, Global Wells terminated its ten-year floating-to-fixed interest rate swap, and recognized cash proceeds of \$ 825,000 as gain on the settlement, which was included in interest income in the accompanying condensed consolidated statements of income. This interest rate swap had a notional value of \$ 21,580,000 as of the effective date of June 13, 2019 based on the prime rate versus a 5.0 % fixed rate.

For the nine months ended September 30, 2022, Global Wells recognized \$ 2,159,000 (including the gain on settlement) as interest income related to the interest rate swap.

11. Stock-Based Compensation

In January 2019, the Company's Board of Directors adopted the 2019 Stock Incentive Plan (the "Plan"). A total of 2,000,000 shares of common stock were authorized and reserved for issuance under the Plan in the form of incentive or nonqualified stock options and stock awards. A compensation committee appointed by the Board of Directors of the Company determines the terms and conditions of each grant under the Plan. Employees, directors, and consultants are eligible to receive stock options and stock awards under the Plan. The aggregate number of shares available under the Plan and the number of shares subject to outstanding options may be increased or decreased by the Plan administrator to reflect any changes in the outstanding common stock by reason of any recapitalization, reorganization, reclassification, stock split, reverse split, combination of shares, exchange of shares, stock dividend or other distribution payable in capital stock or similar transaction.

The exercise price of incentive stock options may not be less than the fair market value of the common stock at the date of grant. The exercise price of incentive stock options granted to individuals that own greater than 10% of the voting stock may not be less than 110 % of the fair market value of the common stock at the date of grant.

The term of each incentive and nonqualified option is based upon conditions as determined by the option agreement; however, the term can be no more than ten years from the date of the grant. In the case of an incentive stock option granted to an optionee who, at the time the option is granted, owns stock representing more than 10% of the voting power of all classes of stock of the Company or any parent or subsidiary, the term of the option will be a shorter term as provided in the option agreement, but not more than five years from the date of the grant.

As of September 30, 2023, a total of 1,334,017 shares of common stock were available for further award grants under the Plan. For the three months ended September 30, 2023 and 2022, the Company recognized a total of \$ 250,000 and \$ 598,000 in stock-based compensation expense, respectively. For the nine months ended September 30, 2023 and 2022, the Company recognized a total of \$ 743,000 and \$ 1,774,000 in stock-based compensation expense, respectively. The Company recognizes stock-based compensation over the vesting period, which is generally three (3) years for both the restricted stock units and stock options.

Stock Options

A summary of the Company's stock option activity under the Plan for the period ended September 30, 2023 is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Life (In Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2022	420,000	\$ 18.6	8.8	\$ —
Exercised	(5,800)	\$ 17.7		
Forfeited	(10,000)	\$ 18.9		
Outstanding at September 30, 2023	404,200	\$ 18.6	8.1	\$ 1,807
Vested and expected to vest at September 30, 2023	404,200	\$ 18.6	8.1	\$ 1,807
Exercisable at September 30, 2023	130,867	\$ 18.6	8.1	\$ 581

There were no stock options granted during the nine months ended September 30, 2023. At September 30, 2023, total remaining stock-based compensation cost for unvested stock options under the Plan was approximately \$ 282,000 . The cost is expected to be recognized over a weighted-average period of 1.0 year.

The aggregate intrinsic value is calculated by subtracting the exercise price of the option from the closing price of the Company's common stock on September 30, 2023, multiplied by the number of shares per each option.

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Restricted Stock Units

The Company issued restricted stock units to its employees. The following table summarizes the unvested restricted stock units for the nine months ended September 30, 2023:

	Number of Shares Outstanding	Weighted Average Grant Date Fair Value
Unvested at December 31, 2022	82,146	11.47
Vested	(4,550)	16.64
Forfeited	(1,667)	10.00
Unvested at September 30, 2023	75,929	11.19

There were no restricted stock units granted during the nine months ended September 30, 2023. At September 30, 2023, total remaining stock-based compensation cost for unvested restricted stock units was approximately \$ 39,000 . The cost is expected to be recognized over a weighted-average period of 0.6 years.

12. Earnings Per Share

(a) *Basic*

Basic earnings per share is calculated by dividing the net income attributable to equity holders of the Company for the period by the weighted average number of common shares outstanding during the period.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands, except per share data)			
Net income attributable to Karat Packaging Inc.	\$ 9,065	\$ 6,096	\$ 28,572	\$ 19,107
Weighted average number of common shares in issue	19,891	19,809	19,888	19,809
Basic earnings per share	\$ 0.46	\$ 0.31	\$ 1.44	\$ 0.96

(b) *Diluted*

Diluted earnings per share is calculated based upon the weighted average number of common shares and common equivalent shares outstanding during the period, calculated using the treasury stock method. Under the treasury stock method, exercise proceeds include the amount the employee must pay for exercising stock options and the amount of compensation cost related to stock awards for future services that the Company has not yet recognized. Common equivalent shares are excluded from the computation in periods in which they have an anti-dilutive effect.

The following table summarizes the calculation of diluted earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands, except per share data)			
Net income attributable to Karat Packaging Inc.	\$ 9,065	\$ 6,096	\$ 28,572	\$ 19,107
Weighted average number of common shares in issue	19,891	19,809	19,888	19,809
Dilutive shares				
Stock options and restricted stock units	104	129	75	113
Adjusted weighted average number of common shares	19,995	19,938	19,963	19,922
Diluted earnings per share	\$ 0.45	\$ 0.31	\$ 1.43	\$ 0.96

For the three months ended September 30, 2023 and 2022, a total of 0 and 434,000 shares of potentially dilutive shares, respectively, have been excluded in the diluted earnings per share calculation due to their anti-dilutive impact on earnings per share. For the nine months ended September 30, 2023 and 2022, a total of 285,000 and 452,000 shares of

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potentially dilutive shares, respectively, have been excluded in the diluted earnings per share calculation due to their anti-dilutive impact on earnings per share.

13. Leases

The Company primarily leases manufacturing facilities, distribution centers and office spaces with lease terms expiring through 2031. The Company recognized the following lease costs in the accompanying condensed consolidated statement of income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands)		(in thousands)	
Operating lease expense	\$ 1,606	\$ 1,336	\$ 4,454	\$ 3,256
Short-term lease expense	106	4	143	14
Variable lease expense	260	212	750	501
Total lease expense	\$ 1,972	\$ 1,552	\$ 5,347	\$ 3,771

For the three months ended September 30, 2023 and 2022, rent expense included in operating expenses was \$ 1,653,000 and \$ 1,260,000 , respectively, and rent expense included in cost of goods sold was \$ 319,000 and \$ 292,000 , respectively. For the nine months ended September 30, 2023 and 2022, rent expense included in operating expenses was \$ 4,542,000 and \$ 2,974,000 , respectively, and rent expense included in cost of goods sold was \$ 805,000 and \$ 797,000 , respectively.

The following table presents supplemental information related to operating leases:

	September 30, 2023	December 31, 2022
Weighted average remaining lease term	4.41 years	4.27 years
Weighted average discount rate	5.8 %	5.3 %

	Nine Months Ended September 30,	
	2023	2022
	(in thousands)	
Cash paid for amounts included in measurement of lease obligations:		
Operating cash flows from operating leases	\$ 4,129	\$ 3,120

As of September 30, 2023, future lease payments under operating leases were as follows:

	(in thousands)
2023 (remainder)	\$ 1,544
2024	5,254
2025	3,928
2026	4,044
2027	2,711
Thereafter	2,885
Total future lease payments	20,366
Less: imputed interest	2,573
Total lease liability balance	\$ 17,793

In September 2020, Global Wells entered into an operating lease with an unrelated party as the landlord. The lease generates monthly rental payments from \$ 58,000 to \$ 61,000 over the lease term of 38 months beginning September 9,

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2020. The lease was extended for a period of two additional years beginning November 1, 2023, and will generate monthly rental payments from \$ 62,000 to \$ 65,000 . The expected rental income is \$ 185,000 for the remaining three months of the year ending December 31, 2023, and \$ 739,000 and \$ 616,000 for the years ending December 31, 2024, and 2025, respectively.

14. Impairment Expense and (Gain) Loss, Net, on Disposal of Machinery and Equipment

In February 2023, the Company started to execute a strategy to increase imports and scale back manufacturing in certain locations. The Company subsequently reached an agreement with two unrelated third-party vendors in Taiwan to sell them certain of its manufacturing machinery and equipment. The sale of these assets occurred in the second and third quarter of 2023. During the same period, the Company also cancelled certain equipment purchase commitments that it had previously paid deposits towards, and disposed of certain machinery and equipment through abandonment.

The Company recognized the following amounts related to impairment expense and (gain) loss, net, on disposal of machinery:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(in thousands)		(in thousands)	
(Gain) loss, net, on disposal of machinery in scaling back manufacturing	\$ (310)	\$ —	\$ 1,612	\$ —
(Gain) loss, net, on disposal of machinery within normal course of business	—	(16)	96	(33)
(Gain) Loss, net, on disposal	(310)	(16)	1,708	(33)
Impairment of deposits	—	—	523	—
Impairment expense and (gain) loss, net, on disposal of machinery	\$ (310)	\$ (16)	\$ 2,231	\$ (33)

15. Related Party Transactions

Keary Global Ltd. ("Keary Global") owns 250,004 shares of the Company's common stock as of September 30, 2023, which Keary Global acquired upon exercise of two convertible notes during the third quarter of 2018. Keary Global and its affiliate, Keary International, are owned by one of the Company's stockholders' family member. In addition to being a stockholder, Keary Global and Keary International are inventory suppliers and purchasing agents for the Company overseas. The Company has entered into ongoing purchase and supply agreements with Keary Global. At September 30, 2023 and December 31, 2022, the Company has accounts payable due to Keary Global and Keary International of \$ 2,555,000 and \$ 4,940,000 , respectively. Purchases for the three months ended September 30, 2023 and 2022 from this related party were \$ 7,371,000 and \$ 7,336,000 , respectively. Purchases for the nine months ended September 30, 2023 and 2022 from this related party were \$ 32,384,000 and \$ 33,051,000 , respectively.

See Note 4 — *Joint Venture* for discussion on our share transfer agreement with Keary Global.

16. Income Taxes

For the three months ended September 30, 2023 and 2022, the Company's income tax expense was \$ 2,904,000 and \$ 1,900,000 , with effective tax rate of 24.1 % and 23.6 %, respectively. For the nine months ended September 30, 2023 and 2022, the Company's income tax expense was \$ 9,045,000 and \$ 6,323,000 , with effective tax rate of 23.8 % and 22.9 % , respectively. For both the three and nine months ended September 30, 2023 and 2022, the Company's effective tax rate differed from the United States federal statutory rate of 21% primarily due to state taxes.

In evaluating the Company's ability to recover its deferred tax assets, the Company considers all available positive and negative evidence, including its operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction-by-jurisdiction basis. Based upon the level of historical taxable income, at this time, the Company determined that sufficient positive evidence existed to conclude that it is more likely than not there will be full utilization of the deferred tax assets in each jurisdiction. As such, as of September 30, 2023, based on the available evidence, the Company did not record any valuation allowance.

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The Company remains subject to the Internal Revenue Services ("IRS") examination for the 2019 through 2022 tax years, and has received notice in February 2019 that it is under examination for years 2016 and 2017. Additionally, the Company files multiple state and local income tax returns and remains subject to examination in various of these jurisdictions for the 2018 through 2021 tax years. As of September 30, 2023, and December 31, 2022, the Company did not have any unrecognized tax benefit.

In August 2022, the Inflation Reduction Act of 2022 (the "Act") was signed into law. The Act, among other things, imposes a nondeductible 1% excise tax on the fair market value of certain stock that is "repurchased" during the taxable year by publicly traded U.S. corporations or acquired by certain of its subsidiaries. The taxable amount is reduced by the fair market value of certain issuances of stock throughout the year. The Act also imposes a 15% corporate minimum tax on the adjusted financial statement income of large corporations for taxable years beginning after December 31, 2022. We do not expect these tax law changes to have a material impact on our condensed consolidated financial statements; however, we will continue to evaluate their impact.

In March 2023, the IRS announced the Winter Storm Relief that allowed for taxpayers in California affected by severe winter storms, flooding, landslides, and mudslides to have until November 15, 2023, to file various individual and business tax returns and make tax payments. The Company took advantage of this tax relief in the current year.

17. Commitments and Contingencies

The Company is a party to, and certain of its property is the subject of, various pending claims and legal proceedings that routinely arise in the ordinary course of its business. Management believes that the outcome of such litigation and claims, should they arise in the future, is not likely to have a material effect on the Company's financial position or results of income.

18. Secondary Offering

On September 12, 2023, certain selling stockholders completed a secondary public offering of shares of the Company's common stock. The Company did not receive any of the proceeds from the sale of these shares by the selling stockholders. The Company incurred offering transaction costs of \$ 453,000 , which were recognized in general and administrative expense in the condensed consolidated statement of income .

19. Subsequent Events

In October 2023, the Company made tax payments totaling approximately \$ 9,600,000 related to the current year quarterly estimate tax payments that were previously deferred under the Winter Storm Relief declared by the IRS. See Note 16 — *Income Taxes* for details on this tax relief.

In October 2023, Global Wells made a pro rata distribution of approximately \$ 3,956,000 , net of all applicable withholding taxes, to its four members.

In October 2023, the Company received deposit refund of \$ 1,272,000 related to the cancellation of a machinery purchase.

In October 2023, the Company signed an amended and restated lease agreement for a 98,000 square-foot distribution facility in Puyallup, Washington for a term of 64 -months, which amended, restated and superseded the lease dated June 15, 2023. The lease term is expected to commence in November 2023 pending completion of certain landlord work or an earlier date as mutually agreed-upon between the Company and the landlord. Under the lease agreement, monthly base lease payments range from \$ 94,000 to \$ 115,000 after an initial rent abatement period.

On November 6, 2023, the Company's Board of Directors declared a quarterly cash dividend of \$ 0.20 per share on the Company's common stock, which will be paid on or around November 30, 2023 to shareholders of record at the close of business on November 20, 2023.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and accompanying notes. This discussion and analysis contains "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements relate to expectations concerning matters that are not historical facts. For example, statements discussing, among other things, business strategies, growth strategies and initiatives, future revenues and future performance and expected costs and liabilities are forward-looking statements. Such forward-looking statements may be identified by words such as "anticipates," "believes," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "remain," "should," or "will" or the negative of these terms or other comparable terminology. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expect and, therefore, you should not unduly rely on such statements. The risks and uncertainties that could cause those actual results to differ materially from those expressed or implied by these forward-looking statements include but are not limited to:

- fluctuations in the demand for our products in light of changes in laws and regulations applicable to food and beverages and changes in consumer preferences;
- supply chain disruptions that could interrupt product manufacturing and increase product costs;
- our ability to source raw materials and navigate a shortage of available materials;
- our ability to compete successfully in our industry;
- the impact of earthquakes, fire, power outages, floods, pandemics and other catastrophic events, as well as the impact of any interruption by problems such as terrorism, cyberattacks, or failure of key information technology systems;
- our ability to accurately forecast demand for our products or our results of operations;
- the impact of problems relating to delays or disruptions in the shipment of our goods through operational ports;
- our ability to expand into additional foodservice and geographic markets;
- our ability to successfully design and develop new products;
- fluctuations in freight carrier costs related to the shipment of our products could have a material adverse impact on our results of operations;
- the effects of COVID-19 or other public health crises;
- our ability to attract and retain skilled personnel and senior management; and
- other risks and uncertainties described in "Risk Factors" as set forth in Item I, Part 1A, "Risk Factors" of the Annual Report on Form 10-K for the year ended December 31, 2022 as filed with the Securities and Exchange Commission (the "SEC") on March 16, 2023 (the "2022 Form 10-K").

As used in this Quarterly Report on Form 10-Q, "we", "us", "our", "Karat", "the Company" or "our Company" refer to Karat Packaging Inc., a Delaware corporation, and, unless the context requires otherwise, our operating subsidiaries. References to "Global Wells" or "our variable interest entity" refer to Global Wells Investment Group LLC, a Texas limited liability company and our consolidated variable interest entity, in which the Company has an equity interest and which is controlled by one of our stockholders. References to "Lollicup" refer to Lollicup USA Inc., a California corporation, our wholly-owned subsidiary.

Due to rounding, numbers presented throughout this report may not add up precisely to totals we provide and percentages may not precisely reflect the absolute figures.

Overview

We are a rapidly-growing specialty distributor and select manufacturer of disposable foodservice products and related items. We are a nimble supplier of a wide range of products for the foodservice industry, including food and take-out containers, bags, tableware, cups, lids, cutlery, straws, specialty beverage ingredients, equipment, gloves and other products. Our products are available in plastic, paper, biopolymer-based and other compostable forms. Our Karat Earth® line provides environmentally friendly options to our customers, who are increasingly focused on sustainability. We offer customized solutions to our customers, including new product development, design, printing and logistics services.

While a majority of our revenue is generated from the distribution of our vendors' products, we have select manufacturing capabilities in the U.S., which allows us to provide customers broad product choices and customized offerings with short lead times. We operate our business strategically and with broad flexibility to provide both our large and small customers with the wide spectrum of products they need to successfully run and grow their businesses. We believe our ability to source products quickly on a cost-effective basis via a diversified global supplier network, complemented by our manufacturing capabilities for select products, has established us as a differentiated provider of high-quality products relative to our competitors and supported a superior margin profile.

We operate an approximately 500,000 square foot distribution center located in Rockwall, Texas, an approximately 300,000 square foot distribution center in Chino, California, and an approximately 76,000 square foot distribution center located in Kapolei, Hawaii. We have selected manufacturing capabilities in all of these facilities. In addition, we operate seven other distribution centers located in Sumner, Washington; Summerville, South Carolina; Branchburg, New Jersey; Kapolei, Hawaii; City of Industry, California; Aurora, Illinois; and Sugar Land, Texas. Our distribution centers are strategically located in proximity to major population centers, including the Los Angeles, Houston, Dallas, New York, Seattle, Atlanta, Chicago and Honolulu metro areas.

We manage and evaluate our operations in one reportable segment.

Business Highlights and Trends

- We recorded net sales of \$105.5 million and \$310.1 million for the three and nine months ended September 30, 2023, respectively.
- Our gross margin expanded to 36.9% and 38.4% for the three and nine months ended September 30, 2023, respectively, a 580 and 740 basis points increase from the three and nine months ended September 30, 2022, respectively. The gross margin for the nine months ended September 30, 2023 included the impact of 60 basis points due to the write-off \$1.7 million of certain raw materials as we disposed of certain machinery and equipment in executing our plan to scale back production in certain locations.
- We recorded net income of \$9.1 million and \$29.0 million for the three and nine months ended September 30, 2023, respectively, an increase of 49% and 36% compared to three and nine months ended September 30, 2022, respectively. We achieved net income margin of 8.7% and 9.4% for the three and nine months ended September 30, 2023, respectively, a 310 and 300 basis points increase from the three and nine months ended September 30, 2022, respectively. Net income for the nine months ended September 30, 2023 included \$2.1 million in impairment expense and loss, net, on disposal of machinery as we executed our strategy to scale back manufacturing in certain locations, and \$1.7 million in raw materials write-off, as discussed above.
- We generated net cash from operating activities of \$12.0 million and \$43.1 million for the three and nine months ended September 30, 2023, respectively, compared to \$20.2 million and \$12.5 million in the three and nine months ended September 30, 2022, respectively.
- We generated consolidated Adjusted EBITDA, a non-GAAP measure defined below, of \$15.2 million and \$51.6 million for the three and nine months ended September 30, 2023, respectively, a 30% and 41% increase from the three and nine months ended September 30, 2022, respectively.
- Our Adjusted EBITDA margin, a non-GAAP measure defined below, expanded to 14.4% and 16.6% for the three and nine months ended September 30, 2023, respectively, an increase of 370 and 550 basis points from the three and nine months ended September 30, 2022, respectively.
- We had financial liquidity of \$64.4 million and additional short-term investments of \$18.1 million as of September 30, 2023. On November 6, 2023, our Board of Directors declared the quarterly cash dividend and increased it to \$0.20 per share on our common stock, which will be paid on or around November 30, 2023 to shareholders of record at the close of business on November 20, 2023.
- During the second quarter of 2023, we closed the sale of our equity interest in Bio Earth and had received total consideration of \$6.1 million, which comprised of our original deposits plus accrued interest.

Trends in Our Business

The following trends have contributed to the results of our operations, and we anticipate that they will continue to affect our future results:

- There is a growing trend towards at home dining and mobility-oriented e-commerce, food delivery and take-out dining. We believe this trend will continue to have a positive impact on our results of operations, as more of our customers will require packaging and containers to meet the demands of their increased food delivery and take-out dining consumers.
- Environmental concerns regarding disposable products, broadly, have resulted in a number of significant changes that are specific to the food-service industry, including regulations applicable to our customers. We believe this trend will have a positive long-lasting impact on our results of operations, as we expect there will be an increased demand for eco-friendly and compostable single-use disposable products. Sale of eco-friendly products represented approximately 33% of total sales in the third quarter of 2023, compared to 27% in the prior year quarter.
- Most of our products are sourced from vendors abroad and as a result we incur freight costs from these overseas import shipments. We believe fluctuations in freight cost can have either a positive or a negative impact on our results of operations, depending on whether such freight costs increase or decrease.
- U.S. foreign trade policy continues to evolve, such as the imposition of tariffs on a number of imported food-service disposable products, including those imported from China and other countries. We believe this trend will have either a positive or a negative impact on our results of operations, depending on whether we are able to source our raw materials or manufactured products from countries where tariffs have not been imposed by the current U.S. administration and whether the previously imposed tariffs are removed.
- The cost of raw materials used to manufacture our products, including polyethylene terephthalate, or PET, plastic resin, aluminum and paper boards may continue to fluctuate. Since negotiated sales contracts and the market largely determine the pricing for our products, we are, at times, limited in our ability to raise prices and pass through any impacts of inflation to our costs. There can also be lags between cost inflation and the implementation of price increases, which could negatively impact our gross margin. We believe price fluctuations will have either a positive or a negative impact on our results of operations in the future, depending on whether raw material costs increase or decrease and whether we can successfully implement price increases to offset the impacts of inflation.
- Supplier chain effectiveness could have a long-lasting impact on our operations and financial results. We believe this trend will have either a positive or a negative impact on our results of operations, depending on whether we are able to manage our global supply chain effectively, including the accurate forecast of demand, the successful procurement of raw materials and products and the effective management of our inventory, production and distribution.
- Fluctuations in foreign currency exchange rates could impact either positively or negatively various aspects of our business activities, including but not limited to our purchasing power and capacity to source inventory.
- We have recently made a strategic business decision to pivot into a more asset-light growth model by increasing import and scaling back manufacturing in certain locations. We believe this will have either a positive or a negative impact on our results of operations, depending on whether we can successfully source and import finished goods at a price that is more favorable than domestically manufacturer products, and effectively realize savings from reduced manufacturing capabilities.

Critical Accounting Estimates

The following discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with US GAAP. The preparation of these financial statements in accordance with US GAAP requires us to make estimates and judgments.

There have been no material changes in our critical accounting policies, or in the estimates and assumptions underlying those policies, from those described under the heading "Critical Accounting Policies and Estimates" in Item 7 of Part II of our 2022 Form 10-K.

Results of Operations

The amount and percentage changes calculated in the discussion below were based on numbers rounded to the nearest thousands.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023		2022		2023		2022	
	(in thousands)				(in thousands)			
Net sales	\$	105,528	\$	109,996	\$	310,069	\$	330,290
Cost of goods sold		66,584		75,828		191,120		227,869
Gross profit		38,944		34,168		118,949		102,421
Operating expenses		27,564		26,258		81,498		77,218
Operating income		11,380		7,910		37,451		25,203
Other income		664		143		597		2,416
Provision for income taxes		2,904		1,900		9,045		6,323
Net income	\$	9,140	\$	6,153	\$	29,003	\$	21,299

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

Net sales

Net sales were \$105.5 million for the three months ended September 30, 2023 compared to \$110.0 million for the three months ended September 30, 2022, a decrease of \$4.5 million, or 4%. This decrease is primarily made up of \$10.4 million from unfavorable year-over-year pricing comparison, as we actively passed on savings from ocean freight and raw materials costs to customers and \$1.8 million from lower logistic services and shipping revenue, partially offset by \$7.7 million from an increase in volume and change in product mix.

Cost of goods sold

Cost of goods sold was \$66.6 million for the three months ended September 30, 2023 compared to \$75.8 million for the three months ended September 30, 2022, a decrease of \$9.2 million, or 12%. The decrease was primarily attributable to a reduction of \$8.0 million in freight and duty costs to acquire inventory from overseas as a result of lower ocean freight rate, and a decrease of \$1.9 million in product costs due to lower sales in the current period combined with reduced pricing on certain raw materials used in production as well as some imported finished goods, partially offset by an increase of \$0.5 million in inventory reserves adjustments.

Gross profit

Gross profit was \$38.9 million for the three months ended September 30, 2023 compared to \$34.2 million for the three months ended September 30, 2022, an increase of \$4.8 million, or 14%. Gross margin increased to 36.9% for the three months ended September 30, 2023, compared to 31.1% for the three months ended September 30, 2022. Despite the unfavorable impact from price reductions, gross margin benefited from a significant decrease in ocean freight costs, which as a percentage of net sales was 7.9% during the three months ended September 30, 2023, down from 14.8% during the three months ended September 30, 2022. Additional margin expansion factors also included strong United States Dollar against Taiwan New Dollar, and our efforts to scale back manufacturing in the U.S. in favor of imports which carry higher margin.

Operating expenses

Operating expenses were \$27.6 million for the three months ended September 30, 2023 compared to \$26.3 million for the three months ended September 30, 2022, an increase of \$1.3 million, or 5%. The increase was primarily due to an increase of \$1.4 million in labor costs primarily due to workforce expansion and the shift towards import as we reduced production but increased warehouse headcount, an increase of \$0.6 million in marketing expense as we increased online marketing efforts to grow our e-commerce sales channel, an increase of \$0.6 million in professional expenses primarily due to transaction costs incurred in connection with the secondary offering, and an increase of \$0.3 million in rental expense primarily due to additional leased warehouses as we continued to expand our distribution capabilities. These increases were partially offset by a decrease of \$1.7 million in shipping and transportation costs due to lower shipping rates. See Note 18 - *Secondary Offering* for further information.

Operating income

Operating income was \$11.4 million for the three months ended September 30, 2023 compared to \$7.9 million for the three months ended September 30, 2022, an increase of \$3.5 million, or 44%. The increase was primarily due to an increase in gross profit of \$4.8 million, partially offset by an increase in operating expenses of \$1.3 million, as discussed above.

Other income, net

Other income, net was \$0.7 million for the three months ended September 30, 2023 compared to \$0.1 million for the three months ended September 30, 2022. The increase of \$0.5 million was primarily due to an increase in interest income of \$0.5 million.

Provision for income taxes

Provision for income taxes was \$2.9 million for the three months ended September 30, 2023 compared to \$1.9 million for the three months ended September 30, 2022, an increase of \$1.0 million, or 53%. The Company's effective tax rate was 24.1% for the three months ended September 30, 2023 compared to 23.6% for the three months ended September 30, 2022 primarily due to the change in the non-taxable non-controlling interest income.

Net income

Net income was \$9.1 million for the three months ended September 30, 2023 compared to \$6.2 million for the three months ended September 30, 2022, an increase of \$3.0 million, or 49%. The increase was primarily driven by an increase in operating income of \$3.5 million, and an increase in other income, net of \$0.5 million, partially offset by an increase in the provision for income taxes of approximately \$1.0 million, as discussed above.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

Net sales

Net sales were \$310.1 million for the nine months ended September 30, 2023 compared to \$330.3 million for the nine months ended September 30, 2022, a decrease of \$20.2 million, or 6%. This decrease is primarily made up of \$22.6 million from unfavorable year-over-year pricing comparison, as we actively passed on savings from ocean freight and raw materials costs to customers and \$6.2 million from lower logistic services and shipping revenue, partially offset by \$8.6 million from an increase in volume and change in product mix.

Cost of goods sold

Cost of goods sold was \$191.1 million for the nine months ended September 30, 2023 compared to \$227.9 million for the nine months ended September 30, 2022, a decrease of \$36.7 million, or 16%. The decrease was primarily attributable to a reduction of \$31.4 million in freight and duty costs to acquire inventory from overseas as a result of lower ocean freight rate, and a decrease of \$8.0 million in product costs due to lower sales in the current period combined with reduced pricing on certain raw materials used in production as well as some imported finished goods. These decreases were partially offset by a \$1.7 million write-off of raw materials in 2023 as we disposed of certain machinery and equipment in executing the plan to scale back production in the U.S.

Gross profit

Gross profit was \$118.9 million for the nine months ended September 30, 2023 compared to \$102.4 million for the nine months ended September 30, 2022, an increase of \$16.5 million, or 16%. Gross margin was 38.4% for the nine months ended September 30, 2023, including a 60-basis-point impact from the write-off of raw materials associated with the disposal of certain machinery as discussed above, compared to 31.0% for the nine months ended September 30, 2022. Despite the unfavorable impact from the inventory write-offs and price reductions, gross margin benefited from a significant decrease in ocean freight costs, which as a percentage of net sales was 6.7% during the nine months ended September 30, 2023, down from 15.8% during the nine months ended September 30, 2022. Additional margin expansion factors also included strong United States Dollar against Taiwan New Dollar, and our efforts to scale back manufacturing in the U.S. in favor of imports which carry higher margin and improve operating efficiencies.

Operating expenses

Operating expenses were \$81.5 million for the nine months ended September 30, 2023 compared to \$77.2 million for the nine months ended September 30, 2022, an increase of \$4.3 million, or 6%. The operating expenses for the nine months

ended September 30, 2023 included impairment expense and loss, net, on disposal of machinery of \$2.2 million due to our scaling back manufacturing in the U.S. Additionally, the increase in operating expenses was also attributable to an increase of \$3.6 million in labor costs primarily due to workforce expansion and the shift towards import as we reduced production but increased warehouse headcount, an increase of \$2.1 million in marketing expense as we increased online marketing efforts to grow our e-commerce sales channel, an increase of \$1.2 million in rental expense as we continued to expand our distribution capabilities. These increases were partially offset by a decrease of \$4.0 million in shipping and transportation costs due to lower shipping rates, a decrease of \$1.0 million in stock-based compensation expense, and a decrease of \$0.9 million in bad debt expense.

Operating income

Operating income was \$37.5 million for the nine months ended September 30, 2023 compared to \$25.2 million for the nine months ended September 30, 2022, an increase of \$12.2 million, or 49%. The increase was primarily due to an increase in gross profit of \$16.5 million, partially offset by an increase in operating expenses of \$4.3 million, as discussed above.

Other income, net

Other income, net was \$0.6 million for the nine months ended September 30, 2023 compared to \$2.4 million for the nine months ended September 30, 2022. The decrease of \$1.8 million was primarily due to a decrease in the gain on foreign currency transactions of \$1.0 million and a decrease in interest income of \$1.1 million. Interest income was \$1.0 million during the nine months ended September 30, 2023, which was primarily earned on cash and cash equivalents and short-term investments. Interest income during the nine months ended September 30, 2022 represented a gain associated with an interest rate swap of \$2.2 million.

Provision for income taxes

Provision for income taxes was \$9.0 million for the nine months ended September 30, 2023 compared to \$6.3 million for the nine months ended September 30, 2022, an increase of \$2.7 million, or 43%. The Company's effective tax rate was 23.8% for the nine months ended September 30, 2023 compared to 22.9% for the nine months ended September 30, 2022 primarily due to the change in the non-taxable non-controlling interest income.

Net income

Net income was \$29.0 million for the nine months ended September 30, 2023 compared to \$21.3 million for the nine months ended September 30, 2022, an increase of \$7.7 million, or 36%. The increase was primarily driven by an increase in operating income of \$12.2 million, partially offset by a decrease in other income, net of \$1.8 million and an increase in the provision for income taxes of approximately \$2.7 million, as discussed above.

Non-GAAP Financial Measure

We use certain non-GAAP financial measures to assess our financial and operating performance that are not defined by, or calculated in accordance with US GAAP. A non-GAAP financial measure is defined as a numerical measure of a company's financial performance that (i) excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the comparable measure calculated and presented in accordance with US GAAP in the Consolidated Statements of Income; or (ii) includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the comparable measure so calculated and presented.

Our primary non-GAAP financial measures are listed below and reflect how we evaluate our operating results.

Adjusted EBITDA and Adjusted EBITDA Margin

Adjusted EBITDA is a financial measure calculated as net income excluding (i) interest income, (ii) interest expense, (iii) provision for income taxes, (iv) depreciation and amortization, (v) stock-based compensation expense, (vi) secondary offering transaction costs, (vii) write-off of certain inventory items outside the normal course of business, and (viii) impairment expense and (gain) loss, net, on disposal of machinery outside the normal course of business. Adjusted EBITDA margin is calculated by dividing Adjusted EBITDA by net sales.

We present Adjusted EBITDA and Adjusted EBITDA margin as supplemental measures of our financial performance. Adjusted EBITDA and Adjusted EBITDA margin assist management in assessing our core operating performance. We also believe these measures provide investors with useful perspective on underlying business results and trends and facilitate a comparison of our performance from period to period.

Adjusted EBITDA and Adjusted EBITDA margin should not be considered in isolation or as alternatives to net income or cash flows from operating activities and net income margin or other measures determined in accordance with US GAAP. Also, Adjusted EBITDA and Adjusted EBITDA margin are not necessarily comparable to similarly titled measures presented by other companies.

Set forth below is a reconciliation of net income to Adjusted EBITDA and net income margin to Adjusted EBITDA margin.

Reconciliation of Adjusted EBITDA and Adjusted EBITDA Margin (Unaudited)	Three Months Ended September 30,			
	2023		2022	
	(in thousands, except percentages)			
	Amount	% of Net Sales	Amount	% of Net Sales
Net income:	\$ 9,140	8.7 %	\$ 6,153	5.6 %
Add (deduct):				
Interest income	(454)	(0.4)	—	—
Interest expense	536	0.5	493	0.4
Provision for income taxes	2,904	2.8	1,900	1.7
Depreciation and amortization	2,708	2.6	2,604	2.5
Stock-based compensation expense	250	0.2	598	0.5
Secondary offering transaction costs (2)	453	0.4	—	—
Gain on disposal of machinery (1)	(310)	(0.4)	—	—
Adjusted EBITDA	\$ 15,227	14.4 %	\$ 11,748	10.7 %

Reconciliation of Adjusted EBITDA and Adjusted EBITDA Margin (Unaudited)	Nine Months Ended September 30,			
	2023		2022	
	(in thousands, except percentages)			
	Amount	% of Net Sales	Amount	% of Net Sales
Net income:	\$ 29,003	9.4%	\$ 21,296	6.4%
Add (deduct):				
Interest income	(1,040)	(0.3)	(2,160)	(0.7)
Interest expense	1,516	0.5	1,576	0.5
Provision for income taxes	9,045	2.9	6,323	1.9
Depreciation and amortization	8,058	2.6	7,752	2.4
Stock-based compensation expense	743	0.2	1,774	0.6
Secondary offering transaction costs (2)	453	0.1	—	—
Write-off of inventory (1)	1,710	0.6	—	—
Impairment expense and loss, net, on disposal of machinery (1)	2,135	0.6	—	—
Adjusted EBITDA	\$ 51,623	16.6%	\$ 36,561	11.1%

(1) The write-off of inventory and impairment expense and (gain) loss, net, on disposal of machinery represent costs incurred in connection with the scaling back of production in the U.S. As part of the execution of this strategy, certain machinery and equipment was disposed of or impaired, and raw materials associated with those machinery and equipment were written-off.

(2) Secondary offering transaction costs represent legal and professional fees incurred in connection with the completion of the secondary offering, which were directly related to the offering and were incremental to our normal operating expenses.

Liquidity and Capital Resources

Sources and Uses of Funds

Our primary sources of liquidity are cash provided by operations, borrowings under our line of credit with the Hanmi Bank (the "Line of Credit"), and promissory notes. On an annual basis, we have typically generated positive cash flows from operations. Our ability to generate positive cash flow from operations in the future will be, at least in part, dependent on global economic conditions and our ability to navigate challenging macro environment at times.

As described in Note 7 — *Line of Credit* to the condensed consolidated financial statements, the Line of Credit is available for working capital and general corporate purposes, and is secured by our assets. It consists of a \$40.0 million revolving loan facility and a standby letter of credit sublimit. We are not required to pay a commitment (unused) fee on the undrawn portion of the Line of Credit and interest is payable monthly. On March 14, 2023, we amended the Line of Credit. Prior to March 14, 2023, interest accrued at the annual rate of prime less 0.25% with a minimum floor of 3.25%. The amendment on March 14, 2023, among other things, (1) extended the maturity date to March 14, 2025, and (2) revised the interest on any Line of Credit borrowings to an annual rate of one month term Secured Overnight Financing Rate ("SOFR") plus 2.50%, with a SOFR floor of 1.0%. On June 20, 2023, we amended the Line of Credit which increased the standby letter of credit sublimit from \$2 million to \$5 million. As of September 30, 2023, the amount issued under the standby letter of credit was \$3.7 million, and the maximum remaining amount that could be borrowed under the Line of Credit was \$36.3 million.

As described in Note 9 — *Long-Term Debt* to the condensed consolidated financial statements, on June 17, 2022, we entered into a \$28.7 million term loan agreement which matures July 1, 2027 (the "2027 Term Loan"). The 2027 Term Loan had an initial balance of \$20.7 million and an option to request for additional advances up to a maximum of \$8.0 million through June 2023, which we exercised in March 2023. Interest accrues at a fixed rate of 4.375% per annum. Principal and interest payments of \$0.1 million are due monthly throughout the term of the loan, with the remaining principal balance due at maturity. The 2027 Term Loan is collateralized by substantially all of Global Wells' assets and is guaranteed by one of our stockholders. In accordance with the loan agreement, Global Wells is required to comply with certain financial covenants, including a minimum debt service coverage ratio. Proceeds from the 2027 Term Loan were used to pay down an existing term loan with the same lender, which was set to mature in May 2029 with interest accruing at prime rate less 0.25%, and had an outstanding balance of \$20.6 million as of the repayment date.

Additionally, as of September 30, 2023, we have a \$23.0 million term loan that matures September 30, 2026 (the "2026 Term Loan"). The 2026 Term Loan had an initial balance of \$16.1 million and an option to request for additional advances up to a maximum of \$6.9 million through September 2022, which we exercised in February 2022. Interest accrues at a fixed rate of 3.50% per annum. Principal and interest payments of \$0.1 million are due monthly throughout the term of the loan, with the remaining principal balance due at maturity. The 2026 Term Loan is collateralized by substantially all of Global Wells' assets and is guaranteed by Global Wells and one of our stockholders. In accordance with the loan agreement, Global Wells is required to comply with certain financial covenants, including a minimum debt service coverage ratio.

As of September 30, 2023, we were in compliance with the financial covenants under all of our loan agreements, and do not expect material uncertainties in our continued ability to be in compliance with all financial covenants through the remaining term of all of our loan agreements. As of September 30, 2023, we had no outstanding balance on the Line of Credit, \$28.3 million in outstanding balance under the 2027 Term Loan, and \$21.7 million in outstanding balance under the 2026 Term Loan.

As described in Note 4 — *Joint Venture* in the Notes to the condensed consolidated financial statements, we entered into a joint venture agreement (the "JV Agreement") in April 2022 to establish a new corporation, Bio Earth, to build a bagasse factory in Taiwan. Through March 31, 2023, we had made net payments totaling \$6.0 million as stipulated in the JV Agreement. In May 2023, we entered into a share transfer agreement to sell all of our equity interest in Bio Earth to Keary Global. Concurrent with the share transfer agreement, the Company also entered into an agreement with Keary Global, Bio Earth and Happiness Moon Co., Ltd. ("Happiness Moon") pursuant to which (i) Lollicup agreed to transfer all Bio Earth shares, as well as its rights and obligations under the JV Agreement to Keary Global, (ii) Happiness Moon and Bio Earth agree to foregoing and (iii) Bio Earth shall manage the regulatory and registration requirements related to the share transfer. As of the end of the second quarter of 2023, the share transfer to Keary Global had been completed and we received the full amount of the total consideration owed to us in connection with the sale of our equity interest in Bio Earth of \$6.1 million, representing the original deposits totaling \$6.0 million plus interest which accrued at 5% per annum.

Additionally, as described in Note 19 — *Subsequent Events* in the Notes to the condensed consolidated financial statements, on November 6, 2023, our Board of Directors declared a regular quarterly dividend of \$0.20 per share on our common stock, which will be paid on or around November 30, 2023 to shareholders of record at the close of business on November 20, 2023. Prior to this, we paid out special and regular quarterly dividend totaling \$16.9 million in the current fiscal year.

As described in Note 14 — *Impairment Expense and (Gain) Loss, Net, on Disposal of Machinery*, in February 2023, management started to pivot into a more asset-light growth model by increasing import and scaling back manufacturing in certain locations. As part of the execution of this strategy, management reached an agreement with two unrelated third-party vendors in Taiwan to sell them certain of our manufacturing machinery and equipment. We also cancelled certain equipment purchase commitments that we had previously paid deposits towards. We expanded our efforts to scale back manufacturing across all U.S. manufacturing facilities in the third and fourth quarter of 2023. As of September 30, 2023, we had received \$0.5 million in deposit refunds and \$0.6 million from sale of the machinery and equipment. We expect to receive approximately \$1.9 million in additional net cash proceeds from sale of the various manufacturing equipment in the next 12 months.

As described in Note 16 — *Income Taxes*, in March 2023, the Internal Revenue Service ("IRS"), under the Winter Storm Relief, announced that taxpayers in California affected by severe winter storms, flooding, landslides, and mudslides have until November 15, 2023, to file various individual and business tax returns and make tax payments. We took advantage of this tax relief and deferred current year quarterly estimate tax payment until October 2023 when we made a tax payment of approximately \$9.6 million.

Our ongoing operations and growth strategy may require us to continue to make investments in our logistics and manufacturing infrastructure and our e-commerce platform. In addition, we may consider making strategic acquisitions and investments which could require significant liquidity. The rapidly changing macroeconomic and geopolitical dynamics created significant uncertainty in the global economy and capital markets, which could have long-lasting adverse effects beyond 2023. We currently believe that our cash on hand, ongoing cash flows from our operations and funding available under our borrowings will be adequate to meet our working capital needs, service our debt, make lease payments, and fund capital expenditures to further enhance our operating infrastructure and e-commerce platform for at least the next 12 months. We continue to explore other options to further expand our liquidity to support the business growth and enhance shareholder value.

Beyond the next 12 months, if we require additional capital resources to grow our business, either organically or through acquisition, we may seek to sell additional equity securities, increase use of the Line of Credit, and acquire additional debt. The sale of additional equity securities or certain forms of debt financing could result in additional dilution to our stockholders. We may not be able to obtain financing arrangements in amounts or on terms acceptable to us in the future. In the event we are unable to obtain additional financing when needed, we may be compelled to delay or curtail our plans to develop our business, which could have a material adverse effect on our operations, market position and competitiveness. Notwithstanding the potential liquidity challenges described above, we expect to meet our long-term liquidity needs with cash flows from operations and financing arrangements.

Liquidity Position

The following table summarizes total current assets, liabilities and working capital at September 30, 2023 compared to December 31, 2022:

	September 30, 2023		December 31, 2022		Increase/(Decrease)
	(in thousands)				
Current assets	\$	158,689	\$	123,800	\$ 34,889
Current liabilities		45,697		39,253	6,444
Working capital	\$	112,992	\$	84,547	\$ 28,445

As of September 30, 2023, we had working capital of \$113.0 million compared to working capital of \$84.5 million as of December 31, 2022, representing an increase of \$28.4 million, or 34%. The improvement in working capital was driven by an increase of \$34.9 million in current assets partially offset by an increase of \$6.4 million in current liabilities. The increase in current assets was primarily driven by an increase in cash and cash equivalents and short-term investments of \$30.2 million and an increase in account receivable of \$4.1 million. The increase in current liabilities was primarily driven

by an increase of \$8.0 million in income taxes payable primarily due to the deferral of federal and California state income taxes under the Winter Storm Relief declared by the Internal Revenue Service partially offset by a decrease of \$1.6 million in accounts payable and related party payables.

Cash Flows

The following table summarizes cash flow for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended September 30,	
	2023	2022
	(in thousands)	
Net cash provided by operating activities	\$ 43,088	\$ 12,499
Net cash used in investing activities	(21,341)	(16,577)
Net cash (used in) provided by financing activities	(9,626)	5,126
Net change in cash and cash equivalents	\$ 12,121	\$ 1,048

Cash flows provided by operating activities. Net cash provided by operating activities was \$43.1 million for the nine months ended September 30, 2023, primarily the result of net income of \$29.0 million, adjusted for certain non-cash items totaling \$17.2 million, consisting mainly of depreciation and amortization of fixed assets and operating right-of-use assets, write-off of inventory, loss, net, on disposal of machinery, stock-based compensation, adjustments to allowance for doubtful accounts, and impairment of deposit. In addition, cash decreased \$3.1 million, primarily as a result of changes in working capital, which included a decrease of \$3.6 million from inventory build-up, a decrease of \$3.4 million from an increase in accounts receivable, a decrease of \$3.3 million from a reduction in operating lease liabilities, and a decrease of \$0.7 million from lower accounts and related party payables, partially offset by an increase of \$8.0 million from the deferral of federal and California state income taxes under the Winter Storm Relief declared by the IRS. Net cash provided by operating activities was \$12.5 million for the nine months ended September 30, 2022, primarily the result of net income of \$21.3 million, adjusted for certain non-cash items totaling \$11.8 million, consisting mainly of depreciation and amortization of fixed assets and operating right-of-use assets, change in fair value of interest rate swap, stock-based compensation, and adjustments to allowance for doubtful accounts and inventory reserves. In addition, cash decreased \$20.6 million, primarily as a result of changes in working capital, which included a decrease of \$15.3 million from inventory build-up, a decrease of \$5.1 million from an increase in accounts receivable, a decrease of \$2.9 million from a reduction in operating lease liabilities, and a decrease of \$2.3 million from a higher balance of prepaid expenses and other current assets, partially offset by an increase of \$3.3 million from higher accounts and related party payables, and an increase of \$1.1 million from higher accrued expenses.

Cash flows used in investing activities. Net cash used in investing activities was \$21.3 million for the nine months ended September 30, 2023, which primarily included \$18.0 million in net purchases of short-term investments, \$5.4 million of deposits paid for the purchase of property and equipment, and \$2.9 million paid to directly purchase property and equipment, partially offset by \$4.0 million of net refund from the joint venture investment, \$0.6 million of proceeds from the sale of machinery and equipment, and \$0.5 million of deposits refunded from cancelled machinery orders. Net cash used in investing activities was \$16.6 million for the nine months ended September 30, 2022, which included \$11.5 million of deposits paid for the purchase of property and equipment, \$4.0 million of investment made pursuant to the JV Agreement, and \$2.0 million paid to purchase property and equipment, partially offset by proceeds of \$0.8 million for the settlement of the interest rate swap.

Cash flows (used in) provided by financing activities. Net cash used in financing activities was \$9.6 million for the nine months ended September 30, 2023, which primarily included \$16.9 million of cash dividends paid to shareholders, and \$0.7 million of term loan repayments, partially offset by \$8.0 million of additional borrowings under the 2027 Term Loan. Net cash provided by financing activities was \$5.1 million for the nine months ended September 30, 2022, which primarily included additional borrowing under the 2026 Term Loan of \$6.9 million, and borrowings under the 2027 Term Loan of \$20.6 million, partially offset by \$21.3 million of term loan repayments, and \$1.1 million of noncontrolling interest tax withholding payment.

Related Party Transactions

For a description of significant related party transactions, see Note 15 — *Related Party Transactions* in the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements is contained in Note 2 — *Summary of Significant Accounting Policies* in the Notes to the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This item is not required for smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

In connection with the preparation of this Quarterly Report on Form 10-Q, the Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2023. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of September 30, 2023 due to the material weaknesses described in Part II—Item 9A of the Form 10-K for the year ended December 31, 2022 filed with the SEC on March 16, 2023.

Material Weaknesses in Internal Control over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis.

Refer to the management report on internal control over financial reporting for the material weaknesses in Part II—Item 9A of the Form 10-K for the year ended December 31, 2022 filed with the SEC on March 16, 2023. The same material weaknesses continue to exist as of September 30, 2023. Each of the material weaknesses could result in a misstatement of certain account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. The material weaknesses identified did not result in the restatement of any previously reported financial statements or any related financial disclosure, nor does management believe that they had any effect on the accuracy of the Company's financial statements for the current reporting period.

Management's Remediation Plan

As reported in the 2022 Form 10-K, we are engaged in remedial actions in response to the deficiencies discussed above, and we plan to continue efforts to improve internal control over financial reporting.

Actions Taken During the Year Ended December 31, 2022

The following remedial actions were taken in the prior fiscal year:

- Performed a thorough review of users' access rights to our significant information technology systems and implemented certain updates to allow for appropriate segregation of duties.
- Increased the number of personnel with the appropriate level of knowledge related to accounting transactions, accounting matters, and relevant systems, including the addition of a Chief Financial Officer and Controller.
- Engaged a third-party service provider to assist management with the design and implementation of internal controls.
- Started an initial risk assessment based on the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to identify internal control over financial reporting ("ICFR") risks and control objectives.
- With the assistance from the third-party service provider, and under the supervision of the Company's Audit Committee, Chief Executive Officer and Chief Financial Officer, started the design and

implementation of significant process transaction flows and key controls in the Company's business processes, including revenue, inventory, income taxes, and overall IT environment.

- Management started to adopt a process to identify and assess the Company's disclosure controls and procedures, including the preparation and review of presentation and disclosure requirement checklists.

Actions Taken During the Three Months Ended March 31, 2023

The following remedial actions were taken in the first quarter of the current fiscal year:

- Improved the process of retaining evidence of sales arrangements with customers including adopting a required retention period for applicable customer purchase orders.
- Management held additional training for warehouse employees to appropriately perform and document the three-way match between sales orders, shipping documents, and sales invoices.
- Enhanced training programs for personnel that provide key information and perform key roles associated with ICFR. Management designed such training programs in order to improve the level of understanding of the design and proper implementation of controls by the control owners and to instruct such individuals on appropriate level of documentation practices for evidencing review, especially over the completeness and accuracy of underlying data and the precision level used in the review.
- Management enhanced controls requiring inventory adjustments to be reviewed and approved by the appropriate level of management and to be appropriately recorded and inventory costing analysis to be appropriately reviewed.
- Management adopted a Company-wide approval matrix that establishes clear guidelines on authority levels for all types of cash disbursement transactions.

Actions Taken During the Three Months Ended June 30, 2023

The following remedial actions were taken in the second quarter of the current fiscal year:

- Enhanced policies and procedures to improve Information Technology General Controls and the Company's overall IT environment. Examples of some of management's efforts include:
 - Adopted the policy and procedure to regularly perform a thorough review of user's access rights relating to the Company's significant information technology systems;
 - Maintained and monitored restrictions to user access where needed to allow for appropriate segregation of duties; and
 - Maintained and enforced procedures and controls around system development and change management.
- Management has reviewed user access and established appropriate reporting lines within the accounts payable department to ensure proper segregation of duties for and performance of controls and procedures including vendor master file changes and the three-way match between purchase orders, receiving documents, and vendor invoices.

Actions Taken During the Three Months Ended September 30, 2023

The following remedial actions were taken in the third quarter of the current fiscal year:

- Updated and enhanced the standard operating procedures of year-end physical counts to ensure all inventory items are counted at all warehouses in a consistent manner.
- Developed and adopted IT policies around software development and implementation, information security, data backup, and change management.
- Continued to update the risk assessment, objectives, processes and control design and documentation, including such design and documentation as related to the completeness and accuracy of underlying data and a sufficient precision level in management review controls to detect material misstatement across all financial statement areas.

Ongoing Remediation Efforts

The following remedial actions are currently in the process of being taken or completed:

- Continue to evaluate the Company's needs for additional personnel and add, as needed, additional headcount primarily within the accounting and information technology departments. Management continues to onboard individuals with the appropriate education, experience, certifications, and training. The hiring of new employees is expected to create and ensure proper reporting lines and segregation of duties, while also providing additional oversight and structure to the organization.

Management is committed to remediating the material weaknesses in a timely fashion and to making continuous improvements to the Company's internal control over financial reporting. Management believes the measures described above have strengthened the Company's internal control over financial reporting. Management will continually assess the effectiveness of the remediation efforts and may determine to take additional measures to address control deficiencies or modify the remediation plan described above. The material weaknesses will not be considered remediated until a sustained period of time has passed to allow for continued operation of the new controls and for management to test the operational effectiveness of the new controls. Testing is expected to continue during the year ended December 31, 2023 and management will continue to provide an update on the status of our remediation activities on a quarterly basis.

Changes in Internal Control Over Financial Reporting

Other than those described above, there have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we are involved in various legal proceedings. Although no assurance can be given, we do not believe that any of our currently pending proceedings will have a material adverse effect on our financial condition, cash flows or results of operations.

Item 1A. Risk Factors.

There have been no material changes to the Risk Factors previously disclosed in the 2022 Form 10-K, which are incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

On November 6, 2023, the Company's Board of Directors declared the quarterly cash dividend and increased it to \$0.20 per share on the Company's common stock, which will be paid on or around November 30, 2023 to shareholders of record at the close of business on November 20, 2023. A copy of the press release announcing the dividend is attached as Exhibit 99.1 to this Form 10-Q.

On November 6, 2023, upon the recommendation of the Company's Compensation Committee, the Company's Board of Directors approved and ratified compensation to the Company's executive directors per Board meeting commensurate with the compensation paid to the Company's non-employee directors.

Item 6. Exhibits.

Exhibit No.	Description
10.1+	Separation Agreement and General Release, dated August 30, 2023 (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on August 31, 2023).
10.2+	Employment Agreement, dated October 5, 2023, between Karat Packaging Inc. and Daniel Quire, Chief Revenue Officer (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 11, 2023).
10.3*	Business Loan Agreement between Global Wells Investment Group LLC and Hanmi Bank, dated September 30, 2021.
31.1*	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2*	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1**	Certifications of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2**	Certifications of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1*	Press release, dated November 7, 2023
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive File (formatted as inline XBRL and contained in Exhibit 101)

* Filed herewith.

** Furnished herewith.

+ Indicates management compensatory agreement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: November 9, 2023

KARAT PACKAGING INC.

By: /s/ Alan Yu
Alan Yu
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Jian Guo
Jian Guo
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)



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PROMISSORY NOTE

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$23,000,000.00	09-30-2021	09-30-2026	71149975	1972			

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.

Borrower: GLOBAL WELLS INVESTMENT GROUP LLC, A
TEXAS LIMITED LIABILITY COMPANY
6185 KIMBALL AVENUE
CHINO, CA 91708

Lender: HANMI BANK
CORPORATE BANKING CENTER I
933 S. VERMONT AVE., 2ND FLOOR
LOS ANGELES, CA 90006

Principal Amount: \$23,000,000.00

Date of Note: September 30, 2021

PROMISE TO PAY. GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY ("Borrower") promises to pay to HANMI BANK ("Lender"), or order, in lawful money of the United States of America, the principal amount of Twenty-three Million & 00/100 Dollars (\$23,000,000.00), together with interest on the unpaid principal balance from September 30, 2021, calculated as described in the "INTEREST CALCULATION METHOD" paragraph using an interest rate of 3.500%, until paid in full, together with all applicable fees and expenses. The interest rate may change under the terms and conditions of the "INTEREST AFTER DEFAULT" section.

PAYMENT. Borrower will pay this loan in 59 regular payments of \$115,765.85 each and one irregular last payment estimated at \$19,987,709.47. Borrower's first payment is due October 30, 2021, and all subsequent payments are due on the same day of each month after that. Borrower's final payment will be due on September 30, 2026, and will be for all principal, accrued interest, and all other applicable fees and expenses, if any, not yet paid. Payments include principal and interest. Unless otherwise agreed or required by applicable law, payments will be applied first to any accrued unpaid interest; then to principal; then to any late charges; and then to any unpaid collection costs.

INTEREST CALCULATION METHOD. Interest on this Note is computed on a 365/360 basis; that is, by applying the ratio of the interest rate over a year of 360 days, multiplied by the outstanding principal balance, multiplied by the actual number of days the principal balance is outstanding. All interest payable under this Note is computed using this method.

RECEIPT OF PAYMENTS. All payments must be made in U.S. dollars and must be received by Lender at:

HANMI BANK
ATTN: LOAN OPERATIONS DEPARTMENT
PO BOX 70039
LOS ANGELES, CA 90070-0039

All payments must be received by Lender consistent with any written payment instructions provided by Lender.

PREPAYMENT; MINIMUM INTEREST CHARGE. Borrower agrees that all loan fees and other prepaid finance charges are earned fully as of the date of the loan and will not be subject to refund upon early payment (whether voluntary or as a result of default), except as otherwise required by law. In any event, even upon full prepayment of this Note, Borrower understands that Lender is entitled to a minimum interest charge of \$50.00. Other than Borrower's obligation to pay any minimum interest charge, Borrower may pay without penalty all or a portion of the amount owed earlier than it is due. Early payments will not, unless agreed to by Lender in writing, relieve Borrower of Borrower's obligation to continue to make payments under the payment schedule. Rather, early payments will reduce the principal balance due and may result in Borrower's making fewer payments. Borrower agrees not to send Lender payments marked "paid in full", "without recourse", or similar language. If Borrower sends such a payment, Lender may accept it without losing any of Lender's rights under this Note, and Borrower will remain obligated to pay any further amount owed to Lender. All written communications concerning disputed amounts, including any check or other payment instrument that indicates that the payment constitutes "payment in full" of the amount owed or that is tendered with other conditions or limitations or as full satisfaction of a disputed amount must be mailed or delivered to: HANMI BANK, LOAN OPERATIONS DEPARTMENT, 3660 WILSHIRE BLVD, PH-A LOS ANGELES, CA 90010.

LATE CHARGE. If a payment is 10 days or more late, Borrower will be charged 5.000% of the regularly scheduled payment or \$5.00, whichever is greater. This late charge shall be paid to Lender by Borrower for the purpose of defraying the expense incident to the handling of the delinquent payment.

INTEREST AFTER DEFAULT. Upon default, at Lender's option, and if permitted by applicable law, Lender may add any unpaid accrued interest to principal and such sum will bear interest therefrom until paid at the rate provided in this Note (including any increased rate). Upon default, the interest rate on this Note shall be increased by 5.000 percentage points. However, in no event will the interest rate exceed the maximum interest rate limitations under applicable law.

DEFAULT. Each of the following shall constitute an event of default ("Event of Default") under this Note:

Payment Default. Borrower fails to make any payment when due under this Note.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Note or in any of the related documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

Default in Favor of Third Parties. Borrower or any Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's property or Borrower's ability to repay this Note or perform Borrower's obligations under this Note or any of the related documents.

Environmental Default. Failure of any party to comply with or perform when due any term, obligation, covenant or condition contained in any environmental agreement executed in connection with any loan.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Note or the related documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Death or Insolvency. The dissolution of Borrower (regardless of whether election to continue is made), any member withdraws from Borrower, or any other termination of Borrower's existence as a going business or the death of any member, the insolvency of Borrower,

**PROMISSORY NOTE
(Continued)**

the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any guaranty of the indebtedness evidenced by this Note.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of this Note is impaired.

Cure Provisions. If any default, other than a default in payment, is curable and if Borrower has not been given a notice of a breach of the same provision of this Note within the preceding twelve (12) months, it may be cured if Borrower, after Lender sends written notice to Borrower demanding cure of such default: (1) cures the default within fifteen (15) days; or (2) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

LENDER'S RIGHTS. Upon default, Lender may declare the entire unpaid principal balance under this Note and all accrued unpaid interest immediately due, and then Borrower will pay that amount.

ATTORNEYS' FEES; EXPENSES. Lender may hire or pay someone else to help collect this Note if Borrower does not pay. Borrower will pay Lender that amount. This includes, subject to any limits under applicable law, Lender's attorneys' fees and Lender's legal expenses, whether or not there is a lawsuit, including attorneys' fees, expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), and appeals. If not prohibited by applicable law, Borrower also will pay any court costs, in addition to all other sums provided by law.

JURY WAIVER. Lender and Borrower hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Borrower against the other.

GOVERNING LAW. This Note will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of New Jersey without regard to its conflicts of law provisions. This Note has been accepted by Lender in the State of New Jersey.

CHOICE OF VENUE. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of SOMERSET County, State of New Jersey.

DISHONORED ITEM FEE. Borrower will pay a fee to Lender of \$25.00 if Borrower makes a payment on Borrower's loan and the check or preauthorized charge with which Borrower pays is later dishonored.

COLLATERAL. Borrower acknowledges this Note is secured by the following collateral described in the security instruments listed herein:

- (A) an Assignment of All Rents to Lender on real property located in SOMERSET County, State of New Jersey.
- (B) a Mortgage dated September 30, 2021, to Lender on real property located in SOMERSET County, State of New Jersey.
- (C) a Commercial Security Agreement dated September 30, 2021 made and executed between GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY and Lender on collateral described as: inventory, chattel paper, accounts, equipment and general intangibles.
- (D) a Commercial Security Agreement dated September 30, 2021 made and executed between GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY and Lender on collateral described as: inventory, chattel paper, accounts, equipment and general intangibles.

LENDER'S FEES. Borrower understands Lender's fees for various services are subject to change without prior notice to Borrower.

COUNTERPARTS. This agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. Delivery of a signature page to, or an executed counterpart of, this agreement by facsimile, email transmission of a scanned image, DocuSign, or other electronic means, shall be effective as delivery of an originally executed counterpart. The words "execution," "signed," "signature," and words of like import in this agreement shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity, or enforceability as a manually executed signature or the use of a paper-based record keeping system, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, Electronic Signatures in Global and National Commerce Act, any other similar state laws based on the Uniform Electronic Transactions Act or the Uniform Commercial Code, and the parties hereto hereby waive any objection to the contrary.

SUCCESSOR INTERESTS. The terms of this Note shall be binding upon Borrower, and upon Borrower's heirs, personal representatives, successors and assigns, and shall inure to the benefit of Lender and its successors and assigns.

NOTIFY US OF INACCURATE INFORMATION WE REPORT TO CONSUMER REPORTING AGENCIES. Borrower may notify Lender if Lender reports any inaccurate information about Borrower's account(s) to a consumer reporting agency. Borrower's written notice describing the specific inaccuracy(ies) should be sent to Lender at the following address: HANMI BANK LOAN OPERATIONS DEPARTMENT 3660 WILSHIRE BLVD. PH-A LOS ANGELES, CA 90010.

GENERAL PROVISIONS. If any part of this Note cannot be enforced, this fact will not affect the rest of the Note. Lender may delay or forgo enforcing any of its rights or remedies under this Note without losing them. Borrower and any other person who signs, guarantees or endorses this Note, to the extent allowed by law, waive presentment, demand for payment, and notice of dishonor. Upon any change in the terms of this Note, and unless otherwise expressly stated in writing, no party who signs this Note, whether as maker, guarantor, accommodation maker or endorser, shall be released from liability. All such parties agree that Lender may renew or extend (repeatedly and for any length of time) this loan or release any party or guarantor or collateral; or impair, fail to realize upon or perfect Lender's security interest in the collateral; and take any other action deemed necessary by Lender without the consent of or notice to anyone. All such parties also agree that Lender may modify this loan without the consent of or notice to anyone other than the party with whom the modification is made. The obligations under this Note are joint and several.

**PROMISSORY NOTE
(Continued)**

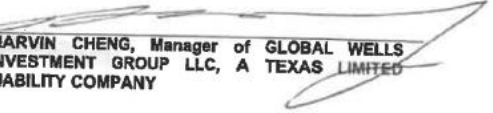
PRIOR TO SIGNING THIS NOTE, BORROWER READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS NOTE. BORROWER AGREES TO THE TERMS OF THE NOTE.

BORROWER ACKNOWLEDGES RECEIPT OF A COMPLETED COPY OF THIS PROMISSORY NOTE.

BORROWER:

GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY

By: 
ALAN YU, Manager of GLOBAL WELLS
INVESTMENT GROUP LLC, A TEXAS LIMITED
LIABILITY COMPANY

By: 
MARVIN CHENG, Manager of GLOBAL WELLS
INVESTMENT GROUP LLC, A TEXAS LIMITED
LIABILITY COMPANY

TELETRANSMISSION AGREEMENT - LINE OF CREDIT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$23,000,000.00	09-30-2021	09-30-2026	71149975	1972			

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.

Borrower: GLOBAL WELLS INVESTMENT GROUP LLC, A
TEXAS LIMITED LIABILITY COMPANY
6185 KIMBALL AVENUE
CHINO, CA 91708

Lender: HANMI BANK
CORPORATE BANKING CENTER I
933 S. VERMONT AVE., 2ND FLOOR
LOS ANGELES, CA 90006

The undersigned Borrower contemplates making loan advance requests and/or applications for Lender to issue letters of credit and amendments, and instructing Lender to accept discrepant documents, to effect payment under letters of credit and collections and/or finance import or export transactions. Borrower recognizes Lender customarily requires such advance requests, applications and instructions be completed and executed by Borrower on Lender's standard forms or approved formats and/or original signed documents be received.

Borrower, however, desires to apply and to instruct Lender, by means of teletransmissions including but not limited to electronic mail, internet, telex, telefax, facsimile and/or telecopy, to make loan advances, issue letters of credit and amendments, to instruct Lender to accept discrepant documents, to effect payment under letters of credit and collections and/or finance import or export transactions. Borrower agrees Lender may act in accordance with such electronically transmitted applications and instructions ("Electronic Instructions") on the terms and conditions herein provided.

1. **Format.** Borrower's Electronic Instructions shall be sent to Lender only by means of such teletransmission services in such format(s) as may be approved from time to time by Lender in its sole discretion.

2. **Security Procedures.** Borrower shall provide to Lender, in writing and duly signed by Borrower, any security, verification procedures reasonably requested by Borrower. In addition, Lender may require additional procedures in its sole discretion and Lender shall notify Borrower of any such additional procedures in advance of their use (hereinafter referred to as "Security Procedures".)

3. **Authority.** Borrower hereby authorizes and instructs Lender to take all actions requested in any and all Electronic Instructions and agrees each such Electronic Instruction shall be deemed originals and shall be deemed to incorporate all of the terms and provisions of the Lender's standard forms and/or any such format(s) approved by Lender. Borrower recognizes and agrees it shall be obligated for any loan advance request and under any letters of credit or amendment issued and/or actions taken by Lender pursuant to Electronic Instruction to the same extent as if such advance request, letter of credit or amendment were issued and/or actions taken by Lender pursuant to a Lender's standard form or Lender approved format(s) signed by Borrower.

4. **Indemnity.** Borrower agrees to indemnify and hold harmless Lender, its officers, directors, employees and affiliates against any and all liability, loss, cost, damages, attorneys' fees and other expenses which Lender may incur by reason of or in consequence of Lender's actions in reliance upon and pursuant to the information contained in any and all of the electronic instructions received by Lender and purported to be sent by Borrower or its representatives or employees. In addition, the parties agree Lender is not responsible for checking electronic mail on a regular basis, and Borrower is advised to make arrangements to assure electronic mail has been opened, and sent to a current employee, and the employee is in the office. The parties agree Lender shall not be responsible for delays, errors or omissions resulting from malfunction of equipment or lines or from other conditions beyond the control of Lender. The parties further agree Lender shall not be responsible for misuse or wrongful access by Borrower's representative and employees nor for any delay in taking any actions requested by Borrower whether such delay is caused by omission or instructions which Lender deems to be uncertain or unclear or otherwise. Nothing contained herein shall be construed to relieve Lender from responsibility for its own failure to observe the security Procedures or act in good faith.

5. **Verbal or Telephone Instructions.** Borrower hereby authorizes the person listed below ("Authorized Representatives") to give verbal or telephonic instructions in connection with Electronic Instructions. Lender assumes no responsibility for ascertaining the authenticity of any representative or caller giving such verbal or telephonic instruction except to the extent such representative or caller identifies him/herself as an Authorized Representative. Borrower agrees to indemnify and hold harmless and defend Lender from and against any and all actions, claims, liability, loss or expenses that may rise out of or occur in connection with any action taken in reliance upon such verbal or telephonic instructions.

6. **Borrower's Authority.** Borrower hereby warrants and represents Borrower and the undersigned officer(s) of Borrower have full power and authority to enter into this Agreement and all corporate and/or legal actions necessary in connection with Borrower's execution and delivery of this Agreement have been taken.

Borrower's Authorized Representatives: (Any 1 signer(s) required.)

Alan Ty 
(Print Name) (Signature)

MARCEL CHEN 
(Print Name) (Signature)

(Print Name) (Signature)

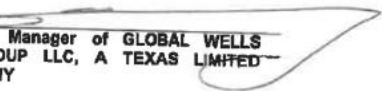
7. **Follow-up Documents.** Upon Lender's request, Borrower agrees to mail each original loan advance request or application and/or amendment request for letters of credit immediately following its facsimile transmission to Lender. The mailed application and/or amendment must be clearly marked "Confirmation". Minor changes to instructions may be communicated to Lender by telephone. In such case, confirming instructions detailing the changes must be sent by facsimile. Acceptance of discrepancies must be sent by facsimile. Failure by Borrower to follow these instructions does not diminish the provisions of this Agreement.

TELETRANSMISSION AGREEMENT - LINE OF CREDIT
(Continued)

BORROWER:

GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY

By: 
ALAN YU, Manager of GLOBAL WELLS
INVESTMENT GROUP LLC, A TEXAS LIMITED
LIABILITY COMPANY

By: 
MARVIN CHENG, Manager of GLOBAL WELLS
INVESTMENT GROUP LLC, A TEXAS LIMITED
LIABILITY COMPANY

GUARANTOR:

X 
ALAN YU, Individually

LENDER:

HANMI BANK

X 
Authorized Signer



00000000071149975%0595%09302021%00000000000000

LIMITED LIABILITY COMPANY RESOLUTION TO BORROW / GRANT COLLATERAL

Principal	Loan Date	Maturity	Loan No.	Call / Coll	Account	Officer	Initials
\$23,000,000.00	09-30-2021	09-30-2026	71149975	1872			

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.

Company: GLOBAL WELLS INVESTMENT GROUP LLC, A
TEXAS LIMITED LIABILITY COMPANY
6185 KIMBALL AVENUE
CHINO, CA 91708

Lender: HANMI BANK
CORPORATE BANKING CENTER I
933 S. VERMONT AVE., 2ND FLOOR
LOS ANGELES, CA 90006

WE, THE UNDERSIGNED, DO HEREBY CERTIFY THAT:

THE COMPANY'S EXISTENCE. The complete and correct name of the Company is GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY ("Company"). The Company is a limited liability company which is, and at all times shall be, duly organized, validly existing, and in good standing under and by virtue of the laws of the State of Texas. The Company is duly authorized to transact business in all other states in which the Company is doing business, having obtained all necessary filings, governmental licenses and approvals for each state in which the Company is doing business. Specifically, the Company is, and at all times shall be, duly qualified as a foreign limited liability company in all states in which the failure to so qualify would have a material adverse effect on its business or financial condition. The Company has the full power and authority to own its properties and to transact the business in which it is presently engaged or presently proposes to engage. The Company maintains an office at 6185 KIMBALL AVENUE, CHINO, CA 91708. Unless the Company has designated otherwise in writing, the principal office is the office at which the Company keeps its books and records. The Company will notify Lender prior to any change in the location of the Company's state of organization or any change in the Company's name. The Company shall do all things necessary to preserve and to keep in full force and effect its existence, rights and privileges, and shall comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental or quasi-governmental authority or court applicable to the Company and the Company's business activities.

RESOLUTIONS ADOPTED. At a meeting of the members of the Company, duly called and held on September 30, 2021, at which a quorum was present and voting, or by other duly authorized action in lieu of a meeting, the resolutions set forth in this Resolution were adopted.

MEMBERS. The following named persons and entities are members of GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY:

NAMES	TITLES	AUTHORIZED	ACTUAL SIGNATURES
AGENTS. The agents of the Company are:			
NAMES	TITLES	AUTHORIZED	ACTUAL SIGNATURES
ALAN YU	Manager	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
MARVIN CHENG	Manager	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

ACTIONS AUTHORIZED. Any two (2) of the authorized persons listed above may enter into any agreements of any nature with Lender, and those agreements will bind the Company. Specifically, but without limitation, any two (2) of such authorized persons are authorized, empowered, and directed to do the following for and on behalf of the Company:

Borrow Money. To borrow, as a cosigner or otherwise, from time to time from Lender, on such terms as may be agreed upon between the Company and Lender, such sum or sums of money as in their judgment should be borrowed, without limitation.

Execute Notes. To execute and deliver to Lender the promissory note or notes, or other evidence of the Company's credit accommodations, on Lender's forms, at such rates of interest and on such terms as may be agreed upon, evidencing the sums of money so borrowed or any of the Company's indebtedness to Lender, and also to execute and deliver to Lender one or more renewals, extensions, modifications, refinancings, consolidations, or substitutions for one or more of the notes, any portion of the notes, or any other evidence of credit accommodations.

Grant Security. To mortgage, pledge, transfer, endorse, hypothecate, or otherwise encumber and deliver to Lender any property now or hereafter belonging to the Company or in which the Company now or hereafter may have an interest, including without limitation all of the Company's real property and all of the Company's personal property (tangible or intangible), as security for the payment of any loans or credit accommodations so obtained, any promissory notes so executed (including any amendments to or modifications, renewals, and extensions of such promissory notes), or any other or further indebtedness of the Company to Lender at any time owing, however the same may be evidenced. Such property may be mortgaged, pledged, transferred, endorsed, hypothecated or encumbered at the time such loans are obtained or such indebtedness is incurred, or at any other time or times, and may be either in addition to or in lieu of any property theretofore mortgaged, pledged, transferred, endorsed, hypothecated or encumbered.

Execute Security Documents. To execute and deliver to Lender the forms of mortgage, deed of trust, pledge agreement, hypothecation agreement, and other security agreements and financing statements which Lender may require and which shall evidence the terms and conditions under and pursuant to which such liens and encumbrances, or any of them, are given; and also to execute and deliver to Lender any other written instruments, any chattel paper, or any other collateral, of any kind or nature, which Lender may deem necessary or proper in connection with or pertaining to the giving of the liens and encumbrances.

Negotiate Items. To draw, endorse, and discount with Lender all drafts, trade acceptances, promissory notes, or other evidences of indebtedness payable to or belonging to the Company or in which the Company may have an interest, and either to receive cash for the same or to cause such proceeds to be credited to the Company's account with Lender, or to cause such other disposition of the proceeds derived therefrom as they may deem advisable.

Further Acts. In the case of lines of credit, to designate additional or alternate individuals as being authorized to request advances under such lines, and in all cases, to do and perform such other acts and things, to pay any and all fees and costs, and to execute and deliver

LIMITED LIABILITY COMPANY RESOLUTION TO BORROW / GRANT COLLATERAL
Loan No: 71149975 (Continued)

Page 2

such other documents and agreements, including agreements waiving the right to a trial by jury, as the members may in their discretion deem reasonably necessary or proper in order to carry into effect the provisions of this Resolution.

ASSUMED BUSINESS NAMES. The Company has filed or recorded all documents or filings required by law relating to all assumed business names used by the Company. Excluding the name of the Company, the following is a complete list of all assumed business names under which the Company does business: None.

NOTICES TO LENDER. The Company will promptly notify Lender in writing at Lender's address shown above (or such other addresses as Lender may designate from time to time) prior to any (A) change in the Company's name; (B) change in the Company's assumed business name(s); (C) change in the management or in the Members of the Company; (D) change in the authorized signer(s); (E) change in the Company's principal office address; (F) change in the Company's state of organization; (G) conversion of the Company to a new or different type of business entity; or (H) change in any other aspect of the Company that directly or indirectly relates to any agreements between the Company and Lender. No change in the Company's name or state of organization will take effect until after Lender has received notice.

CERTIFICATION CONCERNING MEMBERS AND RESOLUTIONS. The members and agents named above are duly elected, appointed, or employed by or for the Company, as the case may be, and occupy the positions set opposite their respective names. This Resolution now stands of record on the books of the Company, is in full force and effect, and has not been modified or revoked in any manner whatsoever.

CONTINUING VALIDITY. Any and all acts authorized pursuant to this Resolution and performed prior to the passage of this Resolution are hereby ratified and approved. This Resolution shall be continuing, shall remain in full force and effect and Lender may rely on it until written notice of its revocation shall have been delivered to and received by Lender at Lender's address shown above (or such addresses as Lender may designate from time to time). Any such notice shall not affect any of the Company's agreements or commitments in effect at the time notice is given.

IN TESTIMONY WHEREOF, we have hereunto set our hand and attest that the signatures set opposite the names listed above are their genuine signatures.

We each have read all the provisions of this Resolution, and we each personally and on behalf of the Company certify that all statements and representations made in this Resolution are true and correct. This Limited Liability Company Resolution to Borrow / Grant Collateral is dated September 30, 2021.

CERTIFIED TO AND ATTESTED BY:

X


ALAN YU, Manager of GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY

X


MARVIN CHENG, Manager of GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY

NOTE: If the members signing this Resolution are designated by the foregoing document as one of the members authorized to act on the Company's behalf, it is advisable to have this Resolution signed by at least one non-authorized member of the Company.



000000000071149975%0070%09302021%00000000000000

BUSINESS LOAN AGREEMENT

Principal	Loan Date	Maturity	Loan No.	Call / Coll	Account	Officer	Initials
\$23,000,000.00	09-30-2021	09-30-2026	71149975	1972			
References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.							

Borrower: GLOBAL WELLS INVESTMENT GROUP LLC, A
TEXAS LIMITED LIABILITY COMPANY
6185 KIMBALL AVENUE
CHINO, CA 91708

Lender: HANMI BANK
CORPORATE BANKING CENTER I
933 S. VERMONT AVE., 2ND FLOOR
LOS ANGELES, CA 90006

THIS BUSINESS LOAN AGREEMENT dated September 30, 2021, is made and executed between GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY ("Borrower") and HANMI BANK ("Lender") on the following terms and conditions. Borrower has received prior commercial loans from Lender or has applied to Lender for a commercial loan or loans or other financial accommodations, including those which may be described on any exhibit or schedule attached to this Agreement. Borrower understands and agrees that: (A) In granting, renewing, or extending any Loan, Lender is relying upon Borrower's representations, warranties, and agreements as set forth in this Agreement; (B) the granting, renewing, or extending of any Loan by Lender at all times shall be subject to Lender's sole judgment and discretion; and (C) all such Loans shall be and remain subject to the terms and conditions of this Agreement.

TERM. This Agreement shall be effective as of September 30, 2021, and shall continue in full force and effect until such time as all of Borrower's Loans in favor of Lender have been paid in full, including principal, interest, costs, expenses, attorneys' fees, and other fees and charges, or until such time as the parties may agree in writing to terminate this Agreement.

CONDITIONS PRECEDENT TO EACH ADVANCE. Lender's obligation to make the initial Advance and each subsequent Advance under this Agreement shall be subject to the fulfillment to Lender's satisfaction of all of the conditions set forth in this Agreement and in the Related Documents.

Loan Documents. Borrower shall provide to Lender the following documents for the Loan: (1) the Note; (2) Security Agreements granting to Lender security interests in the Collateral; (3) financing statements and all other documents perfecting Lender's Security interests; (4) evidence of insurance as required below; (5) guaranties; (6) together with all such Related Documents as Lender may require for the Loan; all in form and substance satisfactory to Lender and Lender's counsel.

Borrower's Authorization. Borrower shall have provided in form and substance satisfactory to Lender properly certified resolutions, duly authorizing the execution and delivery of this Agreement, the Note and the Related Documents. In addition, Borrower shall have provided such other resolutions, authorizations, documents and instruments as Lender or its counsel, may require.

Payment of Fees and Expenses. Borrower shall have paid to Lender all fees, charges, and other expenses which are then due and payable as specified in this Agreement or any Related Document.

Representations and Warranties. The representations and warranties set forth in this Agreement, in the Related Documents, and in any document or certificate delivered to Lender under this Agreement are true and correct.

No Event of Default. There shall not exist at the time of any Advance a condition which would constitute an Event of Default under this Agreement or under any Related Document.

REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants to Lender, as of the date of this Agreement, as of the date of each disbursement of loan proceeds, as of the date of any renewal, extension or modification of any Loan, and at all times any indebtedness exists:

Organization. Borrower is a limited liability company which is, and at all times shall be, duly organized, validly existing, and in good standing under and by virtue of the laws of the State of Texas. Borrower is duly authorized to transact business in the State of California and all other states in which Borrower is doing business, having obtained all necessary filings, governmental licenses and approvals for each state in which Borrower is doing business. Specifically, Borrower is, and at all times shall be, duly qualified as a foreign limited liability company in all states in which the failure to so qualify would have a material adverse effect on its business or financial condition. Borrower has the full power and authority to own its properties and to transact the business in which it is presently engaged or presently proposes to engage. Borrower maintains an office at 6185 KIMBALL AVENUE, CHINO, CA 91708. Unless Borrower has designated otherwise in writing, the principal office is the office at which Borrower keeps its books and records including its records concerning the Collateral. Borrower will notify Lender prior to any change in the location of Borrower's state of organization or any change in Borrower's name. Borrower shall do all things necessary to preserve and to keep in full force and effect its existence, rights and privileges, and shall comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental or quasi-governmental authority or court applicable to Borrower and Borrower's business activities.

Assumed Business Names. Borrower has filed or recorded all documents or filings required by law relating to all assumed business names used by Borrower. Excluding the name of Borrower, the following is a complete list of all assumed business names under which Borrower does business: None.

Authorization. Borrower's execution, delivery, and performance of this Agreement and all the Related Documents have been duly authorized by all necessary action by Borrower and do not conflict with, result in a violation of, or constitute a default under (1) any provision of (a) Borrower's articles of organization or membership agreements, or (b) any agreement or other instrument binding upon Borrower or (2) any law, governmental regulation, court decree, or order applicable to Borrower or to Borrower's properties.

Financial Information. Each of Borrower's financial statements supplied to Lender truly and completely disclosed Borrower's financial condition as of the date of the statement, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent financial statement supplied to Lender. Borrower has no material contingent obligations except as disclosed in such financial statements.

Legal Effect. This Agreement constitutes, and any instrument or agreement Borrower is required to give under this Agreement when delivered will constitute legal, valid, and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

Properties. Except as contemplated by this Agreement or as previously disclosed in Borrower's financial statements or in writing to Lender

**BUSINESS LOAN AGREEMENT
(Continued)**

Page 2

and as accepted by Lender, and except for property tax liens for taxes not presently due and payable, Borrower owns and has good title to all of Borrower's properties free and clear of all Security Interests, and has not executed any security documents or financing statements relating to such properties. All of Borrower's properties are titled in Borrower's legal name, and Borrower has not used or filed a financing statement under any other name for at least the last five (5) years.

Hazardous Substances. Except as disclosed to and acknowledged by Lender in writing, Borrower represents and warrants that: (1) During the period of Borrower's ownership of the Collateral, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance by any person on, under, about or from any of the Collateral. (2) Borrower has no knowledge of, or reason to believe that there has been (a) any breach or violation of any Environmental Laws; (b) any use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance on, under, about or from the Collateral by any prior owners or occupants of any of the Collateral; or (c) any actual or threatened litigation or claims of any kind by any person relating to such matters. (3) Neither Borrower nor any tenant, contractor, agent or other authorized user of any of the Collateral shall use, generate, manufacture, store, treat, dispose of or release any Hazardous Substance on, under, about or from any of the Collateral; and any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation all Environmental Laws. Borrower authorizes Lender and its agents to enter upon the Collateral to make such inspections and tests as Lender may deem appropriate to determine compliance of the Collateral with this section of the Agreement. Any inspections or tests made by Lender shall be at Borrower's expense and for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the Collateral for hazardous waste and Hazardous Substances. Borrower hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Borrower becomes liable for cleanup or other costs under any such laws, and (2) agrees to indemnify, defend, and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release of a hazardous waste or substance on the Collateral. The provisions of this section of the Agreement, including the obligation to indemnify and defend, shall survive the payment of the indebtedness and the termination, expiration or satisfaction of this Agreement and shall not be affected by Lender's acquisition of any interest in any of the Collateral, whether by foreclosure or otherwise.

Litigation and Claims. No litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Borrower is pending or threatened, and no other event has occurred which may materially adversely affect Borrower's financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

Taxes. To the best of Borrower's knowledge, all of Borrower's tax returns and reports that are or were required to be filed, have been filed, and all taxes, assessments and other governmental charges have been paid in full, except those presently being or to be contested by Borrower in good faith in the ordinary course of business and for which adequate reserves have been provided.

Lien Priority. Unless otherwise previously disclosed to Lender in writing, Borrower has not entered into or granted any Security Agreements, or permitted the filing or attachment of any Security Interests on or affecting any of the Collateral directly or indirectly securing repayment of Borrower's Loan and Note, that would be prior or that may in any way be superior to Lender's Security Interests and rights in and to such Collateral.

Binding Effect. This Agreement, the Note, all Security Agreements (if any), and all Related Documents are binding upon the signers thereof, as well as upon their successors, representatives and assigns, and are legally enforceable in accordance with their respective terms.

AFFIRMATIVE COVENANTS. Borrower covenants and agrees with Lender that, so long as this Agreement remains in effect, Borrower will:

Notices of Claims and Litigation. Promptly inform Lender in writing of (1) all material adverse changes in Borrower's financial condition, and (2) all existing and all threatened litigation, claims, investigations, administrative proceedings or similar actions affecting Borrower or any Guarantor which could materially affect the financial condition of Borrower or the financial condition of any Guarantor.

Financial Records. Maintain its books and records in accordance with GAAP, applied on a consistent basis, and permit Lender to examine and audit Borrower's books and records at all reasonable times.

Financial Statements. Furnish Lender with such financial statements and other related information at such frequencies and in such detail as Lender may reasonably request.

Additional Information. Furnish such additional information and statements, as Lender may request from time to time.

Insurance. Maintain fire and other risk insurance, public liability insurance, and such other insurance as Lender may require with respect to Borrower's properties and operations, in form, amounts, coverages and with insurance companies acceptable to Lender. Borrower, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days prior written notice to Lender. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Borrower or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest for the Loans, Borrower will provide Lender with such lender's loss payable or other endorsements as Lender may require.

Insurance Reports. Furnish to Lender, upon request of Lender, reports on each existing insurance policy showing such information as Lender may reasonably request, including without limitation the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the properties insured; (5) the then current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (6) the expiration date of the policy. In addition, upon request of Lender (however not more often than annually), Borrower will have an independent appraiser satisfactory to Lender determine, as applicable, the actual cash value or replacement cost of any Collateral. The cost of such appraisal shall be paid by Borrower.

Guaranties. Prior to disbursement of any Loan proceeds, furnish executed guaranties of the Loans in favor of Lender, executed by the guarantor named below, on Lender's forms, and in the amount and under the conditions set forth in those guaranties.

Name of Guarantor

Amount

ALAN YU

Unlimited

Other Agreements. Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

Loan Proceeds. Use all Loan proceeds solely for Borrower's business operations, unless specifically consented to the contrary by Lender in writing.

BUSINESS LOAN AGREEMENT (Continued)

Page 3

Taxes, Charges and Liens. Pay and discharge when due all of its indebtedness and obligations, including without limitation all assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits. Provided however, Borrower will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (1) the legality of the same shall be contested in good faith by appropriate proceedings, and (2) Borrower shall have established on Borrower's books adequate reserves with respect to such contested assessment, tax, charge, levy, lien, or claim in accordance with GAAP.

Performance. Perform and comply, in a timely manner, with all terms, conditions, and provisions set forth in this Agreement, in the Related Documents, and in all other instruments and agreements between Borrower and Lender. Borrower shall notify Lender immediately in writing of any default in connection with any agreement.

Operations. Maintain executive and management personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender of any change in executive and management personnel; conduct its business affairs in a reasonable and prudent manner.

Environmental Studies. Promptly conduct and complete, at Borrower's expense, all such investigations, studies, samplings and testings as may be requested by Lender or any governmental authority relative to any substance, or any waste or by-product of any substance defined as toxic or a hazardous substance under applicable federal, state, or local law, rule, regulation, order or directive, at or affecting any property or any facility owned, leased or used by Borrower.

Compliance with Governmental Requirements. Comply with all laws, ordinances, and regulations, now or hereafter in effect, of all governmental authorities applicable to the conduct of Borrower's properties, businesses and operations, and to the use or occupancy of the Collateral, including without limitation, the Americans With Disabilities Act. Borrower may contest in good faith any such law, ordinance, or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Borrower has notified Lender in writing prior to doing so and so long as, in Lender's sole opinion, Lender's interests in the Collateral are not jeopardized. Lender may require Borrower to post adequate security or a surety bond, reasonably satisfactory to Lender, to protect Lender's interest.

Inspection. Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

Compliance Certificates. Unless waived in writing by Lender, provide Lender at least annually, with a certificate executed by Borrower's chief financial officer, or other officer or person acceptable to Lender, certifying that the representations and warranties set forth in this Agreement are true and correct as of the date of the certificate and further certifying that, as of the date of the certificate, no Event of Default exists under this Agreement.

Environmental Compliance and Reports. Borrower shall comply in all respects with any and all Environmental Laws; not cause or permit to exist, as a result of an intentional or unintentional action or omission on Borrower's part or on the part of any third party, on property owned and/or occupied by Borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; shall furnish to Lender promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

Additional Assurances. Make, execute and deliver to Lender such promissory notes, mortgages, deeds of trust, security agreements, assignments, financing statements, instruments, documents and other agreements as Lender or its attorneys may reasonably request to evidence and secure the Loans and to perfect all Security Interests.

RECOVERY OF ADDITIONAL COSTS. If the imposition of or any change in any law, rule, regulation, guideline, or generally accepted accounting principle, or the interpretation or application of any thereof by any court, administrative or governmental authority, or standard-setting organization (including any request or policy not having the force of law) shall impose, modify or make applicable any taxes (except federal, state or local income or franchise taxes imposed on Lender), reserve requirements, capital adequacy requirements or other obligations which would (A) increase the cost to Lender for extending or maintaining the credit facilities to which this Agreement relates, (B) reduce the amounts payable to Lender under this Agreement or the Related Documents, or (C) reduce the rate of return on Lender's capital as a consequence of Lender's obligations with respect to the credit facilities to which this Agreement relates, then Borrower agrees to pay Lender such additional amounts as will compensate Lender therefor, within five (5) days after Lender's written demand for such payment, which demand shall be accompanied by an explanation of such imposition or charge and a calculation in reasonable detail of the additional amounts payable by Borrower, which explanation and calculations shall be conclusive in the absence of manifest error.

LENDER'S EXPENDITURES. If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Borrower fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Borrower's failure to discharge or pay when due any amounts Borrower is required to discharge or pay under this Agreement or any Related Documents, Lender on Borrower's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on any Collateral and paying all costs for insuring, maintaining and preserving any Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Borrower. All such expenses will become a part of the indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity.

NEGATIVE COVENANTS. Borrower covenants and agrees with Lender that while this Agreement is in effect, Borrower shall not, without the prior written consent of Lender:

Indebtedness and Liens. (1) Except for trade debt incurred in the normal course of business and indebtedness to Lender contemplated by this Agreement, create, incur or assume indebtedness for borrowed money, including capital leases, (2) sell, transfer, mortgage, assign, pledge, lease, grant a security interest in, or encumber any of Borrower's assets (except as allowed as Permitted Liens), or (3) sell with recourse any of Borrower's accounts, except to Lender.

Continuity of Operations. (1) Engage in any business activities substantially different than those in which Borrower is presently engaged, (2) cease operations, liquidate, merge or restructure as a legal entity (whether by division or otherwise), consolidate with or acquire any

BUSINESS LOAN AGREEMENT (Continued)

Page 4

other entity, change its name, convert to another type of entity or redomesticate, dissolve or transfer or sell Collateral out of the ordinary course of business, or (3) make any distribution with respect to any capital account, whether by reduction of capital or otherwise.

Loans, Acquisitions and Guaranties. (1) Loan, invest in or advance money or assets to any other person, enterprise or entity, (2) purchase, create or acquire any interest in any other enterprise or entity, or (3) incur any obligation as surety or guarantor other than in the ordinary course of business.

Agreements. Enter into any agreement containing any provisions which would be violated or breached by the performance of Borrower's obligations under this Agreement or in connection herewith.

CESSATION OF ADVANCES. If Lender has made any commitment to make any Loan to Borrower, whether under this Agreement or under any other agreement, Lender shall have no obligation to make Loan Advances or to disburse Loan proceeds if: (A) Borrower or any Guarantor is in default under the terms of this Agreement or any of the Related Documents or any other agreement that Borrower or any Guarantor has with Lender; (B) Borrower or any Guarantor dies, becomes incompetent or becomes insolvent, files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (C) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any Guarantor, or in the value of any Collateral securing any Loan; or (D) any Guarantor seeks, claims or otherwise attempts to limit, modify or revoke such Guarantor's guaranty of the Loan or any other loan with Lender.

DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Payment Default. Borrower fails to make any payment when due under the Loan.

Other Defaults. Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

Environmental Default. Failure of any party to comply with or perform when due any term, obligation, covenant or condition contained in any environmental agreement executed in connection with any Loan.

Default in Favor of Third Parties. Borrower or any Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's or any Grantor's property or Borrower's or any Grantor's ability to repay the Loans or perform their respective obligations under this Agreement or any of the Related Documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Death or Insolvency. The dissolution of Borrower (regardless of whether election to continue is made), any member withdraws from Borrower, or any other termination of Borrower's existence as a going business or the death of any member, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the Loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

Adverse Change. A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Loan is impaired.

Insecurity. Lender in good faith believes itself insecure.

Right to Cure. If any default, other than a default on Indebtedness, is curable and if Borrower or Grantor, as the case may be, has not been given a notice of a similar default within the preceding twelve (12) months, it may be cured if Borrower or Grantor, as the case may be, after Lender sends written notice to Borrower or Grantor, as the case may be, demanding cure of such default: (1) cure the default within fifteen (15) days; or (2) if the cure requires more than fifteen (15) days, immediately initiate steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continue and complete all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

EFFECT OF AN EVENT OF DEFAULT. If any Event of Default shall occur, except where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will terminate (including any obligation to make further Loan Advances or disbursements), and, at Lender's option, all Indebtedness immediately will become due and payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies provided in the Related Documents or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower or of any Grantor shall not affect Lender's right to declare a default and to exercise its rights and remedies.

LOAN COVENANTS AND CONDITIONS. An exhibit, titled "LOAN COVENANTS AND CONDITIONS," is attached to this Agreement and by this reference is made a part of this Agreement just as if all the provisions, terms and conditions of the Exhibit had been fully set forth in this Agreement.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

BUSINESS LOAN AGREEMENT (Continued)

Page 5

Attorneys' Fees; Expenses. Borrower agrees to pay upon demand all of Lender's costs and expenses, including Lender's attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Borrower shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Borrower also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Consent to Loan Participation. Borrower agrees and consents to Lender's sale or transfer, whether now or later, of one or more participation interests in the Loan to one or more purchasers, whether related or unrelated to Lender. Lender may provide, without any limitation whatsoever, to any one or more purchasers, or potential purchasers, any information or knowledge Lender may have about Borrower or about any other matter relating to the Loan, and Borrower hereby waives any rights to privacy Borrower may have with respect to such participation interests. Borrower additionally waives any and all notices of sale of participation interests, as well as all notices of any repurchase of such participation interests. Borrower also agrees that the purchasers of any such participation interests will be considered as the absolute owners of such interests in the Loan and will have all the rights granted under the participation agreement or agreements governing the sale of such participation interests. Borrower further waives all rights of offset or counterclaim that it may have now or later against Lender or against any purchaser of such a participation interest and unconditionally agrees that either Lender or such purchaser may enforce Borrower's obligation under the Loan irrespective of the failure or insolvency of any holder of any interest in the Loan. Borrower further agrees that the purchaser of any such participation interests may enforce its interests irrespective of any personal claims or defenses that Borrower may have against Lender.

Governing Law. This Agreement will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of New Jersey without regard to its conflicts of law provisions. This Agreement has been accepted by Lender in the State of New Jersey.

Choice of Venue. If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of SOMERSET County, State of New Jersey.

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower, or between Lender and any Grantor, shall constitute a waiver of any of Lender's rights or of any of Borrower's or any Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Notices. Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Borrower agrees to keep Lender informed at all times of Borrower's current address. Unless otherwise provided or required by law, if there is more than one Borrower, any notice given by Lender to any Borrower is deemed to be notice given to all Borrowers.

No Joint Venture or Partnership. The relationship of Borrower and Lender created by this Agreement is strictly that of debtor-creditor, and nothing contained in this Agreement or in any of the Related Documents shall be deemed or construed to create a partnership or joint venture between Borrower and Lender.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

Subsidiaries and Affiliates of Borrower. To the extent the context of any provisions of this Agreement makes it appropriate, including without limitation any representation, warranty or covenant, the word "Borrower" as used in this Agreement shall include all of Borrower's subsidiaries and affiliates. Notwithstanding the foregoing however, under no circumstances shall this Agreement be construed to require Lender to make any loan or other financial accommodation to any of Borrower's subsidiaries or affiliates.

Successors and Assigns. All covenants and agreements by or on behalf of Borrower contained in this Agreement or any Related Documents shall bind Borrower's successors and assigns and shall inure to the benefit of Lender and its successors and assigns. Borrower shall not, however, have the right to assign Borrower's rights under this Agreement or any interest therein, without the prior written consent of Lender.

Survival of Representations and Warranties. Borrower understands and agrees that in making the Loan, Lender is relying on all representations, warranties, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement or the Related Documents. Borrower further agrees that regardless of any investigation made by Lender, all such representations, warranties and covenants will survive the making of the Loan and delivery to Lender of the Related Documents, shall be continuing in nature, and shall remain in full force and effect until such time as Borrower's indebtedness shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

Time is of the Essence. Time is of the essence in the performance of this Agreement.

Waive Jury. All parties to this Agreement hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by any party against any other party.

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. Accounting words and terms not otherwise defined in this Agreement shall have the meanings assigned to them in accordance with generally accepted accounting principles as in effect on the date of this Agreement:

BUSINESS LOAN AGREEMENT (Continued)

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Advance. The word "Advance" means a disbursement of Loan funds made, or to be made, to Borrower or on Borrower's behalf on a line of credit or multiple advance basis under the terms and conditions of this Agreement.

Agreement. The word "Agreement" means this Business Loan Agreement, as this Business Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Business Loan Agreement from time to time.

Borrower. The word "Borrower" means GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY and includes all co-signers and co-makers signing the Note and all their successors and assigns.

Collateral. The word "Collateral" means all property and assets granted as collateral security for a Loan, whether real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, collateral mortgage, deed of trust, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

Environmental Laws. The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto. Also, the following statutes, rules and regulations are included, without limitation, in the words "Environmental Laws" as they are applied to Collateral located in the referenced states: the New Jersey Industrial Site Recovery Act, NJSA Section 13:1K-6 ("ISRA"), the New Jersey Spill Compensation and Control Act, NJSA 58:10-23.11, et seq.

Event of Default. The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

GAAP. The word "GAAP" means generally accepted accounting principles.

Grantor. The word "Grantor" means each and all of the persons or entities granting a Security Interest in any Collateral for the Loan, including without limitation all Borrowers granting such a Security Interest.

Guarantor. The word "Guarantor" means any guarantor, surety, or accommodation party of any or all of the Loan.

Guaranty. The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.

Hazardous Substances. The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note and all future advances made pursuant to the Note or any renewal, extension or modification thereof, including all principal and interest, together with all other indebtedness and cost and expenses for which Grantor is responsible under this Agreement or under any of the Related Documents.

Lender. The word "Lender" means HANMI BANK, its successors and assigns.

Loan. The word "Loan" means any and all loans and financial accommodations from Lender to Borrower whether now or hereafter existing, and however evidenced, including without limitation those loans and financial accommodations described herein or described on any exhibit or schedule attached to this Agreement from time to time.

Note. The word "Note" means the Note dated September 30, 2021 and executed by GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY in the principal amount of \$23,000,000.00, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.

Permitted Liens. The words "Permitted Liens" mean (1) liens and security interests securing Indebtedness owed by Borrower to Lender; (2) liens for taxes, assessments, or similar charges either not yet due or being contested in good faith; (3) liens of materialmen, mechanics, warehousemen, or carriers, or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (4) purchase money liens or purchase money security interests upon or in any property acquired or held by Borrower in the ordinary course of business to secure indebtedness outstanding on the date of this Agreement or permitted to be incurred under the paragraph of this Agreement titled "Indebtedness and Liens"; (5) liens and security interests which, as of the date of this Agreement, have been disclosed to and approved by the Lender in writing; and (6) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of Borrower's assets.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Loan.

Security Agreement. The words "Security Agreement" mean and include without limitation any agreements, promises, covenants, arrangements, understandings or other agreements, whether created by law, contract, or otherwise, evidencing, governing, representing, or creating a Security Interest.

Security Interest. The words "Security Interest" mean, without limitation, any and all types of collateral security, present and future, whether in the form of a lien, charge, encumbrance, mortgage, deed of trust, security deed, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever whether created by law, contract, or otherwise.

**BUSINESS LOAN AGREEMENT
(Continued)**

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BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS BUSINESS LOAN AGREEMENT AND BORROWER AGREES TO ITS TERMS. THIS BUSINESS LOAN AGREEMENT IS DATED SEPTEMBER 30, 2021.

BORROWER:

GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY

By: 

ALAN YU, Manager of GLOBAL WELLS
INVESTMENT GROUP LLC, A TEXAS LIMITED
LIABILITY COMPANY

By: 

MARVIN CHENG, Manager of GLOBAL WELLS
INVESTMENT GROUP LLC, A TEXAS LIMITED
LIABILITY COMPANY

LENDER:

HANMI BANK

By: 

Authorized Signer

LOAN COVENANTS AND CONDITIONS

Principal	Loan Date	Maturity	Loan No.	Call / Coll	Account	Officer	Initials
\$23,000,000.00	09-30-2021	09-30-2026	71149975	1872			

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "*****" has been omitted due to text length limitations.

Borrower: GLOBAL WELLS INVESTMENT GROUP LLC, A
TEXAS LIMITED LIABILITY COMPANY
6185 KIMBALL AVENUE
CHINO, CA 91708

Lender: HANMI BANK
CORPORATE BANKING CENTER I
933 S. VERMONT AVE., 2ND FLOOR
LOS ANGELES, CA 90006

This LOAN COVENANTS AND CONDITIONS is attached to and by this reference is made a part of the Business Loan Agreement, dated September 30, 2021, and executed in connection with a loan or other financial accommodations between HANMI BANK and GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY.

Financial Reporting Requirements

- Form 10-K (Annually):** Borrower agrees to request its affiliate, Karat Packaging Inc. to furnish on or before 90 days after the fiscal year end, while any portion of the indebtedness secured hereby remains unpaid, Form 10-K reports, including, but not limited to, balance sheet, cash flow statement, and contingent liability statement of Borrower prepared in accordance with generally accepted accounting principles consistently applied.
- Consolidating Report and Supplementary Information to Form 10-K:** Borrower agrees to request its affiliate, Karat Packaging Inc. to furnish on or before 90 days after the fiscal year end, while any portion of the indebtedness secured hereby remains unpaid, consolidating financial statements and its supplementary information, including, but not limited to, balance sheet, cash flow statement, and contingent liability statement of Borrower prepared in accordance with generally accepted accounting principles consistently applied.
- Form 10-Q:** Borrower agrees to request its affiliate, Karat Packaging Inc. to furnish on or before 60 days after the end of the first half of fiscal year and the fiscal year end, while any portion of the indebtedness secured hereby remains unpaid, semi-annual financial statements, including, but not limited to, balance sheet, cash flow statement, and contingent liability statement of Borrower prepared in accordance with generally accepted accounting practices consistently applied.
- Consolidating Report and Supplementary Information to Form 10-Q:** Borrower agrees to request its affiliate, Karat Packaging Inc. to furnish on or before 60 days after the end of the first half of fiscal year and the fiscal year end, while any portion of the indebtedness secured hereby remains unpaid, semi-annual consolidating financial statements and its supplementary information, including, but not limited to, balance sheet, cash flow statement, and contingent liability statement of Borrower prepared in accordance with generally accepted accounting principles consistently applied.
- Company Prepared Interim Financial Statement:** Borrower agrees to furnish on or before sixty (60) days after the end of the first half of fiscal year and the fiscal year end, while any portion of the indebtedness secured hereby remains unpaid, semi-annually interim financial statements, including, but not limited to, balance sheet, cash flow statement, and contingent liability statement of Borrower prepared in accordance with generally accepted accounting practices consistently applied.

Financial Covenants:

Debt Service Coverage Ratio. Beginning with the fourth quarter of 2021, Borrower will maintain, while any portion of the indebtedness secured hereby remains unpaid, a minimum Debt Service Coverage Ratio of 1.25x to be measured semi-annually on a year to date basis (or on a trailing twelve month basis). Such ratio is defined below.

Debt Service Coverage Ratio (BPL) means a ratio of an amount equal to combined (operating and real estate holding companies) annual net income plus the sum of (i) net income taxes, (ii) net interest expense, (iii) depreciation, depletion and amortization, (iv) loss from extraordinary items, and (v) non-cash and non-recurring expenses minus the sum of (i) gains from extraordinary items and (ii) non-cash gains to the sum of annual scheduled principal and interest payments of all loans and capital leases.

Other Covenants:

Multiple disbursement allowed for 1 year, after paying off the existing loan of \$16MM, the Borrower has access to advance up to \$6,885,317 for 1 year period. Each advance must be \$1MM or more. Regardless repayment, sum of each advance cannot exceed \$6,885,317. Loan payments are based on \$23MM as if fully funded for the entire loan term.

THIS LOAN COVENANTS AND CONDITIONS IS EXECUTED ON SEPTEMBER 30, 2021.

BORROWER:

GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY

By: 
ALAN YU, Manager of GLOBAL WELLS
INVESTMENT GROUP LLC, A TEXAS LIMITED
LIABILITY COMPANY

By: 
MARVIN CHENG, Manager of GLOBAL WELLS
INVESTMENT GROUP LLC, A TEXAS LIMITED
LIABILITY COMPANY

Loan No: 71149975

**LOAN COVENANTS AND CONDITIONS
(Continued)**

Page 2

LENDER:

HANMI BANK

By: 

Authorized Signer



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COMMERCIAL GUARANTY

Principal	Loan Date	Maturity	Loan No	Call / Coll =	Account	Officer	Initials
\$23,000,000.00	09-30-2021	09-30-2026	71149975	1972			
References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.							

Borrower: GLOBAL WELLS INVESTMENT GROUP LLC, A
TEXAS LIMITED LIABILITY COMPANY
6185 KIMBALL AVENUE
CHINO, CA 91708

Lender: HANMI BANK
CORPORATE BANKING CENTER I
933 S. VERMONT AVE., 2ND FLOOR
LOS ANGELES, CA 90006

Guarantor: ALAN YU
20982 DELPHINE DR.
WALNUT, CA 91789

CONTINUING GUARANTEE OF PAYMENT AND PERFORMANCE. For good and valuable consideration, Guarantor absolutely and unconditionally guarantees full and punctual payment and satisfaction of the Indebtedness of Borrower to Lender, and the performance and discharge of all Borrower's obligations under the Note and the Related Documents. This is a guaranty of payment and performance and not of collection, so Lender can enforce this Guaranty against Guarantor even when Lender has not exhausted Lender's remedies against anyone else obligated to pay the Indebtedness or against any collateral securing the Indebtedness, this Guaranty or any other guaranty of the Indebtedness. Guarantor will make any payments to Lender or its order, on demand, in legal tender of the United States of America, in same-day funds, without set-off or deduction or counterclaim, and will otherwise perform Borrower's obligations under the Note and Related Documents. Under this Guaranty, Guarantor's liability is unlimited and Guarantor's obligations are continuing.

INDEBTEDNESS. The word "Indebtedness" as used in this Guaranty means all of the principal amount outstanding from time to time and at any one or more times, accrued unpaid interest thereon and all collection costs and legal expenses related thereto permitted by law, attorneys' fees, arising from any and all debts, liabilities and obligations of every nature or form, now existing or hereafter arising or acquired, that Borrower individually or collectively or interchangeably with others, owes or will owe Lender. "Indebtedness" includes, without limitation, loans, advances, debts, overdraft indebtedness, credit card indebtedness, lease obligations, liabilities and obligations under any interest rate protection agreements or foreign currency exchange agreements or commodity price protection agreements, other obligations, and liabilities of Borrower, and any present or future judgments against Borrower, future advances, loans or transactions that renew, extend, modify, refinance, consolidate or substitute these debts, liabilities and obligations whether: voluntarily or involuntarily incurred; due or to become due by their terms or acceleration; absolute or contingent; liquidated or unliquidated; determined or undetermined; direct or indirect; primary or secondary in nature or arising from a guaranty or surety; secured or unsecured; joint or several or joint and several; evidenced by a negotiable or non-negotiable instrument or writing; originated by Lender or another or others; barred or unenforceable against Borrower for any reason whatsoever; for any transactions that may be voidable for any reason (such as infancy, insanity, ultra vires or otherwise); and originated then reduced or extinguished and then afterwards increased or reinstated.

If Lender presently holds one or more guaranties, or hereafter receives additional guaranties from Guarantor, Lender's rights under all guaranties shall be cumulative. This Guaranty shall not (unless specifically provided below to the contrary) affect or invalidate any such other guaranties. Guarantor's liability will be Guarantor's aggregate liability under the terms of this Guaranty and any such other unterminted guaranties.

CONTINUING GUARANTY. THIS IS A "CONTINUING GUARANTY" UNDER WHICH GUARANTOR AGREES TO GUARANTEE THE FULL AND PUNCTUAL PAYMENT, PERFORMANCE AND SATISFACTION OF THE INDEBTEDNESS OF BORROWER TO LENDER, NOW EXISTING OR HEREFTER ARISING OR ACQUIRED, ON AN OPEN AND CONTINUING BASIS. ACCORDINGLY, ANY PAYMENTS MADE ON THE INDEBTEDNESS WILL NOT DISCHARGE OR DIMINISH GUARANTOR'S OBLIGATIONS AND LIABILITY UNDER THIS GUARANTY FOR ANY REMAINING AND SUCCEEDING INDEBTEDNESS EVEN WHEN ALL OR PART OF THE OUTSTANDING INDEBTEDNESS MAY BE A ZERO BALANCE FROM TIME TO TIME.

DURATION OF GUARANTY. This Guaranty will take effect when received by Lender without the necessity of any acceptance by Lender, or any notice to Guarantor or to Borrower, and will continue in full force until all the Indebtedness incurred or contracted before receipt by Lender of any notice of revocation shall have been fully and finally paid and satisfied and all of Guarantor's other obligations under this Guaranty shall have been performed in full. If Guarantor elects to revoke this Guaranty, Guarantor may only do so in writing. Guarantor's written notice of revocation must be mailed to Lender, by certified mail, at Lender's address listed above or such other place as Lender may designate in writing. Written revocation of this Guaranty will apply only to new Indebtedness created after actual receipt by Lender of Guarantor's written revocation. For this purpose and without limitation, the term "new Indebtedness" does not include the Indebtedness which at the time of notice of revocation is contingent, unliquidated, undetermined or not due and which later becomes absolute, liquidated, determined or due. For this purpose and without limitation, "new Indebtedness" does not include all or part of the Indebtedness that is: incurred by Borrower prior to the Indebtedness. This Guaranty shall bind Guarantor's estate as to the Indebtedness created both before and after Guarantor's death or incapacity, regardless of Lender's actual notice of Guarantor's death. Subject to the foregoing, Guarantor's executor or administrator or other legal representative may terminate this Guaranty in the same manner in which Guarantor might have terminated it and with the same effect. Release of any other guarantor or termination of any other guaranty of the Indebtedness shall not affect the liability of Guarantor under this Guaranty. A revocation Lender receives from any one or more Guarantors shall not affect the liability of any remaining Guarantors under this Guaranty. Guarantor's obligations under this Guaranty shall be in addition to any of Guarantor's obligations, or any of them, under any other guaranties of the Indebtedness or any other person heretofore or hereafter given to Lender unless such other guaranties are modified or revoked in writing; and this Guaranty shall not, unless provided in this Guaranty, affect, invalidate, or supersede any such other guaranty. It is anticipated that fluctuations may occur in the aggregate amount of the Indebtedness covered by this Guaranty, and Guarantor specifically acknowledges and agrees that reductions in the amount of the Indebtedness, even to zero dollars (\$0.00), shall not constitute a termination of this Guaranty. This Guaranty is binding upon Guarantor and Guarantor's heirs, successors and assigns so long as any of the Indebtedness remains unpaid and even though the Indebtedness may from time to time be zero dollars (\$0.00).

OBLIGATIONS OF MARRIED PERSONS. Any married person who signs this Guaranty hereby expressly agrees that recourse under this Guaranty may be had against both his or her separate property and community property.

GUARANTOR'S AUTHORIZATION TO LENDER. Guarantor authorizes Lender, either before or after any revocation hereof, without notice or demand and without lessening Guarantor's liability under this Guaranty, from time to time: (A) prior to revocation as set forth above, to make

**COMMERCIAL GUARANTY
(Continued)**

one or more additional secured or unsecured loans to Borrower, to lease equipment or other goods to Borrower, or otherwise to extend additional credit to Borrower; (B) to alter, compromise, renew, extend, accelerate, or otherwise change one or more times the time for payment or other terms of the Indebtedness or any part of the Indebtedness, including increases and decreases of the rate of interest on the Indebtedness; extensions may be repeated and may be for longer than the original loan term; (C) to take and hold security for the payment of this Guaranty or the Indebtedness, and exchange, enforce, waive, subordinate, fail or decide not to perfect, and release any such security, with or without the substitution of new collateral; (D) to release, substitute, agree not to sue, or deal with any one or more of Borrower's sureties, endorsers, or other guarantors on any terms or in any manner Lender may choose; (E) to determine how, when and what application of payments and credits shall be made on the Indebtedness; (F) to apply such security and direct the order or manner of sale thereof, including without limitation, any nonjudicial sale permitted by the terms of the controlling security agreement or deed of trust, as Lender in its discretion may determine; (G) to sell, transfer, assign or grant participations in all or any part of the Indebtedness; and (H) to assign or transfer this Guaranty in whole or in part.

GUARANTOR'S REPRESENTATIONS AND WARRANTIES. Guarantor represents and warrants to Lender that (A) no representations or agreements of any kind have been made to Guarantor which would limit or qualify in any way the terms of this Guaranty; (B) this Guaranty is executed at Borrower's request and not at the request of Lender; (C) Guarantor has full power, right and authority to enter into this Guaranty; (D) the provisions of this Guaranty do not conflict with or result in a default under any agreement or other instrument binding upon Guarantor and do not result in a violation of any law, regulation, court decree or order applicable to Guarantor; (E) Guarantor has not and will not, without the prior written consent of Lender, sell, lease, assign, encumber, hypothecate, transfer, or otherwise dispose of all or substantially all of Guarantor's assets, or any interest therein; (F) upon Lender's request, Guarantor will provide to Lender financial and credit information in form acceptable to Lender, and all such financial information which currently has been, and all future financial information which will be provided to Lender is and will be true and correct in all material respects and fairly present Guarantor's financial condition since the date of the most recent financial information is provided; (G) no material adverse change has occurred in Guarantor's financial condition since the date of the most recent financial statements provided to Lender and no event has occurred which may materially adversely affect Guarantor's financial condition; (H) no litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Guarantor is pending or threatened; (I) Lender has made no representation to Guarantor as to the creditworthiness of Borrower; and (J) Guarantor has established adequate means of obtaining from Borrower on a continuing basis information regarding Borrower's financial condition. Guarantor agrees to keep adequately informed from such means of any facts, events, or circumstances which might in any way affect Guarantor's risks under this Guaranty, and Guarantor further agrees that, absent a request for information, Lender shall have no obligation to disclose to Guarantor any information or documents acquired by Lender in the course of its relationship with Borrower.

GUARANTOR'S WAIVERS. Except as prohibited by applicable law, Guarantor waives any right to require Lender to (A) make any presentment, protest, demand, or notice of any kind, including notice of change of any terms of repayment of the Indebtedness, default by Borrower or any other guarantor or surety, any action or nonaction taken by Borrower, Lender, or any other guarantor or surety of Borrower, or the creation of new or additional Indebtedness; (B) proceed against any person, including Borrower, before proceeding against Guarantor; (C) proceed against any collateral for the Indebtedness, including Borrower's collateral, before proceeding against Guarantor; (D) apply any payments or proceeds received against the Indebtedness in any order; (E) give notice of the terms, time, and place of any sale of the collateral pursuant to the Uniform Commercial Code or any other law governing such sale; (F) disclose any information about the Indebtedness, the Borrower, the collateral, or any other guarantor or surety, or about any action or nonaction of Lender; or (G) pursue any remedy or course of action in Lender's power whatsoever.

Guarantor also waives any and all rights or defenses arising by reason of (H) any disability or other defense of Borrower, any other guarantor or surety or any other person; (I) the cessation from any cause whatsoever, other than payment in full, of the Indebtedness; (J) the application of proceeds of the Indebtedness by Borrower for purposes other than the purposes understood and intended by Guarantor and Lender; (K) any act of omission or commission by Lender which directly or indirectly results in or contributes to the discharge of Borrower or any other guarantor or surety, or the Indebtedness, or the loss or release of any collateral by operation of law or otherwise; (L) any statute of limitations in any action under this Guaranty or on the Indebtedness; or (M) any modification or change in terms of the Indebtedness, whatsoever, including without limitation, the renewal, extension, acceleration, or other change in the time payment of the Indebtedness is due and any change in the interest rate, and including any such modification or change in terms after revocation of this Guaranty on the Indebtedness incurred prior to such revocation.

Guarantor waives all rights of subrogation, reimbursement, indemnification, and contribution and any other rights and defenses that are or may become available to Guarantor by reason of California Civil Code Sections 2787 to 2855, inclusive.

Guarantor waives all rights and any defenses arising out of an election of remedies by Lender even though that the election of remedies, such as a non-judicial foreclosure with respect to security for a guaranteed obligation, has destroyed Guarantor's rights of subrogation and reimbursement against Borrower by operation of Section 580d of the California Code of Civil Procedure or otherwise.

Guarantor waives all rights and defenses that Guarantor may have because Borrower's obligation is secured by real property. This means among other things: (N) Lender may collect from Guarantor without first foreclosing on any real or personal property collateral pledged by Borrower. (O) If Lender forecloses on any real property collateral pledged by Borrower: (1) the amount of Borrower's obligation may be reduced only by the price for which the collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price. (2) Lender may collect from Guarantor even if Lender, by foreclosing on the real property collateral, has destroyed any right Guarantor may have to collect from Borrower. This is an unconditional and irrevocable waiver of any rights and defenses Guarantor may have because Borrower's obligation is secured by real property. These rights and defenses include, but are not limited to, any rights and defenses based upon Section 580a, 580b, 580d, or 726 of the Code of Civil Procedure.

Guarantor understands and agrees that the foregoing waivers are unconditional and irrevocable waivers of substantive rights and defenses to which Guarantor might otherwise be entitled under state and federal law. The rights and defenses waived include, without limitation, those provided by California laws of suretyship and guaranty, anti-deficiency laws, and the Uniform Commercial Code. Guarantor acknowledges that Guarantor has provided these waivers of rights and defenses with the intention that they be fully relied upon by Lender. Guarantor further understands and agrees that this Guaranty is a separate and independent contract between Guarantor and Lender, given for full and ample consideration, and is enforceable on its own terms. Until all of the Indebtedness is paid in full, Guarantor waives any right to enforce any remedy Guarantor may have against the Borrower or any other guarantor, surety, or other person, and further, Guarantor waives any right to participate in any collateral for the Indebtedness now or hereafter held by Lender.

Guarantor's Understanding With Respect To Waivers. Guarantor warrants and agrees that each of the waivers set forth above is made with Guarantor's full knowledge of its significance and consequences and that, under the circumstances, the waivers are reasonable and not contrary to public policy or law. If any such waiver is determined to be contrary to any applicable law or public policy, such waiver shall be effective only to the extent permitted by law or public policy.

Subordination of Borrower's Debts to Guarantor. Guarantor agrees that the Indebtedness, whether now existing or hereafter created, shall be superior to any claim that Guarantor may now have or hereafter acquire against Borrower, whether or not Borrower becomes insolvent. Guarantor hereby expressly subordinates any claim Guarantor may have against Borrower, upon any account whatsoever, to any claim that

**COMMERCIAL GUARANTY
(Continued)**

Lender may now or hereafter have against Borrower. In the event of insolvency and consequent liquidation of the assets of Borrower, through bankruptcy, by an assignment for the benefit of creditors, by voluntary liquidation, or otherwise, the assets of Borrower applicable to the payment of the claims of both Lender and Guarantor shall be paid to Lender and shall be first applied by Lender to the Indebtedness. Guarantor does hereby assign to Lender all claims which it may have or acquire against Borrower or against any assignee or trustee in bankruptcy of Borrower; provided however, that such assignment shall be effective only for the purpose of assuring to Lender full payment in legal tender of the Indebtedness. If Lender so requests, any notes or credit agreements now or hereafter evidencing any debts or obligations of Borrower to Guarantor shall be marked with a legend that the same are subject to this Guaranty and shall be delivered to Lender. Guarantor agrees, and Lender is hereby authorized, in the name of Guarantor, from time to time to file financing statements and continuation statements and to execute documents and to take such other actions as Lender deems necessary or appropriate to perfect, preserve and enforce its rights under this Guaranty.

Miscellaneous Provisions. The following miscellaneous provisions are a part of this Guaranty:

AMENDMENTS. This Guaranty, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Guaranty. No alteration of or amendment to this Guaranty shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

ATTORNEYS' FEES; EXPENSES. Guarantor agrees to pay upon demand all of Lender's costs and expenses, including Lender's attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Guaranty. Lender may hire or pay someone else to help enforce this Guaranty, and Guarantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Guarantor also shall pay all court costs and such additional fees as may be directed by the court.

CAPTION HEADINGS. Caption headings in this Guaranty are for convenience purposes only and are not to be used to interpret or define the provisions of this Guaranty.

GOVERNING LAW. This Guaranty will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of California without regard to its conflicts of law provisions.

CHOICE OF VENUE. If there is a lawsuit, Guarantor agrees upon Lender's request to submit to the jurisdiction of the courts of SOMERSET County, State of New Jersey.

INTEGRATION. Guarantor further agrees that Guarantor has read and fully understands the terms of this Guaranty; Guarantor has had the opportunity to be advised by Guarantor's attorney with respect to this Guaranty; the Guaranty fully reflects Guarantor's intentions and parol evidence is not required to interpret the terms of this Guaranty. Guarantor hereby indemnifies and holds Lender harmless from all losses, claims, damages, and costs (including Lender's attorneys' fees) suffered or incurred by Lender as a result of any breach by Guarantor of the warranties, representations and agreements of this paragraph.

INTERPRETATION. In all cases where there is more than one Borrower or Guarantor, then all words used in this Guaranty in the singular shall be deemed to have been used in the plural where the context and construction so require; and where there is more than one Borrower named in this Guaranty or when this Guaranty is executed by more than one Guarantor, the words "Borrower" and "Guarantor" respectively shall mean all and any one or more of them. The words "Guarantor," "Borrower," and "Lender" include the heirs, successors, assigns, and transferees of each of them. If a court finds that any provision of this Guaranty is not valid or should not be enforced, that fact by itself will not mean that the rest of this Guaranty will not be valid or enforced. Therefore, a court will enforce the rest of the provisions of this Guaranty even if a provision of this Guaranty may be found to be invalid or unenforceable. If any one or more of Borrower or Guarantor are corporations, partnerships, limited liability companies, or similar entities, it is not necessary for Lender to inquire into the powers of Borrower or Guarantor or of the officers, directors, partners, managers, or other agents acting or purporting to act on their behalf, and any indebtedness made or created in reliance upon the professed exercise of such powers shall be guaranteed under this Guaranty.

NOTICES. Any notice required to be given under this Guaranty shall be given in writing, and, except for revocation notices by Guarantor, shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Guaranty. All revocation notices by Guarantor shall be in writing and shall be effective upon delivery to Lender as provided in the section of this Guaranty entitled "DURATION OF GUARANTY." Any party may change its address for notices under this Guaranty by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Guarantor agrees to keep Lender informed at all times of Guarantor's current address. Unless otherwise provided or required by law, if there is more than one Guarantor, any notice given by Lender to any Guarantor is deemed to be notice given to all Guarantors.

NO WAIVER BY LENDER. Lender shall not be deemed to have waived any rights under this Guaranty unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Guaranty shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Guaranty. No prior waiver by Lender, nor any course of dealing between Lender and Guarantor, shall constitute a waiver of any of Lender's rights or of any of Guarantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Guaranty, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

SUCCESSORS AND ASSIGNS. Subject to any limitations stated in this Guaranty on transfer of Guarantor's interest, this Guaranty shall be binding upon and inure to the benefit of the parties, their successors and assigns.

WAIVE JURY. To the extent permitted by applicable law, Lender and Guarantor hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by either Lender or Guarantor against the other.

Definitions. The following capitalized words and terms shall have the following meanings when used in this Guaranty. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Guaranty shall have the meanings attributed to such terms in the Uniform Commercial Code:

BORROWER. The word "Borrower" means GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY and includes all co-signers and co-makers signing the Note and all their successors and assigns.

GUARANTOR. The word "Guarantor" means everyone signing this Guaranty, including without limitation ALAN YU, and in each case, any signer's successors and assigns.

**COMMERCIAL GUARANTY
(Continued)**

GUARANTY. The word "Guaranty" means this guaranty from Guarantor to Lender.

INDEBTEDNESS. The word "Indebtedness" means Borrower's indebtedness to Lender as more particularly described in this Guaranty.

LENDER. The word "Lender" means HANMI BANK, its successors and assigns.

NOTE. The word "Note" means and includes without limitation all of Borrower's promissory notes and/or credit agreements evidencing Borrower's loan obligations in favor of Lender, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of and substitutions for promissory notes or credit agreements.

RELATED DOCUMENTS. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

EACH UNDERSIGNED GUARANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS GUARANTY AND AGREES TO ITS TERMS. IN ADDITION, EACH GUARANTOR UNDERSTANDS THAT THIS GUARANTY IS EFFECTIVE UPON GUARANTOR'S EXECUTION AND DELIVERY OF THIS GUARANTY TO LENDER AND THAT THE GUARANTY WILL CONTINUE UNTIL TERMINATED IN THE MANNER SET FORTH IN THE SECTION TITLED "DURATION OF GUARANTY". NO FORMAL ACCEPTANCE BY LENDER IS NECESSARY TO MAKE THIS GUARANTY EFFECTIVE. THIS GUARANTY IS DATED SEPTEMBER 30, 2021.

GUARANTOR:

X
ALAN YU





00000000071149975%0235%09302021%00000000000000

COMMERCIAL SECURITY AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$23,000,000.00	09-30-2021	09-30-2026	71149975	1972			
References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "*****" has been omitted due to text length limitations.							

Grantor: GLOBAL WELLS INVESTMENT GROUP LLC, A
TEXAS LIMITED LIABILITY COMPANY
6185 KIMBALL AVENUE
CHINO, CA 91708

Lender: HANMI BANK
CORPORATE BANKING CENTER I
933 S. VERMONT AVE., 2ND FLOOR
LOS ANGELES, CA 90006

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code:

Agreement. The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

Borrower. The word "Borrower" means GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY and includes all co-signers and co-makers signing the Note and all their successors and assigns.

Collateral. The word "Collateral" means all of Grantor's right, title and interest in and to all the Collateral as described in the Collateral Description section of this Agreement.

Environmental Laws. The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., the New Jersey Industrial Site Recovery Act, NJSA Section 13:1K-6 ("ISRA"), the New Jersey Spill Compensation and Control Act, NJSA 58:10-23.11, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

Event of Default. The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

Grantor. The word "Grantor" means GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY.

Guarantor. The word "Guarantor" means any guarantor, surety, or accommodation party of any or all of the Indebtedness.

Guaranty. The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.

Hazardous Substances. The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note and all future advances made pursuant to the Note or any renewal, extension or modification thereof, including all principal and interest, together with all other indebtedness and cost and expenses for which Grantor is responsible under this Agreement or under any of the Related Documents.

Lender. The word "Lender" means HANMI BANK, its successors and assigns.

Note. The word "Note" means the Note dated September 30, 2021 and executed by GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY in the principal amount of \$23,000,000.00, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.

Property. The word "Property" means all of Grantor's right, title and interest in and to all the Property as described in the "Collateral Description" section of this Agreement.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

THIS COMMERCIAL SECURITY AGREEMENT dated September 30, 2021, is made and executed between GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY ("Grantor") and HANMI BANK ("Lender").

GRANT OF SECURITY INTEREST. For valuable consideration, Grantor grants to Lender a security interest in the Collateral to secure the Indebtedness and agrees that Lender shall have the rights stated in this Agreement with respect to the Collateral, in addition to all other rights which Lender may have by law.

COLLATERAL DESCRIPTION. The word "Collateral" as used in this Agreement means the following described property, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located, in which Grantor is giving to Lender a security interest for the payment of the Indebtedness and performance of all other obligations under the Note and this Agreement:

All inventory, equipment, accounts (including but not limited to all health-care-insurance receivables), chattel paper, instruments (including but not limited to all promissory notes), letter-of-credit rights, letters of credit, documents, deposit accounts, investment property, money, other rights to payment and performance, and general intangibles (including but not limited to all software and all payment intangibles); all

**COMMERCIAL SECURITY AGREEMENT
(Continued)**

oil, gas and other minerals before extraction; all oil, gas, other minerals and accounts constituting as-extracted collateral; all fixtures; all timber to be cut; all attachments, accessions, accessories, fittings, increases, tools, parts, repairs, supplies, and commingled goods relating to the foregoing property, and all additions, replacements of and substitutions for all or any part of the foregoing property; all insurance refunds relating to the foregoing property; all good will relating to the foregoing property; all records and data and embedded software relating to the foregoing property, and all equipment, inventory and software to utilize, create, maintain and process any such records and data on electronic media; and all supporting obligations relating to the foregoing property; all whether now existing or hereafter arising, whether now owned or hereafter acquired or whether now or hereafter subject to any rights in the foregoing property; and all products and proceeds (including but not limited to all insurance payments) of or relating to the foregoing property.

In addition, the word "Collateral" also includes all the following, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

- (A) All accessions, attachments, accessories, tools, parts, supplies, replacements of and additions to any of the collateral described herein, whether added now or later.
- (B) All products and produce of any of the property described in this Collateral section.
- (C) All accounts, general intangibles, instruments, rents, monies, payments, and all other rights, arising out of a sale, lease, consignment or other disposition of any of the property described in this Collateral section.
- (D) All proceeds (including insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this Collateral section, and sums due from a third party who has damaged or destroyed the Collateral or from that party's insurer, whether due to judgment, settlement or other process.
- (E) All records and data relating to any of the property described in this Collateral section, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of Grantor's right, title, and interest in and to all computer software required to utilize, create, maintain, and process any such records or data on electronic media.

CROSS-COLLATERALIZATION. In addition to the Note, this Agreement secures all obligations, debts and liabilities, plus interest thereon, of Grantor to Lender, or any one or more of them, as well as all claims by Lender against Grantor or any one or more of them, whether now existing or hereafter arising, whether related or unrelated to the purpose of the Note, whether voluntary or otherwise, whether due or not due, direct or indirect, determined or undetermined, absolute or contingent, liquidated or unliquidated, whether Grantor may be liable individually or jointly with others, whether obligated as guarantor, surety, accommodation party or otherwise, and whether recovery upon such amounts may be or hereafter may become barred by any statute of limitations, and whether the obligation to repay such amounts may be or hereafter may become otherwise unenforceable.

FUTURE ADVANCES. In addition to the Note, this Agreement secures all future advances made by Lender to Grantor regardless of whether the advances are made a) pursuant to a commitment or b) for the same purposes.

GRANTOR'S REPRESENTATIONS AND WARRANTIES WITH RESPECT TO THE COLLATERAL. With respect to the Collateral, Grantor represents and promises to Lender that:

Perfection of Security Interest. Grantor agrees to take whatever actions are requested by Lender to perfect and continue Lender's security interest in the Collateral. Upon request of Lender, Grantor will deliver to Lender any and all of the documents evidencing or constituting the Collateral, and Grantor will note Lender's interest upon any and all chattel paper and instruments if not delivered to Lender for possession by Lender. This is a continuing Security Agreement and will continue in effect even though all or any part of the indebtedness is paid in full and even though for a period of time Grantor may not be indebted to Lender.

Notices to Lender. Grantor will promptly notify Lender in writing at Lender's address shown above (or such other addresses as Lender may designate from time to time) prior to any (1) change in Grantor's name; (2) change in Grantor's assumed business name(s); (3) change in the management or in the members or managers of the limited liability company Grantor; (4) change in the authorized signer(s); (5) change in Grantor's principal office address; (6) change in Grantor's state of organization; (7) conversion of Grantor to a new or different type of business entity; or (8) change in any other aspect of Grantor that directly or indirectly relates to any agreements between Grantor and Lender. No change in Grantor's name or state of organization will take effect until after Lender has received notice.

No Violation. The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party, and its membership agreement does not prohibit any term or condition of this Agreement.

Enforceability of Collateral. To the extent the Collateral consists of accounts, chattel paper, or general intangibles, as defined by the Uniform Commercial Code, the Collateral is enforceable in accordance with its terms, is genuine, and fully complies with all applicable laws and regulations concerning form, content and manner of preparation and execution, and all persons appearing to be obligated on the Collateral have authority and capacity to contract and are in fact obligated as they appear to be on the Collateral. At the time any account becomes subject to a security interest in favor of Lender, the account shall be a good and valid account representing an undisputed, bona fide indebtedness incurred by the account debtor, for merchandise held subject to delivery instructions or previously shipped or delivered pursuant to a contract of sale, or for services previously performed by Grantor with or for the account debtor. So long as this Agreement remains in effect, Grantor shall not, without Lender's prior written consent, compromise, settle, adjust, or extend payment under or with regard to any such Accounts. There shall be no setoffs or counterclaims against any of the Collateral, and no agreement shall have been made under which any deductions or discounts may be claimed concerning the Collateral except those disclosed to Lender in writing.

Location of the Collateral. Except in the ordinary course of Grantor's business, Grantor agrees to keep the Collateral (or to the extent the Collateral consists of intangible property such as accounts or general intangibles, the records concerning the Collateral) at Grantor's address shown above or at such other locations as are acceptable to Lender. Upon Lender's request, Grantor will deliver to Lender in form satisfactory to Lender a schedule of real properties and Collateral locations relating to Grantor's operations, including without limitation the following: (1) all real property Grantor owns or is purchasing; (2) all real property Grantor is renting or leasing; (3) all storage facilities Grantor owns, rents, leases, or uses; and (4) all other properties where Collateral is or may be located.

Removal of the Collateral. Except in the ordinary course of Grantor's business, including the sales of inventory, Grantor shall not remove the Collateral from its existing location without Lender's prior written consent. To the extent that the Collateral consists of vehicles, or other titled property, Grantor shall not take or permit any action which would require application for certificates of title for the vehicles outside the State of New Jersey, without Lender's prior written consent. Grantor shall, whenever requested, advise Lender of the exact location of the Collateral.

Transactions Involving Collateral. Except for inventory sold or accounts collected in the ordinary course of Grantor's business, or as otherwise provided for in this Agreement, Grantor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral. While Grantor is not in default under this Agreement, Grantor may sell inventory, but only in the ordinary course of its business and only to buyers

**COMMERCIAL SECURITY AGREEMENT
(Continued)**

who qualify as a buyer in the ordinary course of business. A sale in the ordinary course of Grantor's business does not include a transfer in partial or total satisfaction of a debt or any bulk sale. Grantor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than the security interest provided for in this Agreement, without the prior written consent of Lender. This includes security interests even if junior in right to the security interests granted under this Agreement. Unless waived by Lender, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for Lender and shall not be commingled with any other funds; provided however, this requirement shall not constitute consent by Lender to any sale or other disposition. Upon receipt, Grantor shall immediately deliver any such proceeds to Lender.

Title. Grantor represents and warrants to Lender that Grantor holds good and marketable title to the Collateral, free and clear of all liens and encumbrances except for the lien of this Agreement. No financing statement covering any of the Collateral is on file in any public office other than those which reflect the security interest created by this Agreement or to which Lender has specifically consented. Grantor shall defend Lender's rights in the Collateral against the claims and demands of all other persons.

Repairs and Maintenance. Grantor agrees to keep and maintain, and to cause others to keep and maintain, the Collateral in good order, repair and condition at all times while this Agreement remains in effect. Grantor further agrees to pay when due all claims for work done on, or services rendered or material furnished in connection with the Collateral so that no lien or encumbrance may ever attach to or be filed against the Collateral.

Inspection of Collateral. Lender and Lender's designated representatives and agents shall have the right at all reasonable times to examine and inspect the Collateral wherever located.

Taxes, Assessments and Liens. Grantor will pay when due all taxes, assessments and liens upon the Collateral, its use or operation, upon this Agreement, upon any promissory note or notes evidencing the indebtedness, or upon any of the other Related Documents. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized in Lender's sole opinion. If the Collateral is subjected to a lien which is not discharged within fifteen (15) days, Grantor shall deposit with Lender cash, a sufficient corporate surety bond or other security satisfactory to Lender in an amount adequate to provide for the discharge of the lien plus any interest, costs, attorneys' fees or other charges that could accrue as a result of foreclosure or sale of the Collateral. In any contest Grantor shall defend itself and Lender and shall satisfy any final adverse judgment before enforcement against the Collateral. Grantor shall name Lender as an additional obligee under any surety bond furnished in the contest proceedings. Grantor further agrees to furnish Lender with evidence that such taxes, assessments, and governmental and other charges have been paid in full and in a timely manner. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized.

Compliance with Governmental Requirements. Grantor shall comply promptly with all laws, ordinances, rules and regulations of all governmental authorities, including without limitation all environmental laws, ordinances, rules and regulations, now or hereafter in effect, applicable to the ownership, production, disposition, or use of the Collateral, including all laws or regulations relating to the undue erosion of highly-erodible land or relating to the conversion of wetlands for the production of an agricultural product or commodity. Grantor may contest in good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Lender's interest in the Collateral, in Lender's opinion, is not jeopardized.

Hazardous Substances. Grantor represents and warrants that the Collateral never has been, and never will be so long as this Agreement remains a lien on the Collateral, used in violation of any Environmental Laws or for the generation, manufacture, storage, transportation, treatment, disposal, release or threatened release of any Hazardous Substance. The representations and warranties contained herein are based on Grantor's due diligence in investigating the Collateral for Hazardous Substances. Grantor hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Grantor becomes liable for cleanup or other costs under any Environmental Laws, and (2) agrees to indemnify, defend, and hold harmless Lender against any and all claims and losses resulting from a breach of this provision of this Agreement. This obligation to indemnify and defend shall survive the payment of the indebtedness and the satisfaction of this Agreement.

Maintenance of Casualty Insurance. Grantor shall procure and maintain all risks insurance, including without limitation fire, theft and liability coverage together with such other insurance as Lender may require with respect to the Collateral, in form, amounts, coverages and basis reasonably acceptable to Lender and issued by a company or companies reasonably acceptable to Lender. Grantor, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days' prior written notice to Lender and not including any disclaimer of the insurer's liability for failure to give such a notice. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Grantor or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest, Grantor will provide Lender with such loss payable or other endorsements as Lender may require. If Grantor at any time fails to obtain or maintain any insurance as required under this Agreement, Lender may (but shall not be obligated to) obtain such insurance as Lender deems appropriate, including if Lender so chooses "single interest insurance," which will cover only Lender's interest in the Collateral.

Application of Insurance Proceeds. Grantor shall promptly notify Lender of any loss or damage to the Collateral, whether or not such casualty or loss is covered by insurance. Lender may make proof of loss if Grantor fails to do so within fifteen (15) days of the casualty. All proceeds of any insurance on the Collateral, including accrued proceeds thereon, shall be held by Lender as part of the Collateral. If Lender consents to repair or replacement of the damaged or destroyed Collateral, Lender shall, upon satisfactory proof of expenditure, pay or reimburse Grantor from the proceeds for the reasonable cost of repair or restoration. If Lender does not consent to repair or replacement of the Collateral, Lender shall retain a sufficient amount of the proceeds to pay all of the indebtedness, and shall pay the balance to Grantor. Any proceeds which have not been disbursed within six (6) months after their receipt and which Grantor has not committed to the repair or restoration of the Collateral shall be used to prepay the indebtedness.

Insurance Reserves. Lender may require Grantor to maintain with Lender reserves for payment of insurance premiums, which reserves shall be created by monthly payments from Grantor of a sum estimated by Lender to be sufficient to produce, at least fifteen (15) days before the premium due date, amounts at least equal to the insurance premiums to be paid. If fifteen (15) days before payment is due, the reserve funds are insufficient, Grantor shall upon demand pay any deficiency to Lender. The reserve funds shall be held by Lender as a general deposit and shall constitute a non-interest-bearing account which Lender may satisfy by payment of the insurance premiums required to be paid by Grantor as they become due. Lender does not hold the reserve funds in trust for Grantor, and Lender is not the agent of Grantor for payment of the insurance premiums required to be paid by Grantor. The responsibility for the payment of premiums shall remain Grantor's sole responsibility.

Insurance Reports. Grantor, upon request of Lender, shall furnish to Lender reports on each existing policy of insurance showing such information as Lender may reasonably request including the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the property insured; (5) the then current value on the basis of which insurance has been obtained and the manner of

**COMMERCIAL SECURITY AGREEMENT
(Continued)**

determining that value; and (6) the expiration date of the policy. In addition, Grantor shall upon request by Lender (however not more often than annually) have an independent appraiser satisfactory to Lender determine, as applicable, the cash value or replacement cost of the Collateral.

Financing Statements. Grantor authorizes Lender to file a UCC financing statement, or alternatively, a copy of this Agreement to perfect Lender's security interest. At Lender's request, Grantor additionally agrees to sign all other documents that are necessary to perfect, protect, and continue Lender's security interest in the Property. This includes making sure Lender is shown as the first and only security interest holder on the title covering the Property. Grantor will pay all filing fees, title transfer fees, and other fees and costs involved unless prohibited by law or unless Lender is required by law to pay such fees and costs.

GRANTOR'S RIGHT TO POSSESSION AND TO COLLECT ACCOUNTS. Until default and except as otherwise provided below with respect to accounts, Grantor may have possession of the tangible personal property and beneficial use of all the Collateral and may use it in any lawful manner not inconsistent with this Agreement or the Related Documents, provided that Grantor's right to possession and beneficial use shall not apply to any Collateral where possession of the Collateral by Lender is required by law to perfect Lender's security interest in such Collateral. Until otherwise notified by Lender, Grantor may collect any of the Collateral consisting of accounts. At any time and even though no Event of Default exists, Lender may exercise its rights to collect the accounts and to notify account debtors to make payments directly to Lender for application to the Indebtedness. If Lender at any time has possession of any Collateral, whether before or after an Event of Default, Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if Lender takes such action for that purpose as Grantor shall request or as Lender, in Lender's sole discretion, shall deem appropriate under the circumstances, but failure to honor any request by Grantor shall not of itself be deemed to be a failure to exercise reasonable care. Lender shall not be required to take any steps necessary to preserve any rights in the Collateral against prior parties, nor to protect, preserve or maintain any security interest given to secure the Indebtedness.

LENDER'S EXPENDITURES. If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Grantor fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Grantor's failure to discharge or pay when due any amounts Grantor is required to discharge or pay under this Agreement or any Related Documents, Lender on Grantor's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on the Collateral and paying all costs for insuring, maintaining and preserving the Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Grantor. All such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity. The Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Lender may be entitled upon the occurrence of any Event of Default.

DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Payment Default. Grantor fails to make any payment when due under the Indebtedness.

Environmental Default. Failure of any party to comply with or perform when due any term, obligation, covenant or condition contained in any environmental agreement executed in connection with any Indebtedness.

Other Defaults. Grantor fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Grantor.

Default in Favor of Third Parties. Any guarantor or Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of any guarantor's or Grantor's property or ability to perform their respective obligations under this Agreement or any of the Related Documents.

False Statements. Any warranty, representation or statement made or furnished to Lender by Grantor or on Grantor's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any Related Documents to create a valid and perfected security interest or lien) at any time and for any reason.

Insolvency. The dissolution of Grantor (regardless of whether election to continue is made), any member withdraws from the limited liability company, or any other termination of Grantor's existence as a going business or the death of any member, the insolvency of Grantor, the appointment of a receiver for any part of Grantor's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Grantor.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Grantor or by any governmental agency against any collateral securing the Indebtedness. This includes a garnishment of any of Grantor's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Grantor as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Grantor gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or Guarantor dies or becomes incompetent or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

Adverse Change. A material adverse change occurs in Grantor's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

Insecurity. Lender in good faith believes itself insecure.

Cure Provisions. If any default, other than a default in payment, is curable and if Grantor has not been given a notice of a breach of the same provision of this Agreement within the preceding twelve (12) months, it may be cured if Grantor, after Lender sends written notice to Grantor demanding cure of such default: (1) cures the default within fifteen (15) days; or (2) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

RIGHTS AND REMEDIES ON DEFAULT. If an Event of Default occurs under this Agreement, at any time thereafter, Lender shall have all the rights of a secured party under the New Jersey Uniform Commercial Code. In addition and without limitation, Lender may exercise any one or

**COMMERCIAL SECURITY AGREEMENT
(Continued)**

more of the following rights and remedies:

Accelerate Indebtedness. Lender may declare the entire Indebtedness, including any prepayment penalty which Grantor would be required to pay, immediately due and payable, without notice of any kind to Grantor.

Assemble Collateral. Lender may require Grantor to deliver to Lender all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Lender may require Grantor to assemble the Collateral and make it available to Lender at a place to be designated by Lender. Lender also shall have full power to enter upon the property of Grantor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Grantor agrees Lender may take such other goods, provided that Lender makes reasonable efforts to return them to Grantor after repossession.

Sell the Collateral. Lender shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in Lender's own name or that of Grantor. Lender may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender will give Grantor, and other persons as required by law, reasonable notice of the time and place of any public sale, or the time after which any private sale or any other disposition of the Collateral is to be made. However, no notice need be provided to any person who, after Event of Default occurs, enters into and authenticates an agreement waiving that person's right to notification of sale. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Appoint Receiver. Lender shall have the right to have a receiver appointed to take possession of all or any part of the Collateral, with the power to protect and preserve the Collateral, to operate the Collateral preceding foreclosure or sale, and to collect the rents from the Collateral and apply the proceeds, over and above the cost of the receivership, against the Indebtedness. The receiver may serve without bond if permitted by law. Lender's right to the appointment of a receiver shall exist whether or not the apparent value of the Collateral exceeds the Indebtedness by a substantial amount. Employment by Lender shall not disqualify a person from serving as a receiver.

Collect Revenues, Apply Accounts. Lender, either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Lender may at any time in Lender's discretion transfer any Collateral into Lender's own name or that of Lender's nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of preference as Lender may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Lender may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Lender may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Lender may, on behalf of and in the name of Grantor, receive, open and dispose of mail addressed to Grantor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Lender may notify account debtors and obligors on any Collateral to make payments directly to Lender.

Other Rights and Remedies. Lender shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, as may be amended from time to time. In addition, Lender shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

Election of Remedies. Except as may be prohibited by applicable law, all of Lender's rights and remedies, whether evidenced by this Agreement, the Related Documents, or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Grantor under this Agreement, after Grantor's failure to perform, shall not affect Lender's right to declare a default and exercise its remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Attorneys' Fees; Expenses. Grantor agrees to pay upon demand all of Lender's costs and expenses, including Lender's attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Grantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Governing Law. This Agreement will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of New Jersey without regard to its conflicts of law provisions. This Agreement has been accepted by Lender in the State of New Jersey.

Choice of Venue. If there is a lawsuit, Grantor agrees upon Lender's request to submit to the jurisdiction of the courts of SOMERSET County, State of New Jersey.

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Notices. Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Grantor agrees to keep Lender informed at all times of Grantor's current address. Unless otherwise provided or required by law, if there is more than one

**COMMERCIAL SECURITY AGREEMENT
(Continued)**

Grantor, any notice given by Lender to any Grantor is deemed to be notice given to all Grantors.

Power of Attorney. Grantor hereby appoints Lender as Grantor's irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect, amend, or to continue the security interest granted in this Agreement or to demand termination of filings of other secured parties. Lender may at any time, and without further authorization from Grantor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse Lender for all expenses for the perfection and the continuation of the perfection of Lender's security interest in the Collateral.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

Successors and Assigns. Subject to any limitations stated in this Agreement on transfer of Grantor's interest, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns. If ownership of the Collateral becomes vested in a person other than Grantor, Lender, without notice to Grantor, may deal with Grantor's successors with reference to this Agreement and the indebtedness by way of forbearance or extension without releasing Grantor from the obligations of this Agreement or liability under the indebtedness.

Survival of Representations and Warranties. All representations, warranties, and agreements made by Grantor in this Agreement shall survive the execution and delivery of this Agreement, shall be continuing in nature, and shall remain in full force and effect until such time as Grantor's indebtedness shall be paid in full.

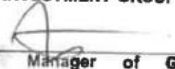
Time is of the Essence. Time is of the essence in the performance of this Agreement.

Waive Jury. All parties to this Agreement hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by any party against any other party.

GRANTOR HAS READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS COMMERCIAL SECURITY AGREEMENT AND AGREES TO ITS TERMS. THIS AGREEMENT IS DATED SEPTEMBER 30, 2021.

GRANTOR:

GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY

By: 
ALAN YU, Manager of GLOBAL WELLS
INVESTMENT GROUP LLC, A TEXAS LIMITED
LIABILITY COMPANY

By: 
MARVIN CHENG, Manager of GLOBAL WELLS
INVESTMENT GROUP LLC, A TEXAS LIMITED
LIABILITY COMPANY



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COMMERCIAL SECURITY AGREEMENT

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$23,000,000.00	09-30-2021	09-30-2026	71149975	1872			
References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "*****" has been omitted due to text length limitations.							

Grantor: GLOBAL WELLS INVESTMENT GROUP LLC, A
TEXAS LIMITED LIABILITY COMPANY
6185 KIMBALL AVENUE
CHINO, CA 91708

Lender: HANMI BANK
CORPORATE BANKING CENTER I
933 S. VERMONT AVE., 2ND FLOOR
LOS ANGELES, CA 90006

THIS COMMERCIAL SECURITY AGREEMENT dated September 30, 2021, is made and executed between GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY ("Grantor") and HANMI BANK ("Lender").

GRANT OF SECURITY INTEREST. For valuable consideration, Grantor grants to Lender a security interest in the Collateral to secure the indebtedness and agrees that Lender shall have the rights stated in this Agreement with respect to the Collateral, in addition to all other rights which Lender may have by law.

COLLATERAL DESCRIPTION. The word "Collateral" as used in this Agreement means the following described property, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located, in which Grantor is giving to Lender a security interest for the payment of the indebtedness and performance of all other obligations under the Note and this Agreement:

All inventory, equipment, accounts (including but not limited to all health-care-insurance receivables), chattel paper, instruments (including but not limited to all promissory notes), letter-of-credit rights, letters of credit, documents, deposit accounts, investment property, money, other rights to payment and performance, and general intangibles (including but not limited to all software and all payment intangibles); all oil, gas and other minerals before extraction; all oil, gas, other minerals and accounts constituting as-extracted collateral; all fixtures; all timber to be cut; all attachments, accessions, accessories, fittings, increases, tools, parts, repairs, supplies, and commingled goods relating to the foregoing property, and all additions, replacements of and substitutions for all or any part of the foregoing property; all insurance refunds relating to the foregoing property; all good will relating to the foregoing property; all records and data and embedded software relating to the foregoing property, and all equipment, inventory and software to utilize, create, maintain and process any such records and data on electronic media; and all supporting obligations relating to the foregoing property; all whether now existing or hereafter arising, whether now owned or hereafter acquired or whether now or hereafter subject to any rights in the foregoing property; and all products and proceeds (including but not limited to all insurance payments) of or relating to the foregoing property.

In addition, the word "Collateral" also includes all the following, whether now owned or hereafter acquired, whether now existing or hereafter arising, and wherever located:

- (A) All accessions, attachments, accessories, tools, parts, supplies, replacements of and additions to any of the collateral described herein, whether added now or later.
- (B) All products and produce of any of the property described in this Collateral section.
- (C) All accounts, general intangibles, instruments, rents, monies, payments, and all other rights, arising out of a sale, lease, consignment or other disposition of any of the property described in this Collateral section.
- (D) All proceeds (including insurance proceeds) from the sale, destruction, loss, or other disposition of any of the property described in this Collateral section, and sums due from a third party who has damaged or destroyed the Collateral or from that party's insurer, whether due to judgment, settlement or other process.
- (E) All records and data relating to any of the property described in this Collateral section, whether in the form of a writing, photograph, microfilm, microfiche, or electronic media, together with all of Grantor's right, title, and interest in and to all computer software required to utilize, create, maintain, and process any such records or data on electronic media.

CROSS-COLLATERALIZATION. In addition to the Note, this Agreement secures all obligations, debts and liabilities, plus interest thereon, of Grantor to Lender, or any one or more of them, as well as all claims by Lender against Grantor or any one or more of them, whether now existing or hereafter arising, whether related or unrelated to the purpose of the Note, whether voluntary or otherwise, whether due or not due, direct or indirect, determined or undetermined, absolute or contingent, liquidated or unliquidated, whether Grantor may be liable individually or jointly with others, whether obligated as guarantor, surety, accommodation party or otherwise, and whether recovery upon such amounts may be or hereafter may become barred by any statute of limitations, and whether the obligation to repay such amounts may be or hereafter may become otherwise unenforceable. However, this Agreement shall not secure, and the "Indebtedness" shall not include, any obligations arising under Subchapters E and F of Chapter 342 of the Texas Finance Code, as amended.

FUTURE ADVANCES. In addition to the Note, this Agreement secures all future advances made by Lender to Grantor regardless of whether the advances are made a) pursuant to a commitment or b) for the same purposes.

GRANTOR'S REPRESENTATIONS AND WARRANTIES WITH RESPECT TO THE COLLATERAL. With respect to the Collateral, Grantor represents and promises to Lender that:

Perfection of Security Interest. Grantor agrees to take whatever actions are requested by Lender to perfect and continue Lender's security interest in the Collateral. Upon request of Lender, Grantor will deliver to Lender any and all of the documents evidencing or constituting the Collateral, and Grantor will note Lender's interest upon any and all chattel paper and instruments if not delivered to Lender for possession by Lender. This is a continuing Security Agreement and will continue in effect even though all or any part of the indebtedness is paid in full and even though for a period of time Grantor may not be indebted to Lender.

Notices to Lender. Grantor will promptly notify Lender in writing at Lender's address shown above (or such other addresses as Lender may designate from time to time) prior to any (1) change in Grantor's name; (2) change in Grantor's assumed business name(s); (3) change in the management or in the members or managers of the limited liability company Grantor; (4) change in the authorized signer(s); (5) change in Grantor's principal office address; (6) change in Grantor's state of organization; (7) conversion of Grantor to a new or different

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type of business entity; or (8) change in any other aspect of Grantor that directly or indirectly relates to any agreements between Grantor and Lender. No change in Grantor's name or state of organization will take effect until after Lender has received notice.

No Violation. The execution and delivery of this Agreement will not violate any law or agreement governing Grantor or to which Grantor is a party, and its membership agreement does not prohibit any term or condition of this Agreement.

Enforceability of Collateral. To the extent the Collateral consists of accounts, chattel paper, or general intangibles, as defined by the Uniform Commercial Code, the Collateral is enforceable in accordance with its terms, is genuine, and fully complies with all applicable laws and regulations concerning form, content and manner of preparation and execution, and all persons appearing to be obligated on the Collateral have authority and capacity to contract and are in fact obligated as they appear to be on the Collateral. At the time any account becomes subject to a security interest in favor of Lender, the account shall be a good and valid account representing an undisputed, bona fide indebtedness incurred by the account debtor, for merchandise held subject to delivery instructions or previously shipped or delivered pursuant to a contract of sale, or for services previously performed by Grantor with or for the account debtor. So long as this Agreement remains in effect, Grantor shall not, without Lender's prior written consent, compromise, settle, adjust, or extend payment under or with regard to any such Accounts. There shall be no setoffs or counterclaims against any of the Collateral, and no agreement shall have been made under which any deductions or discounts may be claimed concerning the Collateral except those disclosed to Lender in writing.

Location of the Collateral. Except in the ordinary course of Grantor's business, Grantor agrees to keep the Collateral (or to the extent the Collateral consists of intangible property such as accounts or general intangibles, the records concerning the Collateral) at Grantor's address shown above, or at the location specified in the Collateral definition in this Agreement, or at such other locations as are acceptable to Lender. Upon Lender's request, Grantor will deliver to Lender in form satisfactory to Lender a schedule of real properties and Collateral locations relating to Grantor's operations, including without limitation the following: (1) all real property Grantor owns or is purchasing; (2) all real property Grantor is renting or leasing; (3) all storage facilities Grantor owns, rents, leases, or uses; and (4) all other properties where Collateral is or may be located.

Removal of the Collateral. Except in the ordinary course of Grantor's business, including the sales of inventory, Grantor shall not remove the Collateral from its existing location without Lender's prior written consent. To the extent that the Collateral consists of vehicles, or other titled property, Grantor shall not take or permit any action which would require application for certificates of title for the vehicles outside the State of Texas, without Lender's prior written consent. Grantor shall, whenever requested, advise Lender of the exact location of the Collateral.

Transactions Involving Collateral. Except for inventory sold or accounts collected in the ordinary course of Grantor's business, or as otherwise provided for in this Agreement, Grantor shall not sell, offer to sell, or otherwise transfer or dispose of the Collateral. While Grantor is not in default under this Agreement, Grantor may sell inventory, but only in the ordinary course of its business and only to buyers who qualify as a buyer in the ordinary course of business. A sale in the ordinary course of Grantor's business does not include a transfer in partial or total satisfaction of a debt or any bulk sale. Grantor shall not pledge, mortgage, encumber or otherwise permit the Collateral to be subject to any lien, security interest, encumbrance, or charge, other than the security interest provided for in this Agreement, without the prior written consent of Lender. This includes security interests even if junior in right to the security interests granted under this Agreement. Unless waived by Lender, all proceeds from any disposition of the Collateral (for whatever reason) shall be held in trust for Lender and shall not be commingled with any other funds; provided however, this requirement shall not constitute consent by Lender to any sale or other disposition. Upon receipt, Grantor shall immediately deliver any such proceeds to Lender.

Title. Grantor represents and warrants to Lender that Grantor holds good and marketable title to the Collateral, free and clear of all liens and encumbrances except for the lien of this Agreement. No financing statement covering any of the Collateral is on file in any public office other than those which reflect the security interest created by this Agreement or to which Lender has specifically consented. Grantor shall defend Lender's rights in the Collateral against the claims and demands of all other persons.

Repairs and Maintenance. Grantor agrees to keep and maintain, and to cause others to keep and maintain, the Collateral in good order, repair and condition at all times while this Agreement remains in effect. Grantor further agrees to pay when due all claims for work done on, or services rendered or material furnished in connection with the Collateral so that no lien or encumbrance may ever attach to or be filed against the Collateral.

Inspection of Collateral. Lender and Lender's designated representatives and agents shall have the right at all reasonable times to examine and inspect the Collateral wherever located.

Taxes, Assessments and Liens. Grantor will pay when due all taxes, assessments and liens upon the Collateral, its use or operation, upon this Agreement, upon any promissory note or notes evidencing the indebtedness, or upon any of the other Related Documents. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized in Lender's sole opinion. If the Collateral is subjected to a lien which is not discharged within fifteen (15) days, Grantor shall deposit with Lender cash, a sufficient corporate surety bond or other security satisfactory to Lender in an amount adequate to provide for the discharge of the lien plus any interest, costs, Lender's reasonable attorneys' fees or other charges that could accrue as a result of foreclosure or sale of the Collateral. In any contest Grantor shall defend itself and Lender and shall satisfy any final adverse judgment before enforcement against the Collateral. Grantor shall name Lender as an additional obligee under any surety bond furnished in the contest proceedings. Grantor further agrees to furnish Lender with evidence that such taxes, assessments, and governmental and other charges have been paid in full and in a timely manner. Grantor may withhold any such payment or may elect to contest any lien if Grantor is in good faith conducting an appropriate proceeding to contest the obligation to pay and so long as Lender's interest in the Collateral is not jeopardized.

Compliance with Governmental Requirements. Grantor shall comply promptly with all laws, ordinances, rules and regulations of all governmental authorities, including without limitation all environmental laws, ordinances, rules and regulations, now or hereafter in effect, applicable to the ownership, production, disposition, or use of the Collateral, including all laws or regulations relating to the undue erosion of highly-erodible land or relating to the conversion of wetlands for the production of an agricultural product or commodity. Grantor may contest in good faith any such law, ordinance or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Lender's interest in the Collateral, in Lender's opinion, is not jeopardized.

Hazardous Substances. Grantor represents and warrants that the Collateral never has been, and never will be so long as this Agreement remains a lien on the Collateral, used in violation of any Environmental Laws or for the generation, manufacture, storage, transportation, treatment, disposal, release or threatened release of any Hazardous Substance. The representations and warranties contained herein are based on Grantor's due diligence in investigating the Collateral for Hazardous Substances. Grantor hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Grantor becomes liable for cleanup or other costs under any Environmental Laws, and (2) agrees to indemnify, defend, and hold harmless Lender against any and all claims and losses resulting from a breach of this provision of this Agreement. This obligation to indemnify and defend shall survive the payment of the indebtedness and the satisfaction of this Agreement.

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Maintenance of Casualty Insurance. Grantor shall procure and maintain all risks insurance, including without limitation fire, theft and liability coverage together with such other insurance as Lender may require with respect to the Collateral, in form, amounts, coverages and basis reasonably acceptable to Lender. Grantor, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days' prior written notice to Lender and not including any disclaimer of the insurer's liability for failure to give such a notice. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Grantor or any other person. In connection with all policies covering assets in which Lender holds or is offered a security interest, Grantor will provide Lender with such loss payable or other endorsements as Lender may require. If Grantor at any time fails to obtain or maintain any insurance as required under this Agreement, Lender may (but shall not be obligated to) obtain such insurance as Lender deems appropriate, including if Lender so chooses "single interest insurance," which will cover only Lender's interest in the Collateral.

Application of Insurance Proceeds. Grantor shall promptly notify Lender of any loss or damage to the Collateral, whether or not such casualty or loss is covered by insurance. Lender may make proof of loss if Grantor fails to do so within fifteen (15) days of the casualty. All proceeds of any insurance on the Collateral, including accrued proceeds thereon, shall be held by Lender as part of the Collateral. If Lender consents to repair or replacement of the damaged or destroyed Collateral, Lender shall, upon satisfactory proof of expenditure, pay or reimburse Grantor from the proceeds for the reasonable cost of repair or restoration. If Lender does not consent to repair or replacement of the Collateral, Lender shall retain a sufficient amount of the proceeds to pay all of the Indebtedness, and shall pay the balance to Grantor. Any proceeds which have not been disbursed within six (6) months after their receipt and which Grantor has not committed to the repair or restoration of the Collateral shall be used to prepay the Indebtedness.

Insurance Reserves. Lender may require Grantor to maintain with Lender reserves for payment of insurance premiums, which reserves shall be created by monthly payments from Grantor of a sum estimated by Lender to be sufficient to produce, at least fifteen (15) days before the premium due date, amounts at least equal to the insurance premiums to be paid. If fifteen (15) days before payment is due, the reserve funds are insufficient, Grantor shall upon demand pay any deficiency to Lender. The reserve funds shall be held by Lender as a general deposit and shall constitute a non-interest-bearing account which Lender may satisfy by payment of the insurance premiums required to be paid by Grantor as they become due. Lender does not hold the reserve funds in trust for Grantor, and Lender is not the agent of Grantor for payment of the insurance premiums required to be paid by Grantor. The responsibility for the payment of premiums shall remain Grantor's sole responsibility.

Insurance Reports. Grantor, upon request of Lender, shall furnish to Lender reports on each existing policy of insurance showing such information as Lender may reasonably request including the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the property insured; (5) the then current value on the basis of which insurance has been obtained and the manner of determining that value; and (6) the expiration date of the policy. In addition, Grantor shall upon request by Lender (however not more often than annually) have an independent appraiser satisfactory to Lender determine, as applicable, the cash value or replacement cost of the Collateral.

Financing Statements. Grantor authorizes Lender to file a UCC financing statement, or alternatively, a copy of this Agreement to perfect Lender's security interest. At Lender's request, Grantor additionally agrees to sign all other documents that are necessary to perfect, protect, and continue Lender's security interest in the Property. This includes making sure Lender is shown as the first and only security interest holder on the title covering the Property. Grantor will pay all filing fees, title transfer fees, and other fees and costs involved unless prohibited by law or unless Lender is required by law to pay such fees and costs.

GRANTOR'S RIGHT TO POSSESSION AND TO COLLECT ACCOUNTS. Until default and except as otherwise provided below with respect to accounts, Grantor may have possession of the tangible personal property and beneficial use of all the Collateral and may use it in any lawful manner not inconsistent with this Agreement or the Related Documents, provided that Grantor's right to possession and beneficial use shall not apply to any Collateral where possession of the Collateral by Lender is required by law to perfect Lender's security interest in such Collateral. Until otherwise notified by Lender, Grantor may collect any of the Collateral consisting of accounts. At any time and even though no Event of Default exists, Lender may exercise its rights to collect the accounts and to notify account debtors to make payments directly to Lender for application to the Indebtedness. If Lender at any time has possession of any Collateral, whether before or after an Event of Default, Lender shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral if Lender takes such action for that purpose as Grantor shall request or as Lender, in Lender's sole discretion, shall deem appropriate under the circumstances, but failure to honor any request by Grantor shall not of itself be deemed to be a failure to exercise reasonable care. Lender shall not be required to take any steps necessary to preserve any rights in the Collateral against prior parties, nor to protect, preserve or maintain any security interest given to secure the Indebtedness.

LENDER'S EXPENDITURES. If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Grantor fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Grantor's failure to discharge or pay when due any amounts Grantor is required to discharge or pay under this Agreement or any Related Documents, Lender on Grantor's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on the Collateral and paying all costs for insuring, maintaining and preserving the Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Grantor. To the extent permitted by applicable law, all such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity. The Agreement also will secure payment of these amounts. Such right shall be in addition to all other rights and remedies to which Lender may be entitled upon the occurrence of any Event of Default.

DEFAULT. Each of the following shall constitute an Event of Default under this Agreement:

Payment Default. Grantor fails to make any payment when due under the Indebtedness.

Environmental Default. Failure of any party to comply with or perform when due any term, obligation, covenant or condition contained in any environmental agreement executed in connection with any Indebtedness.

Other Defaults. Grantor fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Grantor.

Default in Favor of Third Parties. Any guarantor or Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of any guarantor's or Grantor's property or ability to perform their respective obligations under this Agreement or any of the Related Documents.

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False Statements. Any warranty, representation or statement made or furnished to Lender by Grantor or on Grantor's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

Defective Collateralization. This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

Insolvency. The dissolution of Grantor (regardless of whether election to continue is made), any member withdraws from the limited liability company, or any other termination of Grantor's existence as a going business or the death of any member, the insolvency of Grantor, the appointment of a receiver for any part of Grantor's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Grantor.

Creditor or Forfeiture Proceedings. Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Grantor or by any governmental agency against any collateral securing the Indebtedness. This includes a garnishment of any of Grantor's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Grantor as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Grantor gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

Events Affecting Guarantor. Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or Guarantor dies or becomes incompetent or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

Adverse Change. A material adverse change occurs in Grantor's financial condition, or Lender believes the prospect of payment or performance of the Indebtedness is impaired.

Insecurity. Lender in good faith believes itself insecure.

Cure Provisions. If any default, other than a default in payment, is curable and if Grantor has not been given a notice of a breach of the same provision of this Agreement within the preceding twelve (12) months, it may be cured if Grantor, after Lender sends written notice to Grantor demanding cure of such default: (1) cures the default within fifteen (15) days; or (2) if the cure requires more than fifteen (15) days, immediately initiates steps which Lender deems in Lender's sole discretion to be sufficient to cure the default and thereafter continues and completes all reasonable and necessary steps sufficient to produce compliance as soon as reasonably practical.

RIGHTS AND REMEDIES ON DEFAULT. If an Event of Default occurs under this Agreement, at any time thereafter, Lender shall have all the rights of a secured party under the Texas Uniform Commercial Code. In addition and without limitation, Lender may exercise any one or more of the following rights and remedies:

Accelerate Indebtedness. Lender may declare the entire Indebtedness immediately due and payable, without notice of any kind to Grantor.

Assemble Collateral. Lender may require Grantor to deliver to Lender all or any portion of the Collateral and any and all certificates of title and other documents relating to the Collateral. Lender may require Grantor to assemble the Collateral and make it available to Lender at a place to be designated by Lender. Lender also shall have full power to enter, provided Lender does so without a breach of the peace or a trespass, upon the property of Grantor to take possession of and remove the Collateral. If the Collateral contains other goods not covered by this Agreement at the time of repossession, Grantor agrees Lender may take such other goods, provided that Lender makes reasonable efforts to return them to Grantor after repossession.

Sell the Collateral. Lender shall have full power to sell, lease, transfer, or otherwise deal with the Collateral or proceeds thereof in Lender's own name or that of Grantor. Lender may sell the Collateral at public auction or private sale. Unless the Collateral threatens to decline speedily in value or is of a type customarily sold on a recognized market, Lender will give Grantor, and other persons as required by law, reasonable notice of the time and place of any public sale, or the time after which any private sale or any other disposition of the Collateral is to be made. However, no notice need be provided to any person who, after Event of Default occurs, enters into and authenticates an agreement waiving that person's right to notification of sale. The requirements of reasonable notice shall be met if such notice is given at least ten (10) days before the time of the sale or disposition. All expenses relating to the disposition of the Collateral, including without limitation the expenses of retaking, holding, insuring, preparing for sale and selling the Collateral, shall become a part of the Indebtedness secured by this Agreement and shall be payable on demand, with interest at the Note rate from date of expenditure until repaid.

Appoint Receiver. Lender shall have the right to have a receiver appointed to take possession of all or any part of the Collateral, with the power to protect and preserve the Collateral, to operate the Collateral preceding foreclosure or sale, and to collect the rents from the Collateral and apply the proceeds, over and above the cost of the receivership, against the Indebtedness. The receiver may serve without bond if permitted by law. Lender's right to the appointment of a receiver shall exist whether or not the apparent value of the Collateral exceeds the Indebtedness by a substantial amount. Employment by Lender shall not disqualify a person from serving as a receiver.

Collect Revenues, Apply Accounts. Lender, either itself or through a receiver, may collect the payments, rents, income, and revenues from the Collateral. Lender may at any time in Lender's discretion transfer any Collateral into Lender's own name or that of Lender's nominee and receive the payments, rents, income, and revenues therefrom and hold the same as security for the Indebtedness or apply it to payment of the Indebtedness in such order of preference as Lender may determine. Insofar as the Collateral consists of accounts, general intangibles, insurance policies, instruments, chattel paper, choses in action, or similar property, Lender may demand, collect, receipt for, settle, compromise, adjust, sue for, foreclose, or realize on the Collateral as Lender may determine, whether or not Indebtedness or Collateral is then due. For these purposes, Lender may, on behalf of and in the name of Grantor, receive, open and dispose of mail addressed to Grantor; change any address to which mail and payments are to be sent; and endorse notes, checks, drafts, money orders, documents of title, instruments and items pertaining to payment, shipment, or storage of any Collateral. To facilitate collection, Lender may notify account debtors and obligors on any Collateral to make payments directly to Lender.

Obtain Deficiency. If Lender chooses to sell any or all of the Collateral, Lender may obtain a judgment against Grantor for any deficiency remaining on the Indebtedness due to Lender after application of all amounts received from the exercise of the rights provided in this Agreement. Grantor shall be liable for a deficiency even if the transaction described in this subsection is a sale of accounts or chattel paper.

Other Rights and Remedies. Lender shall have all the rights and remedies of a secured creditor under the provisions of the Uniform Commercial Code, as may be amended from time to time. In addition, Lender shall have and may exercise any or all other rights and remedies it may have available at law, in equity, or otherwise.

Election of Remedies. Except as may be prohibited by applicable law, all of Lender's rights and remedies, whether evidenced by this Agreement, the Related Documents, or by any other writing, shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to

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perform an obligation of Grantor under this Agreement, after Grantor's failure to perform, shall not affect Lender's right to declare a default and exercise its remedies.

MISCELLANEOUS PROVISIONS. The following miscellaneous provisions are a part of this Agreement:

Amendments. This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

Attorneys' Fees; Expenses. Grantor agrees to pay upon demand all of Lender's costs and expenses, including Lender's reasonable attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Grantor shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's reasonable attorneys' fees and legal expenses whether or not there is a lawsuit, including Lender's reasonable attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Grantor also shall pay all court costs and such additional fees as may be directed by the court.

Caption Headings. Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

Governing Law. With respect to procedural matters related to the perfection and enforcement of Lender's rights against the Collateral, this Agreement will be governed by federal law applicable to Lender and to the extent not preempted by federal law, the laws of the State of Texas. In all other respects, this Agreement will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of New Jersey without regard to its conflicts of law provisions. However, if there ever is a question about whether any provision of this Agreement is valid or enforceable, the provision that is questioned will be governed by whichever state or federal law would find the provision to be valid and enforceable. The loan transaction that is evidenced by the Note and this Agreement has been applied for, considered, approved and made, and all necessary loan documents have been accepted by Lender in the State of New Jersey.

Choice of Venue. If there is a lawsuit, Grantor agrees upon Lender's request to submit to the jurisdiction of the courts of SOMERSET County, State of New Jersey.

No Waiver by Lender. Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Grantor, shall constitute a waiver of any of Lender's rights or of any of Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

Notices. Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Grantor agrees to keep Lender informed at all times of Grantor's current address. Unless otherwise provided or required by law, if there is more than one Grantor, any notice given by Lender to any Grantor is deemed to be notice given to all Grantors.

Power of Attorney. Grantor hereby appoints Lender as Grantor's irrevocable attorney-in-fact for the purpose of executing any documents necessary to perfect, amend, or to continue the security interest granted in this Agreement or to demand termination of filings of other secured parties. Lender may at any time, and without further authorization from Grantor, file a carbon, photographic or other reproduction of any financing statement or of this Agreement for use as a financing statement. Grantor will reimburse Lender for all expenses for the perfection and the continuation of the perfection of Lender's security interest in the Collateral.

Severability. If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this Agreement.

Successors and Assigns. Subject to any limitations stated in this Agreement on transfer of Grantor's interest, this Agreement shall be binding upon and inure to the benefit of the parties, their successors and assigns. If ownership of the Collateral becomes vested in a person other than Grantor, Lender, without notice to Grantor, may deal with Grantor's successors with reference to this Agreement and the indebtedness by way of forbearance or extension without releasing Grantor from the obligations of this Agreement or liability under the Indebtedness.

Survival of Representations and Warranties. All representations, warranties, and agreements made by Grantor in this Agreement shall survive the execution and delivery of this Agreement, shall be continuing in nature, and shall remain in full force and effect until such time as Grantor's Indebtedness shall be paid in full.

Time is of the Essence. Time is of the essence in the performance of this Agreement.

Waive Jury. All parties to this Agreement hereby waive the right to any jury trial in any action, proceeding, or counterclaim brought by any party against any other party.

DEFINITIONS. The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code:

Agreement. The word "Agreement" means this Commercial Security Agreement, as this Commercial Security Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Commercial Security Agreement from time to time.

Borrower. The word "Borrower" means GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY and includes all co-signers and co-makers signing the Note and all their successors and assigns.

**COMMERCIAL SECURITY AGREEMENT
(Continued)**

Collateral. The word "Collateral" means all of Grantor's right, title and interest in and to all the Collateral as described in the Collateral Description section of this Agreement.

Environmental Laws. The words "Environmental Laws" mean any and all state, federal and local statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

Event of Default. The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

Grantor. The word "Grantor" means GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY.

Guarantor. The word "Guarantor" means any guarantor, surety, or accommodation party of any or all of the Indebtedness.

Guaranty. The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.

Hazardous Substances. The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

Indebtedness. The word "Indebtedness" means the indebtedness evidenced by the Note and all future advances made pursuant to the Note or any renewal, extension or modification thereof, including all principal and interest, together with all other indebtedness and cost and expenses for which Grantor is responsible under this Agreement or under any of the Related Documents.

Lender. The word "Lender" means HANMI BANK, its successors and assigns.

Note. The word "Note" means the Note dated September 30, 2021 and executed by GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY in the principal amount of \$23,000,000.00, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.


Property. The word "Property" means all of Grantor's right, title and interest in and to all the Property as described in the "Collateral Description" section of this Agreement.

Related Documents. The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Indebtedness.

GRANTOR HAS READ AND UNDERSTOOD ALL THE PROVISIONS OF THIS COMMERCIAL SECURITY AGREEMENT AND AGREES TO ITS TERMS. THIS AGREEMENT IS DATED SEPTEMBER 30, 2021.

GRANTOR:

GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY

By: 
ALAN YU, Manager of GLOBAL WELLS
INVESTMENT GROUP LLC, A TEXAS LIMITED
LIABILITY COMPANY

By: 
MARVIN CHENG, Manager of GLOBAL WELLS
INVESTMENT GROUP LLC, A TEXAS LIMITED
LIABILITY COMPANY

AGREEMENT TO PROVIDE INSURANCE

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$23,000,000.00	09-30-2021	09-30-2026	71149975	1972			

References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.

Grantor: GLOBAL WELLS INVESTMENT GROUP LLC, A
TEXAS LIMITED LIABILITY COMPANY
6185 KIMBALL AVENUE
CHINO, CA 91708

Lender: HANMI BANK
CORPORATE BANKING CENTER I
933 S. VERMONT AVE., 2ND FLOOR
LOS ANGELES, CA 90006

INSURANCE REQUIREMENTS. Grantor, GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY ("Grantor"), understands that insurance coverage is required in connection with the extending of a loan or the providing of other financial accommodations to Grantor by Lender. These requirements are set forth in the security documents for the loan. The following minimum insurance coverages must be provided on the following described collateral (the "Collateral"):

Collateral: 140 MEISTER AVENUE, BRANCHBURG, NJ 08876.

Type: Fire and extended coverage.

Amount: Full Insurable Value.

Basis: Replacement value.

Endorsements: THIS POLICY MUST CONTAIN A MORTGAGEE CLAUSE (OR SUBSTANTIAL EQUIVALENT) IN FAVOR OF LENDER. THIS CLAUSE MUST PROVIDE THAT ANY ACT OR NEGLIGENCE OF THE MORTGAGOR OR OWNER OF THE INSURED PROPERTY WILL NOT INVALIDATE THE INTEREST OF LENDER; and further stipulating that coverage will not be cancelled or diminished without a minimum of 10 days prior written notice to Lender, and without disclaimer of the Insurer's liability for failure to give such notice.

Comments: Borrower shall provide to Lender certificate of insurance evidencing general liability coverage in such form and detail acceptable to Lender with Lender as Additional Insured in the minimum amount of \$1,000,000.00.

The Insurance Company should be a licensed insurance carrier with a national rating of "A-" or better.

Latest Delivery Date: By the loan closing date.

Collateral: All Inventory, Equipment and Fixtures.

Type: All risks, including fire, theft and liability.

Amount: Full Insurable Value.

Basis: Replacement value.

Endorsements: THIS POLICY MUST CONTAIN A LENDER'S LOSS PAYABLE CLAUSE IN FAVOR OF LENDER. THIS CLAUSE MUST PROVIDE THAT ANY ACT/ NEGLIGENCE OF THE DEBTOR OR THE OWNER OF INSURED PROPERTY WILL NOT INVALIDATE THE INTEREST OF LENDER; and further stipulating that coverage will not be cancelled or diminished without a minimum of 10 days prior written notice to Lender.

Comments: Borrower shall provide to Lender certificate of insurance evidencing general liability coverage in such form and detail acceptable to Lender with Lender as Additional Insured in the minimum amount of \$1,000,000.00.

The Insurance Company should be a licensed insurance carrier with a national rating of "A-" or better.

Latest Delivery Date: By the loan closing date.

INSURANCE COMPANY. Grantor may obtain insurance from any insurance company Grantor may choose that is reasonably acceptable to Lender. Grantor understands that credit may not be denied solely because insurance was not purchased through Lender.

FLOOD INSURANCE. Flood Insurance for the Collateral securing this loan is described as follows:

Real Estate at 140 MEISTER AVENUE, BRANCHBURG, NJ 08876.

The Collateral securing this loan is not currently located in an area identified as having special flood hazards. Therefore, no special flood hazard insurance is necessary at this time. Should the Collateral at any time be deemed to be located in an area designated by the Administrator of the Federal Emergency Management Agency as a special flood hazard area, Grantor agrees to obtain and maintain flood insurance, if available, within 45 days after notice is given by Lender that the Collateral is located in a special flood hazard area, for the full unpaid principal balance of the loan and any prior liens on the property securing the loan, up to the maximum policy limits set under the National Flood Insurance Program, or as otherwise required by Lender, and to maintain such insurance for the term of the loan. Flood Insurance may be purchased under the National Flood Insurance Program, from private insurers providing "private flood insurance" as defined by applicable federal flood insurance statutes and regulations, or from another flood insurance provider that is both acceptable to Lender in its sole discretion and permitted by applicable federal flood insurance statutes and regulations.

FAILURE TO PROVIDE INSURANCE. Grantor agrees to deliver to Lender, on the latest delivery date stated above, proof of the required insurance as provided above, with an effective date of September 30, 2021, or earlier.

The following Warning is required by New Jersey law. For the purpose of the Warning, "You" and "your" mean "Grantor"; "we," "our," and "us" mean "Lender"; and "credit agreement" refers to the documents evidencing the loan and the grant of the security interest in the collateral to be insured.

WARNING

UNLESS YOU PROVIDE US WITH EVIDENCE OF THE INSURANCE COVERAGE AS REQUIRED BY OUR CREDIT AGREEMENT, WE MAY PURCHASE INSURANCE AT YOUR EXPENSE TO PROTECT OUR INTEREST. THIS INSURANCE MAY, BUT NEED NOT, ALSO PROTECT YOUR INTEREST. IF THE COLLATERAL BECOMES DAMAGED, THE COVERAGE WE PURCHASE MAY NOT PAY ANY CLAIM YOU MAKE OR ANY CLAIM MADE AGAINST YOU. YOU MAY LATER CANCEL THIS COVERAGE BY PROVIDING EVIDENCE THAT YOU HAVE OBTAINED PROPER COVERAGE ELSEWHERE.

YOU ARE RESPONSIBLE FOR THE COST OF ANY INSURANCE PURCHASED BY US. THE COST OF THIS INSURANCE MAY BE ADDED TO YOUR LOAN BALANCE. IF THE COST IS ADDED TO THE LOAN BALANCE, THE INTEREST RATE ON THE UNDERLYING LOAN WILL APPLY TO THIS ADDED AMOUNT. THE EFFECTIVE DATE OF COVERAGE MAY BE THE DATE YOUR PRIOR COVERAGE LAPSED OR THE DATE YOU FAILED TO PROVIDE PROOF OF COVERAGE.

THE COVERAGE WE PURCHASE MAY BE CONSIDERABLY MORE EXPENSIVE THAN INSURANCE YOU CAN OBTAIN ON YOUR OWN AND WILL NOT SATISFY NEW JERSEY'S MANDATORY LIABILITY INSURANCE LAWS.

IN ADDITION, THE INSURANCE MAY NOT PROVIDE ANY PUBLIC LIABILITY OR PROPERTY DAMAGE INDEMNIFICATION AND MAY NOT MEET

**AGREEMENT TO PROVIDE INSURANCE
(Continued)**

THE REQUIREMENTS OF ANY FINANCIAL RESPONSIBILITY LAWS.

AUTHORIZATION. For purposes of insurance coverage on the Collateral, Grantor authorizes Lender to provide to any person (including any insurance agent or company) all information Lender deems appropriate, whether regarding the Collateral, the loan or other financial accommodations, or both.

GRANTOR ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS AGREEMENT TO PROVIDE INSURANCE AND AGREES TO ITS TERMS. THIS AGREEMENT IS DATED SEPTEMBER 30, 2021.

GRANTOR:

GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY

By: ALAN YU, Manager of GLOBAL WELLS
INVESTMENT GROUP LLC, A TEXAS LIMITED
LIABILITY COMPANY

By: MARVIN CHENG, Manager of GLOBAL WELLS
INVESTMENT GROUP LLC, A TEXAS LIMITED
LIABILITY COMPANY

FOR LENDER USE ONLY	
INSURANCE VERIFICATION	
DATE: _____	PHONE _____
AGENT'S NAME: _____	
AGENCY: _____	
ADDRESS: _____	
INSURANCE COMPANY: _____	
POLICY NUMBER: _____	
EFFECTIVE DATES: _____	
COMMENTS: _____	

FOR LENDER USE ONLY	
INSURANCE VERIFICATION	
DATE: _____	PHONE _____
AGENT'S NAME: _____	
AGENCY: _____	
ADDRESS: _____	
INSURANCE COMPANY: _____	
POLICY NUMBER: _____	
EFFECTIVE DATES: _____	
COMMENTS: _____	



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DISBURSEMENT REQUEST AND AUTHORIZATION

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
\$23,000,000.00	09-30-2021	09-30-2026	71149975	1972			
References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item. Any item above containing "****" has been omitted due to text length limitations.							

Borrower: GLOBAL WELLS INVESTMENT GROUP LLC, A
TEXAS LIMITED LIABILITY COMPANY
6185 KIMBALL AVENUE
CHINO, CA 91708

Lender: HANMI BANK
CORPORATE BANKING CENTER I
933 S. VERMONT AVE., 2ND FLOOR
LOS ANGELES, CA 90006

LOAN TYPE. This is a Fixed Rate (3.500%) Nondisclosable Loan to a Limited Liability Company for \$23,000,000.00 due on September 30, 2026.

PRIMARY PURPOSE OF LOAN. The primary purpose of this loan is for:

- ☐ Personal, Family or Household Purposes.
☐ Personal Investment.
☐ Acquire Equipment for Business or Commercial Purposes.
☒ Business, Agricultural and All Other.

SPECIFIC PURPOSE. The specific purpose of this loan is: REPAYMENT OF EXISTING LOAN AND ADDITIONAL FINANCE FOR FUTURE INVESTMENT.

FLOOD INSURANCE. As reflected on Flood Map No. 34035C0127E dated 09-28-2007, for the community of TOWNSHIP OF BRANCHBURG, some of the property that will secure the loan is not located in an area that has been identified by the Administrator of the Federal Emergency Management Agency as an area having special flood hazards. Therefore, although flood insurance may be available for the property, no special flood hazard insurance protecting property not located in an area having special flood hazards is required by law for this loan at this time.

DISBURSEMENT INSTRUCTIONS. Borrower understands that no loan proceeds will be disbursed until all of Lender's conditions for making the loan have been satisfied. Please disburse the loan proceeds of \$23,000,000.00 as follows:

Amount paid to Borrower directly:	
\$6,885,317.00 Deposited to Account #	\$6,885,317.00
(Disbursement Loan Condition") (refer to "Multiple	
Amount paid on Borrower's account:	\$16,114,683.00
\$16,114,683.00 Payment on Loan # 71148992	
Note Principal:	\$23,000,000.00

CHARGES PAID IN CASH. Borrower has paid or will pay in cash as agreed the following charges:

Prepaid Finance Charges Paid in Cash:	\$57,500.00
\$57,500.00 Loan Fee	
Other Charges Paid in Cash:	\$60,261.50
\$1,000.00 Documentation Fee	
\$65.00 Tax Service Fee	
\$48,630.50 Title Policy Fee	
\$550.00 Recording Fee	
\$15.00 Flood Determination & Monitoring Fee	
\$4,500.00 Appraisal Fee	
\$250.00 Environmental Report Fee	
\$25.00 Wire Fee	
\$48.00 Corporate Search Fee	
\$100.00 UCC Debtor Name Search Fee	
\$50.00 UCC-1 Filing Fee	
\$30.00 UCC Post Search Fee	
\$15,000.00 Legal Fee	
\$-10,000.00 Good Faith Deposit paid by Borrower	
Total Charges Paid in Cash:	\$117,761.50

NOTICE FOR DISBURSEMENT. The loan disbursement amount paid to Borrower and/or others on Borrower's behalf can be changed depending on the loan disbursement date without a separate consent from Borrower. Fees and charges are estimated as of the anticipated closing date of this transaction. Borrower understands these charges may vary from the actual costs.

Loan No: 71149975

**DISBURSEMENT REQUEST AND AUTHORIZATION
(Continued)**

Page 2

FINANCIAL CONDITION. BY SIGNING THIS AUTHORIZATION, BORROWER REPRESENTS AND WARRANTS TO LENDER THAT THE INFORMATION PROVIDED ABOVE IS TRUE AND CORRECT AND THAT THERE HAS BEEN NO MATERIAL ADVERSE CHANGE IN BORROWER'S FINANCIAL CONDITION AS DISCLOSED IN BORROWER'S MOST RECENT FINANCIAL STATEMENT TO LENDER. THIS AUTHORIZATION IS DATED SEPTEMBER 30, 2021.

BORROWER:

GLOBAL WELLS INVESTMENT GROUP LLC, A TEXAS LIMITED LIABILITY COMPANY

By: 
ALAN YU, Manager of GLOBAL WELLS
INVESTMENT GROUP LLC, A TEXAS LIMITED
LIABILITY COMPANY

By: 
MARVIN CHENG, Manager of GLOBAL WELLS
INVESTMENT GROUP LLC, A TEXAS LIMITED
LIABILITY COMPANY

Exhibit 31.1

CERTIFICATION

I, Alan Yu, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of Karat Packaging Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 9, 2023

By: /s/ Alan Yu

Alan Yu
Chairman and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Jian Guo, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of Karat Packaging Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 9, 2023

By: /s/ Jian Guo

Jian Guo
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT
TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report on Form 10-Q of Karat Packaging Inc. (the "Company") for the quarter ended September 30, 2023, as filed with the U.S. Securities and Exchange Commission (the "Report"), the undersigned hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge and belief, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 9, 2023

By: /s/ Alan Yu

Alan Yu
Chairman and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT
TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the accompanying Quarterly Report on Form 10-Q of Karat Packaging Inc. (the "Company") for the quarter ended September 30, 2023, as filed with the U.S. Securities and Exchange Commission (the "Report"), the undersigned hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge and belief, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 9, 2023

By: /s/ Jian Guo

Jian Guo
Chief Financial Officer
(Principal Financial and Accounting Officer)



Karat Packaging Board Declares Increase in Quarterly Cash Dividend

CHINO, Calif, November 7, 2023 – Karat Packaging Inc. (Nasdaq: KRT) (the “Company” or “Karat”), a specialty distributor and manufacturer of disposable foodservice products and related items, today announced that its board of directors approved the payment of a regular quarterly dividend of \$0.20 per share on the Company’s common stock, reflecting an increase from the previous quarterly dividend of \$0.10 per share.

The dividend is payable on or about November 30, 2023, to the stockholders of record as of November 20, 2023.

About Karat Packaging Inc.

Karat Packaging Inc. is a specialty distributor and manufacturer of a wide range of disposable foodservice products and related items, primarily used by national and regional restaurants and in foodservice settings throughout the United States. Its products include food and take-out containers, bags, tableware, cups, lids, cutlery, straws, specialty beverage ingredients, equipment, gloves and other products. The company’s eco-friendly Karat Earth® line offers quality, sustainably focused products that are made from renewable resources. Karat Packaging also offers customized solutions, including new product development and design, printing, and logistics services. To learn more about Karat Packaging, please visit the company’s website at www.karatpackaging.com.

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Investor Relations and Media Contacts:

PondelWilkinson Inc.

Judy Lin or Roger Pondel

310-279-5980

IR@karatpackaging.com
