

REFINITIV

## DELTA REPORT

### 10-K

KRT - KARAT PACKAGING INC.

10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS 2666

█ CHANGES 236

█ DELETIONS 1021

█ ADDITIONS 1409

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended **December 31, 2022** **December 31, 2023**  
OR

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

For transition period from to  
Commission File Number 001-40336

**Karat Packaging Inc.**

(Exact name of registrant as specified in its charter)

Delaware

83-2237832

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer  
Identification Number)

6185 Kimball Avenue  
Chino, California

91708

(Address of registrant's principal executive offices)

(Zip **Code**) **code**)

(626) 965-8882

(**Telephone number**) **Registrant's telephone number, including area code**)

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.001 par value	KRT	The Nasdaq Stock Market LLC

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

None.

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

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

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

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

Large accelerated filer	<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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

As of **June 30, 2022** **June 30, 2023**, the last business day of the registrant's most recently completed second fiscal quarter, the approximate aggregate market value of the common stock held by non-affiliates of the registrant was **\$95,868,312**, **\$103,563,074**, based on the closing price of the registrant's common stock on that date.

As of **March 14, 2023** **March 7, 2024**, the number of shares of common stock, \$0.001 par value, outstanding was **19,887,457** **19,972,030** shares.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the **2023** **2024** Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended **December 31, 2022** **December 31, 2023**.

---

---

#### Table of Contents

	<u>Part I</u>
<a href="#">Special Note Regarding Forward-Looking Statements</a>	2
<a href="#">Item 1. Business</a>	34
<a href="#">Item 1A. Risk Factors</a>	1415
<a href="#">Item 1B. Unresolved Staff Comments</a>	2829
<a href="#">Item 1C. Cybersecurity</a>	29
<a href="#">Item 2. Properties</a>	2831
<a href="#">Item 3. Legal Proceedings</a>	2831
<a href="#">Item 4. Mine Safety Disclosures</a>	2831
	<u>Part II</u>
<a href="#">Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a>	2932
<a href="#">Item 6. [Reserved]</a>	2932
<a href="#">Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	3033
<a href="#">Item 7A. Quantitative and Qualitative Disclosures About Market Risk</a>	3942
<a href="#">Item 8. Financial Statements and Supplementary Data</a>	4043
<a href="#">Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</a>	6873
<a href="#">Item 9A. Controls and Procedures</a>	6873
<a href="#">Item 9B. Other Information</a>	7176
<a href="#">Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections</a>	7176
	<u>Part III</u>
<a href="#">Item 10. Directors, Executive Officers and Corporate Governance</a>	7277
<a href="#">Item 11. Executive Compensation</a>	7277
<a href="#">Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a>	7277
<a href="#">Item 13. Certain Relationships and Related Transactions, and Director Independence</a>	7277
<a href="#">Item 14. Principal Accountant Fees and Services</a>	7277
	<u>Part IV</u>
<a href="#">Item 15. Exhibits and Financial Statement Schedules</a>	7378
<a href="#">Item 16. Form 10-K Summary</a>	7580
<a href="#">Signatures</a>	81

## Part I

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains "forward-looking statements" that involve substantial risks and uncertainties. All statements other than statements of historical or current fact included in this Annual Report on Form 10-K are forward looking statements. Forward-looking statements refer to our current expectations and projections relating to our financial condition, results of operations, plans, objectives, strategies, future performance, and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "anticipate," "assume," "believe," "can have," "contemplate," "continue," "could," "design," "due," "estimate," "expect," "forecast," "goal," "intend," "likely," "may," "might," "objective," "plan," "predict," "project," "potential," "seek," "should," "target," "will," "would" and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operational performance or other events. For example, all statements we make relating to our estimated and projected costs, expenditures, and growth rates, our plans and objectives for future operations, growth, or initiatives, or strategies are forward-looking statements. 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 and inflationary pressures;
- 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 continuing effects of COVID-19 or other public health crises; crises including pandemics;
- our ability to attract and retain skilled personnel and senior management; and
- other risks and uncertainties described in "Risk Factors."

We make many of our forward-looking statements based on our operating budgets and forecasts, which are based upon detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results.

See the "Risk Factors" section and elsewhere in this Annual Report on Form 10-K for a more complete discussion of the risks and uncertainties mentioned above and for a discussion of other risks and uncertainties we face that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. All forward-looking statements attributable to us are expressly qualified in their entirety by these cautionary statements as well as others made in this Annual Report on Form 10-K.

We caution you that the risks and uncertainties identified by us may not be all of the factors that are important to you. Furthermore, the forward-looking statements included in this Annual Report on Form 10-K are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events, or otherwise, except as required by law. You should evaluate all forward-looking statements made by us in the context of these risks and uncertainties.

## ITEM 1. BUSINESS

As used in this Annual Report on Form 10-K, "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.

### Our Company

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 also 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 with broad product choices and customized offerings with short lead times. For the year ended December 31, 2022, distribution accounted for approximately 74% of our net sales, while manufacturing accounted for approximately 26% of our net sales. We expect manufacturing to remain a relatively small portion of our sales mix in fiscal year 2023, but believe it provides us with the flexibility to provide customized products with short lead times to complement our global sourcing capabilities. To that end, 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 global supplier network, complemented by our own manufacturing capabilities for select products, has we have established us ourselves as a differentiated provider of high-quality products relative to our competitors. Our operating model entails generating the majority of our revenue from the distribution of our vendors' products, complemented by select manufacturing capabilities in the U.S., which allows us to provide customers with broad product choices and customized offerings with short lead times even during global supply chain disruptions. This model provides us with the flexibility to adjust the mix of our product offering from import and manufacturing in evolving economic environment to drive operating efficiency and sustained margin expansion. During 2023, in light of the rising domestic labor and other operating costs and dropping ocean freight rates, we executed a strategy to pivot into a more asset-light model by increasing imports and scaling back manufacturing in certain locations. While we largely maintained our manufacturing infrastructure, we disposed of certain production machinery and related raw materials and reduced our production workforce. For the year ended December 31, 2023, distribution accounted for approximately 80% of our net sales, up from 74% in the prior year, while manufacturing accounted for approximately 20% of our net sales, down from 26% in the prior year. While we expect manufacturing to remain a relatively small portion of our sales mix going forward, we plan to retain manufacturing capabilities domestically to continue to operate with a nimble business model.

Our customers include a wide variety of national and regional distributors, restaurant chains, retail establishments and online customers. Our products are well suited to address our customers' increased focus on take-out and delivery capabilities. Our diverse and growing blue chip customer base includes well-known fast casual chains such as Applebee's Neighborhood Grill + Bar, Chili's Grill & Bar, PF Chang's, Texas Roadhouse, Chipotle Mexican Grill, Corner Bakery Cafe and TGI Fridays, as well as fast food chains including The Coffee Bean & Tea Leaf, El Pollo Loco, In-N-Out Burger, Jack in The Box, Popeyes, Panda Express, Raising Cane's Chicken Fingers, and Torchy's Tacos. As our capabilities, product offering and footprint expand, we are also beginning to supply products to national and regional supermarket chains, airlines, sports and entertainment venues and other non-restaurant customers. Our strong brand recognition in the foodservice industry, nimble operations and rapidly increasing size and scope of our distribution and logistics network provide us with a significant advantage that enables us to acquire new customers as well as increase our business with existing customers. For the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, no single customer represented more than 10% of our revenue.

We are an omni-channel provider and have recently made significant investments in e-commerce, technology, supply chain, distribution center layout remodels, network, and customer initiatives, such as online ordering and same day pickup. We operate our e-commerce channel through our company website, [www.lolliecupstore.com](http://www.lolliecupstore.com) and upgraded the underlying e-commerce platform during 2023. This upgrade not only enabled us to improve our storefront from an operational standpoint, but also allowed for the integration of multiple apps and extensions to enhance user experience. In addition, we also operate third-party storefronts such as on Amazon, Walmart, eBay, and Walmart recently expanded to TikTok. Our e-commerce channel offers the platforms allow us to offer our entire range of our products for online procurement and enable us to cross market other products to our customers. These platforms also provide us with the opportunity to continue our expansion into the business-to-consumer ("B2C") market in addition to the business-to-business ("B2B") small retailer customers that we traditionally serve. We have recently elevated our focus on servicing B2C market by sourcing products tailored for and geared toward these end-users. We further expanded our e-commerce team and improved and scaled our online marketing efforts. Our e-commerce channel significantly outperformed all other channels in year-over-year revenue growth in 2023, and we believe the e-commerce channel will continue to be a key growth driver for our business going forward. Additionally, the e-commerce channel enables us to cross market other products to our customers.

We classify our customers into four categories: distributors, national and regional chains, retail and e-commerce/online.

- **Distributors:** national and regional distributors across the U.S. that purchase our products and provide a channel to offer our products to restaurants, offices, schools, government entities and other end users.

- **National and regional chains:** typically fast casual and fast food restaurants with locations across multiple states to which we supply specified products. We enter into sales contracts with a subset of our national and regional chains customers, providing some visibility into future revenue.

- **Retail:** primarily regional bubble tea shops, boutique coffee shops and frozen yogurt shops that often purchase our specialty beverage ingredients and related items.
- **E-commerce/Online:** small businesses, often with less than two locations, such as small restaurants, bubble tea shops, coffee shops, juice bars, smoothie shops and some customers who purchase for personal use.

In addition to product sales, we also generate a small amount of revenue from logistics services which is the transportation and delivery of shipping containers from ports to customers, primarily to retail customers. The diversity of our customer types provides allows us to maintain a broad product offering while providing us with the ability to source products efficiently, while maintaining a broad product offering, as we are able to sell many products across multiple customer segments. We expect a large proportion of our future growth to come from national and regional chains and as well as our higher margin online customers. We believe that the current industry environment and regulatory landscape has accelerated the shift in consumer preferences towards food delivery, take-out ordering and eco-friendly sustainable products, which we expect to continue in the foreseeable future.

We With our customer-centric approach, we have generated significant growth through the continued expansion of our customer base and increasing penetration into existing customers across all channels. In addition, we have been able to grow our wallet share with many customers, in particular our national and regional chains, by supplying them a broader range of our foodservice disposables and related products. As we broaden our reach, expand into new geographic areas, and continue to focus on customer engagement, we expanded our sales force in 2023 by bringing in new sales representatives and regional managers. We believe that the current industry environment and regulatory landscape has accelerated the shift also promoted from within our inaugural Chief Revenue Officer in consumer preferences towards food delivery, take-out ordering and eco-friendly sustainable products, which we expect to continue in the foreseeable future. 2023.

We currently operate manufacturing facilities and distribution and fulfillment centers in Chino, California, Rockwall, Texas and Kapolei, Hawaii. In addition, we operate other have distribution centers located in Rockwall, Texas, Branchburg, New Jersey, Sumner, Washington, Jersey; Puyallup, Washington; Summerville, South Carolina, Carolina; Kapolei, Hawaii and Hawaii; City of Industry, California. The California; Sugar Land, Texas; and Aurora, Illinois. During 2023, we invested in the significant expansion of our distribution capabilities by adding 188,000 square feet in distribution space through the opening of two new warehouses in Sugar Land, Texas and Aurora, Illinois. We also doubled our warehouse space in Washington as we moved our warehouse from Sumner to Puyallup. Further, we racked up additional areas in existing warehouses, adding 40,000 square feet of new racked space in our warehouses. Our distribution and fulfillment centers are strategically located in proximity to major population centers, including the Los Angeles, New York, Chicago, Dallas, Houston, Seattle, Atlanta and Honolulu metro areas. As described in Note 22 — Subsequent Events in the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K, we entered into a lease agreement on February 12, 2024 for an additional distribution center in Mesa, Arizona and are currently in the process of setting up this location to be fully operational by the second quarter of 2024.

## Competitive Strengths

We believe the following strengths fundamentally differentiate us from our competitors and drive our success:

### One-stop shop with a diverse product offering for the foodservice market and highly nimble sourcing capabilities

We leverage our diversified global supplier network and offer customers a wide selection of single-use disposable foodservice products, with over 8,600 6,400 active SKUs (defined as active products available for purchase) across a broad range of product categories. We have significantly grown our inventory sourcing network from only a handful of vendors initially to over 70 133 active vendors by the end of 2022, 2023. Key offerings include food and take-out containers, bags, tableware, cups, lids, cutlery and straws primarily sourced through our diverse supplier base. Our strong relationships with our suppliers allow us to offer customers products that both preserve the highest possible food quality and meet the unique needs of their business. Furthermore, these supplier relationships allow us to offer custom-branded and custom-designed products with fast turnaround times and at competitive prices. With increasing regulations around single use plastics, our Karat Earth® line provides environmentally friendly options that include food and take-out containers, bags, tableware, cups, lids, cutlery and straws. This special catalog of sustainable products are made from renewable resources that are ethically sourced. We intend to invest further in research and development for our Karat Earth® line to significantly expand our product offering to meet the needs of our customers and the evolving regulatory landscape.

We often are a key supply chain partner integral to the daily operations of our customers. Our ability to quickly provide premium products at competitive prices has typically allowed us to become a trusted supplier to our customers. Through an ongoing feedback loop, as customer demand varies and new needs emerge, we are able to act nimbly and qualify new suppliers quickly to augment our product offering. These capabilities make us a key partner to our customers.

## **Focus on distribution and advanced logistics network, complemented by flexible manufacturing capabilities**

We consider our increasingly sophisticated distribution capabilities and related strength in logistics to be an important core competency and key differentiator from our competitors. We opened two new warehouses in 2023 located in Sugar Land,

Texas, and Aurora, Illinois, and also racked up additional space within existing warehouses to allow for better management and fulfillment of products. We own a fleet of 3126 trucks 21 (including some that are refrigerated to transport frozen food item), 44 trailers, 9 10 bobtails, one 1 yard goat, and 24 38 chassis, and as of December 31, 2022 December 31, 2023, employ 43 employed 40 drivers in our logistics division.

This model Our national distribution and logistics capacity has resulted in more efficient distribution allowed us to customers, reducing reduce the need for reliance on third-party logistics providers such as FedEx and United Parcel Service. Our strategically located facilities give us a strong national footprint, which positions us well provide efficient and cost-effective distribution to serve regions across the U.S. in a timely fashion, customers. We intend to continue to add to enhance our capabilities distribution productivity via further opening additional distribution center openings centers in strategic locations across the U.S., expanding our distribution fleet, and expansions, increasing the purchase number of additional vehicles, the hiring of additional drivers and additional logistics service offerings. drivers.

Our California, Texas and Hawaii facilities have a portion of operational capacity dedicated to manufacturing capabilities. For the year ended December 31, 2022 December 31, 2023, approximately 26% 20% of our revenues were generated from the sale of products manufactured in-house. We view distribution as our primary focus and growth driver while utilizing our manufacturing capabilities as a complement to the base distribution business. This approach allows us to procure products at competitive prices by being able to compare procurement costs versus domestic manufacturing costs to help determine whether it is the more efficient to produce ourselves versus relying on suppliers. option.

## **Diverse and growing blue-chip customer base**

We sell and distribute a broad portfolio of single-use disposable foodservice products to customers nationwide including leading chain restaurants, distributors, convenience stores, retail establishments and online customers. Our blue-chip customers include leading fast casual chains such as Chili's Grill & Bar and Chipotle Mexican Grill, as well as fast food chains such as In-N-Out Burger, El Pollo Loco, and Panda Express, among others. We intend to further expand our customer base by selling our products to non-traditional foodservice customers, including regional and national supermarket chains, airlines, sports and entertainment venues and other non-restaurant customers. Plans for Progress towards such expansion are already underway and beginning to yield positive results and a diversification of our customer base.

base is already underway.

## **Leader in eco-friendly products to address sustainability**

We are committed Our commitment to pursuing environmental sustainability and this is exhibited in every aspect of our business. We believe we are amongst the leading companies in the supply of eco-friendly disposal foodservice products in the United States. Since our inception, we have made the conscious choice to never use Styrofoam in any of our products. In 2008, we established Karat Earth® as an eco-friendly line of foodservice products, including food and takeout containers, bags, tableware, cups, lids, cutlery and straws. In April 2022, we announced a definitive joint venture agreement to establish a new corporation to build a factory in Taiwan for the production of compostable bagasse foodservice products which have a low carbon footprint. The new factory is expected to produce approximately 7,500 tons of products annually, with the first shipment of products to customers expected in June 2023. Karat Earth® supplements our eco-friendly offerings within our other product lines. We have consistently grown eco-friendly products as a percentage of our total product sales, and continued to invest in research and development to expand our eco-friendly product line offering of sustainable products to meet the needs of our customers and the evolving regulatory landscape. These efforts have allowed us to consistently grow our sales from eco-friendly products as a percentage of our total sales. Our eco-friendly products made up 33% of total sales during the year ended December 31, 2023 compared to 27% during the prior year.

## **Customized solutions offering new product development, design, printing and logistics services**

In recent years, we are seeing a growing trend towards takeout and at-home dining, and as a result the restaurant industry is becoming increasingly focused on receiving a customized, value-add, and customer oriented-experience when it comes to the packaging of their products. In order to promote brand familiarity and loyalty, we collaborate closely with our customers to develop and deliver custom products that meet the unique branding, color and schematics requirements of their businesses. Our in house domestic printing capability allows for fast turnaround times at competitive costs.

## **Experienced and growth-oriented management team**

We have assembled a strong executive management team to lead our company in its next phase of growth, supported by a deep bench of functional area leads across the organization. Our co-founders Alan Yu and Marvin Cheng have worked together over the last 20 years to aggressively drive growth across the business. Joanne Wang Daniel Quire joined us in 2003 2018 and was appointed Chief Operating Revenue Officer in 2018, 2023, helping to drive provide leadership to our pricing structure sales term, lead our customer acquisition and sales training programs engagement initiatives, and overseeing general operational functions, expand our market presence. Our Chief Financial Officer, Jian Guo, joined us in 2022, bringing years of public company experience to further bolster our finance and accounting functions.

## **Growth Strategy**

Our goal is to become a leading single-source provider to a broad set of customers for all of their disposable foodservice products and related needs. We plan to continue to grow our business and increase our profitability through the following key initiatives:

### **Continue to build our e-commerce distribution channel**

We believe there is an opportunity to continue to significantly grow our higher margin e-commerce business to a more meaningful percent of revenue by continuing our investments in people, software distribution capabilities, marketing and technology. By committing additional resources and upgrading

During 2023, we updated our company e-commerce platform, which not only enabled us to improve our storefront from an operational standpoint, but also allowed for the integration of multiple apps and online advertising efforts, we expect extensions to enhance our e-commerce experience user experience. In addition, we also operate third-party storefronts on Amazon, Walmart, eBay, and recently expanded to better support the needs of our customers. TikTok. Our e-commerce retail channel is our highest margin channel of distribution. By offering platforms allow us to offer our entire range of products for online procurement and bolstering enable us to cross market other products to our logistics capabilities, customers. These platforms also provide us with the opportunity to continue our expansion into the B2C market in addition to the B2B small retailer customers can conveniently order that we traditionally serve. We have recently elevated our focus on servicing B2C market by sourcing products themselves on an ad hoc basis, tailored for and geared toward these end-users. We further expanded our e-commerce team and improved and scaled our online marketing efforts. All of these initiatives allowed us to increase the number of online orders by approximately 37% in 2023 compared to prior year. Our e-commerce channel also significantly outperformed all other channels in year-over-year revenue growth in 2023, and we believe the e-commerce channel will continue to be a key growth driver in our business.

#### **Disrupt the traditional foodservice supply chain**

The traditional foodservice supply chain consists of manufacturers selling through a multi-layer distribution and logistics network before the product reaches the end customer. As a full service distributor ourselves, we are able to provide products directly to the end user, eliminating the need for the traditional multi-layer supply chain. Environmental pressure on single-use disposable plastics is already causing a need for new sources of supply. The Karat Earth® brand is a plant-based line of compostable products that meets the growing demand for renewable and ethically-sourced products. Our nimble operating model can serve customers more quickly than the traditional supply chain, which allows us to react rapidly to customers' changes in demand.

#### **Grow our base business with incremental revenue from existing customers**

We intend to continue to increase penetration within our existing customer base. We believe there is an opportunity to offer additional product lines allowing us to become a true "one-stop" supplier. Our unique ability to serve customers as a reliable supplier with strong customer service at competitive prices has positioned us to be a frequent recipient of requests for proposals from our existing customers as they look for new sources of supply. For the year ended December 31, 2022, net sales to distributors and national and regional chains, our two largest channels, grew 21.2% and 11.4%, respectively, from the year ended December 31, 2021, as we grew our business with existing customers and added new customers. Offering a larger range of products, coupled with our ability to provide custom specifications and configurations to existing products, will allow allows us to better serve the needs of our customers and increase retention further. We have historically experienced consistently high customer retention rates as a result of our dedication to our customers and our hands-on approach. For the year ended December 31, 2022 December 31, 2023, our major customer retention rate, defined as year over year retention of our top 100 customers, was 100% 99%.

#### **Expand our customer base via new capabilities, geographies, products, services and end markets**

We believe our addressable market continues to grow as emerging businesses like Grubhub, Uber Eats, DoorDash and others expand the need for foodservice disposable products, and takeout and at-home dining remain a constant even as after the pandemic started to recede. pandemic. We plan to continue to add new experienced sales team members to broaden our reach, expand into new geographic areas, and more efficiently provide continue to focus on customer service as we grow. engagement. We also promoted from within our inaugural Chief Revenue Officer in 2023.

We have made solid strides towards expanding our distribution footprint and capabilities in the United States by States. During 2023, we opened two new warehouses in Sugar Land, Texas and Aurora, Illinois, adding two 188,000 square feet in distribution centers space. We doubled our warehouse space in 2022, and intend Washington as we moved our warehouse from Sumner to continue Puyallup. Further, we also racked up additional areas in existing warehouses, adding 40,000 square feet of new racked space in our expansion efforts. warehouses.

In addition, we have are continuously evaluated evaluating and expanded expanding our product and service offerings to respond to customer demand and enter penetrate into new end markets, including sports venues, supermarket chains, airlines, entertainment venues, and other non-traditional foodservice markets. We see substantial opportunity to further expand our customer base with many individual customers through our select food and drink offerings (i.e. bubble tea, coffee, sauces and syrups) available via our e-commerce channel. In addition, we see significant opportunity specifically with supermarket chains supermarkets to gain wallet share by providing fruit trays, vegetable containers, pizza boxes, compostable meat trays and other related items, all of which are higher margin products than some of our other products. Our online platforms have provided us with the opportunity to continue our expansion into the business-to-consumer B2C market.

#### **Pursue strategic acquisitions**

We have the opportunity to capitalize on our existing infrastructure evaluate and expertise by continuing to selectively pursue opportunistic consider potential business acquisitions in order to expand the breadth of our distribution existing infrastructure, product offerings, expertise, supply chain network, and logistics network, increase our operating efficiency and add additional products and capabilities. In April 2022, we announced a definitive joint venture agreement with Happiness Moon, Co. Ltd to establish a new corporation, Bio Earth Technology ("Bio Earth"), to build a new 180,000 square-foot factory in Taiwan for the production of compostable bagasse foodservice products. We continue to consider and evaluate certain acquisition opportunities across the United States that we expect would enhance our national footprint efficiencies. Additionally, the potential to acquire existing and new suppliers, particularly in the U.S., may further reduce our reliance on the Asian supply chain, creating more diversified sourcing options for our customers.

#### **Our Industry**

The disposable foodservice products industry is large and growing. The primary categories of disposable foodservice products include food packaging, containers, tableware, cups, lids, cutlery, straws, napkins and bags. The large breadth and scope of products is reflected in the diverse nature of the industry participants, which range from large international conglomerates to smaller regional and niche companies. As a result, the industry is represented by a large number of companies and remains highly fragmented. Similarly, end customers of the disposable foodservice products industry are equally diverse in composition. The restaurant and foodservice categories that are the primary purchasers of our products include quick service restaurants, fast casual, convenience stores, specialty drink establishments, casual dining and increasingly, premium casual and family dining restaurants. We estimate our growth to significantly outpace the industry average given our increase in sales of high demand items like take-out containers and bags, our ability to continuously augment our product offering to address customer needs and our avoidance of product categories in decline, including materials in the process of being banned under various governmental regulations.

The industry is currently experiencing a period of both growth and transition as a result of several key factors that have emerged in recent years and have accelerated during especially after the COVID-19 pandemic. These include the growing market for food delivery and take-out dining; new governmental regulations primarily resulting from an increasingly environmentally-conscious public; and growing consolidation within the disposable foodservice products industry. We believe that we will benefit from a continuation of these market trends due to our diverse product offering, customer-centric approach, commitment to environmentally-friendly products and the flexibility of our business model.

#### **Food delivery and take-out**

With the growing trend towards at-home dining and mobility-oriented e-commerce, food delivery and take-out dining are currently experiencing rapid growth. As consumer preferences have evolved, foodservice establishments have realized that the at-home dining experience is closely linked to the quality of the packaging utilized. Data from the National Restaurant Association and Technomic shows that operators are increasingly acknowledging the importance of off-premises dining and making it a strategic priority. Based on data from Uber's acquisition of Postmates, According to studies done by International Market Analysis Research and Consulting Group, the United States online food delivery market is expected size reached \$29.1 billion in 2023. The same studies expect the market to grow atrech \$68.6 billion by 2032, exhibiting a compound annual growth rate (CAGR) of 18.1% to \$61 billion by 2025. This growth is driven in large part by e-commerce companies such as Grubhub, Uber Eats, DoorDash and others. We believe the market opportunity will continue to expand for years to come. 9.8% during 2024-2032. In order to benefit from this growing market trend, foodservice establishments are actively trying to provide a high quality at-home dining customer experience that is comparable to the in-restaurant experience. Central to this effort is food quality and overall presentation where take-out containers and related products play a critical role. Restaurants are seeking to develop high quality, customized disposables that not only provide the freshest and best possible food experience, but also provide a premium, branded at-home dining experience.

#### **Governmental regulations**

Environmental concerns regarding disposable products broadly have resulted in a number of significant changes that are specific to the foodservice industry, including regulations applicable to our customers. Many cities, states and local governments have been actively enacting legislation that prohibits certain types of end-products as well as the use of certain raw materials used in manufacturing. We expect this trend to continue on a national scale as foodservice establishments are looking to source alternative products made from biodegradable materials and other environmentally-friendly options. We believe we are well positioned to benefit from increasing government regulation and environmental concerns given our strong portfolio of sustainable products, including our Karat Earth® line and our continued commitment and investment in our leadership position in providing eco-friendly products in the United States.

Additionally, evolving foreign trade policy by the U.S. federal government has resulted in the imposition of tariffs on a number of imported foodservice disposable products, including those imported from China. To avoid the resulting higher product costs, many domestic purchasers may seek to establish alternative distribution channels and source products from U.S. based manufacturers or from other non-tariffed countries.

#### **Industry consolidation**

Over the last several years, there has been significant consolidation within the industry, both in distribution and manufacturing. This is due in part to larger and more established companies seeking to generate growth and maintain profitability through the expansion of their product offering. As is common in the disposable foodservice products industry, larger companies typically broaden their product portfolio through the acquisition of established companies, rather than building out new product categories organically. As consolidation occurs, existing customers often find themselves facing challenges of changing product availability, discontinuations, increasing prices, support staff turnover and other potential transition-related challenges. These challenges can be highly disruptive to a customer's business and as a result, the customers often seek out other stable and more reliable channels for product sourcing.

#### **Our Products**

We offer a wide selection of high-quality, cost effective food packaging products and disposables.

We work in close collaboration with our customers to develop products to meet the needs unique to their individual businesses. This includes developing containers and food storage items that are both visually appealing and that deliver the best possible food quality and freshness. Additionally, we are able to custom print or label many of our products, to help our customers brand the at home dining experience of their customers. We supply 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; and
- gloves.

#### **Karat Earth®**

Karat Earth® is our specialty line of environmentally-friendly products that are plant-based and compostable and are made from renewable resources sourced ethically. This line includes food containers, tableware, cups, lids, utensils and straws. Our Karat Earth® line provides our customers the option to make a powerful statement about their commitment to environmental and social sustainability.

Our Karat Earth® products are Cedar Grove Certified (CGC) and Biodegradable Products Institute (BPI) certified compostable. Karat Earth® plastic products are made from polylactic acid (PLA) sourced from NatureWorks Ingeo PLA. Ingeo PLA is a non-petroleum based, biopolymer that is manufactured from plant sugars. Due to its material composition, Ingeo PLA is non-volatile, non-toxic and odorless if incinerated.

During the year ended December 31, 2022, net sales of our Karat Earth® products increased by 36% as compared to the year ended December 31, 2021. We continue to invest in research and development for our Karat Earth® line to expand our product offering to meet the needs of our customers and the evolving regulatory landscape.

#### Our Distribution and Logistics Network

We sell and distribute our products to customers across the United States. States through our growing distribution network. We partner with foodservice establishments of every size, with our customers ranging from large multi-national restaurant chains to regional and smaller-chain establishments. Our customers benefit from our broad product offering and efficient distribution which allows them to streamline their procurement process by purchasing all of their disposable goods from a single-source provider. provider and effectively reduce inventory level and working capital requirements. We also sell our products directly to leading restaurant supply companies that distribute products to a wide range of food-service establishments internationally.

Our growing sales force works closely with our customers to tailor the optimal mix of products to meet the unique needs of their businesses. We continue to hire additional sales personnel nationally to expand our sales reach, geographic footprint and increase our penetration into the different market segments of the foodservice industry. industry, specifically the South, Midwest, and Pacific Northwest regions of the U.S.

We work closely with our customers to develop an optimal logistics and supply chain solution customized to their businesses. We have built a flexible distribution system which allows our customers to order and receive products on a timely basis based on the real-time needs of their businesses. In addition to regularly scheduled delivery intervals, our customers can order and schedule delivery of products via telephone, facsimile, email or through our online e-commerce platform and our online storefronts on Amazon.com Amazon, Walmart, eBay, and Walmart.com. TikTok. Our regional warehouses and distribution centers allow us to deliver products on a timely basis to key population centers across the United States. Depending on the needs of our customers, final product delivery to their stores or affiliated distribution centers occurs via courier package delivery or through our company-employed delivery drivers.

#### E-Commerce Seasonality

In 2004, we established our Company store website at [www.lolliecupstore.com](http://www.lolliecupstore.com), to provide an additional channel for our customers to purchase our products. The website offers our entire range of products for online procurement, and we believe it will continue to be a key growth driver for our business, as it enables us to cross market products to potential customers. We have also added third-party storefronts on Amazon and Walmart to complement our Company store website. Sales through these online channels accounted for 12.7% of total net sales for the year ended December 31, 2022. We have recently made significant investments to further develop and upgrade the [www.lolliecupstore.com](http://www.lolliecupstore.com) e-commerce platform to improve online traffic and order placements.

#### Seasonality

Our business does not experience high seasonality though certain food and food related products are moderately seasonal. For example, during the hot weather of summer and fall months, we see an increase in the level of sales for items such as cold drink cups and boba products. Generally, we expect relatively more of our earnings and cash flows to be generated in the second and third quarter of the fiscal year.

#### Our Corporate Structure

Set forth below is an organizational chart which identifies the Company and its consolidated entities as of December 31, 2023:



Please see Note 2 — *Summary of Significant Accounting Policies* and Note 22 — *Subsequent Events* in the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for a description of the agreements between Global Wells and us as well as the change in our variable interest entity and us, ownership percentage in Global Wells subsequent to December 31, 2023 resulting from one Global Wells' member's redemption of its membership interest.

#### Intellectual Property

Our intellectual property portfolio includes 15 active trademarks, including Lollicup, Karat, Karat Earth® and Total Clean, and five registered copyrights.

#### Environmental, Social and Governance (ESG)

At Karat Packaging, we are committed to pursuing initiatives that positively impact our products, our people, our customers and our planet. We recognize the importance of environmental, social and governance ("ESG") issues for all of our stakeholders and we are committed to incorporating ESG principles into our business strategies and organizational culture. By undertaking such measures, we hope to make are working towards making our workforce more inclusive, our business more sustainable, and our communities more engaged. Our commitment to practicing environmental sustainability is exhibited in almost every aspect of our business.

#### Our Products

We are a pioneer and leader in the supply of eco-friendly disposal foodservice products in the United States. Since our inception, we made the conscious choice to never use Styrofoam in any of our products. The reason behind such a decision was that Styrofoam products are non-biodegradable and therefore take up permanent space in landfills resulting in a constant leach of harmful chemicals into the environment. Styrofoam products are also very difficult to clean up as they often escape waste collection systems due to their low density. They are easily wind-blown and ultimately end up in parks, forests, beaches, oceans and rivers.

In 2008, we established Karat Earth® as an eco-friendly line of foodservice products, including food and take out containers, bags, tableware, cups, lids, cutlery and straws. Our Karat Earth® products are Cedar Grove Certified (CGC) and Biodegradable Products Institute (BPI) certified compostable. Karat Earth® plastic products are made from polylactic acid (PLA) sourced from NatureWorks Ingeo PLA. Ingeo PLA is a non-petroleum based, biopolymer that is manufactured from plant sugars. Due to its material composition, Ingeo PLA is non-volatile, non-toxic and odorless if incinerated. Karat Earth® supplements our eco-friendly offerings within our other product lines. We continue to invest in research and development to expand our offering of sustainable products to meet the product offering in needs of our Karat Earth® line. During customers and the evolving regulatory landscape. Our eco-friendly products made up 33% of total sales during the year ended December 31, 2022, net sales of our Karat Earth® products increased by 36% as December 31, 2023 compared to 27% during the year ended December 31, 2021.

Fiscal year 2022 marked an important milestone in our continued efforts and commitment to sustainability. In April 2022, we announced a definitive joint venture agreement with Happiness Moon, Co. Ltd to establish a new corporation, Bio Earth, to build a new 180,000 square-foot factory in Taiwan for the production of compostable bagasse foodservice products. Bagasse has a low carbon footprint. Since it is a derivative of sugar cane, bagasse lifespan includes a period where atmospheric carbon is captured and converted to biomass. In the right conditions, bagasse can biodegrade in 30-90 days without toxic residue, and even provide nutrient-rich compost. Packaging made with bagasse is also fully recyclable. This makes it ideal for all levels of packaging. The new plant is expected to produce approximately 7,500 tons of products annually, with the first shipment of products to customers expected in June 2023, prior year.

A recent peer-reviewed global study conducted by the American Association for the Advancement of Sciences found that less than 10 percent of plastics is recycled. Other studies indicated approximately 23% of landfill waste in the United States is comprised of plastic containers and food ware. Such striking statistics have prompted many state and city governments to enact regulations to cut down on plastic pollution. For example, California passed the Plastic Pollution Prevention and Packaging Producer Responsibility Act also known as SB Bill 54 in June 2022, requiring all packaging in the state to be recyclable or compostable by 2032. In October 2021, the state Rhode Island passed Bill 5090 in June 2023, banning restaurants and food service establishments from processing, preparing, selling or providing food or drinks in disposable food containers made from polystyrene foam. Delaware passed Bill 51 in August 2023, prohibiting polystyrene foam containers, plastic beverage stirrers, and sandwich picks beginning July 1, 2025. A variety of Washington adopted a statewide ban on certain carryout bags. Individual individual cities such as Los Angeles, San Diego and Honolulu have also passed their own complimentary ordinances to limit single-use plastic products. As more governments enact regulations to prevent and reduce waste that is harmful to the environment, and more consumers are actively taking steps towards being more sustainable, the demand for eco-friendly disposable products is on the rise. In order to better position ourselves for this change in the industry landscape, we have significantly expanded our sourcing of eco-friendly products and increased the number of related product offerings. As of December 31, 2022 December 31, 2023, we have had over 400 500 SKUs of eco-friendly products that our customers can could choose from, from, up from approximately 400 as of the prior year end.

## Our Operations

In our manufacturing facilities in the United States, the production process involves intake of water, discharge to water, recycling of waste and other disposal activities. As a Company, we place strong emphasis on water conservation and reducing water pollution. Outside of the required cooling of manufacturing machines and equipment after production cycles, our manufacturing process does not require large quantities of water. We ensure appropriate drainage and disposal of contaminated water, grease oil, and other chemicals discharged from our production activities in order to limit the pollution of valuable water sources. Reclamation is also a key consideration for us. Any and all waste products from our production process is thoroughly inspected and checked for the potential of re-use or recyclability. Identified items are repackaged and sold or they are transferred to our local waste management facilities for proper disposal, thereby reducing waste and the use of landfill space. Some of our raw materials are Biodegradable Products Institute (BPI) certified. For over 20 years, the BPI certification has been the defining symbol of compostability due to its rigorous testing standards. The BPI certification is the only third-party verification for compostable products in North America. Even in products that do require the use of plastic, we ensure that the resin we source is both BPA (or bisphenol A) and PFA (or perfluoroalkyl and polyfluoroalkyl) free. These substances are known for their extreme persistence in the environment upon discharge.

Our commitment to sustainability is also demonstrated in our focus on recycling and reusing. Our warehouse departments also have certain sustainability practices implemented. By implemented the practice of reusing paper cardboard boxes as well as and wooden pallets for inventory storage and shipments. We offer credits to certain customers that return and reuse wooden pallets. We train our warehouse and janitorial staff to properly dispose of and recycle all types of material including paper, plastic, and scrap metal. The utilization of trash compacting services has allowed us to minimize the frequency of waste pickups and also reduce landfill space. We have installed LED bulbs in light fixtures within both the warehouse and office space that are more efficient than traditional fluorescent counterparts as well as with timers that automatically turn off lights after a period of time if no movement is detected. We have also programmed our HVAC units at some of our locations to run on predetermined schedules to reduce our overall power consumption. Additionally, we are able transitioning our company fleet from being gas powered to further those that run entirely on electricity. To the extent possible, we have also switched over from single use batteries to rechargeable battery packs in our line up of tools and equipment. Our Company as a whole has also made strides to reduce the need for paper and ink by embracing a more digital form of paperwork retention. Through these various efforts, we play our part to reduce our carbon footprint and will continue to look into and implement further sustainable practices.

We are regulated by certain federal, state and international environmental laws governing our use, transport and disposal of production materials and control of emissions. Compliance with these existing laws has not had a material impact on our capital expenditures, earnings or global competitive position.

A liability for environmental remediation and other environmental costs is accrued when we consider it probable that a liability has been incurred and the amount of loss can be reasonably estimated. Environmental costs and accruals are presently not material to our operations, cash flows or financial position.

We are committed to providing consistent and excellent return to our shareholders, all while maintaining a strong sense of good corporate citizenship that places a high value on the welfare of our employees, the communities in which we operate, and the world as a whole. We believe that effectively prioritizing and managing our ESG factors helps create long-term value for our investors. Under the direction of our Chief Executive Officer and the board of directors, we are driving continuous improvements in bringing innovative eco-friendly products that meet the needs of our customers and our plant and enhancing our energy and waste management infrastructure in our sustainability journey.

## Human Capital Management

### Our Culture

At Karat, it is our people – our greatest asset – that give us our strong reputation and stand at the heart of our growth. Our success depends on the talent, dedication, and well-being of our people. As we grow, we strive to recruit, retain, develop, and provide advancement opportunities for our team members. We continually work to make Karat an inclusive, equitable, and growth-focused workplace where all team members have the opportunity to flourish.

### Safety

One of our most important corporate values is the safeguarding of our people and fostering a culture of care that promotes the well-being of our employees, contractors and business partners. We protect our people, projects and reputation by striving for zero employee injuries and illnesses, while operating and delivering our work responsibly and sustainably. Our safety culture empowers every member of the workforce to exercise stop-work authority without repercussion to address any potential unsafe work conditions. We develop and administer company-wide safety policies to ensure the well-being of each team member and compliance with Occupational Safety and Health Administration standards. This includes periodic safety training and assessments as well as annual safety audits. We require all employees and contractors at our warehouse and manufacturing facilities to understand and follow these safety policies. These guidelines have been put into place by management to address three key components of safety:

- Identifying the root cause of safety hazards in our operations;
- Assessing risks associated with all hazards or conditions identified; and
- Mitigating risks associated with known hazards and conditions.

**We also support the community uptake of approved COVID-19 vaccines as the most effective measure to control the global pandemic and we strongly encourage that our employees receive an approved vaccine. We have taken and will continue to take critical steps to keep our people, customers and communities safe from COVID-19.**

### Diversity, Equity, and Inclusion (DEI)

Diversity, equity and inclusion ("DE&I") are critical underpinnings of our corporate values. DE&I helps foster innovation, cultivate an environment filled with unique perspectives and drive engagement, innovation and organizational growth. Our focus to date has been increasing awareness amongst our employees on the importance of DE&I.

As a business founded by representatives from a minority group in the United States, diversity and inclusion is engrained in our corporate history. We believe that a diverse workforce is essential to its long-term success and ~~strives~~ to foster a diverse, equitable, and inclusive culture where all voices are heard, valued, and included. Management embraces employees' differences in race, color, religion, age, sex, sexual orientation, marital status, citizenship, national origin, geographic background, military or veteran status, disability (mental or physical), and any other characteristics that make our employees unique. We ensure that we leverage a diverse slate of candidates for all job vacancies, including senior leadership.

Good corporate governance and transparency are fundamental to achieving our vision of becoming a leading in all our markets. Our engagement approach involves ongoing communication with our employees. We strive to provide relevant market updates to our team members as well as to share important information regarding our revenue trends, inventory status, production, safety and other operating metrics as deemed necessary. We have received several recognition oriented awards throughout our company's history. Our employees are expected to act with integrity and objectivity and to always strive to enhance our reputation and performance. We maintain a Code of Ethics which is attested by every employee and provides our framework for ethical business. As of ~~December 31, 2022~~ December 31, 2023, we have the following gender and ethnicity breakout for our employees, C-suite executives, and ~~board~~ Board of ~~Directors~~ Directors members:

		Full-Time employees	C-Suite Executives	Board of Directors				
		Full-Time employees			Full-Time employees	C-Suite Executives	Board of Directors	
Total count	Total count	781	3	5	Total count	778	3	5
Gender	Gender							
Male	Male							
Male	Male	64%	33%	60%	66%	67%	60%	
Female	Female	35%	67%	40%	Female	33%	40%	
Non-binary/Did not self-identify	Non-binary/Did not self-identify	1%	—	—	Non-binary/Did not self-identify	1%	—	—
Ethnicity	Ethnicity							

Hispanic	Hispanic	42%	—	—			
Hispanic							
	Hispanic				45%	—	—
Asian	Asian	18%	100%	100%	Asian	16%	67%
White	White	17%	—	—	White	16%	33%
Black	Black	16%	—	—	Black	18%	—
Other/Did not self-identify	Other/Did not self-identify	7%	—	—	Other/Did not self-identify	5%	—

#### Compensation and Benefits

Consistent with our core values, we take care of our people by offering competitive compensation and comprehensive benefits programs. We continuously make wage investments to ensure our compensation packages reflect the evolving circumstances across our markets. One of the goals of our recruitment strategy is to ensure we are aligning roles with compensation levels based on job responsibilities, market competitiveness, geographic location, strategic importance of roles and other relevant factors.

Our compensation package includes a base salary and depending on the role, discretionary bonuses and equity compensation programs. 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 has been authorized and reserved for issuance under the Plan in the form of incentive or nonqualified stock options and stock awards. As of December 31, 2023, a total of 649,316 shares of common stock were awarded under the Plan. Employees, directors, and consultants are eligible to receive stock options and stock awards under the Plan. Additionally, the firm makes annual contributions to support the retirement goals of each employee through a matching contribution to 401(k) retirement accounts.

We also offer our employees' healthcare, wellness, paid sick leave, flexible paid time off, and other benefits to support their quality of life and enable them to thrive in the workplace. All eligible full-time and part-time employees and their eligible dependents receive competitive health benefits. We cover approximately 60% of total eligible healthcare costs for part and full-time employees for our approximately 250 225 participating employees as of December 31, 2022 December 31, 2023.

#### Learning and Development

We believe that high performance is an outcome of a person's ability to change, adapt, and grow their capabilities throughout their career. We emphasize real-life, real-time learning that enables a person to meet the demands of challenging and changing work and focuses on reinforcing key principles that are designed to support an individual's effectiveness in his or her current job and in their future development. We provide technical and leadership training to employees, specifically our production and sales teams who work closely with our products and services. In particular, our focus on employee development has been structured over the last several years through programs designed to embed essential skills and reinforce strategic goals that are aligned to our culture. This is evidenced by the fact that we promoted 112 166 and 114 112 employees during the years ended December 31, 2022 December 31, 2023, and 2021, 2022, respectively.

#### Other Information

As of December 31, 2022 December 31, 2023, we had employed approximately 805 806 employees, out of which 781 778 were full-time employees. None of our employees are currently covered by a collective bargaining agreement. We have no labor-related work stoppages and believe our relations with our employees are good.

#### Corporate Information

We were founded in 2000 by Alan Yu and Marvin Cheng in San Gabriel, California as Lollicup USA Inc., a California corporation. Initially our business was focused on the establishment, franchising and licensing of bubble tea stores nationwide. Considered a pioneer for the bubble tea business in North America, our business grew rapidly from a single Lollicup Tea Cafe store in 2000 to more than 60 stores in 2006. In order to ensure consistency across our stores, we expanded our focus in 2004 to include the distribution of supplies for the bubble tea industry. In 2013, we sold the retail bubble tea business to certain of

Lollicup's shareholders. In 2014, as a result of a growing demand across the foodservice industry for our packaging goods, we began distributing and manufacturing products under our Karat brand in our California facility.

In September 2018, we incorporated Karat Packaging Inc. in Delaware, and the Company, Lollicup, and Messrs. Yu and Cheng and the other shareholders of Lollicup (together, the "Lollicup Shareholders") entered into a share exchange agreement and plan of reorganization whereby the Lollicup Shareholders exchanged their shares of common stock in Lollicup for an equal number of shares of common stock of the Company, resulting in Lollicup becoming a wholly-owned subsidiary of the Company. Our principal executive and administrative offices are located at 6185 Kimball Avenue, Chino, CA 91708, and our telephone number is (626) 965-8882. Our website address is [www.karatpackaging.com](http://www.karatpackaging.com). For additional historical information about us, see Note 1 — *Nature of Operations* in the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

We are a "smaller reporting company" as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended, or (the "Exchange Act"), and have elected to take advantage of certain of the scaled disclosure available for smaller reporting companies.

#### Available Information

Our Internet website is [www.karatpackaging.com](http://www.karatpackaging.com). Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Exchange Act are available, free of charge, under the Investor Relations tab of our website as soon as

reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Additionally, the SEC maintains a website located at [www.sec.gov](http://www.sec.gov) that contains the information we file or furnish electronically with the SEC.

## ITEM 1A. RISK FACTORS

*Investing in our common stock involves a high degree of risk. Investors should carefully consider the risks described below and all of the other information set forth in this Annual Report on Form 10-K, including our financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations," before deciding to invest in our common stock. If any of the events or developments described below occur, our business, financial condition, or results of operations could be materially or adversely affected. As a result, the market price of our common stock could decline, and investors could lose all or part of their investment.*

### Risks Related to Our Industry.

#### **Demand for our products could be affected by changes in laws and regulations applicable to food and beverages and changes in consumer preferences.**

We manufacture and distribute single-use disposable products made of plastic, paper, biopolymer and other compostable products. Our products are primarily used in restaurant and foodservice settings, and therefore they come into direct contact with food and other consumable products. Accordingly, our products must comply with various laws and regulations for food and beverage service applicable to our customers. Changes in such laws and regulations could negatively impact our customers' demand for our products as they comply with such changes and/or require us to make changes to our products.

Additionally, because our products are used to package consumer goods, we are subject to a variety of risks that could influence consumer behavior and negatively impact demand for our products, including changes in consumer preferences driven by various health and environmental-related concerns and perceptions.

Furthermore, we are subject to social and cultural changes, which could impact demand for certain products. For example, the banning of plastic straws was triggered by a social media backlash, which caused corresponding legislative changes within a short time period, resulting in the ban of plastic straws in certain jurisdictions, and a movement toward eco-friendly packaging. If we are unable to quickly adapt to changes in consumer preferences and subsequent legislation, our business, financial condition, results of operations or cash flows could be adversely affected.

#### **Supply chain disruptions could interrupt product manufacturing and increase product costs.**

Our operating model entails generating the majority of our revenue from the import and distribution of our vendors' products. While we have taken measures to diversify and expand our supplier network, we continue to rely on third-party manufacturers outside the U.S. to produce most of our products. Global industry-wide logistics challenges have negatively impacted our operations and financial results during these past several years when global supply chain disruptions. Further international shipping conflicts, such as the U.S. was disrupted recent ones in the Middle East and delayed due to congestion at ports on the west coast. Significantly higher Asia, could impact important trade routes, resulting in increased lead times for shipments and elevated freight costs, and demurrage can dampen our suppressed margin. Failure Additionally, failure to adequately source and timely ship our products to the U.S. and then onwards to customers could lead to lost potential revenue, failure to meet customer demand, strained relationships with customers, and diminished brand loyalty. Although the global supply chain challenges have started to subside and Asia to the U.S. ocean freight rates have started to stabilize in the later part of 2022, our business, financial condition, results of operations or cash flows could be adversely affected if the global industry-wide logistics worsen.

#### **Raw material inflation or shortage of available materials could harm our financial condition and results of operations.**

Raw materials are subject to price fluctuations and availability, which could result from external factors, such as the nationwide inflation, weather-related events, or other supply chain challenges, that are beyond our control. We typically do not enter into long-term fixed price contracts with our suppliers, and our suppliers could pass on raw material price increases to us. Historically, we have been able to mitigate the impact of higher costs by increasing our selling prices. However, due to the lag between the sourcing or the manufacturing of our products and sales to our customers, margin could be negatively impacted in periods of rising raw materials until price actions are in place. Raw material shortages, especially with respect to polyethylene terephthalate, or PET, plastic resin, or our inability to timely pass through increased costs to our customers may adversely affect our business, financial condition, results of operations or cash flows.

#### **We operate in a highly competitive environment and may not be able to compete successfully.**

The single-use disposable foodservice products industry is extremely competitive and highly fragmented. Many of the companies that compete in our industry are significantly larger with greater resources, have greater brand recognition and have a larger product offering. We may be unsuccessful in our efforts to compete against such large and established companies. In addition, our current or potential competitors may offer products at a lower price, or products and services that are superior to ours. Our success depends upon successful research, development and engineering efforts to utilize emerging and legislatively mandated raw materials, our ability to expand or modify our manufacturing capacity, and the extent to which we are able to convince customers and consumers to accept our new products. If we fail to successfully innovate, introduce, market, and manufacture differentiated and price-competitive products relative to those of our competitors, our ability to maintain or expand our net sales and to maintain or enhance our industry position or profit margins could be adversely affected. This, in turn, Similarly, if we fail to attract and retain customers for our current and future products, we will be unable to increase our net sales and market share. All of these factors could materially adversely affect our business, financial condition, results of operations or cash flows.

#### **Unfavorable conditions in our industry or the global economy could limit our ability to grow our business and negatively affect our results of operations.**

Our results of operations may vary based on the impact of changes in our industry or the global economy on us or our customers and potential customers. Negative conditions in the general economy both in the United States and abroad, including conditions resulting from changes in gross domestic product growth, financial and credit market fluctuations, international trade relations, pandemic (such as the COVID-19 pandemic), pandemics, political turmoil, natural catastrophes, warfare, and terrorist attacks on the United States, Europe, the Asia Pacific region, Japan, or elsewhere, could cause a decrease in demand for our products and negatively affect the growth of our business. Competitors, many of

whom are larger and have greater financial resources than we do, may respond to challenging market conditions by lowering prices in an attempt to attract our customers. We cannot predict the timing, strength, or duration of any economic slowdown, instability, or recovery, generally or within any particular industry.

***Changes in freight carrier costs related to the shipment of our products could have a material adverse impact on our results of operations.***

We rely upon third-party ocean freight, air freight and land-based carriers for product shipments to our customers. Any failure to obtain sufficient freight capacity on a timely basis or at favorable shipping rates will result in our inability to receive products from suppliers or deliver products to our customers in a timely and cost-effective manner, which will result in a material adverse impact on our business, financial condition, results of operations or cash flows.

***We may experience delays or disruptions in the shipment of our goods through operational ports.***

We rely on the timely and free flow of goods through open and operational ports, both domestic and international, from our suppliers and manufacturers. Labor disputes or disruptions at ports, our common carriers, or our suppliers or manufacturers could create significant risks for our business, particularly if these disputes result in work slowdowns, lockouts, strikes, or other disruptions during periods of significant importing or manufacturing, potentially causing delayed or cancelled orders by customers, unanticipated inventory accumulation or shortages, and significant incremental demurrage charges. Such disruptions could harm our business, financial condition, results of operations and financial condition, or cash flows.

Accordingly, we are subject to risks, including labor disputes, union organizing activity, inclement weather, and increased transportation costs, associated with our third-party contract manufacturers' and carriers' ability to provide products and services to meet our requirements. In addition, if the cost of fuel and ocean freight rises, the cost to source and deliver products may rise, which could harm our profitability.

***Our net sales and profits depend on the level of customer spending for our products, which is sensitive to general economic conditions and other factors.***

Restaurant dining and food delivery services are generally considered discretionary items for end-consumers. Therefore, the success of our business depends significantly on broader economic factors and trends in consumer spending, especially those that relate to consumer dining preferences and spending patterns. There are a number of factors that influence dining-related consumer spending, including actual and perceived economic conditions, consumer confidence, disposable consumer income, consumer credit availability and unemployment rates. Consumers have broad discretion as to where to spend their disposable income and may choose to reduce their restaurant and foodservice spending in times of inflation, high interest and unemployment rates which would negatively impact our customers, customers and then in turn our results of operations. As global economic conditions continue to be volatile and economic uncertainty remains, trends in consumer discretionary spending also remain unpredictable and subject to declines. Any of these factors could harm discretionary consumer spending, resulting in a reduction in demand for our products, decreased prices, and harm to our business, and financial condition, results of operations, operations or cash flows.

***Periods of significant or prolonged deflation may negatively impact our results of operations and overall profitability.***

If the industry we operate in experiences a prolonged period of price decreases resulting from stabilizing lower raw material, product, and ocean freight costs and decreased raw material input costs, as well as prolonged customer destocking, we could see a reduction in our sales, gross margin and overall profitability. These lower costs could also reduce the barrier to entry within the foodservice industry thereby increasing competition and potentially affecting our results of operations. Similarly, if our competitors lower their prices and expand their promotional activities, we may be forced to lower our prices as well and our operational results could be negatively impacted.

***Changes in tax laws or changes in our geographic mix of earnings could have a material impact on our financial condition and results of operation.***

We are subject to income and other taxes in the many jurisdictions in which we operate. Tax laws and regulations are complex and the determination of our global provision for income taxes and current and deferred tax assets and liabilities requires judgment and estimation. We are subject to routine examinations of our income tax returns, and tax authorities may disagree with our tax positions and assess additional tax. Our future income taxes could also be negatively impacted by our mix of earnings in the jurisdictions in which we operate being different than anticipated given differences in statutory tax rates in the countries in which we operate. In addition, tax policy efforts to raise global corporate tax rates could adversely impact our tax rate and subsequent tax expense.

**Risks Related to Our Business**

***Our business could be harmed if we are unable to accurately forecast demand for our products or our results of operations.***

To ensure adequate inventory supply, we forecast inventory needs and often place orders with our manufacturers before we receive firm orders from our customers. If we fail to accurately forecast demand, we may experience excess inventory levels or a shortage of product to deliver to our customers.

If we underestimate the demand for our products, we, or our manufacturers, may not be able to scale to meet our demand, and this could result in delays in the shipment of our products and our failure to satisfy demand, as well as damage to our reputation and customer relationships. If we overestimate the demand for our products, we could face inventory levels in excess of demand, which could result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which would harm our gross margins. In addition, failures to accurately predict the level of demand for our products could cause a decline in sales and harm our results of operations and financial condition. In addition, we may not be able to accurately forecast our results of operations and growth rate.

Forecasts may be particularly challenging as we expand into new markets and geographies and develop and market new products. Our historical sales, expense levels, and profitability may not be an appropriate basis for forecasting future results.

Failure to accurately forecast our results of operations and growth rate could cause us to make poor operating decisions and we may not be able to adjust in a timely manner. Consequently, actual results could be materially lower than anticipated. Even if the markets in which we compete expand, we cannot assure you that our business will not grow at similar rates, if at all.

**We may continue to incur significant capital expenditures which could affect our ability to meet our obligations and may otherwise restrict our growth.**

As Although we continue to grow our businesses, we have recently shifted towards an asset light model by increasing import and scaling back production and reducing capital expenditure, changes in economic and political conditions may continue to result in us incurring significant capital expenditures including the leasing of again to expand manufacturing. We may also make significant investments to lease additional warehouse space, the purchase of manufacturing equipment expand our truck fleet, and trucks and trailers to support our distribution and logistics capabilities and the investment in upgrade our e-commerce platform. Such purchases and investments cash outlays could affect our ability to service our existing debt obligations or limit our ability to respond to business opportunities, pursue acquisitions or otherwise restrict our continued growth and expansion.

**Because we have entered into a significant number of related party transactions through the course of our routine business operations, there is a risk of conflicts of interest involving our management, and that such transactions may not reflect terms that would be available from unaffiliated third parties.**

In the course of our normal business, we have purchased products, raw materials and supplies from our related parties, including an entity owned by our CEO Alan Yu's brother, Jeff Yu, who until 2021 was employed as an account manager for our national sales team. In addition, our Texas facility and our New Jersey facility are each owned and leased to us by our variable interest entity, wherein we are the primary beneficiary and in which we have an equity interest and which is controlled by one of our stockholders. In all related party transactions, there is a risk that even if the Company personnel negotiating on behalf of the Company with the related party are striving to ensure that the terms of the transaction are arms-length, the related party's influence may be such that the transaction terms could be viewed as favorable to that related party. The section "Related Party Transactions" in the Notes to the Consolidated Financial Statements in this Form 10-K provide specific information about our prior related party transactions. We may engage in additional related party transactions in the future, which will be subject to review and approval by our nominating and corporate governance committee pursuant to the Company's related party transactions policy.

**We may not have adequate insurance coverage.**

We may not have adequate insurance coverage. The successful assertion of one or more large claims against us that exceeds our available insurance coverage, or results in changes to our insurance policies (including premium increases or the imposition of large deductible or co-insurance requirements), could have an adverse effect on our business. In addition, we cannot be sure that our existing insurance coverage and coverage for errors and omissions will continue to be available on acceptable terms or that our insurers will not deny coverage as to any future claim.

**If we are unable to successfully design and develop new products, our business may be harmed.**

To maintain and increase sales, we must continue to introduce new products and improve or enhance our existing products. The success of our new and enhanced products depends on many factors, including anticipating consumer preferences, finding innovative solutions to consumer problems, differentiating our products from those of our competitors, and maintaining the strength of our brand. The design and development of our products is costly and we typically have several products in development at the same time. Problems in the design or quality of our products, or delays in product introduction, may harm our brand, business, financial condition, and results of operations, operations or cash flows.

**We may be subject to liability if we infringe upon the intellectual property rights of third parties.**

Third parties have sued, and may sue us in the future for alleged infringement of their proprietary rights. The party claiming infringement might have greater resources than we do to pursue its claims, and we could be forced to incur substantial costs and devote significant management resources to defend against such litigation, even if the claims are meritless and even if we ultimately prevail. If the party claiming infringement were to prevail, we could be forced to modify or discontinue our products, pay significant damages, or enter into expensive royalty or licensing arrangements with the prevailing party. In addition, any payments we are required to make, and any injunction we are required to comply with as a result of such infringement, could harm our reputation, and business, financial results, condition, results of operations or cash flows.

**Our current and future products may experience quality problems from time to time that can result in product returns, negative publicity, litigation, product recalls, and warranty claims, which could result in decreased sales and operating margin, and harm to our brand.**

Although we extensively and rigorously test new and enhanced products, there can be no assurance we will be able to detect, prevent, or fix all defects. Defects in materials or components can unexpectedly interfere with the products' intended use and safety and damage our reputation. Failure to detect, prevent, or fix defects could result in a variety of consequences, including a greater number of product returns than expected from customers, litigation, product recalls, and credit claims, among others, which could harm our sales and results of operations. The occurrence of real or perceived quality problems or material defects in our current and future products could result in loss of revenue and expose us to product recalls, warranty, or other claims. In addition, any negative publicity or lawsuits filed against us related to the perceived quality and safety of our products could also harm our brand and decrease demand for our products.

**Labor cost inflation and the unavailability of skilled workers could disrupt our business.**

Labor is subject to cost inflation and availability, due to external factors, such as the continuing impacts increases in minimum wage, higher cost of the COVID-19 pandemic and living, workforce participation rates, and employee preference for remote or hybrid work schedules, that are all beyond our control. In January 2024, California passed Bill 1228 which increases the minimum-wage of fast food restaurant workers to \$20 per hour beginning April 1, 2024. This could force us to increase compensation for new and existing employees in order to attract and retain talent thereby negatively impacting our labor costs and results of operations. As a result, there can be no assurance we will be able to recruit, train, assimilate, motivate and retain employees in the future. The loss of a substantial number of these employees and our inability to hire and replace our workforce could disrupt our business and result in significant losses.

**Our growth depends, in part, on expanding into additional foodservice and geographic markets, and we may not be successful in doing so.**

We believe that our future growth depends not only on continuing to reach our current customer base and demographic, but also continuing to expand our business into other foodservice markets and geographies. The growth of our business will depend, in part, on our ability to continue to expand into additional foodservice markets including grocery

stores, entertainment venues, airlines and other non-traditional foodservice venues. Additionally, we are expanding our sales and marketing efforts to further penetrate additional geographies across the United States, and we may encounter difficulties in attracting customers due to a lack of consumer familiarity with or acceptance of our brand. We continue to evaluate marketing efforts and other strategies to expand the customer base for our products especially our eco-friendly line. In addition, although we are investing in sales and marketing activities such as upgrading our e-commerce platform and presence to further penetrate newer regions and customers, we cannot provide assurances that these efforts will be successful. **We are also expanding the number of distribution centers and warehouses across the United States and these efforts come with considerable challenges and risks, including entering into long term lease contracts with possibly significant termination clauses.** If we are not successful, our business, results of operations, financial condition and cash flows may be harmed.

**We rely on third-party contract manufacturers and conflicts with, or loss of, our suppliers or an inability to obtain raw materials could harm our business and results of operations.**

Certain of our products are produced by third-party contract manufacturers. We face the risk that these third-party contract manufacturers may not produce and deliver our products on a timely basis, or at all. We may also experience the inability of our third-party contract manufacturers to meet the increased demand of our customers. These difficulties include reductions in the availability of production capacity, errors in complying with product specifications and regulatory and customer requirements, insufficient quality control, failures to meet production deadlines, failure to achieve our product quality standards, increases in costs of materials, and manufacturing or other business interruptions. The ability of our manufacturers to effectively satisfy our production requirements could also be impacted by manufacturer financial difficulty or disruption to their operations caused by fire, terrorist attack, natural disaster, or other events. The failure of any manufacturer to perform to our expectations could result in supply shortages or delays for certain products and harm our business. If we experience significantly increased demand, or if we need to replace an existing manufacturer due to lack of performance, we may be unable to supplement or replace their manufacturing capacity on a timely basis or on terms that are acceptable to us, which may increase our costs, reduce our margins, and harm our ability to deliver our products on time. For certain of our products, it may take a significant amount of time to identify and qualify a manufacturer that has the capability and resources to produce our products to our specifications in sufficient volume and satisfy our service and quality control standards.

**We rely on a combination of purchase orders and supply contracts with our suppliers and manufacturers. Some of these relationships are not exclusive, which means that these suppliers and manufacturers could produce similar products for our competitors.**

We rely on a combination of purchase orders and supply contracts with our suppliers and manufacturers. With all of our suppliers and manufacturers, we face the risk that they may fail to produce and deliver supplies or our products on a timely basis, or at all. Furthermore, the products they manufacture for us may not comply with our quality standards. In addition, our suppliers and manufacturers may raise prices in the future, which would increase our costs and harm our margins. Even those suppliers and manufacturers with whom we have supply contracts may breach these agreements, and we may not be able to enforce our rights under these agreements or may incur significant costs attempting to do so. As a result, we cannot predict with certainty our ability to obtain supplies and finished products in adequate quantities, of required quality and at acceptable prices from our suppliers and manufacturers in the future. Any one of these risks could harm our ability to deliver our products on time, or at all, damage our reputation and our relationships with our customers, and increase our product costs thereby reducing our margins.

In addition, our arrangements with our manufacturers and suppliers are not exclusive. As a result, our suppliers or manufacturers could produce similar products for our competitors, some of which could potentially purchase products in significantly greater volume. Our competitors could enter into restrictive or exclusive arrangements with our manufacturers or suppliers that could impair or eliminate our access to manufacturing capacity or supplies. Our manufacturers or suppliers could also be acquired by our competitors, and may become our direct competitors, thus limiting or eliminating our access to supplies or manufacturing capacity. If our independent suppliers and manufacturing partners do not comply with ethical business practices or with applicable laws and regulations, our reputation, business, and results of operations, **would financial condition or cash flows** may be harmed.

Our reputation and our customers' willingness to purchase our products depend in part on our suppliers' and manufacturers' compliance with ethical employment practices, such as with respect to child labor, wages and benefits, forced labor, discrimination, safe and healthy working conditions, and with all legal and regulatory requirements relating to the conduct of their businesses. We do not exercise control over our suppliers and manufacturers and cannot guarantee their compliance with ethical and lawful business practices. If our suppliers or manufacturers fail to comply with applicable laws, regulations, safety codes, employment practices, human rights standards, quality standards, environmental standards, production practices, or other obligations, norms, or ethical standards, our reputation and brand image could be harmed and we could be exposed to litigation and additional costs that would harm our business, **reputation, and results of operations.** **operations, financial condition or cash flows.**

**We incur significant expenses to maintain our manufacturing equipment and any interruption in the operations of our facilities may harm our operating performance.**

We regularly incur significant expenses to maintain our manufacturing equipment and facilities. The machines and equipment that we use to produce our products are complex, have many parts and some are run on a continuous basis. We must perform routine maintenance on our equipment and will have to periodically replace a variety of parts such as motors, pumps, pipes and electrical parts. In addition, our facilities may require periodic shutdowns to perform major maintenance. These scheduled shutdowns of facilities may result in decreased sales and increased costs in the periods in which they occur and could result in unexpected operational issues in future periods as a result of changes to equipment and operational and mechanical processes made during shutdown periods. **Additionally, upon the expiration of our facility leases, we may not be able to renew these leases on terms acceptable to us, if at all. If this occurs, it could have a material adverse impact on our financial conditions and results of operations.**

**Many of our operating costs and expenses are fixed and will not decline if our revenues decline.**

Our results of operations depend, in large part, on our level of revenues, operating costs and expenses. The expense of owning and operating our business is not necessarily reduced when circumstances such as market factors and competition cause a reduction in revenue from the business. As a result, if revenues decline, we may not be able to reduce our expenses to keep pace with the corresponding reductions in revenues. Many of the costs associated with our business and operations, such as insurance, loan payments and maintenance, and rent payments generally will not be reduced if circumstances cause our revenues to decrease, which could have a material adverse effect on us, including our financial condition, results of operations, cash flow, cash available for distribution and our ability to service our debt obligations. Additionally, upon the expiration of our facility leases, we may not be able to renew these leases on terms acceptable to us, if at all. If this occurs, it could have a material adverse impact on our **financial conditions and business, results of operations.** **operations, financial condition or cash flows.**

We depend on our information technology systems, as well as those of third parties, to design and develop new products, operate our website, host and manage our services, store data, process transactions, respond to user inquiries, manage inventory and our supply chain as well as to conduct and manage other activities. Any material disruption or slowdown of our systems or those of third parties that we depend upon, including a disruption or slowdown caused by our failure to successfully manage significant increases in user volume or successfully upgrade systems, system failures, viruses, ransomware, security breaches, or other causes, could cause information, including data related to orders, to be lost or delayed, which could result in delays in the delivery of products to retailers and customers or lost sales, which could reduce demand for our products, harm our brand and reputation, and cause our sales to decline. If changes in technology cause our information systems, or those of third parties that we depend upon, to become obsolete, or information systems are inadequate to handle our growth, particularly as we increase sales through our online sales channel, we could damage our customer and business partner relationships and our **business and results of operations**, **could financial condition or cash flows** may be harmed.

**Our future success depends on the continuing efforts of our management and key employees, and on our ability to attract and retain highly skilled personnel and senior management.**

We depend on the talents and continued efforts of our senior management and key employees. The loss of members of our management or key employees may disrupt our business and harm our results of operations. Furthermore, our ability to manage further expansion will require us to continue to attract, motivate, and retain additional qualified personnel. Competition for this type of personnel is intense, and we may not be successful in attracting, integrating, and retaining the personnel required to grow and operate our business effectively. There can be no assurance that our current management team, or any new members of our management team, will be able to successfully execute our business and operating strategies.

**We may not be able to effectively manage our growth.**

As we grow our business, slower growth or reduced demand for our products, increased competition, a decrease in the growth rate of our overall market, failure to develop and successfully market new products, or the maturation of our business or market could harm our business. We expect to make significant investments in our research and development and sales and marketing organizations, expand our operations and infrastructure both domestically and internationally, design and develop new products, and enhance our existing products. In addition, in connection with operating as a public company, we will incur significant additional legal, accounting, and other expenses. If our sales do not increase at a sufficient rate to offset these increases in our operating expenses, our profitability may decline in future periods.

We have expanded our operations rapidly since our inception. Our employee headcount and the scope and complexity of our business have increased substantially over the past several years. We have only a limited history operating our business at its current scale. Consequently, if our operations continue to grow at a rapid pace, we may experience difficulties in managing this growth and building the appropriate processes and controls.

Continued growth may increase the strain on our resources, and we could experience operating difficulties, including difficulties in sourcing, logistics, recruiting, maintaining internal controls, marketing, designing innovative products, and meeting consumer needs. If we do not adapt to meet these evolving challenges, the strength of our brand may erode, the quality of our products may suffer, we may not be able to deliver products on a timely basis to our customers, and our corporate culture may be harmed.

**We may become involved in legal or regulatory proceedings and audits.**

Our business requires compliance with many laws and regulations, including labor and employment, sales and other taxes, customs, and consumer protection laws and ordinances that regulate retailers generally and/or govern the importation, promotion, and sale of merchandise, and the operation of stores and warehouse facilities. Failure to comply with these laws and regulations could subject us to lawsuits and other proceedings, and could also lead to damage awards, fines, and penalties. We may become involved in a number of legal proceedings and audits, including government and agency investigations, and consumer, employment, tort, and other litigation. The outcome of some of these legal proceedings, audits, and other contingencies could require us to take, or refrain from taking, actions that could harm our operations or require us to pay substantial amounts of money, harming our financial condition and results of operations. Additionally, defending against these lawsuits and proceedings may be necessary, which could result in substantial costs and diversion of management's attention and resources, harming our business, **results of operations, financial condition and results of operations, or cash flows**. Any pending or future legal or regulatory proceedings and audits could harm our business, **results of operations, financial condition and results of operations, or cash flows**.

**We are subject to payment-related risks.**

For our online sales, as well as for sales to our offline customers, we accept a variety of payment methods, including credit cards, debit cards, electronic funds transfers, and electronic payment systems. Accordingly, we are, and will continue to be, subject to significant and evolving regulations and compliance requirements, including obligations to implement enhanced authentication processes that could result in increased costs and liability, and reduce the ease of use of certain payment methods. For certain payment methods, including credit and debit cards, as well as electronic payment systems, we pay interchange and other fees, which may increase over time. We rely on independent service providers for payment processing, including credit and debit cards. If these independent service providers become unwilling or unable to provide these services to us or if the cost of using these providers increases, our business could be harmed. Any failure to comply could significantly harm our brand, reputation, business, **and results of operations, financial condition or cash flows**.

**We are subject to credit risk.**

We are exposed to credit risk primarily on our accounts receivable. We provide credit to our customers in the ordinary course of our business and perform ongoing credit evaluations. While we believe that our exposure to concentrations of credit risk with respect to trade receivables is mitigated by our large retail partner base, and we make allowances for sales and doubtful accounts, we nevertheless run the risk of our customers not being able to meet their payment obligations, particularly in a future economic downturn. If a material number of our customers were not able to meet their payment obligations, our **business, results of operations, could financial condition or cash flows** may be harmed.

**Security incidents and attacks on our information technology systems could lead to significant costs and disruptions that could harm our business, financial results, and reputation.**

We rely extensively on information technology systems to conduct our business, some of which are managed by third-party service providers. Information technology supports several aspects of our business, including among others, product sourcing, pricing, customer service, transaction processing, financial reporting, collections and cost management. Our ability to operate effectively on a day-to-day basis and accurately report our results depends on a solid technological infrastructure, which is inherently susceptible to internal and external threats. We are vulnerable to interruption by power loss, telecommunication failures, internet failures, security breaches and other catastrophic events. Exposure to various types of cyber-attacks such as malware, computer viruses, worms or other malicious acts, as well as human error, could also potentially disrupt our operations or result in a significant interruption in the delivery of our goods and services. For a description of our cybersecurity program, see Part I, Item 1C. "Cybersecurity".

**We have identified material weaknesses in our internal control over financial reporting. If we are unable to remediate these material weaknesses, or if we experience additional material weaknesses or deficiencies in the future or otherwise fail to maintain an effective system of internal controls, we may not be able to accurately or timely report our financial results, in which case our business may be harmed, investors may lose confidence in the accuracy and completeness of our financial reports and the price of our common stock may decline.**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The rules governing the standards that must be met for management to determine that our internal control over financial reporting is effective are complex and require significant documentation, testing and possible remediation to meet the detailed standards under the rules. Our management has identified material weaknesses in our internal control over financial reporting. A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected and corrected on a timely basis. For a description of the identified material weaknesses, see Part II, Item 9A, "Controls" and "Procedures".

As further described in Item 9A, "Controls and Procedures," we have remediated certain material weaknesses previously identified in Part II, Item 9A of Form 10-K for the year ended December 31, 2022 filed with the SEC on March 16, 2023. For the unremediated material weaknesses, we have undertaken steps to improve our internal control over financial reporting, implement remedial actions. We expect that we will need to improve existing procedures and controls, and implement new ones, to remediate the material weaknesses. We may not be successful in making the improvements necessary to remediate the material weaknesses identified by management or be able to do so in a timely manner. Any inability to remediate the material weaknesses effectively or in a timely manner, or the identification of any new material weaknesses in the future, could limit our ability to prevent or detect a misstatement of our accounts or disclosures and could result in a material misstatement of our annual or interim financial statements. In such case, we may be unable to maintain compliance with securities law requirements regarding timely filing of periodic reports in addition to applicable stock exchange listing requirements, investors may lose confidence in our financial reporting and the prices of our common stock may decline as a result.

**If our goodwill, other intangible assets, or our property and equipment become impaired, we may be required to record a charge to our earnings.**

We may be required to record future impairments of goodwill, other intangible assets, or long-lived assets to the extent the fair value of these assets falls below their book value. Our estimates of fair value are based on assumptions regarding future cash flows, gross margins, expenses, discount rates applied to these cash flows, and current market estimates of value. Estimates used for future sales growth rates, gross profit performance, and other assumptions used to estimate fair value are subject to significant judgment. Although impairments are non-cash expenses, they could materially affect our future financial results and financial condition.

**If our estimates or judgments relating to our critical accounting policies prove to be incorrect or change significantly, our results of operations could be harmed.**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in the section of this Form 10-K titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements, and related notes included elsewhere in this Form 10-K. These estimates form the basis for making judgments about the carrying values of assets, liabilities, and equity and the amount of sales and expenses that are not readily apparent from other sources. Our results of operations may be harmed if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors, and could result in a decline in our stock price.

#### **Risks Related to Societal and Environmental Factors**

**The continuing effects of COVID-19 a pandemic are highly unpredictable and could be significant, and may have an adverse effect on our business, operations and our future financial performance.**

Since a pandemic, similar to COVID-19, was declared a global pandemic by the World Health Organization, would adversely impact our business, results of operations, financial condition and financial performance have been, and may continue to be, affected by the macroeconomic impacts resulting from the efforts to control the spread of COVID-19. As a result of cash flows. Depending on the scale of the pandemic, including the introduction of new variants of COVID-19 and vaccination and other efforts to control the spread, our revenue growth rate and expenses as a percentage of our revenues in future periods financial performance may differ significantly from our historical rates, and our future operating results may also start to fall below expectations. We may also experience additional operating costs due to increased challenges with our workforce (including as a result of labor shortages, illness, absenteeism or government orders), and access to supplies and capital. Even after the COVID-19 a pandemic has subsided, we may experience materially adverse impacts to our business due to any resulting supply chain disruptions and economic conditions. Furthermore, the impacts of potential worsening of global economic conditions, inflation pressures and continued disruptions to and volatility in the financial markets remain unknown.

**Our business is subject to the risk of earthquakes, fire, power outages, floods, pandemics, and other catastrophic events, and to interruption by problems such as terrorism, cyberattacks, or failure of key information technology systems.**

As we rely heavily on our manufacturing facilities, our business is particularly vulnerable to damage or interruption from earthquakes, fires, floods, pandemics, power losses, telecommunications failures, terrorist attacks, acts of war, human errors, criminal acts, and similar events. For example, a significant natural disaster, such as an earthquake, fire, or flood, could harm our business, results of operations, and financial condition, and our insurance coverage may be insufficient to compensate us for losses that may occur. Our

corporate offices, distribution centers, and manufacturing facilities are located in California, a state that frequently experiences earthquakes and wildfires, Texas, a state that frequently experiences floods and storms, and Hawaii, a state that frequently experiences hurricanes and tsunamis. In addition, the facilities of our suppliers and where our manufacturers produce our products are located in parts of Asia that frequently experience typhoons and earthquakes. Acts of terrorism could also cause disruptions in our or our suppliers'.

manufacturers', and logistics providers' businesses or the economy as a whole. We may not have sufficient protection or recovery plans in some circumstances, such as natural disasters affecting California, Texas, or Hawaii or other locations where we have operations or store significant inventory.

Our servers may also be vulnerable to computer viruses, criminal acts, denial-of-service attacks, ransomware, and similar disruptions from unauthorized tampering with our computer systems, which could lead to interruptions, delays, or loss of critical data. As we rely heavily on our information technology and communications systems and the internet to conduct our business and provide high-quality customer service, these disruptions could harm our ability to run our business and either directly or indirectly disrupt our suppliers' or manufacturers' businesses, which could harm our business, results of operations, and financial condition. For a description of our cybersecurity program, see Part I, Item 1C. "Cybersecurity".

***Climate change and sustainability initiatives may result in significant operational changes and expenditures and adversely affect our business.***

Continuing political and social attention to carbon emissions and sustainability may result in the imposition of additional regulations or restrictions to which we may become subject. Such policies could result in increased production costs including higher energy and raw materials prices, which could negatively impact our financial condition and results of operations. Additionally, changing weather patterns could also cause disruptions or the complete shutdown of our operations and facilities, thereby impacting our business and consolidated financial statements.

***We are subject to environmental laws and regulations that expose us to a number of risks and could result in significant liabilities and costs.***

We operate manufacturing facilities in the United States, and are therefore subject to certain environmental regulations with respect to the operation of those facilities. If we were to experience a material adverse environmental event at any of our facilities, or we were to experience any material product safety issue with respect to our products or our business, our results of operations, financial condition and cash flow could be materially adversely affected. Furthermore, concern over plastics products may result in new or increased legal and regulatory requirements to reduce or mitigate impacts to the environment. Increased regulatory requirements, including in relation to various aspects of ESG including disclosure requirements, or environmental causes may result in increased compliance or input costs of raw materials, which may cause disruptions in the manufacture of our products or an increase in operating costs. If we do not adapt to or comply with new regulations, or fail to meet the needs of the evolving investor, industry, or stakeholder expectations and standards, or if we are perceived to have not responded appropriately to the growing concern for ESG issues, customers and consumers may choose to stop purchasing our products or purchase products from another company or a competitor, and our reputation, business results of operations, and consolidated financial condition statements may be adversely affected.

**Risks Related to the World Events and International Nature of Our Operations**

***If additional tariffs or other restrictions are placed on foreign imports or any related counter-measures are taken by other countries, our business and results of operations could be harmed.***

Historically, there have been tariffs and other trade restrictions and various alterations to trade agreements and terms between the United States and China, the European Union, Canada, and Mexico, among others, including limiting trade and/or imposing tariffs on imports from such countries. If additional tariffs or other restrictions are placed on foreign imports, including on any of our products manufactured overseas for sale in the United States, or any related counter-measures are taken by other countries, our business, results of operations, financial condition and cash flows may be materially harmed.

These tariffs have the potential to significantly raise the cost of our products. In such a case, there can be no assurance that we will be able to shift manufacturing and supply agreements to non-impacted countries, including the United States,

to reduce the effects of the tariffs. As a result, we may suffer margin erosion or be required to raise our prices, which may result in the loss of customers. Tariffs imposed by the U.S. government or a global trade war could increase the cost of our products, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

***International political instability and terrorist activities could result in market instability, which could negatively impact our business results.***

Terrorist activities and armed conflicts, including recent escalations in regional conflicts, including the Russian invasion of Ukraine and increasing tensions between China and Taiwan, could result in economic sanctions that could impact our operational and financial results. If such events disrupt domestic or international air, ground or sea shipments, or the operation of the Company's manufacturing facilities, the Company's ability to obtain the materials necessary to manufacture its products and to deliver customer orders would be harmed, which would have a significant adverse effect on the Company's business, results of operations, financial condition and cash flows. In addition, international conflict could result in increased energy costs, which could increase the cost of manufacturing, selling and delivering products and solutions; inflation, which could result in increases in the cost of manufacturing products and solutions, reduced customer purchasing power, decreased consumer demand, increased price pressure, and reduced or cancelled orders; increased risk of cyber-attacks; and market instability, which could adversely impact our overall business results.

***If we fail to timely and effectively obtain shipments of products from our overseas manufacturers, our business and results of operations could be harmed.***

Our overseas third-party contract manufacturers ship most of our products to our primary facility in California, which are then shipped to our customers and to our distribution facilities in Texas, Washington, New Jersey and South Carolina. Because we import many of our products, we are vulnerable to risks associated with products manufactured abroad, including, among other things: (a) risks of damage, destruction, or confiscation of products while in transit to our distribution centers; and (b) transportation and other delays in shipments, including as a result of heightened security screening, port congestion, and inspection processes or other port-of-entry limitations or restrictions in the United States. In

order to meet demand for a product, we have chosen in the past, and may choose in the future, to arrange for additional quantities of the product, if available, to be delivered through air freight, which is significantly more expensive than standard shipping by sea and, consequently, could harm our gross margins. Failure to procure our products from our third-party contract manufacturers and deliver merchandise to our customers in a timely, effective, and economically viable manner could reduce our sales and gross margins, damage our brand, and harm our business.

**Many of our products are manufactured by third parties outside of the United States, and our business may be harmed by legal, regulatory, economic, and political risks associated with international trade and those markets.**

Many of our products are manufactured outside the United States. Our reliance on suppliers and manufacturers in foreign markets creates risks inherent in doing business in foreign jurisdictions, including: (a) the burdens of complying with a variety of foreign laws and regulations, including trade and labor restrictions and laws relating to the importation and taxation of goods; (b) weaker protection for intellectual property and other legal rights than in the United States, and practical difficulties in enforcing intellectual property and other rights outside of the United States; (c) compliance with U.S. and foreign laws relating to foreign operations, including the U.S. Foreign Corrupt Practices Act, or FCPA, the UK Bribery Act 2010, or the Bribery Act, regulations of the U.S. Office of Foreign Assets Controls, or OFAC, and U.S. anti-money laundering regulations, which prohibit U.S. companies from making improper payments to foreign officials for the purpose of obtaining or retaining business, operating in certain countries, as well as engaging in other corrupt and illegal practices; (d) economic and political instability and acts of terrorism in the countries where our suppliers are located; (e) transportation interruptions or increases in transportation costs; and (f) the imposition of tariffs on components and products that we import into the United States or other markets. markets, and; (g) the impact of currency exchange fluctuations, trade regulations, import duties, logistics costs, delays, and other related risks resulting in increased costs or liabilities. We cannot provide assurance that our directors, officers, employees, representatives, manufacturers, or suppliers have not engaged and will not engage in conduct for which we may be held responsible, nor can we provide assurance that our manufacturers, suppliers, or other business partners have not engaged and will not engage in conduct that could materially harm their ability to perform their contractual obligations to us or even result in our being held liable for such conduct.

Violations of the FCPA, the Bribery Act, OFAC restrictions, or other export control, anti-corruption, anti-money laundering, and anti-terrorism laws or regulations may result in severe criminal or civil sanctions, and we may be subject to other related liabilities, which could harm our business, results of operations, financial condition and cash flows.

**Foreign exchange rate fluctuations could affect our results of operations.**

Our third-party manufacturers are located in international markets, and we make payment to certain of these manufacturers in currency other than U.S. Dollars, including payments made in New Taiwan Dollars. Any fluctuations in foreign exchange rates against the U.S. Dollar, and in particular the exchange rates of the New Taiwan Dollar, could increase our costs, and have a material adverse impact on our business, results of operations, financial condition and cash flows and results of operations. flows.

#### **Risks Related to Ownership of Our Common Stock and Our Capital Structure**

**Our directors, executive officers, and significant stockholders have substantial control over us and could delay or prevent a change in corporate control.**

As of **March 1, 2023** **March 1, 2024**, our directors, executive officers, and other holders of more than 5% of our common stock, together with their affiliates, own, in the aggregate **71.4%** **65.5%** of our outstanding common stock. As a result, these stockholders, acting together or in some cases individually, have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation, or sale of all or substantially all of our assets. In addition, these stockholders, acting together or in some cases individually, have the ability to control the management and affairs of our company. Accordingly, this concentration of ownership might decrease the market price of our common stock by:

- delaying, deferring, or preventing a change in control of the company;
- impeding a merger, consolidation, takeover, or other business combination involving us; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of the company.

**Our stock price may be volatile or may decline, including due to factors beyond our control, resulting in substantial losses for investors.**

The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our results of operations;
- the financial projections we may provide to the public, any changes in these projections, or our failure to meet these projections;
- failure of securities analysts to initiate or maintain coverage of our company, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- ratings changes by any securities analysts who follow our company;
- sales or potential sales of shares by our stockholders, or the filing of a registration statement for these sales;
- adverse market reaction to any indebtedness we may incur or equity we may issue in the future;
- announcements by us or our competitors of significant innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;
- publication of adverse research reports about us, our industry, or individual companies within our industry;
- publicity related to problems in our manufacturing or the real or perceived quality of our products, as well as the failure to timely launch new products that gain market acceptance;
- changes in operating performance and stock market valuations of our competitors;
- price and volume fluctuations in the overall stock market, including as a result of trends in the United States or global economy;
- any major change in our board of directors or management;
- lawsuits threatened or filed against us or negative results of any lawsuits;
- security breaches or cyberattacks;

- legislation or regulation of our business;
- loss of key personnel;
- new products introduced by us or our competitors;
- the perceived or real impact of events that harm our direct competitors;
- developments with respect to our trademarks, patents, or proprietary rights;
- general market conditions; and
- other events or factors, including those resulting from war, incidents of terrorism, or responses to these events, which could be unrelated to us or outside of our control.

In addition, stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies in our industry, as well as those of newly public companies. In the past, stockholders of other public companies have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business, and harm our business, results of operations, financial condition and cash flows.

***Acquisitions could result in operating difficulties and may materially adversely affect our business, financial condition, results of operations and growth prospects.***

We have evaluated, and expect to continue evaluating, potential strategic transactions, and we may pursue one or more transactions, including acquisitions. We have limited experience executing acquisitions. Any transaction could be material to our business, financial condition, results of operations and growth prospects. Integrating an acquired company, business or technology may create unforeseen operating difficulties and expenditures. Acquisition-related risks include:

- diverting management time and focus from operating our business to acquisition integration;
- customers moving to new suppliers as a result of the acquisition;
- inability to retain employees from the business we acquire;
- challenges associated with integrating employees from the acquired company into our organization;
- difficulties integrating accounting, management information, human resource and other administrative systems to permit effective management of the business we acquire and realize efficiencies;
- potential requirements for remediating controls, procedures and policies appropriate for a public company in the acquired business that prior to the acquisition lacked these controls, procedures and policies;
- potential liability for past or present environmental, hazardous substance, or contamination concerns associated with the acquired business or its predecessors;
- possible write-offs or impairment charges resulting from the acquisition; and
- unanticipated or unknown liabilities relating to the acquired business.

Also, the anticipated benefit of any acquisition may not materialize. Future acquisitions or dispositions could result in potentially dilutive issuances of our equity securities, debt incurrence, contingent liabilities or amortization expenses or goodwill write-offs, any of which could materially adversely affect our business, financial condition, results of operations and growth prospects. Future acquisitions may require us to obtain additional equity or debt financing, which may not be available on favorable terms or at all.

***Substantial future sales, or the perception or anticipation of future sales, of shares of our common stock may cause our stock price to decline. In addition, a significant portion of our common stock is restricted from immediate resale but may be sold into the market in the near future. This could cause the market price of our common stock to drop significantly, even if our business is doing well.***

Our stock price could decline as a result of substantial sales of our common stock, or the perception or anticipation that such sales could occur, particularly sales by our directors, executive officers, and significant stockholders. Possible sales also may make it more difficult for us to sell equity or equity-related securities in the future at a time and price we deem necessary or appropriate. Additionally, if we issue a large number of shares in connection with future acquisitions, financings or other circumstances, the market price of our common stock could decline significantly. We cannot predict the size of future issuances of our common stock or the effect, if any, that future issuances or sales of our shares will have on the market price of such shares.

In addition, as of December 31, 2022 December 31, 2023, we had 420,000 386,473 stock options and 82,146 5,345 unvested restricted stock units outstanding. The additional shares issued upon vesting will be eligible to be sold freely in the public market, subject to volume limitations applicable to affiliates and the existing lock-up agreements.

***Our bylaws designate the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain actions, which could limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with the Company and its directors, officers, or other employees and may discourage lawsuits with respect to such claims.***

Unless we consent in writing to the selection of an alternative forum, the sole and exclusive forum for: (i) any derivative action or proceeding brought against or on behalf of the Company, (ii) any action asserting a claim of breach of a duty owed by any current or former director, officer, other employee or stockholder of the Company to the Company or the Company's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, (iv) any action as to which the Delaware General Corporation Law confers jurisdiction upon the Court of Chancery in the State of Delaware, or (v) any action asserting a claim governed by the internal affairs doctrine, shall, to the fullest extent permitted by law, be the Court of Chancery in the State of Delaware (or, only if the Court of Chancery in the State of Delaware declines to accept jurisdiction over a particular matter, any state or federal court located within the State

of Delaware). However, Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder, and as such, the exclusive jurisdiction clauses set forth above would not apply to such suits. Furthermore, Section 22 of the Securities Act provides for concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder, and as such, the exclusive jurisdiction clauses set forth above would not apply to such suits.

Although we believe the exclusive forum provision benefits us by providing increased consistency in the application of Delaware law for the specified types of actions and proceedings, this provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with the Company and its directors, officers, or other employees and may discourage lawsuits with respect to such claims.

***We may issue preferred stock, the terms of which could adversely affect the voting power or value of our common stock.***

Our certificate of incorporation authorizes us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such designations, preferences, limitations and relative rights, including preferences over our common stock respecting dividends and distributions, as our board of directors may determine. The terms of one or more classes or series of preferred stock could adversely impact the voting power or value of our common stock. For example, we might grant holders of preferred stock the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we might assign to holders of preferred stock could affect the residual value of the common stock.

***We do not intend to pay quarterly dividends for the foreseeable future. If our stock price does not appreciate after you purchase our shares, you may lose some or all of your investment.***

Although we our Board of Directors declared and paid a special quarterly cash dividend of \$0.35 per share in November 2022, we do not currently 2023 and intend to pay regular quarterly dividends and for the foreseeable future, we may not declare any special be able to sustain our current quarterly dividend in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable laws, and will depend on a number of factors, including our financial condition, results of operations, capital requirements, contractual restrictions, general business conditions, and other factors that our board of directors may deem relevant. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

***Karat Packaging Inc. is a holding company with no operations of its own and, as such, it depends on its subsidiaries for cash to fund its operations and expenses, including future dividend payments, if any.***

As a holding company, our principal source of cash flow will be distributions from Lollicup, our wholly-owned subsidiary. Therefore, our ability to fund and conduct our business, service our debt, and pay dividends, if any, in the future will depend on the ability of our subsidiaries to generate sufficient cash flow to make upstream cash distributions to us. Our subsidiaries are separate legal entities, and although they are wholly owned and controlled by us, they have no obligation to make any funds available to us, whether in the form of loans, dividends, or otherwise. The ability of our subsidiaries to distribute cash to us will also be subject to, among other things, restrictions that may be contained in our subsidiary agreements (as entered into from time to time), availability of sufficient funds in such subsidiaries and applicable laws and regulatory restrictions. Claims of any creditors of our subsidiaries generally will have priority as to the assets of such subsidiaries over our claims and claims of our creditors and stockholders. To the extent the ability of our subsidiaries to distribute dividends or other payments to us is limited in any way, our ability to fund and conduct our business, service our debt, and pay dividends, if any, could be harmed.

***If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our stock price and trading volume could decline.***

The trading market for our common stock will be influenced to some extent by the research and reports that industry or financial analysts publish about us and our business. We do not control these analysts. As a relatively new public company, we may be slow to attract research coverage and the analysts who publish information about our common stock will have had relatively little experience with us or our industry, which could affect their ability to accurately forecast our results and could make it more likely that we fail to meet their estimates. In the event we obtain securities or industry analyst coverage, if any of the analysts who cover us provide inaccurate or unfavorable research or issue an adverse opinion regarding our stock price, our stock price could decline. If one or more of these analysts cease to regularly cover us or fail to publish reports, we could lose visibility in the market, which in turn could cause our stock price or trading volume to decline.

***Outstanding indebtedness may reduce our available funds.***

We have approximately \$42.5 million \$49.5 million in outstanding indebtedness as of December 31, 2022 December 31, 2023. The loans are held at multiple banks and are collateralized by substantially all of Global Well's assets. There can be no guarantee that we will be able to pay all amounts when due or to refinance the amounts on terms that are acceptable to us or at all. If we are unable to make our payments when due or unable to refinance such amounts, our key equipment could be repossessed, our property could be foreclosed and our business could be negatively affected.

The terms of the debt agreements impose significant operating and financial restrictions on us. These restrictions could also have a negative impact on our business, results of operations, financial condition and cash flows by significantly limiting or prohibiting us from engaging in certain transactions, including but not limited to: incurring or guaranteeing additional debt financing; transferring or selling assets currently held by us; and transferring ownership interests in certain of our subsidiaries. The failure to comply with any of these covenants could cause a default under our other debt agreements. Any of these defaults, if not waived, could result in the acceleration of all of our debt, in which case the debt would become immediately due and payable. If this occurs, we may not be able to repay our debt or borrow sufficient funds to refinance it on favorable terms, if any.

***We depend on cash generated from outside sources of funding to support our growth.***

Although we have in the past generated positive cash flow from operating activities, outside sources of equity and debt capital is an important source of fund for our current operations and growth initiatives. As we expand our business, we will need significant cash resources to fund operations to purchase inventory, increase our product development, expand our manufacturer and supplier relationships, pay personnel, pay for the increased costs associated with operating as a public company, expand geographically, and to further invest in our sales, manufacturing and marketing efforts and our e-commerce platform. If we are unable to secure additional outside funding or if our business does not generate sufficient cash flow from operations to fund these activities and sufficient funds are not otherwise available, our business will be negatively impacted and restricted. If such outside financing is not available to us on satisfactory terms, our ability to operate and expand our business or respond to competitive pressures would be harmed. Moreover, if we raise additional capital by issuing equity securities or securities convertible into equity securities, your ownership may be diluted. Any indebtedness we incur may subject us to covenants that restrict our operations and will require interest and principal payments that would create additional cash demands and financial risk for us.

## **General Risk Factors**

***We are an emerging growth company and the reduced disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.***

We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act (the "JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised financial accounting standards until such time as those standards apply to private companies. We have elected to take advantage of the extended transition period for adopting new or revised financial statements under the JOBS Act as an emerging growth company.

For as long as we continue to be an emerging growth company, we intend to take advantage of other exemptions from certain reporting requirements that are applicable to other public companies, including not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002, as amended or the Sarbanes-Oxley Act, exemption from any rules that may be adopted by the Public Company Accounting Oversight Board ("PCAOB") requiring mandatory audit firm rotations or a supplement to the auditor's report on financial statements, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and any golden parachute arrangements, and reduced financial reporting requirements. Investors may find our common stock less attractive because we will rely on these exemptions, which could result in a less active trading market for our common stock, increased price fluctuation, and a decrease in the trading price of our common stock.

We will remain an emerging growth company until the earliest of (i) the end of the fiscal year in which the market value of our common stock that is held by non-affiliates is at least \$700 million as of the last business day of our most recently completed second fiscal quarter, (ii) the end of the fiscal year in which we have total annual gross revenues of \$1.235 billion or more during such fiscal year, (iii) the date on which we issue more than \$1 billion in non-convertible debt in a three-year period, or (iv) December 31, 2026, which represents the end of the fiscal year in which the fifth anniversary of the date of our IPO prospectus occurs.

***The requirements of being a public company may strain our resources, divert management's attention, and affect our ability to attract and retain executive management and qualified board members.***

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Nasdaq listing standards and other applicable securities laws, rules, and regulations. Compliance with these laws, rules, and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming, or costly, and increase demand on our systems and resources, particularly after we are no longer an emerging growth company. The Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and results of operations. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures, and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns and our costs and expenses will increase, which could harm our business and results of operations. Although we have already hired additional employees to comply with these requirements, we will need to hire more employees in the future or engage outside consultants, which will increase our costs and expenses.

In addition, changing laws, regulations, and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs, and making some activities more time consuming. These laws, regulations, and standards are subject to varying interpretations, in many cases due to their lack of specificity and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations, and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from sales-generating activities to compliance activities. If our efforts to comply with new laws, regulations, and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal, administrative, or other proceedings against us and our business may be harmed.

***If we are unable to maintain effective internal controls, our business, financial position and results of operations could be adversely affected.***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The rules governing the standards that must be met for management to determine that our internal control over financial reporting is effective are complex and require significant documentation, testing and possible remediation to meet the detailed standards under the rules. During the course of its testing, our management may identify material weaknesses or deficiencies which may not be remedied quickly or at all. Any failure to maintain effective internal controls could have an adverse effect on our business, financial position and results of operations.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

## **ITEM 1C. CYBERSECURITY**

Cybersecurity risk management is a critical part of our overall risk management efforts. We have adopted security-control principles based on the National Institute of Standards and Technology ("NIST") Cybersecurity Framework and other industry-recognized standards, as applicable. This does not imply that we meet any particular technical standards, specifications, or requirements, but rather that we use these principles as a guide to help us identify, assess, and manage cybersecurity risks relevant to our business. We have developed and implemented a cybersecurity risk management program intended to protect the confidentiality, integrity, and availability of our critical systems and information. Our cybersecurity strategy prioritizes detection, analysis, and response to known, anticipated or unexpected threats. We implement and continue to update risk-based controls to protect key information and systems. Some of the controls and processes in place to manage risks from cybersecurity threats include monitoring systems, enforcement mechanisms, employee training, tools and related services from third-party providers, and management oversight.

Our cybersecurity risk management program in particular focuses on the following key areas:

#### **Risk Assessment**

At least annually, we conduct a cybersecurity risk assessment to identify the inherent cyber security risks and threats to which we are exposed to, evaluate maturity and effectiveness of our systems and processes in addressing such identified risks and threats, and to identify any areas for further enhancements. Our cybersecurity risk assessment considers information from internal stakeholders, known and potential information security vulnerabilities, and data from external sources (e.g., reported security incidents that have impacted other companies, industry trends, and evaluations by third parties and consultants). The results of the assessment are used to drive alignment on prioritization of initiatives to enhance our security controls, make recommendations to senior management, and if necessary, but at least annually, inform the Audit Committee and Board of Directors.

#### **Incident Response and Recovery Planning**

We maintain an incident response and recovery plan (the "IRR Plan") that guides our activities in preparing for, detecting, responding to, and recovering from cybersecurity incidents. The IRR Plan identifies the working group responsible for the prevention, detection, mitigation and remediation of cybersecurity incidents. The IRR Plan also covers the range of activities we undertake in connection with responding to cybersecurity incidents, including monitoring, identification, investigation, assessment, containment, remediation, and mitigation, as well as compliance with legal obligations including any necessary regulatory reporting. Incidents are evaluated, ranked by severity, and prioritized for response, remediation and reporting, if needed.

#### **Collaboration**

We also engage third-party security consultants to assist with assessment and enhancement of our cybersecurity risk management program and compliance with applicable practices and standards. Should a cyber security incident occur in the future, we may engage third parties to assist us in responding to the incident as well as enhancing our cybersecurity risk management program, if necessary.

The importance of cybersecurity is conveyed internally within the organization as well as externally. Within the organization, our cybersecurity efforts are led by our Information Technology ("IT") Manager who is a Microsoft Certified Professional and holds CompTIA Network+ and Cisco Network certifications. We have also established an IT steering committee consisting of members from various key departments including IT, Finance, Operations, and Human Resources. The IT steering committee convenes at regular periodic intervals and reviews IT strategic and investment priorities, including the Company's cybersecurity programs. Our policies also require each of our employees to contribute to our data security efforts. At least annually, employees are required to attend a mandatory training on how to recognize phishing attempts and how to best handle and report cybersecurity threats.

In addition, we collaborate with third party software as a service providers and other service providers to maintain policies and procedures governing our third-party security risks. We evaluate and ensure such third parties maintain appropriate security controls to protect our confidential data, and notify us of material data breaches that may impact our data.

#### **Governance**

Cybersecurity is an important part of our risk management processes and an area of focus for senior management. Our Board of Directors has oversight of our strategic and business risk management, and has delegated cybersecurity risk management oversight to the Audit Committee. Members of the Audit Committee receive updates on an as-needed basis, but at least annually, from senior management. This includes existing and new cybersecurity risks, how management is assessing and addressing such risks, status on key information security initiatives, and cybersecurity incidents, if any, and responses. Members of our Board of Directors also engage in ad hoc conversations with management on cybersecurity-related news events and discuss any updates to our cybersecurity risk management program.

In the event of a cybersecurity event, a cross-functional steering committee involving the IT, Finance, and Legal departments, would review and assess the incident and determine whether further escalation and regulatory reporting is required. Any incident assessed as potentially being or becoming material is immediately escalated to the Audit Committee, and meetings of the Audit Committee and/or full Board of Directors would be held, as appropriate.

We consult with our outside legal counsel as appropriate, including on materiality analysis and disclosure matters. Senior management makes the final materiality determination and disclosure decisions. We maintain controls and procedures that are designed to ensure prompt escalation of certain cybersecurity incidents so that decisions regarding public disclosure and reporting of such incidents can be made in a timely manner.

In 2023, we are not aware of any cybersecurity incidents that have materially affected or are reasonably likely to materially affect us. We acknowledge that cybersecurity threats are continually evolving, and the possibility of future cybersecurity incidents remains. Despite the implementation of our cybersecurity processes, our security measures cannot guarantee that a significant cybersecurity attack will not occur. There can also be no guarantee that our policies and procedures under our cybersecurity risk management program will be properly followed in every instance or that those policies and procedures will be effective. While we devote resources to our security measures designed to protect our systems and information, no security measure is infallible. See Item 1A "Risk Factors" for additional information about the risks to our business associated with a breach or other compromise to our information and operational technology systems.

#### **ITEM 2. PROPERTIES**

We lease our principal executive and administrative offices located at 6185 Kimball Avenue, Chino, California 91708. At the same location, we operate an approximately 300,000 square foot manufacturing, warehouse storage and distribution facility.

We lease (i) an approximately 500,000 square foot manufacturing, warehouse storage and distribution facility in Rockwall, Texas and (ii) an approximately 108,000 square foot warehouse storage and distribution facility in Branchburg, New Jersey from our variable interest entity, as further described in Note 2 — *Summary of Significant Accounting Policies*

in the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K. We also lease and operate (i) an approximately 46,000 square foot warehouse storage and distribution facility in Sumner, Puyallup, Washington, (ii) an approximately 76,000 square foot manufacturing, warehouse storage and distribution facility in Kapolei, Hawaii, (iii) an approximately 23,000 square foot warehouse storage and distribution facility also in Kapolei, Hawaii, (iv) an approximately 6,800 square foot distribution facility in Kapolei, Hawaii, and (v) an approximately 70,000 square foot warehouse storage and distribution facility in City of Industry, California, California, (v) an approximately 83,000 square foot warehouse storage and distribution facility in Sugar Land, Texas, and (vi) an approximately 105,000 square foot warehouse storage and distribution facility in Aurora, Illinois. In addition, we own and operate an approximately 83,000 square-foot warehouse storage and distribution facility in Summerville, South Carolina.

#### ITEM 3. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

## Part II

#### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

##### Market Information

Our common stock trades on the NASDAQ Global Market under the symbol "KRT." Our common stock commenced public trading on April 15, 2021.

##### Holders of Common Stock

As of March 14, 2023 March 12, 2024, we had approximately 4113 stockholders of record of our common stock.

##### Dividends

On November 8, 2022 August 7, 2023, our board Board of directors declared Directors approved a quarterly cash dividend of \$0.35 per share of common stock. This dividend was policy, which we have paid on November 30, 2022 to the shareholders of record as a regular basis. Continuation of the close of business on November 21, 2022. No quarterly dividend was declared for the year ended December 31, 2021.

We currently intend to retain all available funds and any future earnings to fund the development and growth of our business. Therefore, we currently do not anticipate paying any further dividends on our common stock for the foreseeable future. There are currently no restrictions on our present ability to pay dividends to stockholders of our common stock, other than those prescribed by Delaware law. However, any future determination to declare cash dividends will be made at the discretion of our board of directors subject to applicable laws, and will depend on a number of factors, including our financial condition, results of operations, capital requirements, contractual restrictions, general business conditions, and other factors that our board of directors may deem relevant. There are currently no restrictions on our present ability to pay dividends to stockholders of our common stock, other than those prescribed by Delaware law.

##### **Securities Authorized for Issuance Under Equity Compensation Plans**

The following table provides information as of December 31, 2022 December 31, 2023, with respect to all of our compensation plans under which equity securities are authorized for issuance:

Number of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants, Options, Warrants and Rights	Weighted Average Price of Outstanding Options, Warrants, Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance
0	0	0

			Number of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Number of Securities To Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by stockholders	Equity compensation plans approved by stockholders	502,146 (1)	\$18.58 (2)	1,322,349		
Total	Total	502,146	\$18.58	1,322,349		

(1) This amount consists of (i) 82,146 shares of our common stock subject to unvested restricted stock units granted under the Plan, and (ii) 420,000 shares subject to stock options granted under the Plan.

(2) This number reflects the weighted-average exercise price of outstanding options and has been calculated exclusive of outstanding restricted stock unit awards issued under the Plan.

#### Sales of Unregistered Securities and Repurchases of Securities

During the fourth quarter of fiscal 2022, the Company did not sell any unregistered securities and did not repurchase any securities.

#### ITEM 6. [RESERVED]

#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes to the consolidated financial statements. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those discussed in Part I, Item 1A. "Risk Factors." and elsewhere in this Annual Report on Form 10-K. See "Forward Looking Statements" above for further explanation.

*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 environmentally-friendly 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 we have established us ourselves as a differentiated provider of high-quality products relative to our competitors. Our operating model entails generating the majority of our revenue from the distribution of our vendors' products complemented by select manufacturing capabilities in the U.S., which allows us to provide customers with broad product choices and supported a superior customized offerings with short lead times even during global supply chain disruptions. This model provides us with the flexibility to adjust the mix of our product offering from import and manufacturing in evolving economic environment to drive operating efficiency and sustained margin profile expansion.

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 five other warehouse spaces and distribution centers located in Sumner, Puyallup, Washington; Summerville, South Carolina; Branchburg, New Jersey; Kapolei, Hawaii; and 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, Dallas, New York, Chicago, Dallas, Houston, Seattle, Atlanta and Honolulu metro areas.

We manage and evaluate our operations in one reportable segment.

#### 2022 Business Highlights and Trends

- During the year ended December 31, 2023, we invested in the significant expansion of our distribution capabilities through opening new warehouses and racking up additional areas in our existing warehouses.
- We enhanced our sales force in 2023 through the addition of new team members and promotion of our inaugural Chief Revenue Officer.
- During the year ended December 31, 2023, we executed a strategy to pivot into a more asset-light model by increasing imports and scaling back manufacturing in certain locations in light of dropping ocean freight rates coupled with rising domestic labor and operating costs, resulting in strong margin expansion and cash flows.

- We recorded revenues of \$423.0 \$405.7 million for the year ended December 31, 2022 December 31, 2023, which represents a decrease of 4.1% compared to 2022 in revenue amount and an increase of 16.1% compared to 2021. 3.7% in volume.
- We continued to drive significant margin expansion, achieving achieved a record gross margin of 31.2% 37.7% for the year ended December 31, 2022 despite December 31, 2023, a \$3.5 million writeoff of certain inventory items, out of which \$0.9 million was determined to be out-of-period. The impact from the out-of-period adjustment was a decrease of gross margin of 20 basis points. The gross margin achieved in 2022 represented an 650-basis-point increase of 160 basis points from the year ended December 31, 2021, and an increase of 100 basis points from the year ended December 31, 2020 when gross margin was boosted by significant sales from higher-margin personal protective equipment (PPE) products. December 31, 2022.
- We recorded net income of \$25.8 \$33.2 million for the year ended December 31, 2022 December 31, 2023, which represents an increase of 15.1% 28.4% compared to 2021, the year ended December 31, 2022.
- We achieved a record net income margin of 8.2% for the year ended December 31, 2023 compared to 6.1% for the year ended December 31, 2022.
- We generated record net cash provided by operating activities of \$29.5 \$53.4 million for the year ended December 31, 2022.
- During the year ended December 31, 2022 December 31, 2023, we refinanced our \$21.6 million variable interest rate term loan with a new fixed interest term loan ahead of an increase of multiple interest rate hikes in the United States. The original loan was set 81.1% compared to mature in May 2029 with a variable interest rate of prime less 0.25%. Our new \$28.7 million term loan matures in July 2027 with interest accruing at a fixed rate of 4.375% prior year.
- We had financial liquidity of \$63.0 million as of December 31, 2022, and declared and paid a special cash dividend of \$0.35 per share on our common stock in November 2022.
- We generated consolidated Adjusted EBITDA, a non-GAAP measure defined below, of \$45.6 \$59.1 million for the year ended December 31, 2022 December 31, 2023, representing a 29.4% increase from the year ended December 31, 2022.
- Our Adjusted EBITDA margin, a non-GAAP measure defined below, expanded to a company record of 14.6% for the year ended December 31, 2023, an increase of \$8.6 million, or 23.2% compared 380 basis points from the year ended December 31, 2021 December 31, 2022.
- We had financial liquidity of \$59.3 million and additional short-term investments of \$26.3 million as of December 31, 2023.
- During the year ended December 31, 2022, second quarter of 2023, we further invested in closed the enhancement sale of our distribution infrastructure, adding two distribution centers equity interest in the City Bio Earth and received total consideration of Industry, California and Kapolei, Hawaii. \$6.1 million, which comprised of our original deposits plus accrued interest.
- On August 7, 2023, our Board of Directors approved our inaugural regular quarterly cash dividend. During the year ended December 31, 2022 December 31, 2023, we continued returned a total of \$20.9 million to our efforts shareholders in the form of special and commitment to sustainability regular cash dividend.
- On September 12, 2023, we increased our public float by investing, under completing a joint venture agreement, \$4.0 secondary public offering of 1.2 million into establishing Bio Earth, a new Taiwanese corporation for the manufacturing shares of compostable foodservice products from bagasse. As of December 31, 2022, the incorporation and registration of Bio Earth had not been completed. our common stock.

#### 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. One of the most noticeable impacts of the COVID-19 pandemic was on the restaurant industry. The pandemic changed how customers view food delivery and take-out as compared to the traditional form of on-premise dining. We There now appears to be a growing preference for the former and 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. Our eco-friendly products made up 33% of total sales during the year ended December 31, 2023 compared to 27% during the prior year.
- 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 shipments, which could be a significant component of our cost of goods sold. Elevated ocean freight cost can have either a positive rates could pressure our gross margin, and if we raise our price, dampen the demand for our products. Steady or a negative impact on dropping ocean freight could yield significant opportunities for us to expand our results margin. However, it could also reduce the barrier of operations, depending on whether such freight costs increase or decrease. entry, intensifying the competition.
- 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 disruptions 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 navigate the challenging environment and adjust manage our operating models 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.
- Beginning the first quarter of 2023, we began to execute 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 preparation of our consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. On an ongoing basis, management evaluates those estimates. Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting estimates are those estimates made in accordance with generally accepted accounting principles that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on the financial condition or results of operations of the registrant. We believe the following critical accounting estimates and policies have the most significant impact on our consolidated financial statements:

##### Allowance for Doubtful Accounts

The Company recognizes an allowance for bad debt doubtful accounts on accounts receivable in an amount equal to the estimated probable losses net of recoveries. The allowance is based on an analysis of historical bad debt write-offs, current past due customers in the aging, risk profiles associated with different customer types, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. While such losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates we have in the past. A significant change in the liquidity or financial position of our customers could cause unfavorable trends in receivable collections and additional allowances may be required. These additional allowances could materially affect our future financial results. As of December 31, 2022 December 31, 2023, and 2021, 2022, we had a total allowance for doubtful accounts of \$1.3 \$0.4 million and \$0.3 \$1.3 million, respectively.

##### Inventory Reserve

The Company maintains a reserve for excess and obsolete inventory and carries its inventory at net realizable value, taking into account various factors including historic usage, expected demand, anticipated sales price, and product expiration and obsolescence. While such losses have historically been within our expectations and the provisions established, we cannot guarantee that the future trend will be similar to what we have experienced in the past. A significant change in the demand or sales price selling prices could result in additional reserve and materially affect our future financial results. We had an inventory reserve of \$0.4 million and \$0.7 million as of both December 31, 2022 December 31, 2023, and 2021, 2022, respectively.

##### Stock-Based Compensation

Stock-based compensation expense related to employee stock options is accounted for in accordance with Accounting Standard Codification ("ASC") 718, Compensation—Stock Compensation. This standard requires the Company to record compensation expense equal to the fair value of awards granted to employees and non-employees. The fair value of restricted stock unit awards is determined based on the closing price of our common stock on the trading day immediately prior to the grant date. The fair value of stock options is estimated on the grant-date using the Black-Scholes option pricing model. Key input assumptions used in the Black-Scholes option pricing model to estimate the grant date fair value of stock options include the fair value of the Company's common stock, the expected option term, the expected volatility of the Company's stock over the option's expected term, the risk-free interest rate, and the Company's expected annual dividend yield.

The risk-free interest rate assumption for options granted under the Plan, as defined in Note 12 13 — Stock-Based Compensation in the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K, is based upon observed interest rates on the United States government securities appropriate for the expected term of the stock options.

The expected term of employee stock options under the Plan represents the weighted-average period that the stock options are expected to remain outstanding. The expected term of options granted is calculated based on the "simplified method," which estimates the expected term based on the average of the vesting period and contractual term of the stock option.

We determine the expected volatility assumption using the frequency of daily historical prices of comparable public company's common stock for a period equal to the expected term of the options.

The dividend yield assumption for options granted under the Plan is based on the Company's history and expectation of dividend payouts.

We review the underlying assumptions related to stock-based compensation at least annually or more frequently if we believe triggering events exist. If facts and circumstances change and we employ different assumptions in future periods, the compensation expense recorded may differ materially from the amount recorded in the current period. Stock-based compensation expense for both the years ended December 31, 2022 December 31, 2023 and 2021 2022 was \$0.8 million, and \$2.0 million, respectively.

## Results of Operations

Year Ended December 31, 2022 December 31, 2023 Compared to the Year Ended December 31, 2021 December 31, 2022

		Year Ended December 31,			
		2022	2021		
		(in thousands)			
		Year Ended December 31,		Year Ended December 31,	
		2023		2023	
		(in thousands)		(in thousands)	
Net sales	Net sales	\$422,957	\$364,244	Net sales	\$ 405,651
Cost of goods sold	Cost of goods sold	290,871	256,417	Cost of goods sold	252,608
Gross profit	Gross profit	132,086	107,827	Gross profit	153,043
Operating expenses	Operating expenses	102,071	84,682	Operating expenses	110,967
Operating income	Operating income	30,015	23,145	Operating income	42,076
Other income, net	Other income, net	2,498	4,383	Other income, net	908
Provision for income taxes	Provision for income taxes	6,676	5,089	Provision for income taxes	9,804
Net income	Net income	\$ 25,837	\$ 22,439	Net income	\$ 33,180
					\$ 25,837

### Net sales

Net sales were \$405.7 million for the year ended December 31, 2023 compared to \$423.0 million for the year ended December 31, 2022 compared, a decrease of \$17.3 million, or 4.1%. This decrease is primarily made up of \$33.3 million from unfavorable year-over-year pricing comparison, as we actively passed on savings from ocean freight and raw material costs to \$364.2 million for the year ended December 31, 2021, customers, and a \$6.9 million reduction in logistic services and shipping revenue. Such decreases were partially offset by an increase of \$58.7 million, or 16%. The increase was attributable to an increase of \$48.3 million in net sales to our existing customers and incremental net sales of \$10.4 million from more than 15,000 new customers acquired during the year ended December 31, 2022. Of the total net sales increase of \$58.7 million compared to the prior year, \$43.7 million was attributable to favorable pricing primarily during the first half of the current year, \$13.3 million was related to increase \$16.4 million in volume and change in product mix, and \$1.7 an increase of \$6.4 million was due to higher logistic services and shipping revenue. the adjustment of online sales platform fees into operating expense for the year ended December 31, 2023.

### Cost of goods sold

Cost of goods sold was \$252.6 million for the year ended December 31, 2023 compared to \$290.9 million for the year ended December 31, 2022 compared to \$256.4 million for the year ended December 31, 2021, a decrease of \$38.3 million, or 13.2%. Ocean freight and import duty costs decreased \$31.0 million. This was primarily driven by a significant decrease in ocean freight rate partially offset by an increase in import duty charges, as 2023 included an estimated additional anti-dumping and countervailing duty charge of \$34.5 million, or 13%. The increase was primarily due \$3.9 million related to an increase a U.S. Customs and Border Protection investigation on certain products imported during 2022 to 2023. See Note 20 - *Commitments and Contingencies* for further discussion on the matter. Product costs decreased \$11.1 million as a result of \$19.4 million lower sales in freight and duty costs to acquire inventory from overseas as ocean freight rates remained elevated for the majority of 2022, and an increase of \$11.6 million in product costs driven by the general increase in current period, reduced vendor pricing on certain raw materials and labor costs. Additionally, cost of finished goods, sold for the year ended December 31, 2022 included and a \$3.5 million writeoff of certain inventory items, out of which \$0.9 million was determined to be out-of-period and was recorded to correct immaterial errors in the quarterly and annual financial statements previously issued. These increases were partially offset by efficiencies and productivity improvements realized and the favorable foreign currency exchange rate impact from the strengthening of the United States Dollar against Taiwan New Dollar. Such decreases were partially offset by an adjustment of \$3.9 million of certain production expenses from operating expenses into cost of goods sold for year ended December 31, 2023, and an increase of \$0.4 million in inventory adjustments. During the year ended December 31, 2023, we recorded \$3.9 million in inventory adjustments, out of which \$1.7 million related to the write-off of raw materials as we disposed of certain machinery and equipment in executing the plan to scale back production in the U.S. During the year ended December 31, 2022, we recorded \$3.5 million in inventory adjustments, out of which \$0.9 million related to an out-of-period write-off of certain inventory items to correct immaterial errors in the quarterly and annual financial statements previously issued.

#### Gross profit

Gross profit was \$132.1 million for the year ended December 31, 2022 compared to \$153.0 million for the year ended December 31, 2023. Gross margin was 37.7% for the year ended December 31, 2023 compared to 31.2% for the year ended December 31, 2022, an increase of \$24.3 million, or 15.9%. Gross margin was 37.7% for the year ended December 31, 2023 compared to 31.2% for the year ended December 31, 2022, an increase of 650 basis points. Gross margin for the year ended December 31, 2021. Despite higher December 31, 2023 included a negative impact totaling 140 basis points from the \$3.9 million additional import duty charge and the \$1.7 million write-off of raw materials associated with the disposal of certain machinery, as well as a net favorable impact of 60 basis points from the adjustment of certain production expenses and online sales platform fees, as discussed above. During the year ended December 31, 2022, gross margin included a negative impact of 20 basis points from the \$0.9 million out-of-period write-off of certain inventory items discussed above. The year-over-year margin expansion is largely due to a significant decrease in total ocean freight and duty import costs, and the unfavorable impact from the out-of-period inventory write-off, the gross margin increased primarily due to margin expanding factors including which as a shift to higher margin items such as eco-friendly products, price increases implemented percentage of net sales was 7.5% during the first half of year ended December 31, 2023, down from 14.5% during the current year to partially offset higher ocean freight, product and labor costs, favorable foreign currency exchange rate from the strengthening of the ended December 31, 2022. Additional margin expansion factors also included strong United States Dollar against Taiwan New Dollar, and improved our efforts to scale back manufacturing in the U.S. in favor of imports which carry higher margin and improve operating efficiencies and productivity improvements.

#### Operating expenses

Operating expenses were \$111.0 million for the year ended December 31, 2023 compared to \$102.1 million for the year ended December 31, 2022, compared to \$84.7 million for the year ended December 31, 2021, an increase of \$17.4 million, or 21%. The increase in operating expenses was primarily due to an adjustment of \$6.4 million of online sales platform fees discussed above, an increase of \$6.0 million in payroll-related labor costs due from the workforce expansion as we increased warehouse headcount to workforce expansion, handle the larger volume of imports, an increase of \$5.4 million in rent, warehouse, and utilities expense from our expanded distribution footprint, an increase of \$2.4 million in marketing expense primarily to grow our e-commerce sales, an increase of \$2.6 million in impairment expense and loss, net, primarily related to disposal of machinery as we scaled back production, and a write-off of \$1.1 million in vendor prepayment upon the resolution of a legal contingency. These increases were partially offset by a decrease of \$4.3 million in shipping and transportation costs due to transfer inventory between our warehouses and to deliver products to our customers amidst rising fuel prices, an increase in lower shipping rates, a decrease of \$2.4 million in rental in stock-based compensation expense, primarily due to additional properties leased, an increase in decrease of \$2.1 million in production expense resulting from higher repair and maintenance costs incurred, an increase of \$0.6 million in bad debt expense, associated with higher sales, and an impairment adjustment of deposit \$3.9 million of \$0.5 million due to management's decision to abandon a capital expenditure project, partially offset by a decrease in certain production expenses from operating expenses into cost of \$0.6 million in professional services expense, goods sold for the year ended December 31, 2023 as discussed above.

#### Operating income

Operating income was \$42.1 million for the year ended December 31, 2023 compared to \$30.0 million for the year ended December 31, 2022, compared to \$23.1 million for the year ended December 31, 2021, an increase of \$6.9 million, or 30%. The increase was primarily due to an increase in gross profit of \$24.3 million partially offset by an increase in operating expenses of \$17.4 million, as discussed above.

#### Other income, net

Other income, net was \$0.9 million for the year ended December 31, 2023 compared to \$2.5 million for the year ended December 31, 2022. The decrease of \$1.6 million was primarily due to \$4.4 million for the year ended December 31, 2021, a decrease of \$1.9 million, or 43%. The \$2.5 million other income for the year ended December 31, 2022 consisted primarily of interest income of \$2.2 million from the gain associated with the interest rate swap, a gain on foreign currency transactions of \$1.6 million and rental a decrease in interest income of \$0.9 million. Interest income was \$1.8 million during the year ended December 31, 2023, which was primarily earned on cash, cash equivalents, and short-term investments. Interest income was \$2.2 million during the year ended December 31, 2022, which was primarily associated with a gain on interest rate swap. Such decreases were partially offset by interest expense on the line of credit and term loans totaling \$2.0 million. The \$4.4 million an increase in other income for the year ended December 31, 2021 consisted primarily of gain on forgiveness of debt of \$5.0 million, interest income of \$1.5 million due to the change in the fair value of the interest rate swap, and rental income of \$0.9 million, partially offset by interest expense incurred primarily on the line of credit and term loans totaling \$2.9 million.

#### Provision for income taxes

Provision for income taxes was \$9.8 million for the year ended December 31, 2023 compared to \$6.7 million for the year ended December 31, 2022, compared to \$5.1 million for the year ended December 31, 2021, an increase of \$1.6 million, or 31%. The Company's effective tax rate was 22.8% for the year ended December 31, 2023 compared to 20.5% for the year ended December 31, 2022. The year-over-year increase in effective tax rate is primarily due to 18.5% the decrease in non-controlling interest, which is not subject to tax, and a decrease in research and development credit, as we scaled back production and the associated research and development activities.

#### Net income

Net income was \$33.2 million for the year ended December 31, 2021. The effective tax rate was lower for the year ended December 31, 2021, primarily due to December 31, 2023 compared to the gain on forgiveness of debt of \$5.0 million, which was a discrete item not presented for the year ended December 31, 2022.

#### Net income

Net income was \$25.8 million for the year ended December 31, 2022 compared to \$22.4 million for the year ended December 31, 2021, an increase of \$3.4 million, or 15%. The increase was primarily driven by an increase in operating income of \$6.9 million partially offset by a decrease in other income, net of \$1.9 million and an increase in the provision for income taxes of approximately \$1.6 million, as discussed above.

#### Non-GAAP Financial Measure Measures

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 U.S. 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) IPO related expenses, (vi) stock-based compensation expense, (vi) out-of-period adjustment, (vii) gain secondary offering transaction costs, (viii) write-off of certain inventory items outside the normal course of business, and (ix) impairment expense and loss, net, on forgiveness disposal of debt, and (viii) out-of-period adjustment 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 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.

		Year Ended December 31,															
		Year Ended December 31,				Year Ended December 31,											
Reconciliation of Adjusted EBITDA (unaudited):	Reconciliation of Adjusted EBITDA (unaudited):			Reconciliation of Adjusted EBITDA (unaudited):													
		2022	2021			2023			2022								
		(in thousands, except percentages)															
		% of Net Amount	% of Net Sales														
		Amount	Sales														
(in thousands, except percentages)																	
		Amount				Amount											
		Net income:	6.1 %	\$25,837	6.2 %	Net income:	8.2 %	\$25,837	6.1 %								
Net income:	Add (deduct):	Net income:				\$33,180	8.2 %	\$25,837	6.1 %								
Add (deduct):	Interest income																
	Interest income	(2,226)	(0.5)	(1,512)	(0.4)	(1,803)	(0.4)	(2,226)	(0.5)								
	Interest expense	2,017	0.5	2,907	0.8	Interest expense	2,043	2,017	0.5								
	Provision for income taxes	6,676	1.6	5,089	1.4	Provision for income taxes	9,804	6,676	1.6								
	Depreciation and amortization	10,405	2.4	10,044	2.8	Depreciation and amortization	10,783	10,405	2.4								
	Stock-based compensation expense	2,047	0.5	2,026	0.5	Stock-based compensation expense	770	2,047	0.5								
	IPO related expenses	—	—	1,055	0.3												
	Out-of-period adjustment (1)	879	0.2	—	—												

Gain on forgiveness of debt	—	—	(5,000)	(1.4)					
Out-of-period adjustment (3)					Out-of-period adjustment (3)	—	—	879	
Secondary offering transaction costs (2)					Secondary offering transaction costs (2)	453	0.1	—	
Write-off of inventory (1)					Write-off of inventory (1)	1,710	0.4	—	
Impairment expense and loss, net, on disposal of machinery (1)					Impairment expense and loss, net, on disposal of machinery (1)	2,132	0.5	—	
Adjusted EBITDA	Adjusted EBITDA	\$45,635	10.8 %	\$37,048	10.2 %	Adjusted EBITDA	\$59,072	14.6	14.6 %
							\$ 45,635	10.8	10.8 %

(1) The write-off of inventory and impairment expense and 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 were 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 during the year ended December 31, 2023, which were directly related to the offering and were incremental to our normal operating expenses.

(3) The out-of-period adjustment represented an inventory write-off recorded during the year ended December 31, 2022, which management believes was not representative of our underlying operating performance. The adjustment was to correct immaterial errors in the accounting for certain inventory items in our previously issued quarterly and annual financial statements. The impact of the inventory write-off was an increase to cost of goods sold of \$0.9 million for the year ended December 31, 2022.

### 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, and during the year ended December 31, 2021, net proceeds of our IPO offering totaling \$67.6 million. 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 78 — *Line of Credit* to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K, 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 October 6, 2021 March 14, 2023, we amended the Line of Credit. Prior to October 6, 2021 March 14, 2023, interest accrued at an annual rate of prime less 0.25% with a minimum floor of 3.75%, and the amount that could be borrowed was subject to a borrowing base that was calculated as a percentage of the accounts receivable and inventory balances measured monthly. Additionally, the Company was required to comply with certain financial covenants, including a minimum current ratio, minimum tangible net worth, minimum debt service coverage ratio, and minimum debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio 3.25%. The amendment on October 6, 2021, among other things, (1) extended the maturity date to October 6, 2023, (2) revised the interest on any line of credit borrowings to an annual rate of prime less 0.25%, with a minimum floor of 3.25%, (3) removed the requirement for the maximum amount of borrowings to be subject to a borrowing base requirement that was calculated as a percentage of accounts receivable and inventory balances, (4) removed the minimum tangible net worth and minimum debt service coverage ratio from the financial covenant

requirement, and (5) added a minimum fixed charge coverage ratio in the financial covenant requirement. On August 18, 2022, we amended the Line of Credit again which increased the standby letter of credit sublimit to \$2.0 million. As of December 31, 2022, the amount issued under the standby letter of credit was \$1.1 million, and the maximum remaining amount that could be borrowed under the Line of Credit was \$38.9 million. As described in Note 19 — *Subsequent Events*, on March 14, 2023, we amended the Line of Credit again, which 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 \$2.0 million to \$5.0 million. As of December 31, 2023, the amount issued under the standby letter of credit was \$3.8 million, and the maximum remaining amount that could be borrowed under the Line of Credit was \$36.2 million.

As described in Note 9 10 — *Long-Term Debt* to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K, 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 has 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 have not exercised as of December 31, 2022, 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** **\$20.6 million** as of the repayment date.

Additionally, as of **December 31, 2022** **December 31, 2023**, we have a \$23.0 million term loan that matures in 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 **December 31, 2022** **December 31, 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 **December 31, 2022** **December 31, 2023**, we had **\$0.0 million** in outstanding balance no borrowing on the Line of Credit, bearing an interest per annum of prime rate less 0.25% (7.25% as of December 31, 2022), **\$20.6 million** **\$28.2 million** in outstanding balance under the 2027 Term Loan, and **\$22.2 million** **\$21.6 million** in outstanding balance under the 2026 Term Loan.

Additionally, our board of directors declared a special cash dividend of \$0.35 per common share, which was paid on November 30, 2022 totaling \$7.0 million to shareholders of record at the close of business on November 21, 2022.

As described in Note 4 — *Joint Venture* in the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K, **our** 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** requires significant investment. As of **December 31, 2022** **Taiwan**. Through March 31, 2023, we had made net payments totaling **\$4.0 million** **\$6.0 million** as stipulated in the JV **Agreement** **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 **expect** **Happiness Moon Co., Ltd.** ("Happiness Moon") pursuant to **make the remaining net investment payments** totaling **\$2.5 million** which (i) Lollcup agreed to transfer all Bio Earth shares, as well as its rights and obligations under the JV Agreement during to Keary Global, (ii) Happiness Moon and Bio Earth agree to forego 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.

During the year ended December 31, 2023, we initiated a regular quarterly dividend and paid out special and regular quarterly dividend totaling \$20.9 million. During the year ended December 31, 2022, we paid out special dividend totaling \$7.0 million. Additionally, as described in Note 22 — *Subsequent Events* in the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K, on February 7, 2024, our Board of Directors declared a quarterly dividend of \$0.30 per share on our common stock, which was paid on February 29, 2024 to shareholders of record at the close of business on February 21, 2024.

As described in Note 16 — *Impairment Expense and Loss (Gain), Net, on Disposal of Machinery* to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K, 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. As of **December 31, 2022** **December 31, 2023**, we had received \$0.5 million in deposit refunds and \$2.1 million from sale of the **incorporation** **machinery** and **registration** **equipment**. We expect to receive approximately \$0.4 million in additional net cash proceeds from sale of Bio Earth had not been completed, the various manufacturing equipment in the next 12 months.

In addition to the committed investment payments under the JV agreement to be made in 2023, we also **We** have certain contractual obligations, such as operating lease obligations and purchase **obligations** **obligations** that require us to make periodic payments. At **December 31, 2022** **December 31, 2023**, we had operating leases, primarily for manufacturing and distribution facilities, and purchase obligations primarily for machinery and equipment, and **constructions** in certain of our facilities, expiring at various dates through 2031. As described further in Note **14** **15** — *Leases* in the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K, we had a total of **\$16.1 million** **\$21.5 million** of operating lease liabilities as of the year ended **December 31, 2022** **December 31, 2023** with minimum lease payments ranging from approximately **\$1.1 million** **\$2.0 million** to **\$5.2 million** **\$6.0 million** on an annual basis over the next five years. We had purchase obligations of **\$6.9 million** **\$0.5 million** outstanding as of the **year ended December 31, 2022** **December 31, 2023**, all of which are due in **2023** **2024**. Such purchase obligations are primarily related to the purchase of machinery and equipment. Other than these contractual obligations, our off-balance sheet arrangements primarily consists of letters of credits issued under our Line of Credit. As of **December 31, 2022** **December 31, 2023**, we had **\$1.1** **\$3.8 million** of letters of credits issued and outstanding under our Line of Credit. Additionally, as discussed in Note 20 —

In February 2023, management committed *Commitments and Contingencies* to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K, on February 5, 2024, we received a **plan** **Notice of Determination** from U.S. Customs and Border Protection related to **sell** its investigation to determine whether we have evaded the anti-dumping and countervailing duty on certain **manufacturing** **equipment** to imported thermal paper products. Although we recorded an **unrelated** **third-party vendor** in **Taiwan**, estimated additional import duty liability and cost of goods sold of \$2.3 million as we started to pivot into a more asset-light growth model by increasing import and scaling back manufacturing in California. We expect to receive approximately \$2.6 million in cash proceeds from of December 31, 2023, the **sale** **amount** of the **equipment** **final** **payments** could vary significantly from this estimate. We are currently in the **next 12 to 24 months**, process of evaluating the appeal options and determining the timing of the payments.

Our ongoing operations and growth strategy may require us to continue to make investments in our logistics and manufacturing infrastructure, **e-commerce** **platform**, **talent**, and **our e-commerce** **platform**, **technology** **capabilities**. In addition, we may consider making strategic acquisitions and investments **and increasing our investment** in Bio Earth, 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 **2022** **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 **for** **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 **raise** **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 **December 31, 2022** **December 31, 2023** compared to **December 31, 2021** **December 31, 2022**:

		December 31, 2022	December 31, 2021	Increase/(Decrease)
		(in thousands)		
December 31, 2023				
		(in thousands)		
Current assets	Current assets	\$ 123,800	\$ 102,872	\$ 20,928
Current liabilities	Current liabilities	39,253	30,764	8,489
Working capital	Working capital	\$ 84,547	\$ 72,108	\$ 12,439
			Current assets	\$ 154,929
			Current liabilities	44,401
				\$ 123,800
				39,253
				\$ 31,129
				5,148

As of **December 31, 2022** **December 31, 2023**, we had working capital of **\$84.5** **\$110.5** million, compared to **\$72.1** **\$84.5** million as of **December 31, 2021** **December 31, 2022**, representing an increase of **\$12.4** **\$26.0** million, or **17%** **30.7%**. The improvement in working capital was driven by an increase of **\$20.9** **\$31.1** million in current assets, partially offset by an increase of **\$8.5** **\$5.1** million in current liabilities. The increase in current assets was primarily driven by an increase in **inventory** of **\$12.7** million to support higher sales volume and an increase in cash and cash equivalents and short-term investments of **\$9.6** **\$33.4** million, mainly due to strong cash flows from operating activities, partially offset by a decrease in account receivable of **\$2.1** million and a decrease in prepaid expenses and other current assets of **\$0.4** million. The increase in current liabilities was primarily driven by an increase in **operating lease liability** other payable of **\$3.2** million due within twelve months to reclassification of **\$4.5** million, as we adopted ASU 2016-02 (Topic 842), "Leases" on January 1, 2022, and government grants from long-term to short-term, an increase in accounts payable and related party payable totaling **\$0.3** million, an increase in accrued expense of **\$3.0** **\$1.6** million, and an increase in operating lease liability due within twelve months of **\$0.3** million, partially offset by a decrease in customer deposits of **\$0.3** million.

For additional information on financing entered into subsequent to December 31, 2022, see Note 19 — *Subsequent Events* in the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

#### Cash Flows

The following table summarizes cash flow for the years ended **December 31, 2022** **December 31, 2023** and **2021**:

		Year Ended December 31,	
		2022	2021
		(in thousands)	
		Year Ended December 31,	Year Ended December 31,
		2023	2022
		(in thousands)	(in thousands)
Net cash provided by operating activities	Net cash provided by operating activities	\$ 29,474	\$ 8,679
Net cash used in investing activities	Net cash used in investing activities	(17,845)	(13,281)

Net cash (used in)	
provided by financing	
activities	
	(2,071) 10,637
Net cash	
used in	
financing	
activities	
Net change	
in cash and in cash and	
cash	
equivalents	
equivalents	\$ 9,558 \$ 6,035

*Cash flows provided by operating activities.* Net cash provided by operating activities was \$53.4 million for the year ended December 31, 2023, primarily the result of net income of \$33.2 million, adjusted for certain non-cash items totaling \$22.0 million, consisting mainly of depreciation and amortization of fixed and operating right-of-use assets, write-off of inventory and vendor prepayment, loss, net, on disposal of machinery, stock-based compensation, impairment of deposits, deferred income taxes, and adjustments to the allowance for doubtful accounts and inventory reserve. In addition, cash decreased \$1.8 million, primarily as a result of changes in working capital, which included a decrease of \$4.6 million from a reduction in operating lease liabilities, an increase of \$3.8 million in inventory to accommodate higher sales volume, and a decrease of \$1.6 million in accrued expenses, partially offset by a decrease of \$2.9 million in accounts receivable from decreased sales and improved cash collections, a decrease of \$1.4 million in other assets, an increase of \$1.1 million in accounts payable and related party payable, and an increase of \$0.6 million in other liabilities.

Net cash provided by operating activities was \$29.5 million for the year ended December 31, 2022, primarily the result of net income of \$25.8 million, adjusted for certain non-cash items totaling \$18.6 million, consisting mainly of depreciation and amortization, stock-based compensation, adjustments to accounts receivable and inventory reserves, changes in fair value of interest rate swap, deferred income taxes and asset impairment. In addition, cash decreased \$15.0 million, primarily as a result of changes in working capital, which included an increase of \$16.2 million in inventory buildup to accommodate higher sales volume, an increase of \$1.5 million in prepaid expenses and other current assets, and a decrease of \$3.8 million in operating lease liability, due within twelve months, partially offset by a decrease of \$1.9 million in accounts receivable due to changes in the timing of collections, an increase of \$3.0 million in accounts payable and related party payable, and an increase of \$1.6 million in accrued expenses. Net cash provided by operating activities was \$8.7 million for the year ended December 31, 2021, primarily the result of net income of \$22.4 million, adjusted for certain non-cash items totaling \$6.6 million, consisting mainly of depreciation and amortization, stock-based compensation, changes in fair value of interest rate swap, and gain on forgiveness of debt. In addition, cash decreased \$20.3 million, primarily as a result of changes in working capital, which included an increase of \$10.9 million in inventory buildup to accommodate higher sales volume, an increase of \$8.9 million in account receivable due to changes in the timing of collections, a decrease of \$4.6 million in accounts payable and related party payable, partially offset by a \$1.4 million decrease in prepaid expenses and other current assets, and an increase of \$2.9 million in accrued expenses.

*Cash flows used in investing activities.* Net cash used in investing activities was \$30.2 million for the year ended December 31, 2023, which primarily included \$49.2 million in purchases of short-term investments, \$6.3 million in deposits made towards the purchase of property and equipment, and \$2.8 million paid to directly acquire property and equipment, partially offset by \$23.0 million in redemptions of short-term investments, \$4.0 million of net refund from the joint venture investment, \$0.8 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 \$17.8 million for year ended December 31, 2022, which primarily included \$12.1 million of deposits paid for additional property and equipment, \$4.0 million of net investment pursuant to the JV Agreement, \$2.7 million paid to purchase property and equipment, partially offset by \$0.8 million received from the settlement of the interest rate swap.

*Cash flows used in financing activities.* Net cash used in financing activities was \$13.3 million \$16.2 million for the year ended December 31, 2021 December 31, 2023, which primarily included \$8.2 million \$20.9 million of deposits paid for dividend payments to shareholders, \$2.3 million of distributions from our variable interest entity to shareholders, and \$1.0 million of payments made towards the term loans, partially offset by \$8.0 million of additional property and equipment, \$4.2 million paid to purchase property and equipment, and \$0.9 million for our acquisition of Pacific Cup, Inc.

*Cash flows (used in) provided by financing activities.* borrowings under the 2027 Term Loan. Net cash used in financing activities was \$2.1 million for the year ended December 31, 2022, which primarily included \$21.6 million of payments made towards the term loans, \$21.1 million of payments on the Line of Credit, and \$7.0 million of dividend payments to shareholders, partially offset by \$21.1 million \$21.1 million of borrowings under the Line of Credit, additional borrowing under the 2026 Term Loan of \$6.9 million, and \$27.5 million of borrowings under the term loans. Net cash provided by financing activities was \$10.6 million for the year ended December 31, 2021 which primarily included \$67.6 million 2027 Term Loan of proceeds from the issuance of common stock in connection with our initial public offering, and \$16.0 million of borrowings under the term loans, partially offset by \$39.3 million of payments made towards the term loans, and \$34.6 million of payments on the Line of Credit.

For additional information on financing entered into subsequent to December 31, 2022, see Note 19 — *Subsequent Events* in the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K. \$20.6 million.

#### Related Party Transactions

For a description of significant related party transactions, see Note 15 17 — *Related Party Transactions* in the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

#### Recent Accounting Pronouncements

Information regarding recent accounting pronouncements is contained in Note 2 — *Summary of Significant Accounting Policies* in the Notes to the Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This item is not required for smaller reporting companies.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### KARAT PACKAGING INC.

#### INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

##### Audited Consolidated Financial Statements

<a href="#">Report of Independent Registered Public Accounting Firm (PCAOB ID No. 238)</a>	44
<a href="#">Report of Independent Registered Public Accounting Firm (BDO USA, LLP, Los Angeles, California, PCAOB ID No. 243)</a>	4145
<a href="#">Consolidated Balance Sheets</a>	4246
<a href="#">Consolidated Statements of Income</a>	4448
<a href="#">Consolidated Statement of Stockholders' Equity</a>	4549
<a href="#">Consolidated Statements of Cash Flows</a>	4650
<a href="#">Notes to Consolidated Financial Statements</a>	4852

#### Report of Independent Registered Public Accounting Firm

Stockholders and  
To the Board of Directors  
and Stockholders of Karat Packaging Inc.  
Chino, California

##### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Karat Packaging Inc. and its subsidiaries (the "Company") as of December 31, 2022 December 31, 2023, and 2021, the related consolidated statements of income, of stockholders' equity and of cash flows for the years year then ended, and including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, as of December 31, 2023, and the results of its operations and its cash flows for the years year then ended, in conformity with accounting principles generally accepted in the United States of America.

##### Change in Accounting Method Related to Leases

As discussed in Notes 2 and 14 to the consolidated financial statements, the Company has changed its method for accounting for leases effective January 1, 2022 due to the adoption of Accounting Standards Codification 842 - Leases.

##### Basis for Opinion

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

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

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

/s/ PricewaterhouseCoopers LLP

Los Angeles, California

March 15, 2024

We have served as the Company's auditor since 2023.

#### Report of Independent Registered Public Accounting Firm

Stockholders and Board of Directors

Karat Packaging Inc.

Chino, California

**Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheet of Karat Packaging Inc. and subsidiaries (the "Company") as of December 31, 2022, the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

**Change in Accounting Method Related to Leases**

As discussed in Notes 2 and 15 to the consolidated financial statements, the Company has changed its method for accounting for leases effective January 1, 2022 due to the adoption of Accounting Standards Codification 842 - Leases.

**Basis for Opinion**

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

/s/ BDO USA, LLP

Los Angeles, California

March 16, 2023

We have served as the Company's auditor since 2016.

Los Angeles, California

March 16, 2023 from 2016 through 2023.

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

	December 31, 2022	December 31, 2021	
	December 31, 2023		December 31, 2022
Assets	Assets		
Current assets	Current assets		
Current assets	Current assets		
Cash and cash equivalents (including \$2,022 and \$1,163 associated with variable interest entity at December 31, 2022 and 2021, respectively)	\$ 16,041	\$ 6,483	

Accounts receivable, net of allowance for bad debt of \$1,260 and \$250 at December 31, 2022 and 2021, respectively (including \$6 and \$24 associated with variable interest entity at December 31, 2022 and 2021, respectively)	29,912	32,776
<b>Current assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (including \$13,566 and \$2,022 associated with variable interest entity at December 31, 2023 and 2022, respectively)		
Cash and cash equivalents (including \$13,566 and \$2,022 associated with variable interest entity at December 31, 2023 and 2022, respectively)		
Cash and cash equivalents (including \$13,566 and \$2,022 associated with variable interest entity at December 31, 2023 and 2022, respectively)		
Short-term investments		
Accounts receivable, net of allowance for bad debt of \$392 and \$1,260 at December 31, 2022, respectively (including \$0 and \$6 associated with variable interest entity at December 31, 2023 and 2022, respectively)		
Inventories	Inventories	71,206
Prepaid expenses and other current assets (including \$191 and \$63 associated with variable interest entity at December 31, 2022 and 2021, respectively)	6,641	5,141

Prepaid expenses and other current assets (including \$82 and \$191 associated with variable interest entity at December 31, 2023 and 2022, respectively)	Total		
Total current assets	Total current assets	123,800	102,872
Property and equipment, net (including \$45,399 and \$46,612 associated with variable interest entity at December 31, 2022 and 2021, respectively)		95,568	93,475
Property and equipment, net (including \$44,185 and \$45,399 associated with variable interest entity at December 31, 2023 and 2022, respectively)			
Deposits	Deposits	12,413	6,885
Goodwill	Goodwill	3,510	3,510
Intangible assets, net	Intangible assets, net	353	380
Operating right-of-use assets	Operating right-of-use assets	15,713	—
Other assets (including \$38 and \$65 associated with variable interest entity at December 31, 2022 and 2021, respectively)		818	477
Other assets (including \$53 and \$38 associated with variable interest entity at December 31, 2023 and 2022, respectively)			
Total assets	Total assets	\$ 252,175	\$ 207,599

Liabilities and Stockholders' Equity	Liabilities and Stockholders' Equity		
<b>Current liabilities</b>	<b>Current liabilities</b>		
Accounts payable (including \$2 and \$136 associated with variable interest entity at December 31, 2022 and 2021, respectively)		\$ 18,559	\$ 18,470
Accrued expenses (including \$625 and \$68 associated with variable interest entity at December 31, 2022 and 2021, respectively)		9,005	7,813
<b>Current liabilities</b>			
<b>Current liabilities</b>			
Accounts payable (including \$63 and \$2 associated with variable interest entity at December 31, 2023 and 2022, respectively)			
Accounts payable (including \$63 and \$2 associated with variable interest entity at December 31, 2023 and 2022, respectively)			
Accounts payable (including \$63 and \$2 associated with variable interest entity at December 31, 2023 and 2022, respectively)			
Accrued expenses (including \$591 and \$625 associated with variable interest entity at December 31, 2023 and 2022, respectively)			
Related party payable	Related party payable	4,940	2,003
Income taxes payable (including \$0 and \$9 associated with variable interest entity at December 31, 2022 and 2021, respectively)		—	85
Customer deposits (including \$165 and \$88 associated with variable interest entity at December 31, 2022 and 2021, respectively)		1,281	1,215

Debt, current portion (including \$957 and \$1,178 associated with variable interest entity at December 31, 2022 and 2021, respectively)	957	1,178
Customer deposits (including \$116 and \$165 associated with variable interest entity at December 31, 2023 and 2022, respectively)		
Long-term debt, current portion (including \$1,122 and \$957 associated with variable interest entity at December 31, 2023 and 2022, respectively)		
Operating lease liabilities, current portion	4,511	—
Other payables (including \$1,302 and \$0 associated with variable interest entity at December 31, 2023 and 2022, respectively)		
<b>Total current liabilities</b>	<b>39,253</b>	<b>30,764</b>

	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
December 31, 2023				
Deferred tax liability	Deferred tax liability	5,156	5,634	

Long-term debt, net of current portion and debt discount of \$216 and \$200 at December 31, 2022 and December 31, 2021, respectively (including \$41,558 and \$35,339 associated with variable interest entity at December 31, 2022 and 2021, respectively, and debt discount of \$216 and \$200 associated with variable interest entity at December 31, 2022 and 2021, respectively)	41,558	35,339
Long-term debt, net of current portion and debt discount of \$203 and \$216 at December 31, 2023 and December 31, 2022, respectively (including \$48,396 and \$41,558 associated with variable interest entity at December 31, 2023 and 2022, respectively, and debt discount of \$203 and \$216 associated with variable interest entity at December 31, 2023 and 2022, respectively)		
Operating lease liabilities, net of current portion	11,623	—
Other liabilities (including \$1,302 and \$2,637 associated with variable interest entity at December 31, 2022 and 2021, respectively)	2,652	3,837
Other liabilities (including \$0 and \$1,302 associated with variable interest entity at December 31, 2023 and 2022, respectively)		
Total liabilities	<u>100,242</u>	<u>75,574</u>
<b>Commitments and Contingencies (Note 18)</b>		
<b>Commitments and Contingencies (Note 20)</b>		<b>Commitments and Contingencies (Note 20)</b>

Karat Packaging Inc. stockholders' equity	Karat Packaging Inc. stockholders' equity		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, no shares issued and outstanding, as of December 31, 2022 and 2021		—	—
Common stock, \$0.001 par value, 100,000,000 shares authorized, 19,908,005 and 19,885,005 shares issued and outstanding, respectively, as of December 31, 2022 and 19,827,417 and 19,804,417 shares issued and outstanding, respectively, as of December 31, 2021	20	20	
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, no shares issued and outstanding, as of December 31, 2023 and 2022			
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, no shares issued and outstanding, as of December 31, 2023 and 2022			
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, no shares issued and outstanding, as of December 31, 2023 and 2022			
Common stock, \$0.001 par value, 100,000,000 shares authorized, 19,988,482 and 19,965,482 shares issued and outstanding, respectively, as of December 31, 2023 and 19,908,005 and 19,885,005 shares issued and outstanding, respectively, as of December 31, 2022			
Additional paid in capital	Additional paid in capital	85,792	83,694
Treasury stock, \$0.001 par value, 23,000 shares as of both December 31, 2022 and 2021		(248)	(248)

Treasury stock, \$0.001 par value, 23,000 shares as of both December 31, 2023 and 2022	Retained earnings	Retained earnings	56,118	39,434
<b>Total Karat Packaging Inc. stockholders' equity</b>	<b>Total Karat Packaging Inc. stockholders' equity</b>		141,682	122,900
<b>Noncontrolling interest</b>	<b>Noncontrolling interest</b>		10,251	9,125
<b>Total stockholders' equity</b>	<b>Total stockholders' equity</b>		151,933	132,025
<b>Total liabilities and stockholders' equity</b>	<b>Total liabilities and stockholders' equity</b>		<b>\$ 252,175</b>	<b>\$ 207,599</b>

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

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

		Year Ended December 31,		Year Ended December 31,	
		2022	2021	2023	2022
<b>Year Ended December 31,</b>					
<b>Net sales</b>	Net sales	\$ 422,957	\$ 364,244		
Cost of goods sold	Cost of goods sold	290,871	256,417		
<b>Gross profit</b>	<b>Gross profit</b>	132,086	107,827		
<b>Operating expenses:</b>	<b>Operating expenses:</b>				
Selling expenses	Selling expenses	35,844	32,261		
General and administrative expenses (including \$2,775 and \$2,550 associated with variable interest entity for the years ended December 31, 2022 and 2021, respectively)	66,227	52,421			
Selling expenses					
Selling expenses					

General and administrative expenses (including \$2,749 and \$2,775 associated with variable interest entity for the years ended December 31, 2023 and 2022, respectively)			
Impairment expense and loss (gain), net, on disposal of machinery			
<b>Total operating expenses</b>	<b>Total operating expenses</b>	<b>102,071</b>	<b>84,682</b>
Operating income	Operating income	30,015	23,145
<b>Other income (expenses)</b>	<b>Other income (expenses)</b>		
Rental income (including \$949 and \$931 associated with variable interest entity for the years ended December 31, 2022 and 2021, respectively)	949	931	
Other (expense) income (including \$0 and \$9 other income associated with variable interest entity for the years ended December 31, 2022 and 2021, respectively)	(228)	259	
Gain (loss) on foreign currency transactions	1,568	(412)	
Interest income (including \$2,171 and \$1,270 associated with variable interest entity for the years ended December 31, 2022 and 2021, respectively)	2,226	1,512	
Interest expense (including \$1,821 and \$1,781 associated with variable interest entity for the years ended December 31, 2022 and 2021, respectively)	(2,017)	(2,907)	
Gain on forgiveness of debt	—	5,000	
Rental income (including \$981 and \$949 associated with variable interest entity for the years ended December 31, 2023 and 2022, respectively)			
Rental income (including \$981 and \$949 associated with variable interest entity for the years ended December 31, 2023 and 2022, respectively)			

Rental income (including \$981 and \$949 associated with variable interest entity for the years ended December 31, 2023 and 2022, respectively)			
Other expense, net			
Gain on foreign currency transactions			
Interest income (including \$606 and \$2,171 associated with variable interest entity for the years ended December 31, 2023 and 2022, respectively)			
Interest expense (including \$2,019 and \$1,821 associated with variable interest entity for the years ended December 31, 2023 and 2022, respectively)			
<b>Total other income, net</b>	<b>Total other income, net</b>	<b>2,498</b>	<b>4,383</b>
Income before provision for income taxes	Income before provision for income taxes	32,513	27,528
Provision for income taxes	Provision for income taxes	6,676	5,089
<b>Net income</b>	<b>Net income</b>	<b>25,837</b>	<b>22,439</b>
Net income attributable to noncontrolling interest	Net income attributable to noncontrolling interest	2,189	1,661
Net income attributable to Karat	Net income attributable to Karat		
Packaging Inc.	Packaging Inc.	\$ 23,648	\$ 20,778
Basic and diluted earnings per share:	Basic and diluted earnings per share:		
Basic	Basic	\$ 1.19	\$ 1.13
Basic			

Basic	
Diluted	Diluted
	\$ 1.19 \$ 1.12
Weighted average common shares outstanding, basic	Weighted average common shares outstanding, basic
	19,824,911 18,409,243
Weighted average common shares outstanding, diluted	Weighted average common shares outstanding, diluted
	19,925,905 18,566,260

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

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

	Common Stock		Treasury Stock		Total Stockholders' Equity					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital		Retained Earnings	Equity Attributable to Karat Packaging Inc.	Noncontrolling Interest	Total Stockholders' Equity
					Paid-in Capital	Capital				
<b>Balance, January 1, 2021</b>	<b>15,190,000</b>	<b>\$ 15</b>	<b>(23,000)</b>	<b>\$(248)</b>	<b>\$13,981</b>	<b>\$18,656</b>	<b>\$ 32,404</b>	<b>\$ 7,464</b>	<b>\$ 39,868</b>	
Issuance of common stock in connection with our initial public offering, net of issuance costs of \$5,088										
4,542,500	5	—	—	—	67,587	—	67,592	—	67,592	
Issuance of common stock upon vesting of restricted stock units	84,917	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	2,026	—	2,026	—	2,026	
Exercise of stock options	10,000	—	—	—	100	—	100	—	100	
Net income	—	—	—	—	20,778	20,778	—	1,661	22,439	
<b>Balance, December 31, 2021</b>	<b>19,827,417</b>	<b>\$20</b>	<b>(23,000)</b>	<b>\$(248)</b>	<b>\$83,694</b>	<b>\$39,434</b>	<b>\$ 122,900</b>	<b>\$ 9,125</b>	<b>\$ 132,025</b>	

	Common Stock		Common Stock	Treasury Stock		
	Shares	Amount				
<b>Balance, January 1, 2022</b>						
<b>Balance, January 1, 2022</b>						
<b>Balance, January 1, 2022</b>						
Cash dividends declared (\$0.35 per share)	Cash dividends declared (\$0.35 per share)	—	—	(6,964)		
Issuance of common stock upon vesting of restricted stock units	Issuance of common stock upon vesting of restricted stock units	75,588	—	—		
				(6,964)		

Stock-based compensation	Stock-based compensation	—	—	—	—	2,047	—	2,047	—	2,047	Stock-based compensation	—	—	—	—	2,047
Exercise of stock options	Exercise of stock options	5,000	—	—	—	51	—	51	—	51						
Noncontrolling interest tax withholding	Noncontrolling interest tax withholding	—	—	—	—	—	—	—	(1,063)	(1,063)	Noncontrolling interest tax withholding	—	—	—	—	—
Net income	Net income	—	—	—	—	—	23,648	23,648	2,189	25,837						
<b>Balance, December 31, 2022</b>	<b>Balance, December 31, 2022</b>	<b>19,908,005</b>	<b>\$ 20</b>	<b>(23,000)</b>	<b>\$ (248)</b>	<b>\$85,792</b>	<b>\$56,118</b>	<b>\$ 141,682</b>	<b>\$ 10,251</b>	<b>\$ 151,933</b>						
Cash dividends declared (\$1.05 per share)											Cash dividends declared (\$1.05 per share)	—	—	—	—	—
Issuance of common stock upon vesting of restricted stock units																
Stock-based compensation											Stock-based compensation	—	—	—	—	—
Exercise of stock options											Exercise of stock options	6,860	—	—	—	—
Distributions to shareholders, net of tax withholding											Distributions to shareholders, net of tax withholding	—	—	—	—	—
Noncontrolling interest tax withholding																
Net income																
<b>Balance, December 31, 2023</b>																

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

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

	<b>Year Ended December 31,</b>	
	<b>2022</b>	<b>2021</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 25,837	\$ 22,439
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,405	10,044
Adjustments to allowance for bad debt	1,010	—
Adjustments to inventory reserve	6	68
Write-off of inventory	3,470	1,424
Gain on sale of asset	(32)	—
Change in fair value of interest rate swap	(2,159)	(1,512)
Amortization of loan fees	40	18
Deferred income taxes	(478)	(483)
Stock-based compensation	2,047	2,026
Gain on forgiveness of debt	—	(5,000)
Amortization of operating right-of-use assets	3,822	—
Impairment of deposit	465	—
(Increase) decrease in operating assets		
Accounts receivable	1,854	(8,938)
Inventories	(16,210)	(10,850)
Prepaid expenses and other current assets	(1,514)	1,389
Deposits	(145)	(64)
Other assets	109	(316)
Increase (decrease) in operating liabilities		
Accounts payable	89	(1,599)
Accrued expenses	1,571	2,854
Related party payable	2,937	(3,035)
Income taxes payable	(85)	44
Customer deposits	66	664
Operating lease liability	(3,780)	—
Other liabilities	149	300
Other payable	—	(794)
Net cash provided by operating activities	<u>\$ 29,474</u>	<u>\$ 8,679</u>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(2,657)	(4,175)
Proceeds from disposal of property and equipment	77	—
Deposits paid for property and equipment	(12,090)	(8,206)
Deposits paid for joint venture investment	(5,876)	—
Deposits refunded from joint venture investment	1,876	—
Proceeds from settlement of interest rate swap	825	—
Acquisition of Pacific Cup, Inc., net of cash acquired	—	(900)
Net cash used in investing activities	<u>\$ (17,845)</u>	<u>\$ (13,281)</u>

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 33,180	\$ 25,837
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including \$1,214 associated with variable interest entity for both the year ended December 31, 2023 and 2022)	10,783	10,405
Adjustments to allowance for bad debt	(711)	1,010

Adjustments to inventory reserve	(399)	6
Write-off of inventory	3,897	3,470
Impairment of deposits	549	465
Write-off of vendor prepayment	1,124	—
Loss (gain), net, on disposal of machinery and equipment	2,002	(32)
Change in fair value of interest rate swap (including \$0 and \$2,159 associated with variable interest entity for the year ended December 31, 2023 and 2022, respectively)	—	(2,159)
Amortization of loan fees (including \$57 and \$40 associated with variable interest entity for the year ended December 31, 2023 and 2022, respectively)	81	40
Accrued interest on certificates of deposit	(155)	—
Stock-based compensation	770	2,047
Amortization of operating right-of-use assets	4,969	3,822
Deferred income taxes	(959)	(478)
(Increase) decrease in operating assets		
Accounts receivable (including \$6 and \$18 associated with variable interest entity for the year ended December 31, 2023 and 2022, respectively)	2,860	1,854
Inventories	(3,820)	(16,210)
Prepaid expenses and other current assets (including \$109 and \$75 associated with variable interest entity for the year ended December 31, 2023 and 2022, respectively)	(466)	(1,514)
Other assets (including \$14 and \$27 associated with variable interest entity for the year ended December 31, 2023 and 2022, respectively)	1,439	(36)
Increase (decrease) in operating liabilities		
Accounts payable (including \$60 and \$495 associated with variable interest entity for the year ended December 31, 2023 and 2022, respectively)	696	89
Accrued expenses (including \$34 and \$402 associated with variable interest entity for the year ended December 31, 2023 and 2022, respectively)	1,571	1,571
Related party payable	366	2,937
Income taxes payable	—	(85)
Customer deposits (including \$49 and \$77 associated with variable interest entity for the year ended December 31, 2023 and 2022, respectively)	(330)	66
Operating lease liability	(4,642)	(3,780)
Other liabilities (including \$0 and \$1 associated with variable interest entity for the year ended December 31, 2023 and 2022, respectively)	574	149
Net cash provided by operating activities	\$ 53,379	\$ 29,474

	Year Ended December 31,		Year Ended December 31,	
	2022	2021	2023	2022
<b>Cash flows from investing activities</b>				
Purchases of property and equipment				
Purchases of property and equipment				
Purchases of property and equipment				
Proceeds on disposal of property and equipment				

Payments for costs incurred from sale of machinery and equipment

Deposits paid for joint venture investment

Deposits refunded from joint venture investment

Deposits refunded from cancelled machinery orders

Deposits paid for property and equipment

Proceeds from settlement of interest rate swap (including \$0 and \$825 associated with variable interest entity for the year ended December 31, 2023 and 2022, respectively)

Purchase of short-term investments (including \$8,000 and \$0 associated with variable interest entity for the year ended December 31, 2023 and 2022, respectively)

Redemption of short-term investments (including \$8,000 and \$0 associated with variable interest entity for the year ended December 31, 2023 and 2022, respectively)

Net cash used in investing activities

Cash flows from financing activities		Cash flows from financing activities	
Proceeds from line of credit		Proceeds from line of credit	21,100 1,470
Proceeds from line of credit			
Proceeds from line of credit			
Payments on line of credit		Payments on line of credit	(21,100) (34,639)
Proceeds from long-term debt		27,477 15,997	
Payments on long-term debt		(21,572) (39,272)	
Proceeds from issuance of common stock in connection with initial public offering, net of issuance costs		— 67,592	
Proceeds from exercise of stock options		51 100	
Proceeds from long-term debt (including \$8,000 and \$27,477 associated with variable interest entity for the year ended December 31, 2023 and 2022, respectively)			
Payments for lender fees			
Payments on long-term debt (including \$1,010 and \$21,572 associated with variable interest entity for the year ended December 31, 2023 and 2022, respectively)			
Tax withholding on vesting of restricted stock units			
Proceeds from exercise of common stock options			
Dividends paid to shareholders		Dividends paid to shareholders	(6,964) —
Payments on capital lease obligations		— (611)	
Payments of noncontrolling interest tax withholding		(1,063) —	

Net cash (used in) provided by financing activities	\$ (2,071)	\$ 10,637
Distributions to shareholders, net of tax withholding (including \$2,295 and \$0 associated with variable interest entity for the year ended December 31, 2023 and 2022, respectively)		
Payments of noncontrolling interest tax withholding (including \$0 and \$1,063 associated with variable interest entity for the year ended December 31, 2023 and 2022, respectively)		
Net cash used in financing activities		
Net increase in cash and cash equivalents	9,558	6,035
<b>Cash and cash equivalents</b>	<b>Cash and cash equivalents</b>	
Beginning of year		
Beginning of year		
Beginning of year	Beginning of year \$ 6,483	\$ 448
End of year	End of year \$ 16,041	\$ 6,483
<b>Supplemental disclosures of non-cash investing and financing activities:</b>		
Transfers from deposit to property and equipment	\$ 9,859	\$ 4,981
Acquisition price of Pacific Cup, Inc. included within deposits	—	100
Gain on forgiveness of debt	—	5,000
Transfers from deposit to property and equipment		

Transfers from deposit to property and equipment	
Non-cash purchases of property and equipment	
<b>Supplemental disclosures of cash flow information:</b>	<b>Supplemental disclosures of cash flow information:</b>
Cash paid for income tax	Cash paid for income tax \$ 8,303 \$ 4,836
Cash paid for income tax	
Cash paid for interest	Cash paid for interest \$ 1,978 \$ 2,895

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

**KARAT PACKAGING INC.**  
**NOTES TO 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. On April 15, 2021, the Company completed an initial public offering of shares of its common stock. The shares are listed on the NASDAQ Global Market under the symbol "KRT".

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, **bagasse**, 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 **syrups**, boba, and coffee drinks.

The Company supplies products to national and regional distributors, supermarkets, **airlines**, 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 **six** other distribution centers located in **Branchburg, New Jersey; Sumner, Puyallup, Washington; Summerville, South Carolina; Branchburg, New Jersey; Kapolei, Hawaii and Hawaii; City of Industry, California; California, Aurora, Illinois; and Sugar Land, Texas**. As described in Note 22 — **Subsequent Events**, the Company entered into a lease agreement on February 12, 2024 for an additional distribution center in Mesa, Arizona.

## 2. Summary of Significant Accounting Policies

**Basis of Presentation:** The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and the rules of the Securities and Exchange Commission ("SEC").

**Principles of Consolidation:** The consolidated financial statements include the accounts of Karat Packaging and its wholly-owned and controlled operating **subsidiaries, 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.

**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 consolidated financial statements separate from the Company's stockholders' equity. The amount of net income attributable to noncontrolling interests is disclosed in the 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 consolidated statements of stockholders' equity.

**Estimates and Assumptions:** Management uses estimates and assumptions in preparing financial statements in accordance with 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 consolidated financial statements. Estimates that are significant to the consolidated financial statements include stock-based compensation, allowance for doubtful accounts and reserve for **slow-moving excess** and obsolete inventory.

**Reporting Segments:** The Company manages and evaluates its operations in one reportable segment. This segment consists of manufacturing and **supply** distribution 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 bagasse, biopolymer-based, and renewable materials, other compostable forms**. It also consists of the distribution of certain specialty food and beverage products, such as **syrup**, boba, and coffee

drinks, and certain as well as restaurant and warehouse supplies. The Company's long-lived assets are all located in the United States, and its revenues are all almost entirely generated in the United States.

**Earnings per share:** Basic earnings per common share is calculated by dividing net income attributable to Karat Packaging, Inc. by the weighted average number of common shares outstanding during the related period. Diluted earnings per common share is calculated by adjusting weighted average outstanding shares, assuming conversion of all potentially dilutive shares.

**Out-of-period adjustment:** During the the year quarter ended December 31, 2022 December 31, 2023, the Company recorded an out-of-period adjustment to write-off a vendor prepayment of \$1,124,000 due to the resolution of a legal contingency that should have been reflected in its quarterly financial statements for the quarter ended September 30, 2023. The Company evaluated the error and determined it was immaterial to both impacted periods. Although the full year financial statements for the year ended December 31, 2023 are not affected, the impact of the adjustment for the quarter ended December 31, 2023 was a \$3,500,000 write off decrease to other assets and an increase in general and administrative expenses of \$1,124,000 and a tax-effected decrease to net income of \$847,000. See Note 20 — Commitments and Contingencies for further discussion about this litigation.

During the quarter ended December 31, 2023, the Company also recorded the following misclassification adjustments for the full year amounts within the consolidated statement of income with no impact on net income: (i) \$6,440,000 of online sales third-party platform fees from net sales to selling expense, including \$4,764,000 deemed to be out-of-period, (ii) \$3,947,000 of certain inventory items out production expenses primarily related to machinery repair and maintenance from general and administrative expenses to cost of which \$879,000 was determined goods sold, including \$3,392,000 deemed to be out-of-period, and was (iii) \$2,147,000 of payroll and employee-related costs for the Company's sales team within operating expenses from general and administrative expenses to selling expenses, including \$1,529,000 deemed to be out-of-period. All of the three out-of-period adjustments were recorded to correct immaterial errors in its the Company's previously issued quarterly financial statements for the quarters ended March 31, June 30 and annual financial statements, September 30, 2023. The aggregate impact of these out-of-period adjustments for the inventory out-of-period adjustment quarter ended December 31, 2023 was a decrease to inventory, operating income and income before provision for income taxes of \$879,000, an increase to net sales of \$4,764,000, an increase in cost of goods sold of \$879,000, \$3,392,000, an increase in selling expenses of \$6,293,000, and a decrease to general and administrative expenses of \$4,921,000. These misclassification adjustments had no effect on totals for assets and liabilities, shareholders' equity, cash flows or net income for either the quarter ended December 31, 2023 or any of \$664,000 for the year ended December 31, 2022, previously reported quarters.

**Reclassification:** Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no effect on previously reported totals for assets and liabilities, shareholders' equity, cash flows or net income.

**Cash and cash equivalents:** The Company considers all highly liquid investments purchased with an original maturity at the date of purchase of three months or less to be cash equivalents. At December 31, 2022 December 31, 2023 and 2021, 2022, cash and cash equivalents were comprised of cash held in money markets, cash on hand, and cash deposited with banks, banks, and cash held in certain money market fund.

**Accounts Receivable and Allowances:** Accounts receivable consists primarily of amounts due from customers. Accounts receivable are carried at their estimated collectible amounts and are periodically evaluated for collectability based on past credit history. The Company recognizes an allowance for bad debt doubtful accounts on accounts receivable in an amount equal to the estimated probable expected losses net of recoveries. The Company estimates this allowance is based on an analysis knowledge of the customers' financial condition, review of historical bad debt write-offs, current past due customers in the aging, risk profiles associated with different customer types, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible, receivable and reserve trends, and other pertinent information. The Company also maintains a sales allowance primarily related to potential billing adjustments due to situations such as product returns and damages. The amount of the sales allowance is determined based on a historical transaction analysis and any analysis. Any additions to the sales allowance are recorded as a reduction to net revenue.

**Inventories:** Inventories consist of raw materials, work-in-process, semi-finished goods, and finished goods. Inventory cost is determined using the first-in, first-out (FIFO) weighted-average method and valued at lower of cost or net realizable value. The Company maintains a reserve for excess and obsolete inventory, and carries its inventory at net realizable value, taking into account various factors including historic usage, expected demand, anticipated sales price, and product expiration and obsolescence.

**Property and Equipment:** Property and equipment are carried at cost, net of accumulated depreciation and amortization, and net of impairment losses, if any. Depreciation of property and equipment are computed by straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized using the straight-line method over the term of the lease, or the estimated life of the improvement, whichever is less.

The estimated useful life of property and equipment are as follows:

Machinery and equipment	5 years to 15 years
Leasehold improvements	Lesser of useful life or lease term
Vehicles	5 years
Furniture and fixtures	7 years
Building and building improvements	10 years to 40 years
Property held under capital leases	3 years to 5 years
Computer hardware and software	3 years

Normal repairs and maintenance are expensed as incurred, whereas significant changes that materially increase values or extend useful lives are capitalized and depreciated over the estimated useful lives of the related assets.

**Deposits:** Deposits are payments made for machinery and equipment and as well as construction and improvement for the Company's facilities. Included in deposits are also payments made to lessors of leased properties as security for the full and faithful observance of contracts, which will be refunded to the Company upon expiration or termination of the contract.

**Impairment of Long-lived Assets:** The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If such events or circumstances exist, an impairment test is performed which comprises of two steps. The first step compares the carrying amount of the asset to the sum of expected undiscounted future cash flows. If the sum of expected undiscounted future cash

flows exceeds the carrying amount of the asset, no impairment is taken. If the sum of expected undiscounted future cash flows is less than the carrying amount of the asset, a second step is warranted and an impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value calculated using the present value of estimated net future cash flows. For the years ended December 31, 2022 December 31, 2023 and 2021, management concluded that an impairment write-down of long-lived assets was not required.

**Business Combination and Goodwill:** The Company applies the acquisition method of accounting for business combinations in accordance with GAAP, which requires the Company to make use of estimates and judgments to allocate the purchase price paid for acquisitions to the fair value of the assets, including identifiable intangible assets, and liabilities acquired. Such estimates may be based on significant unobservable inputs. The Company's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Goodwill is the excess of the acquisition price over the fair value of the tangible and identifiable intangible net assets acquired. The Company performs an impairment test of goodwill annually or whenever events and circumstances indicate that the carrying amount of goodwill may exceed its fair value. The Company operates as a single operating segment with one reporting unit and consequently evaluates goodwill for impairment based on an evaluation of the fair value of the Company as a whole. During the years ended December 31, 2022 December 31, 2023 and 2021, 2022, the Company determined no impairments have occurred.

The following table summarizes the activity in the Company's goodwill from December 31, 2020 to December 31, 2022:

	(in thousands)
<b>Balance at December 31, 2020</b>	<b>\$ 3,113</b>
Goodwill acquired	397
<b>Balance at December 31, 2021</b>	<b>\$ 3,510</b>
Goodwill acquired	—
<b>Balance at December 31, 2022</b>	<b>\$ 3,510</b>

**Government Grants:** Government grants are not recognized unless there is reasonable assurance that the Company Lollicup and Global Wells, recipients of the grants, will comply with the grants' conditions and that the grants will be received. As of December 31, 2022 December 31, 2023 and 2021, the Company 2022, Lollicup received cumulative grants of \$1,350,000 \$1,500,000 and \$1,200,000, \$1,350,000, respectively. As of both December 31, 2022 December 31, 2023 and 2021, 2022, Global Wells received cumulative grants of \$1,302,000. These grants are reported as deferred income within other payable in the accompanying consolidated balance sheet as of December 31, 2023, and within other liabilities in the accompanying consolidated balance sheets sheet as there are conditions attached to the grants that the Company of December 31, 2022, as Lollicup and Global Wells have not met, fully met all conditions attached to the grants. These conditions include requiring the facility in Rockwall, Texas to maintain a certain minimum tax value for 5 years calendar years through 2024 (the "Required Period"), continue operations in the facility for the Required Period, have a minimum number of full time equivalent employees with a minimum average annual gross wage employed in the operation of the facility in the Required Period, and promise to not engage in a pattern or practice of unlawful employment of aliens during the Required Period.

**Derivative Instruments:** Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 815, *Derivatives and Hedging*, requires companies to recognize all of its derivative instruments as either assets or liabilities in the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow

hedge, or a hedge of a net investment in a foreign operation. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in the statement of income during the current period.

The Company and in June 2019, Global Wells entered into certain interest rate swaps swap to manage the interest rate risk, and accounted for such interest rate swaps swap as a derivative instrument under ASC 815. In June 2022, Global Wells terminated this interest rate swap. The interest rate swaps were swap was not designated for hedge accounting and as such, the change changes in the fair value of the interest rate swaps was swap were recognized as interest income (expense) in during the accompanying consolidated statements of income year ended December 31, 2022. See Note 11 — *Interest Rate Swap* for additional information on the interest rate swap and the related termination.

**Variable Interest Entities:** The Company has a variable interest in Global Wells. 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, located in Rockwall, Texas. The purpose of this entity is to own, construct, and manage a warehouse warehouses and a

manufacturing facility facilities. Global Wells' operating agreement may require its members to make additional contributions only upon the unanimous decision of the members or where 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.

Global Wells was determined to be a variable interest entity in accordance with ASC Topic 810, *Consolidations*, however, at the time the investment was made, it was determined that Lollicup was not the primary beneficiary. In 2018, Lollicup entered into an operating lease with Global Wells ("Texas Lease"). In 2020, the Company entered into another operating lease with Global Wells ("New Jersey Lease").

Upon entering into the Texas Lease with Lollicup on March 23, 2018, 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, the ability to receive significant benefits, or and the obligation to absorb potentially significant losses, resulting in Lollicup having a controlling financial interest in 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 810, for the period from March 23, 2018. The monthly lease payments for both the Texas Lease and New Jersey Lease are eliminated upon consolidation.

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; rather they represent claims against the specific assets of Global Wells. See Note 9.10 — *Long Term Debt* for a description of the two term loans that Global Wells had with financial institutions as of December 31, 2022 December 31, 2023.

The following financial information includes assets and liabilities of Global Wells and are included in the accompanying consolidated balance sheets, except for those that eliminate upon consolidation:

	December 31, 2022	December 31, 2021
	(in thousands)	
Cash	\$ 2,022	\$ 1,163
Accounts receivable	53	384
Prepaid expenses and other current assets	191	63
Due from Lollicup USA Inc.	4,700	—
Property and equipment, net	45,399	46,612
Other assets	4,262	4,762
<b>Total assets</b>	<b>56,627</b>	<b>52,984</b>
Accounts payable	\$ 2	\$ 497
Accrued expenses	626	68
Income tax payable	—	9
Customer deposits	165	88
Due to Lollicup USA Inc.	—	2,620
Long-term debt, current portion	957	1,178
Long-term debt, net of current portion	41,558	35,339
Other liabilities	1,302	2,636
<b>Total liabilities</b>	<b>\$ 44,610</b>	<b>\$ 42,435</b>

**Revenue Recognition:** The Company generates revenues from product sales to customers that include national and chains, regional chains, and distributors, fast food small local restaurants, with multiple locations, small businesses, and those that purchase for individual consumption, consumption primarily through our online stores. The Company considers revenue disaggregated by customer type to most accurately reflect the nature and uncertainty of its revenue and cash flows that are affected by economic factors. For the years ended December 31, 2022 December 31, 2023 and 2021, net sales disaggregated by customer type consist of the amounts shown below.

		Year Ended December 31,	
		2022	2021
(in thousands)			
		Year Ended December 31,	
		31,	Year Ended December 31,
		2023	2022
(in thousands)			
National	National		
and	and		
regional	regional		
chains	chains	\$ 95,786	\$ 86,017
Distributors	Distributors	242,285	199,902
Online	Online	53,697	50,271
Retail	Retail	31,189	28,054

	<b>\$422,957</b>	<b>\$364,244</b>
<b>\$</b>		

- **National and regional chains revenue:** National and regional chains revenue is derived from chain restaurants and **supermarkets** businesses with locations across multiple states. Revenue from transactions with national and regional chains is recognized at a point in time upon transfer of control of promised products to customers. Transfer of control typically occurs when the title and risk of loss passes to the customer. Shipping terms generally indicate when the title and risk of loss have passed, which is generally when the products are shipped from the Company's facility to the customers.
- **Distributors revenue:** Distributors revenues are derived from national and regional distributors across the U.S. that purchase the Company's products for **resale** and **distribution to other businesses such as** restaurants, **supermarkets**, offices, **schools**, and **government entities**. Revenue from distributions is recognized at a point in time upon transfer of control of promised products to customers. Transfer of control typically occurs when the title and risk of loss passes to the customer.

Shipping terms generally indicate when the title and risk of loss have passed, which is generally when the products are shipped from the Company's facility to the customers.

- **Online revenue:** Online revenue is derived from the Company's online storefront on [www.lolliecupstore.com](http://www.lolliecupstore.com), and other e-commerce platforms including Amazon, Walmart, eBay, and TikTok with customers largely consisting of small businesses such as small restaurants, coffee houses, bubble tea **shops**, coffee shops, juice bars **cafes**, pizza parlors, and **smoothie shops**, **frozen yogurt shops**. Revenue from online transactions is recognized at a point in time upon transfer of control of promised products to customers. Transfer of control typically occurs when the title and risk of loss passes to the customer. Shipping terms generally indicate when the title and risk of loss have passed, which is generally when the products are shipped from the Company's facility to the customers. For online sales on third-party e-commerce platforms, the Company is the principal in the three-party arrangement and control of the products remains with the Company at all times until transferring to the end customer or upon return from the end customer. Online platform fees are recognized as selling expenses.
- **Retail revenue:** Retail revenue is derived primarily from regional and local restaurants, coffee houses, bubble tea **shops**, boutique coffee **shops** **cafes**, pizza parlors, and frozen yogurt shops. Revenue from retail transactions is recognized at a point in time upon transfer of control of promised products to customers. Transfer of control typically occurs when the title and risk of loss passes to the customer. Shipping terms generally indicate when the title and risk of loss have passed, which is generally when the products are shipped from the Company's facility to the customers.

In addition to product sales, the Company also generates revenue from logistics services which is the transportation and delivery of shipping containers from ports to customers, primarily to local retail customers. Logistics services revenue is recognized over time due to the continuous transfer of control to the customer. As control transfers over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. Logistics services revenue was **\$6,150,000** **\$4,382,000** and **\$2,779,000** **\$6,150,000** for the years year ended December 31, 2022 December 31, 2023, and 2021, respectively.

The transaction price is the amount of consideration to which the Company expects to be entitled to in exchange for transferring goods to the customer. The transaction price is allocated to each performance obligation based on the standalone or contractual selling price. Revenue is recorded based on the total estimated transaction price, which includes fixed consideration and estimates of variable consideration. Variable consideration includes estimates of rebates returns, restocking fees, and other sales incentives, cash discounts for prompt payment, consideration payable to customers for cooperative advertising and other program rebates, sales incentives, and sales returns. cooperative advertisement. The Company estimates its variable consideration based on contract terms and historical experience of actual results using the expected value method. The performance obligations are generally satisfied shortly after manufacturing and shipment as purchases made by the Company's customers are manufactured and shipped with minimal lead time.

The Company's contract liabilities consist primarily of rebates, sales incentives, customer deposits and consideration payable to customers for cooperative advertising, advertising, and customer deposits. As of December 31, 2022 December 31, 2023 and 2021, 2022, the rebates, sales incentives and cooperative advertising were not significant to the financial statements. Customer deposits are included in the current liabilities in the consolidated balance sheets. During the year ended December 31, 2023, and 2022, the Company recognized revenue of \$1,077,000 and \$1,104,000, respectively, related to customer deposits received as of the beginning of each respective year.

Shipping and handling fees billed to a customer are recorded within net sales, with corresponding shipping and handling costs recorded in selling expense on the accompanying consolidated statements of income. Shipping and handling fees billed to a customer customers are not deemed to be separate performance obligations for product sales, as these activities occur before the customer receives the products. sales. Shipping and handling costs included within selling expenses in the consolidated statements of income for the years ended December 31, 2022 December 31, 2023 and 2021 2022 were \$28,040,000 and \$32,508,000, and \$28,525,000, respectively.

Sales taxes collected concurrently with revenue-producing activities and remitted to governmental authorities are excluded from revenue. Sales commissions are expensed as incurred due to the amortization period being less than one year and are recorded in selling expense on the accompanying consolidated statements of income.

**Advertising Costs:** The Company expenses costs of print production, trade show, online marketing, and other advertisements in the period in which the expenditure is incurred. Advertising costs included in operating expenses in the consolidated statements of income were **\$2,418,000** **\$4,865,000** and **\$2,488,000** **\$2,418,000** for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively.

**Income Taxes:** The Company applies the provision of ASC 740, *Income Taxes*. Under ASC 740, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Deferred tax assets are evaluated for recoverability each reporting period by assessing all positive and negative evidence available in order to assess the need for a valuation allowance. A valuation allowance is used to reduce some or all of the deferred tax assets if, based upon the weight of available evidence, it is more likely than not that such deferred tax assets will not be realized.

The Company accounts for uncertainties in income tax in accordance with ASC 740-10, *Accounting for Uncertainty in Income Taxes*. ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This accounting standard also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company recognizes interest

and penalties related to unrecognized tax benefits in the provision for income taxes in the accompanying consolidated statement of income. Accrued interest and penalties are included in the income taxes payable in the consolidated balance sheet.

**Concentration of Credit Risk:** Cash is maintained at financial institutions and, at times, balances exceed federally insured limits. Management believes that the credit risk related to such deposits is minimal.

The Company extends credit based on the valuation of the customers' financial condition and general collateral is not required. Management believes the Company is not exposed to any material credit risk on these accounts.

For the years ended December 31, 2022 December 31, 2023 and 2021, purchases from the following vendor makes up greater than 10 percent of total purchases:

	Year Ended December 31,	
	2022	2021
Keary Global Ltd. ("Keary Global") and its affiliate, Keary International, Ltd. – related parties	11 %	12 %

	Year Ended December 31,	
	2023	2022
Keary Global Ltd. ("Keary Global") and its affiliate, Keary International, Ltd. – related parties	13 %	11 %

Amounts due to the following vendors at December 31, 2022 December 31, 2023 and 2021, 2022, respectively, that exceed 10 percent of total accounts payable are as follows:

	December December		December 31, 2023	December 31, 2022
	31, 2022	31, 2021		
Keary Global and its affiliate, Keary International – related parties	Keary Global and its affiliate, Keary International – related parties	21 % 10 %	Keary Global and its affiliate, Keary International – related parties	22 %
Fuling Technology Co., Ltd.	Fuling Technology Co., Ltd.	18 % 21 %	Fuling Technology Co., Ltd.	16 %
Wen Ho Industrial Co., Ltd	Wen Ho Industrial Co., Ltd	* 11 %	Wen Ho Industrial Co., Ltd	14 %

\* Amounts payable represented less than 10% of total accounts payable.

No customer accounted for more than 10 percent of sales or accounts receivable for the years ended December 31, 2022 December 31, 2023 and 2021, 2022.

**Fair Value Measurements:** The Company follows ASC 820, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

ASC 820 establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available.

Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value. The three levels of inputs are as follows:

*Level 1* — Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date.

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

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

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level input that is significant to

the fair value measurement of the instrument. Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

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

- At December 31, 2022 and 2021, December 31, 2023, the Company had a money market account, accounts and certificates of deposit classified as Level 1 and Level 2, respectively, 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 consolidated balance sheet. The carrying value of these short-term investments approximates fair value as they were purchased near or on December 31, 2023.
- At December 31, 2022, the Company had money market accounts classified as Level 1 within the fair value hierarchy, and reported as a current asset on the consolidated balance sheet.
- At December 31, 2021, The following table summarizes the Company had an interest rate swap that met the definition of a derivative, classified as Level 2 within the Company's fair value hierarchy, and reported as other liabilities on measurements by level at December 31, 2023 for the consolidated balance sheet. The assets measured at fair value of interest rate swap was calculated from pricing models that used volatility to quantify the probability of changes around interest rate trends. This interest rate swap was terminated in June 2022, as further discussed in Note 10 — *Interest Rate Swaps* on a recurring basis:

	Level 1	Level 2	Level 3
	(in thousands)		
Cash equivalents	\$ 5,956	\$ 10,000	\$ —
Short-term investments	—	26,343	—
<b>Fair value, December 31, 2023</b>	<b>\$ 5,956</b>	<b>\$ 36,343</b>	<b>\$ —</b>

The following table summarizes the Company's fair value measurements by level at December 31, 2022 for the assets measured at fair value on a recurring basis:

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

The following table summarizes the Company's fair value measurements by level at December 31, 2021 for the assets and liabilities measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3
	(in thousands)		
Cash equivalents	\$ 2,000	\$ —	\$ —
Interest rate swap	—	(1,334)	—
<b>Fair value, December 31, 2021</b>	<b>\$ 2,000</b>	<b>\$ (1,334)</b>	<b>\$ —</b>

The Company has not elected the fair value option as presented by ASC 825, *Fair Value Option for Financial Assets and Financial Liabilities*, for the financial assets and liabilities that are not otherwise required to be carried at fair value. Under ASC 820, material financial assets and liabilities not carried at fair value, including accounts receivable, accounts payable, related-party payable, accrued and other liabilities, other payable and borrowings under promissory notes and Line of Credit (as defined below), are reported at their carrying value.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, related-party payable, accrued and other liabilities, and other payable at December 31, 2022 December 31, 2023 and 2021, 2022, approximated fair value because of the short maturity of these instruments. The carrying amount of the Company's Line of Credit approximates fair value because the interest rate is variable in nature. For the \$21,580,000 term loan that the Company refinanced in June 2022, the carrying amount as of December 31, 2021 approximated fair value because the interest rate was variable in nature. 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):

	December 31, 2022	
	Carrying Amount	Estimated Fair Value
	(in thousands)	
\$23,000,000 term loan maturing in September 2026	\$ 22,168	\$ 20,115
\$28,700,000 term loan maturing in July 2027	20,563	18,918
	<b>\$ 42,731</b>	<b>\$ 39,033</b>

	December 31, 2023	
	Carrying Amount	Estimated Fair Value
	(in thousands)	
2026 Term Loan	\$ 21,490	\$ 19,999
2027 Term Loan	28,028	27,810
	<b>\$ 49,518</b>	<b>\$ 47,809</b>

	December 31, 2022	
	Carrying Amount	Estimated Fair Value
	(in thousands)	
2026 Term Loan	\$ 22,168	\$ 20,115
2027 Term Loan	20,563	18,918
	<b>\$ 42,731</b>	<b>\$ 39,033</b>

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

Certain long-lived non-financial assets and liabilities may be required to be measured at fair value on a nonrecurring basis in certain circumstances, including when there is evidence of impairment. These non-financial assets and liabilities may include assets acquired in a business combination or property and equipment that are determined to be impaired. As of December 31, 2023 and 2022, the Company did not have any material non-financial assets or liabilities that had been measured at fair value subsequent to initial recognition.

**Foreign Currency:** The Company includes gains or losses from foreign currency transactions, such as those resulting from the settlement of foreign receivables or payables, in the consolidated statements of income. The Company recorded a foreign currency gain of \$1,568,000 \$103,000 and a loss of \$412,000 \$1,568,000 for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively.

**Stock-Based Compensation:** The Company recognizes stock-based compensation expense related to employee stock options and restricted stock units in accordance with ASC 718, *Compensation — Stock Compensation*. This standard requires the Company to record compensation expense equal to the fair value of awards granted to employees and non-employees.

The fair value of share-based payment awards is estimated on the grant-date using the Black-Scholes option pricing model for stock options, and the closing price of the Company's common stock on the trading day immediately prior to the grant date for restricted stock units. Key input assumptions used in the Black-Scholes option pricing model to estimate the grant date fair value of stock options include the fair value of the Company's common stock, the expected option term, the expected volatility of the Company's stock over the option's expected term, the risk-free interest rate, and the Company's expected annual dividend yield.

The risk-free interest rate assumption for options granted under the 2019 Stock Incentive Plan (the "Plan") is based upon observed interest rates on the United States government securities appropriate for the expected term of the Company's stock options.

The expected term of employee stock options under the Plan represents the weighted-average period that the stock options are expected to remain outstanding. The expected term of options granted is calculated based on the "simplified method," which estimates the expected term based on the average of the vesting period and contractual term of the stock option.

The Company determines the expected volatility assumption using the frequency of daily historical prices of comparable public company's common stock for a period equal to the expected term of the options.

The dividend yield assumption for options granted under the Plan is based on the Company's history and expectation of dividend payouts.

Stock-based compensation expense is based on awards that ultimately vest. Forfeitures are accounted for as they occur. The Company has elected to treat stock-based payment awards with graded vesting schedules and time-based service conditions as separate awards and recognizes stock-based compensation expense over the requisite service period using the graded vesting attribution method.

The determination of stock-based compensation is inherently uncertain and subjective and involves the application of valuation models and assumptions requiring the use of judgment. If the Company had made different assumptions, its stock-based compensation expense, and its net income could have been significantly different.

**Leases:** The Company adopted ASU 2016-02, *Leases (Topic 842)*, as of January 1, 2022 which requires the recognition of the right-of-use ("ROU") assets and related operating and finance lease liabilities on the balance sheet and the disclosure of key information about certain leasing arrangements.

The Company adopted this ASU and related amendments under the modified retrospective method with no recast of the comparative period presented in the Company's consolidated financial statements. There was no cumulative adjustment to retained earnings upon adoption.

The Company elected certain practical expedients permitted under the transition guidance, including to exclude leases with an initial term of 12 months or less at lease commencement, combine non-lease components together with lease components as a single lease component, and to retain the historical lease classification as well as relief from reviewing expired or existing contracts to determine if they contain leases.

The Company determines if an arrangement is a lease at commencement date. Leases are classified as either finance leases or operating leases. The Company has lease agreements for the use of facilities and vehicles, and its lease terms may include options to extend or terminate the lease when it is reasonably certain that it will exercise that option. ROU Certain lease agreements contain both lease and non-lease components. Fixed payments for non-lease components are combined with

lease payments and accounted for together as a single lease component which increases the amount of the lease assets and liabilities. Certain lease agreements contain variable payments, which are expensed as incurred and not included in the lease assets and liabilities. Right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term, and lease liabilities represent its obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term using a discount rate based on similarly secured borrowings available to the Company. ROU assets include any prepaid lease amounts and excludes lease incentives. ROU assets and corresponding operating leases liabilities are recognized for all leases with an initial term greater than 12 months.

**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 February 2016, November 2023, the FASB issued ASU 2016-02 2023-07 Segment Reporting (Topic 842), "280: Improvements to Reportable Segment Disclosures Leases". This ASU amends a number of the new guidance requires enhanced disclosure of aspects of lease accounting, including requiring lessees to recognize significant expenses that are regularly reported to recognize the chief operating leases with a term greater than one year on their balance sheet as a ROU asset and corresponding lease liability, measured at the present value of the lease payments. The Company adopted the ASU decision maker and the related amendments as of January 1, 2022 under the modified retrospective method with no recast of the comparative period presented in the Company's consolidated financial statements. segment expense information used to manage operations. The Company recorded a ROU asset of \$8,800,000 and an operating lease liability of \$9,200,000 upon adoption. See Note 14 — Leases for more information.

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 U.S. 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 U.S. GAAP by decreasing the number of credit impairment models that entities use to account for debt instruments. The ASU is effective for fiscal years all public companies for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years for public business entities that are U.S. Securities and Exchange Commission (SEC) filers. For all other public business entities, the ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. For all other entities, the ASU is effective for fiscal years beginning after December 15, 2021 December 15, 2023, and interim periods within those fiscal years years beginning after December 15, 2024. Early adoption is permitted beginning after December 15, 2018, including interim periods within those fiscal years. 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. For calendar-year end companies that are eligible for the deferral, the effective date is January 1, 2023. The Company will adopt the new standard in annual reporting period beginning after January 1, 2023. The Company does not expect December 15, 2023 and is currently evaluating the adoption impacts of this ASU to have a material impact the new guidance on its disclosure within the consolidated financial statements.

In March 2020, December 2023, the FASB issued ASU 2020-3, "2023-09, Codification Income Taxes (Topic 740): Improvements to Financial Instruments Income Tax Disclosures". The new guidance requires disaggregated information about the effective tax rate reconciliation and additional information on taxes paid that meet a quantitative threshold. The new guidance is effective for public companies for annual reporting periods beginning after December 15, 2024, which clarifies and for non-public companies for annual reporting periods beginning after December 15, 2025, with early adoption permitted for both. The Company will adopt the requirement for all entities to provide new standard in annual reporting period beginning after December 15, 2025 and is currently evaluating the fair value option disclosures in paragraphs ASC 825-10-50-24 through 50-32. The guidance also clarifies that the contractual term of a net investment in a lease determined in accordance with ASC 842, "Leases", should be the contractual term used to measure expected credit losses under ASC 326, "Financial Instruments — Credit Losses". This ASU was effective upon adoption impacts of the amendments in ASU 2016-13. The adoption of this ASU did not have a material impact new guidance on its disclosures within the consolidated financial statements.

### 3. Acquisitions Global Wells

Pacific Cup, Inc.

On March 1, 2021, Lollipup entered into an asset purchase agreement ("the Pacific Cup Agreement") with Pacific Cup, Inc. ("Pacific Cup"), a manufacturer. The following financial information includes assets and liabilities of disposable products operating in Kapolei, Hawaii. Pursuant to the Pacific Cup Agreement, Lollipup paid cash consideration of \$1,000,000 to acquire certain assets of Pacific Cup. Acquisition-related costs were immaterial. The amounts of revenue Global Wells and earnings of the acquiree since the acquisition date are included in the accompanying consolidated statement of income balance sheets, except for the reporting period, which is immaterial from March 1, 2021 through December 31, 2021 and for those that eliminate upon consolidation.

	December 31, 2023	December 31, 2022
	(in thousands)	
Cash	\$ 13,566	\$ 2,022
Accounts receivable	—	53

Prepaid expenses and other current assets	558	191
Due from Lollicup USA Inc.	—	4,700
Property and equipment, net	44,185	45,399
Other assets	3,240	4,262
<b>Total assets</b>	<b>61,549</b>	<b>56,627</b>
Accounts payable	\$ 63	\$ 2
Accrued expenses	591	626
Customer deposits	116	165
Due to Lollicup USA Inc.	14	—
Other payable	1,302	—
Long-term debt, current portion	1,122	957
Long-term debt, net of current portion	48,396	41,558
Other liabilities	—	1,302
<b>Total liabilities</b>	<b>\$ 51,604</b>	<b>\$ 44,610</b>

During the year ended December 31, 2022.

The goodwill recognized December 31, 2023, Global Wells made a pro rata distribution of its earnings of \$3,956,000, net of all applicable withholding taxes, to its four members. Lollicup received \$504,000, net of applicable withholding taxes, which is eliminated in the consolidated financial statements. See Note 22 — *Subsequent Events* for discussion about one of Global Well's members redemption of its ownership interest in this transaction was derived from expected opportunities to leverage Pacific Cup's customer base, manufacturing facility, and sales force to expand the Company's footprint. Goodwill recognized as a result of this acquisition is deductible for income tax purposes, and subject to annual impairment testing, which may give rise to deferred taxes in future periods.

The following table summarizes the final valuation of assets acquired as a result of this acquisition:

	(in thousands) entity.
Inventories	\$ 153
Property and equipment	50
Customer relationships	400
Goodwill	397
<b>Total assets acquired</b>	<b>\$ 1,000</b>

#### 4. Joint Venture

On April 6, 2022, Lollicup the Company entered into a definitive joint venture agreement (the "JV Agreement" "JV Agreement") with Happiness Moon Co., Ltd., to establish a Taiwanese company, to jointly establish new corporation, Bio Earth, Technology ("Bio Earth"), to build a new Taiwanese corporation, for the manufacturing of compostable foodservice products from bagasse, 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. During the year ended December 31, 2022, the Company made payments of \$5,876,000 and received a refund of \$1,876,000 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.

Lollicup had invested 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 \$4,000,000 pursuant to 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 December 31, 2022 the Company's 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 is included in deposits in (i) Lollicup agreed to transfer all Bio Earth shares, as well as its rights and obligations under the accompanying consolidated balance sheet. This total investment comprised of three payments of \$2,000,000 in April 2022, another \$2,000,000 in June 2022, JV Agreement to Keary Global, (ii) Happiness Moon and \$1,876,000 in November 2022, net of a refund of \$1,876,000 received in December 2022. Bio Earth agree to foregoing and (iii) Bio Earth shall manage the regulatory and registration requirements related to the Share Transfer.

As of December 31, 2022, the incorporation end of the second quarter of 2023, the Company had completed the Share Transfer to Keary Global and registration received the total consideration of Bio Earth had not been completed. \$6,100,000 in full.

See Note 19.17 — *Subsequent Events Related Party Transactions* for subsequent investments made under further discussion on the JV Agreement, Company's business activities with Keary Global.

#### 5. Inventories

Inventories consist of the following:

December	December
31, 2022	31, 2021
(in thousands)	

		December 31, 2023		December 31, 2022	
		(in thousands)		(in thousands)	
Raw materials	Raw materials	\$18,061	\$12,543		
Semi-finished goods	Semi-finished goods	1,850	1,532		
Finished goods	Finished goods	52,044	45,140		
<b>Subtotal</b>	<b>Subtotal</b>	<b>71,955</b>	<b>59,215</b>		
Less: inventory reserve		(749)	(743)		
Total inventories	Total inventories	\$71,206	\$58,472		

During the year ended December 31, 2022, the Company recorded \$3,897,000 of adjustments and write-off related to certain inventory items, including 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. See Note 16 — *Impairment Expense and Loss (Gain), Net, on Disposal of Machinery* for further discussion about the disposal of machinery.

During the year ended December 31, 2022, the Company recorded a \$3,500,000 write-off of certain inventory items, out of which \$879,000 was determined to be out-of-period and was recorded to correct immaterial errors in its previously issued quarterly and annual financial statements.

Inventory adjustments and write-offs are included in cost of goods sold on the accompanying consolidated statements of income.

## 6. Property and Equipment

		December 31, 2023	December 31, 2022	
		31, 2022	31, 2021	
		(in thousands)		
				December 31, 2022
				(in thousands)
Machinery and equipment	Machinery and equipment	\$70,234	\$60,935	
Leasehold improvements	Leasehold improvements	19,063	18,655	
Vehicles	Vehicles	6,725	5,384	
Furniture and fixtures	Furniture and fixtures	1,016	936	
Building	Building	36,599	35,387	
Land	Land	11,907	11,907	
Computer hardware and software	Computer hardware and software	593	553	
		146,137	133,757	
		144,962		
Less: accumulated depreciation and amortization	Less: accumulated depreciation and amortization	(50,569)	(40,282)	

Total property and equipment, net	Total property and equipment, net	\$95,568	\$93,475
-----------------------------------	-----------------------------------	----------	----------

Depreciation and amortization expense on property and equipment was \$10,378,000 and \$10,024,000 for the years ended December 31, 2022 and 2021, 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 consolidated statements of income. Depreciation and amortization expense on property and equipment reported within general and administrative expense was \$3,981,000 and \$4,491,000 for the years ended December 31, 2023 and 2022, respectively. Depreciation and amortization expense on property and equipment reported within cost of goods sold was \$6,776,000 and \$5,887,000 for the years ended December 31, 2023 and 2022, respectively.

## 7. Goodwill

The following table summarizes the activity in the Company's goodwill from December 31, 2021 to December 31, 2023:

	(in thousands)
<b>Balance at December 31, 2021</b>	<b>\$ 3,510</b>
Goodwill acquired	—
<b>Balance at December 31, 2022</b>	<b>\$ 3,510</b>
Goodwill acquired	—
<b>Balance at December 31, 2023</b>	<b>\$ 3,510</b>

## 8. Line of Credit

Pursuant to the terms of the Business Loan Agreement, dated February 23, 2018, between Lollipop, 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 Line of Credit also includes a standby letter of credit sublimit, which was amended and increased to \$2,000,000 on August 18, 2022. 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.

On October 6, 2021, the Company amended the Loan Agreement. Prior to October 6, 2021, interest accrued at an annual rate of prime less 0.25% with a minimum floor of 3.75%, and the amount that could be borrowed was subject to a borrowing base that was calculated as a percentage of the accounts receivable and inventory balances measured monthly. Additionally, the Company was required to comply with certain financial covenants, including a minimum current ratio, minimum tangible net worth, minimum debt service coverage ratio, and minimum debt to earnings before interest, taxes, depreciation and amortization ("EBITDA" ("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 October 6, 2021 March 14, 2023, among other things, (1) extended the maturity date to October 6, 2023 March 14, 2025, and (2) revised the interest on any line of credit borrowings to an annual rate of prime less 0.25% one month term Secured Overnight Financing Rate ("SOFR") plus 2.50%, with a minimum SOFR floor of 3.25%, (3) removed 1.0%. The Line of Credit also includes a standby letter of credit sublimit, which was amended and increased to \$2,000,000 on August 18, 2022 and then to \$5,000,000 on June 20, 2023.

The Company had no borrowings outstanding under the requirement for Line of Credit as of both December 31, 2023 and December 31, 2022. The amount issued under the maximum amount standby letter of borrowings to be subject to a borrowing base requirement that credit was calculated \$3,766,000 and \$1,070,000 as a percentage of accounts receivable December 31, 2023 and inventory balances, (4) removed the minimum tangible net worth and minimum debt service coverage ratio from the financial covenant requirement, and (5) added a minimum fixed charge coverage ratio in the financial covenant requirement.

2022, respectively. As of December 31, 2022 December 31, 2023, and 2022, the maximum remaining amount that could be borrowed under the Line of Credit was \$38,930,000. The Company had \$0 of borrowings outstanding under the Line of Credit as of both December 31, 2022 \$36,234,000 and 2021. The amount issued under the standby letter of credit was \$1,070,000 and \$0 as of December 31, 2022 and 2021, \$38,930,000, respectively. As of both December 31, 2022 December 31, 2023 and 2021, 2022, the Company was in compliance with the financial covenants under the Line of Credit.

The Company amended

## 9. Accrued Expenses

Accrued expenses consist of the Line of Credit again in March 2023. See Note 19 — Subsequent Events for further discussion following:

	December 31, 2023	December 31, 2022
	(in thousands)	(in thousands)
Accrued miscellaneous expenses	\$ 1,271	\$ 513
Accrued payroll	1,685	2,327
Accrued ocean freight and other import costs	3,513	392
Accrued sale and use taxes	1,006	992
Accrued professional services fees	845	600
Accrued vacation and sick pay	619	543

Accrued property tax	552	1,164
Accrued shipping expenses	525	1,918
Accrued sales discount expense	487	448
Accrued interest expense	73	108
<b>Total accrued expenses</b>	<b>\$ 10,576</b>	<b>\$ 9,005</b>

## 8. Accrued Expenses

The following table summarizes information related to accrued expense liabilities:

	December 31, 2022	December 31, 2021
	(in thousands)	
Accrued miscellaneous expenses	\$ 2,094	\$ 1,054
Accrued interest	108	68
Accrued payroll	1,586	1,456
Accrued vacation and sick pay	543	416
Accrued shipping expenses	1,918	2,868
Accrued professional services fees	600	642
Deferred rent liability	—	372
Accrued property tax	1,164	10
Accrued sale taxes and use taxes	992	927
<b>Total accrued expenses</b>	<b>\$ 9,005</b>	<b>\$ 7,813</b>

## 9. 10. Long-Term Debt

Long-term debt consists of the following:

	December 31, 2022	December 31, 2021
	(in thousands)	
A \$23,000,000 term loan that matures September 30, 2026, 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 \$16,000 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.	\$ 22,168	\$ 15,909
A \$21,580,000 term loan ("2029 Loan") that was set to mature in May 2029. Interest accrued at prime rate less 0.25% (3.00% at December 31, 2021) and principal payments ranging from \$24,000 to \$40,000 along with interest were due monthly throughout the term of the loan, with the remaining principal balance due at maturity. The loan was collateralized by substantially all of the Company's and Global Well's assets and was guaranteed by the Company and its stockholders. The Company incurred debt issuance costs of approximately \$119,000, which was reported as a reduction of the carrying value of debt on the accompanying consolidated balance sheet. This loan was refinanced in June 2022 (see below).	—	20,808
A \$28,700,000 term loan ("2027 Loan") that matures July 1, 2027, 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. Interest accrues at a fixed rate of 4.375% per annum. Principal and interest payments of \$104,000 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 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.	\$ 20,563	\$ —
Long-term debt	42,731	36,717
Less: unamortized loan fees	(216)	(200)
Less: current portion	(957)	(1,178)
<b>Long-term debt, net of current portion</b>	<b>\$ 41,558</b>	<b>\$ 35,339</b>

## KARAT PACKAGING INC. AND SUBSIDIARIES

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 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.	\$ 21,555	\$ 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.	\$ 28,166	\$ 20,563
Long-term debt	\$ 49,721	\$ 42,731
Less: unamortized loan fees	(203)	(216)
Less: current portion	(1,122)	(957)
<b>Long-term debt, net of current portion</b>	<b>\$ 48,396</b>	<b>\$ 41,558</b>

At December 31, 2022 December 31, 2023, future maturities are:

	(in thousands)	
2023	\$ 957	
	(in thousands)	(in thousands)
2024 2024	990	
2025 2025	1,040	
2026 2026	20,653	
2027 2027	19,091	
	\$ 42,731	
	\$	

The Company's refinance of the 2029 Loan with 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 December 31, 2022 December 31, 2023 and 2021.

On April 16, 2020, the Company received a \$5,000,000 Paycheck Protection Program ("PPP") loan under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act which included, among other terms, an interest rate of 1.00% per annum. The PPP loan was subject to events of default and other provisions customary for a loan of this type. A PPP loan may be forgiven, partially or in full, if certain conditions are met, principally based on having been disbursed for permissible purposes and maintaining certain average levels of employment and payroll as required by the CARES Act. On June 10, 2021, the full amount of the PPP loan was forgiven. A \$5,000,000 gain from the forgiveness of the PPP loan was recognized in the consolidated statements of income for the year ended December 31, 2021. 2022.

#### 10.11. Interest Rate Swaps

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 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 5.05% 5.1% fixed rate. As of December 31, 2021, the fair value of the interest rate swap was \$1,334,000, which is reported as other liabilities in the accompanying consolidated balance sheet.

For the years ended December 31, 2022 and 2021, Global Wells recognized \$2,159,000 (including the gain on settlement) and \$1,270,000 as interest income related to change in fair value of this the interest rate swap, respectively.

In June 2019, the Company also entered into a five-year floating-to-fixed interest-rate swap, with an effective date of June 3, 2019, that was based on the prime rate versus 5.19% fixed rate. The notional was \$10,000,000 as of June 2019. For the year ended December 31, 2021, the Company recognized approximately \$47,000 in interest income related to change in fair value of this interest rate swap. In April 2021, the Company terminated this interest rate swap, recognizing \$196,000 in swap termination fee, which was included in interest expense in the consolidated statements of income for the year ended December 31, 2021.

11.

#### 12. Stockholder's Equity

The Company's Certificate of Incorporation authorize both common and preferred stock. The total number of shares of all classes of stock authorized for issuance is 110,000,000 shares, par value of \$0.001, with 10,000,000 designated as preferred stock and 100,000,000 designated as common stock. Each holder of common stock

and preferred stock shall be entitled to one vote per share held.

In April 2021, During the year ended December 31, 2023, the Company completed its initial public offering paid out special and issued 4,542,500 shares regular quarterly dividend totaling \$20,909,000. During the year ended December 31, 2022, the Company paid out special dividend totaling \$6,964,000. Additionally, as described in Note 22 — *Subsequent Events*, on February 7, 2024, the Company's Board of its common stock. The total amount of proceeds received, net of issuance costs, was approximately \$67,587,000.

On November 9, 2022, Company Directors declared a quarterly cash dividend of \$0.35 \$0.30 per share of on the Company's common stock. The Company recorded \$6,964,000 of cash dividends as of December 31, 2022. The Company did not declare any dividend for the year ended December 31, 2021.

## 12 13 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 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 December 31, 2022 December 31, 2023, a total of 1,322,349 1,350,684 shares of common stock was available for further award grants under the Plan. For the years ended December 31, 2022 December 31, 2023 and 2021, 2022, the Company recognized a total of \$2,047,000 \$770,000 and \$2,026,000 \$2,047,000 in stock-based compensation expense, respectively. The restricted stock units and stock options granted prior to April 15, 2021 were subjected to vesting conditions contingent upon the closing of an initial public offering of the Company. Such awards began vesting on April 15, 2021 when the Company completed its initial public offering. The Company recognizes stock-based compensation over the vesting period, which is generally 3 years for both the restricted stock units and stock options. The Company recognized a net tax benefit of \$89,000 \$187,000 and \$237,000 \$89,000 from compensation expense related to stock options and restricted stock units during the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively.

### Stock Options

A summary of the Company's stock option activity under the Plan for the years ended December 31, December 31, 2023 and 2022 and 2021 is as follows:

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Life (In Years)	Aggregate Intrinsic Value
<b>Outstanding at December 31, 2020</b>	15,000	\$ 10.00	8.0	\$ —
Granted	430,000	18.86		
Exercised	(10,000)	10.00		\$ 116,000
<b>Outstanding at December 31, 2021</b>	435,000	\$ 18.76	9.7	\$ 632,000
Granted	50,000	16.53		
Exercised	(5,000)	10.00		
Forfeited	(60,000)	18.86		
<b>Outstanding at December 31, 2022</b>	420,000	\$ 18.58	8.8	\$ —
<b>Expected to vest at December 31, 2022</b>	420,000	\$ 18.58	8.8	\$ —
<b>Exercisable at December 31, 2022</b>	123,333	18.86	8.8	\$ —

The weighted-average grant-date fair value of stock options granted during the years ended December 31, 2022 and 2021 was \$5.18 and \$5.74 respectively. At December 31, 2022, total remaining stock-based compensation cost for unvested stock options under the Plan was approximately \$792,000. The cost is expected to be recognized over a weighted-average period of 1.4 years.

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Life (In Years)	Aggregate Intrinsic Value
<b>Outstanding at December 31, 2021</b>	435,000	\$ 18.76	9.7	\$ 632,000
Granted	50,000	16.53		
Exercised	(5,000)	10.00		
Forfeited	(60,000)	18.86		

<b>Outstanding at December 31, 2022</b>	420,000	\$ 18.58	8.8	—
Exercised	(6,860)	17.84	—	—
Forfeited	(26,667)	18.86	—	—
<b>Outstanding at December 31, 2023</b>	<b>386,473</b>	<b>\$ 18.58</b>	<b>7.8</b>	<b>\$ 2,424</b>
<b>Vested and expected to vest at December 31, 2023</b>	<b>386,473</b>	<b>\$ 18.58</b>	<b>7.8</b>	<b>\$ 2,424</b>
<b>Exercisable at December 31, 2023</b>	<b>249,807</b>	<b>18.73</b>	<b>7.8</b>	<b>\$ 1,528</b>

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 December 31, 2022 December 31, 2023, multiplied by the number of shares per each option.

At December 31, 2023, total remaining stock-based compensation cost for unvested stock options under the Plan was approximately \$183,000. The cost is expected to be recognized over a weighted-average period of 0.8 years.

There were no stock options granted during the year ended December 31, 2023. The weighted-average grant date fair value of stock options granted during the year ended December 31, 2022 was \$5.18.

The assumptions that were used to calculate the grant date fair value of the Company's stock option grants for the year ended December 31, 2022 were as follows:

	Year Ended December 31,	
	2022	2021
Risk-free interest rate	1.70 %	1.22 %
Expected term (years)	6.25 years	6.25 years
Volatility	30 %	30 %
Dividend yield	0.40 %	0.40 %

	December 31, 2022
Risk-free interest rate	1.70 %
Expected term (years)	6.25 years
Volatility	30.0 %
Dividend yield	0.40 %

#### Restricted Stock Units

The Company issued restricted stock units to its employees. The following table summarizes A summary of the Company's unvested restricted stock units activity under the Plan for the years ended December 31, 2023 and 2022 and 2021 is as follows:

	Number of Shares Outstanding	Weighted Average Grant Date Fair Value
<b>Unvested at</b>		
December 31, 2020	256,000	\$ 10.00
Granted	40,000	17.98
Vested	(84,917)	11.55
Forfeited	(52,083)	11.14
Unvested at	Number of Shares Outstanding	Weighted Average Grant Date Fair Value
December 31, 2021	159,000	\$ 11.08
Granted	9,900	16.69
Vested	(75,588)	10.72
Forfeited	(11,166)	15.54

Unvested	Unvested	
at	at	
December	December	
31, 2022	31, 2022	82,146 \$ 11.47
Vested		
Forfeited		
Unvested		
at		
December		
31, 2023		

At December 31, 2023, total remaining stock-based compensation cost for unvested restricted stock units under the Plan was approximately \$15,000. The cost is expected to be recognized over a weighted-average grant-date fair value period of 0.8 years.

There were no restricted stock units granted during the years ended December 31, 2023. There were 9,900 restricted stock units granted during the year ended December 31, 2022 and 2021 was \$16.69 and \$17.98 respectively, with a weighted-average grant date fair value of \$16.69. The total fair value of restricted stock units, as of their respective vesting date, during the years ended December 31, 2022 and 2021 was \$1,156,000 and \$1,884,000, respectively. In September 2021, the Company's board of directors accelerated the vesting of the Company's restricted stock units, with each tranche of award vesting 6 months earlier than the original vesting date. The acceleration of the restricted stock units vesting was treated as an award modification under ASC 718, resulting in an additional stock-based compensation expense of approximately \$719,000 recognized during the year ended December 31, 2021. At December 31, 2022 December 31, 2023, total remaining stock-based compensation cost for unvested restricted stock units and 2022, was approximately \$327,000. The cost is expected to be recognized over a weighted-average period of 0.9 years. \$1,612,000 and \$1,156,000, respectively.

#### 13. 14. 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 year by the weighted average number of common shares outstanding during the period.

		Year Ended December 31,			
		2022	2021		
		(in thousands, except per share data)			
		Year Ended December 31,		Year Ended December 31,	
		2023	2023	2022	
		(in thousands, except per share data)			
Net income attributable to Karat Packaging Inc.	Net income attributable to Karat Packaging Inc.	\$23,648	\$20,778		
Weighted average shares	Weighted average shares	19,825	18,409		
Basic earnings per share	Basic earnings per share	\$ 1.19	\$ 1.13		

##### (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:

Year Ended December 31,	

		2022	2021
		(in thousands, except per share data)	
Year Ended December 31,		Year Ended December 31,	
2023		2022	
(in thousands, except per share data)		(in thousands, except per share data)	
Net income attributable to Karat Packaging Inc.	Net income attributable to Karat Packaging Inc.	\$23,648	\$20,778
Weighted average shares	Weighted average shares	19,825	18,409
Dilutive shares	Dilutive shares		
Stock options and restricted stock units	Stock options and restricted stock units	101	157
Stock options and restricted stock units	Stock options and restricted stock units		
Total dilutive shares	Total dilutive shares	19,926	18,566
Diluted earnings per share	Diluted earnings per share	\$ 1.19	\$ 1.12

For the years ended December 31, 2022 December 31, 2023 and 2021 2022 a total of 449,223 213,599 and 234,072 449,223 shares of potentially dilutive shares, respectively, have been excluded in the diluted earnings per share calculation due to ~~its~~ their anti-dilutive impact on earnings per share.

#### 14. 15. Leases

The Company primarily leases manufacturing facilities, distribution centers and office spaces with lease terms expiring through 2031. ~~For The following table summarizes the year ended December 31, 2022, the Company recognized the following Company's lease costs in the accompanying consolidated statement of income:~~

	(in thousands)
Operating lease expense	\$ 4,522
Short-term lease expense	311
Variable lease expense	817
<b>Total lease expense</b>	<b>\$ 5,650</b>

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Operating lease expense	\$ 6,171	\$ 4,522
Short-term lease expense	314	311
Variable lease expense	1,130	817

Total lease expense	\$ 7,615	\$ 5,650
---------------------	----------	----------

For the year ended December 31, 2022, December 31, 2023 and 2022, total lease expense included in operating expenses was \$6,541,000 and \$4,574,000, respectively, and total lease expense and included in cost of goods sold was \$3,446,000 \$1,074,000 and \$1,076,000, respectively. Rent expense for the year ended December 31, 2021 was \$1,783,000.

The following table presents supplemental information related to operating leases for the year ended December 31, 2022: leases:

Weighted average remaining lease term	4.27 years
Weighted average discount rate	5.32 %
Right-of-use assets obtained in exchange for operating lease liabilities	10,727
Cash paid for amounts included in measurement of lease obligations	
Operating cash flows from operating leases	4,481

	December 31, 2023	December 31, 2022
	(in thousands, except lease term and discount rate)	
Weighted average remaining lease term	4.51 years	4.27 years
Weighted average discount rate	6.2 %	5.3 %
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 9,995	\$ 10,727
Cash paid for amounts included in measurement of lease obligations:		
Operating cash flows from operating leases	\$ 5,768	\$ 4,481

As of December 31, 2022 December 31, 2023, future lease payments under operating leases lease were as follows:

	(in thousands)
2024	\$ 5,980
2025	5,113
2026	5,276
2027	3,993
2028	2,575
Thereafter	1,988
Total future lease payments	24,925
Less: imputed interest	(3,438)
Total lease liability balance	\$ 21,487

	(in thousands)
2023	\$ 5,244
2024	4,097
2025	2,926
2026	3,015
2027	1,149
Thereafter	1,212
Total future lease payments	17,643
Less: imputed interest	(1,509)
Total lease liability balance	\$ 16,134

As of December 31, 2021, approximate future minimum lease obligations prior to the adoption of Topic 842 were as follows:

	(in thousands)
2022	\$ 3,055
2023	3,060
2024	1,824
2025	380
2026	374
Thereafter	1,629

\$	10,322
----	--------

In September 2020, Global Wells entered into an operating lease **agreement** with an unrelated party as the **landlord**. The lease generates monthly rental payments from \$58,000 to \$61,000 over the lease **landlord** for a term of 38 months beginning September 9, 2020. **Rental** The lease was extended for a period of two additional years beginning November 1, 2023, and generates monthly rental payments from \$62,000 to \$65,000.

Sublease income for the **years** year ended **December 31, 2022** year ended December 31, 2023 and **December 31, 2021** were \$949,000 2022 was \$76,000 and \$931,000, \$0, respectively. Sublease income is included in rental income in the accompanying consolidated statements of income. The expected rental income is \$611,000 \$786,000 and \$616,000 for the year ended **December 31, 2023**, December 31, 2024, and 2025, respectively.

#### **15.16. Impairment Expense and Loss (Gain), 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. During the year ended December 31, 2023, 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 loss (gain), net, on disposal of machinery:

	Year Ended December 31,	
	2023	2022
	(in thousands)	
Loss, net, on disposal of machinery in scaling back manufacturing	\$ 1,609	\$ —
Loss (gain), net, on disposal of machinery within normal course of business	393	(32)
Loss (gain), net, on disposal	2,002	(32)
Impairment of deposits	523	—
<b>Impairment expense and loss (gain), net, on disposal of machinery</b>	<b>\$ 2,525</b>	<b>\$ (32)</b>

#### **17. Related Party Transactions**

Keary Global ("Keary Global") owns 250,004 shares of the Company's common stock as of **December 31, 2022** December 31, 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 **December 31, 2022** December 31, 2023 and **2021**, 2022, the Company has accounts payable due to Keary Global and Keary International of \$4,940,000 \$5,306,000 and \$2,003,000, \$4,940,000, respectively. Purchases for the years ended **December 31, 2022** December 31, 2023 and **2021** 2022 from this related party were \$42,978,000 \$39,595,000 and \$37,021,000, \$42,978,000, respectively.

See Note 4 — *Joint Venture* for discussion on the Share Transfer Agreement with Keary Global.

#### **16.**

#### **18. Employee Benefits**

The Company maintains a 401(k) plan for employees who meet specific requirements. The Company matches 100% of the employees' contributions up to 3% of each employee's salary, 87.5% of the employees' contributions up to 4% of each employee's salary, and 80% of the employees' contributions up to 5% of each employee's salary. The Company's portion of the contributions is expensed as incurred with a total expense of \$345,000 \$368,000 and \$322,000 \$345,000 for the years ended **December 31, 2022** December 31, 2023 and **2021**, 2022, respectively.

#### **17.19. Income Taxes**

The provision for income taxes for the years ended **December 31, 2022** December 31, 2023 and **2021**, 2022, respectively, consisted of:

Year Ended December 31,			
		2022	2021
(in thousands)			
Year Ended December			
31,			
	2023	2023	2022
	(in thousands)		
Current	Current		
Federal	Federal	\$6,291	\$4,504
Federal			

Federal			
State	State	863	1,068
		7,154	5,572
10,763			
Deferred	Deferred		
Federal	Federal	(502)	(576)
Federal			
Federal			
State	State	24	93
		(478)	(483)
(959)			
Provision	Provision		
for	for		
income	income		
taxes	taxes	\$6,676	\$5,089

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for federal and state income tax purposes.

The Company's deferred tax assets (liabilities), calculated using effective tax rates is as follows:

		December 31, 2022	December 31, 2021		
		(in thousands)		December 31, 2023	December 31, 2022
		(in thousands)			
Deferred tax assets:	Deferred tax assets:				
State taxes	State taxes	\$ 252	\$ 257		
State taxes					
State taxes					
Reserves	Reserves	825	537		
Accruals & deferred expenses		66	188		
Tenant improvement allowance		—	1,216		
R&D credit		43	44		
Accruals and deferred expenses					
Research and development credit					
Inventory	Inventory	1,042	1,196		
Government grant	Government grant	343	311		
Stock based compensation	Stock based compensation	573	267	Stock based compensation	573
Capitalized research and development costs	Capitalized research and development costs		1,043	—	
Operating lease liabilities	Operating lease liabilities	8,452	—		

Total deferred tax assets	Total deferred tax assets	12,639	4,016
Deferred tax liabilities:	Deferred tax liabilities:		
Fixed assets	Fixed assets		
—	—		
depreciation	depreciation	(10,350)	(9,518)
Fixed assets – depreciation			
Fixed assets – depreciation			
Investment in Global Wells Investment Group	Investment in Global Wells Investment Group	(172)	(132)
Operating ROU asset	Operating ROU asset	(7,273)	—
Total deferred tax liabilities	Total deferred tax liabilities	(17,795)	(9,650)
Net deferred tax liability	Net deferred tax liability	<u><u>\$(5,156)</u></u>	<u><u>\$(5,634)</u></u>

Reconciliation of income taxes are as follows from statutory rate of 21% to the effective tax rate for the **years** year ended **December 31, 2022** **December 31, 2023** and **2021**, 2022, respectively:

	December 31, 2022	December 31, 2021	
	(in thousands)		
	December 31, 2023		December 31, 2022
	(in thousands)		(in thousands)
Income tax computed at the federal statutory rate	Income tax computed at the federal statutory rate	\$ 6,828	\$ 5,780
State taxes, net of federal tax benefits	State taxes, net of federal tax benefits	1,101	1,055
Noncontrolling interest -	Noncontrolling interest -		
Income not subject to tax	Income not subject to tax	(460)	(349)
Government forgiveness of debt		—	(1,050)
Permanent items	Permanent items	31	201
Excess tax benefit from stock based compensation	Excess tax benefit from stock based compensation	(89)	(237)
Research and development credit	Research and development credit	(455)	(239)
Other		(280)	(72)
Others			

Provision for income taxes	Provision for income taxes	\$ 6,676	\$ 5,089
----------------------------	----------------------------	----------	----------

The Company may be audited by the Internal Revenue Service and various state tax authorities. Disputes may arise with these tax authorities involving issues of the timing and amount of deductions and allocations of income and expenses among various tax jurisdictions because of differing interpretations of tax laws and regulations. The Company evaluates its exposures associated with the tax filing positions and, while it believes its positions comply with applicable laws, may record liabilities based upon estimates of the ultimate outcome of these matters and the guidance provided in ASC 740. **As of December 31, 2023 and 2022, the Company does not have any unrecognized tax benefit.**

The Company remains subject to IRS examination for the **2016** **2020** through **2021** **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** **2019** through **2021** **2022** tax years. **As of December 31, 2022, the Company does not have any unrecognized tax benefit.**

ASC 740, *Income Taxes*, provides for the recognition of deferred tax assets if realization of these assets is more-likely-than-not. 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 **December 31, 2022** **December 31, 2023**, and **2022**, based on the available evidence, the Company did not record any valuation allowance.

**The Taxpayer Certainty and Disaster Relief Act of 2020** (the "TCJA"), enacted on December 27, 2020, added a temporary exception to the 50% limit on the amount that businesses may deduct for food or beverages. Beginning January 1, 2021, through December 31, 2022, the temporary exception allows a 100% deduction for food or beverages from restaurants. The Company evaluated the impacts and incorporated such impacts into its income tax provision.

**As of January 1, 2022**, pursuant to the TCJA, research and experimental expenditures incurred in the current period are required to be capitalized and amortized over five or fifteen years, depending on where the research is conducted. The Company has incorporated such impacts into its provision for income taxes for the year ended **December 31, 2022**.

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 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.

**18.**

## **20. Commitments and Contingencies**

On October 5, 2023, the Company received a final and binding judgment from the Taiwan Supreme Court, dismissing its claim filed in 2020 against one of its Taiwanese vendors to return a prepayment of \$1,124,000 due to the vendor's failure to deliver products under the contract. As a result, the Company recorded a write-off of the prepayment, which is included in general and administrative expense in the consolidated statement of income.

In May 2023, the Company received a Notice of Investigations and Interim Measures stating that U.S. Customs and Border Protection ("CBP") had initiated a formal investigation to determine whether the Company had evaded the anti-dumping and countervailing duty orders on lightweight thermal paper from China by transshipping the merchandise through Taiwan. The period of investigation was from January 2022 through the pendency of the investigation. On February 5, 2024, CBP issued its Notice of Determination concluding that the manufacturing procedures performed by the manufacturer in Taiwan, which the Company imported certain thermal paper products from, did not constitute substantial transformation. Based on this, the Company recorded a reserve as of December 31, 2023 and a corresponding increase in cost of goods sold in the consolidated statement of income for the year ended December 31, 2023 for estimated additional probable loss of \$2,333,000, representing the total estimated probable loss on all thermal paper imports under the investigation period minus payments already made. The Company is in the process of evaluating the CBP determination and assessing its appeal options. The amount of the final payments could differ materially from the Company's current estimate.

The Company is a party to, and certain of its property is the subject of, various other 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.

## **21. Secondary Offering**

**19.** 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 consolidated statement of income.

## **22. Subsequent Events**

In January and February 2023, Lollcup made two additional investment payments. On February 7, 2024, the Company's Board of \$1,300,000 and \$1,600,000, respectively, and received Directors declared a refund quarterly cash dividend of \$950,000 in March 2023, pursuant \$0.30 per share on the Company's common stock, which was paid on February 29, 2024 to shareholders of record at the JV Agreement as discussed in Note 4 — Joint Venture close of business on February 21, 2024.

In February 2023, On February 12, 2024, the Company entered into an 88-month signed a lease agreement commencing on April 17, 2023 for a 52,000 44,000 square-foot distribution facility in Aurora, Illinois. The Mesa, Arizona for a term of the 65 months. The lease expires term will commence on July 31, 2030 and requires March 16, 2024 with monthly base lease payments ranging from \$34,000 \$42,000 to \$43,000 \$48,000 after an initial rent abatement period.

On February 29, 2024, Global Wells and one of its members (the "Selling Member") entered into a membership interest redemption agreement, under which the Selling Member sold and Global Wells purchased and redeemed all of the Selling Member's 10.8% ownership interest in Global Wells for a total cash consideration of \$3,208,000, net of and tax withholding. The ownership interests and voting power of the remaining three members of Global Wells, including Lollicup, were adjusted proportionally subsequent to the redemption. Therefore, Lollicup's ownership interest increased to

In March 2023, 15.1% and voting interest increased to 33.3%. On February 16, 2024, Global Wells made an advance cash payment of \$2,325,000 to the Company amended Selling Member, with the Line of Credit, which among other things, (1) extended the maturity date remaining balance expected 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% be paid before December 31, 2024.

On March 12, 2024, the Company's Compensation Committee of the Board of Directors approved a grant totaling 91,000 restricted stock units to certain key employees including the CEO and CFO. The grant date fair value of these restricted stock units was \$2,674,000. The restricted stock units vest at various times between May 2024 and May 2026.

On March 12, 2024, the Company and Alan Yu, CEO, entered into an amendment to his employment agreement (the "CEO Amendment"), effective as of March 12, 2024. The CEO Amendment reflects that Mr. Yu will continue in his role as Chief Executive Officer. Also pursuant to the CEO Amendment, Mr. Yu's base salary will increase to \$300,000 per year. The CEO Amendment also provides that Mr. Yu will be granted 24,000 restricted stock units, as discussed above.

Additionally, on March 12, 2024, the Company and Jian Guo, CFO, entered into an amendment to her employment agreement (the "CFO Amendment"), effective as of March 12, 2024. The CFO Amendment reflects that Ms. Guo will continue in her role as Chief Financial Officer. The CFO Amendment also provides that Ms. Guo will be granted 24,000 restricted stock units, as discussed above.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

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 the Securities Exchange Act of 1934, as amended ("Exchange Act") Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, and the information described below in this Item 9A, the Company's Chief Executive Officer and Chief Financial Officer concluded that its disclosure controls and procedures were not effective at December 31, 2022 December 31, 2023, due to the material weaknesses described below.

### Management's Annual Report on Internal Control Over Financial Reporting and Auditor Attestation

The Company's management, under the supervision and with the participation of its principal executive officer Chief Executive Officer and principal financial officer Chief Financial Officer and effected by its board of directors, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13(a)-15(f) or 15(d)-15(f) under the Securities Exchange Act of 1934, as amended. The Company's internal control system over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of the Company's principal executive officer Chief Executive Officer and principal financial officer, Chief Financial Officer, management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2022 December 31, 2023 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework (2013 framework) Framework (2013). Based on this assessment, management concluded that as of December 31, 2022 December 31, 2023, its internal control over financial reporting was not effective due to the material weaknesses as described below. A material weakness is a deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

### Material Weaknesses in Internal Control and Plan for Remediation

Management has determined that the Company has the following material weaknesses in its internal control over financial reporting at December 31, 2022 December 31, 2023:

- Control Environment, Risk Assessment, and Monitoring Activities

Management did not maintain appropriately designed entity-level controls impacting the control environment, risk assessment procedures and monitoring activities to prevent or detect material misstatements to the consolidated financial statements. These deficiencies were attributed to: (i) lack of structure and responsibility, insufficient number of qualified resources and inadequate oversight and accountability over the performance of controls, including retention of control evidence, and (ii) ineffective identification and assessment of risks impacting internal control over financial reporting, and (iii) insufficient evaluation and determination as to whether the components of internal controls were present and functioning based upon evidence maintained for certain management review controls and activity level controls across substantially all financial statement areas. **This material weakness did not result in any material misstatements of the Company's financial statements or disclosures for any prior or current reporting periods, but did result in immaterial misclassification adjustments to net sales, cost of goods sold, selling expenses and general and administrative expenses with no impact on net income for the quarter and year ended December 31, 2023 and an immaterial adjustment to deposits as of December 31, 2023.**

- **Control Activities, and Information and Communication**

**These** **This material weaknesses** contributed to the following additional material weaknesses within certain business processes and the information technology environment: **weakness:**

- Management did not design and maintain effective general controls over information systems that support the financial reporting process. Specifically, management did not design and maintain (i) effective logical user access controls, including user access reviews, to ensure appropriate segregation of duties and adequate restrictions of users, including those with privileged access, and (ii) appropriate review and authorization of change management in the systems.

- Management did not design and maintain effective controls over certain information technology ("IT") general controls for information systems that are relevant to the completeness preparation of their financial statements. Specifically, management did not design and accuracy maintain (i) program change management controls to ensure that program and data changes are identified, tested, authorized and implemented appropriately, and (ii) user access controls to ensure appropriate segregation of underlying data used duties and to adequately restrict user and privileged access to appropriate personnel. These IT deficiencies did not result in a material misstatement to the financial statements.

Each of these material weaknesses could result in a misstatement of substantially all 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.

#### **Plan of Remediation of Material Weaknesses in Internal Control Over Financial Reporting**

As reported in the **operation** 2022 Form 10-K, we have engaged in remedial actions in response to the deficiencies discussed above. These efforts were on-going during 2022 and 2023 and will continue into 2024.

The following remedial actions were taken in the year ended December 31, 2022:

- 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.
- 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, initiated the design and implementation of significant process transaction flows and key controls in the Company's overall IT environment.

The following remedial actions were taken in the year ended December 31, 2023:

- As part of management's risk assessment and evaluation of the design of key controls, management updated control objectives and refined control design and documentation, including such design and documentations as related to the appropriate segregation of duties and monitoring activities.
- 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 review user's access rights relating to the Company's significant information technology systems;
  - Designed and started to perform review of users' access rights to our significant information technology systems; and
  - Maintained and enforced certain **management review** procedures, controls and **activity level** developed IT policies around change management.

Additionally, the following remedial actions are currently in the process of being taken:

- Continue to evaluate the Company's needs for additional personnel and add, as needed, additional headcount primarily within the information technology department. Management continues to onboard individuals with the appropriate education, experience, certifications, and training.
- Continue to enhance policies and procedures to improve Information Technology General Controls and the Company's overall IT environment, including continue to enforce newly or enhanced policies and controls across substantially all around user provisioning, access reviews and change management.

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 statement areas. 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.

#### Remediation of Previously Identified Material Weaknesses

We have previously identified and disclosed the following material weaknesses in our internal control over financial reporting for the year ended December 31, 2022:

- Management did not design and implement management review controls at a sufficient level of precision to detect a material misstatement across substantially all financial statement areas that include complex and judgmental areas of accounting and disclosure.
- Management did not design and maintain effective activity level controls over balances recorded within revenue and accounts receivable, including controls over (i) the approval of arrangements with customers and pricing changes, and (ii) the approval and matching of sales orders, shipping documents, and sales invoices in the revenue recognition process.
  - Management did not design and maintain effective activity level controls over the balances recorded within inventory and cost of sales, including controls over (i) the year-end physical inventory counts and inventory count variances, and (ii) inventory costing and bill of material analysis.
- Management did not design and maintain effective activity level controls over the procurement process, including controls over (i) vendor master file changes, (ii) the approval and matching of purchase orders, invoices, and receiving documents, and (iii) authorization of vendor payments.

As of December 31, 2023, management sufficiently completed its remediation of Material Weakness in Internal Control Over Financial Reporting

In response to the these material weaknesses noted above, by taking the Company's management began to take actions to remediate the identified material weaknesses in internal control over financial reporting. As part of management's remediation plan, certain efforts were put into place and underway prior to December 31, 2022. All new and revised controls that management started to implement towards the end of 2022 as part of the remediation plan require a period of seasoning to allow for a sufficient operating effectiveness testing sample. Management plans to build on and continue such efforts going into the next fiscal year in order to successfully remediate the identified material weaknesses.

The following remedial actions were taken during 2022 to remediate the material weaknesses in internal control over financial reporting:measures:

- 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 Completed a risk assessment based on the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to identify internal controls control over financial reporting ("ICFR") risks and control objectives 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 designed and implementation of implemented significant process transaction flows and key controls in the Company's business processes, including revenue, inventory, income taxes, and overall IT environment. As discussed above, all new processes and controls were in the seasoning period as of December 31, 2022, procurement.
- 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.

Additionally, management is in the process of implementing the below changes to the Company's processes to improve its internal control over financial reporting:

- Evaluate the Company's needs for additional personnel and add, as needed, additional headcount primarily within the accounting and information technology departments. Management will 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.
- Continue 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.
- Improve Improved the process of retaining and reviewing evidence of sales arrangements with customers including adopting a required retention period for applicable customer purchase orders. Management is in the process orders and internal review of holding sales order.
- Held additional training for warehouse employees to appropriately perform and document the three-way match between sales orders, shipping documents, and sales invoices.
  - Update and enhance the standard operating procedures of both periodic and year-end physical counts to ensure all inventory items are counted at all warehouses in a consistent manner. Management is also in the process of continuing to enforce the newly-implemented 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.

- Continue to enforce the newly adopted Company-wide approval matrix that establishes clear guidelines on authority levels for all types of cash disbursement transactions. Management is in the process of reviewing user access and establishing 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.
- Enhanced training programs for personnel that provide key information and perform key roles associated with ICFR. Management plans to design 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.
- 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.
- Continue to enhance policies and procedures to improve Information Technology General Controls and the Company's overall IT environment. Examples Adopted a Company-wide approval matrix that establishes clear guidelines on authority levels for all types of some of management's planned efforts include:
  - Adopt the policy and procedure to regularly perform a thorough review of user's access rights relating to the Company's significant information technology systems, cash disbursement transactions.
  - Maintain and monitor restrictions Established appropriate reporting lines within business processes, including the accounts payable department to user access where needed to allow for appropriate 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.
  - Maintain Updated and enforce enhanced the standard operating procedures of year-end physical counts to ensure all inventory items are counted at all warehouses in a consistent manner.
  - Updated 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 around system development and change management. to detect material misstatement across all financial statement areas.

Management is committed has completed the documentation and review of the corrective actions described above, and concluded that the design and operation of our financial reporting processes and controls related to remediating the corrective actions were effective and therefore that the related previously identified material weaknesses in a timely fashion and to making continuous improvements to the Company's internal control over financial reporting. Management will continually assess the effectiveness have been fully remediated as 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 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. December 31, 2023.

#### Changes in Internal Control Over Financial Reporting

Other than the matters set forth above, there have been

There were no changes in our internal control over financial reporting that occurred during our last fiscal the quarter ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except as described above. reporting.

#### ITEM 9B. OTHER INFORMATION

##### Amendments to Alan Yu's and Jian Guo's Employment Agreements

On March 14, 2023 March 12, 2024, the Company amended and Mr. Yu entered into an amendment to his employment agreement (the "CEO Amendment"), effective as of March 12, 2024, which amends his employment agreement previously filed as Exhibit 10.16 to the Line Registration Statement on Form S-1, filed with the Securities and Exchange Commission (the "SEC") on February 18, 2021 and declared effective on April 14, 2021. The CEO Amendment reflects that Mr. Yu will continue in his role as Chief Executive Officer for an initial term expiring on March 12, 2026, subject to automatic extensions, unless either party provides the other with 60 days' prior written notice. Pursuant to the CEO Amendment, Mr. Yu's base salary will increase to of Credit, \$300,000 per year. The CEO Amendment also provides that Mr. Yu will be granted 24,000 RSUs pursuant to the terms of the CEO Amendment and the Company's Stock Incentive Plan, in which among 24,000 RSUs shall vest in three, equal installments on May 12, 2024, May 12, 2025 and May 12, 2026. In the event the Mr. Yu resigns or is terminated before the vesting of the last installment on May 12, 2026, Mr. Yu is entitled to receive such RSUs subject to Section 5 of the his employment agreement.

Additionally, on March 12, 2024, the Company and Ms. Guo entered into an amendment to her employment agreement (the "CFO Amendment"), effective as of March 12, 2024, which amends her employment agreement previously filed as Exhibit 10.1 to the Current Report on Form 8-K, filed with the SEC on February 1, 2022. The CFO Amendment reflects that Ms. Guo will continue in her role as Chief Financial Officer for an initial term expiring on March 12, 2026, subject to automatic extensions, unless either party provides the other things, (1) extended with 60 days' prior written notice. The CFO Amendment provides that Ms. Guo will be granted 24,000 RSUs pursuant to the maturity date terms of the CFO Amendment and the Company's Stock Incentive Plan, in which 24,000 RSUs shall vest in three, equal installments on May 12, 2024, May 12, 2025 and May 12, 2026. In the event the Ms. Guo resigns or is terminated before the vesting of the last installment on May 12, 2026, Ms. Guo is entitled to March 14, 2025 receive such RSUs subject to Section 5 of the employment agreement.

The foregoing descriptions of the CEO Amendment and the CFO Amendment do not purport to be complete and is qualified in its entirety by reference to the full texts of the CEO Amendment and the CFO Amendment, copies of which are included as Exhibits 10.32 and 10.33, respectively, to this Annual Report on Form 10-K and incorporated herein by reference.

#### **Rule 10b5-1 Trading Arrangements**

During the fiscal quarter ended December 31, 2023, and (2) revised no director or officer of the interest on any line Company adopted or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement" (in each case, as defined in Item 408 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% Regulation S-K).

#### **ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not applicable.

### **Part III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item will be contained in our definitive proxy statement, or Proxy Statement, to be filed with the SEC in connection with our 2023 2024 Annual Meeting of Stockholders. Our Proxy Statement for the 2023 2024 Annual Meeting of Stockholders is expected to be filed not later than 120 days after the end of our fiscal year ended December 31, 2022 December 31, 2023 and is incorporated into this report by this reference.

We have adopted a Code of Ethics that applies to our Chief Executive Officer, Chief Financial Officer, and to all of our other officers, directors, employees and agents. The Code of Ethics is available on our website at [www.karatpackaging.com](http://www.karatpackaging.com). We intend to disclose future amendments to, or waivers from, certain provisions of our Code of Ethics on the above website within five business days following the date of such amendment or waiver.

#### **ITEM 11. EXECUTIVE AND DIRECTOR COMPENSATION**

The information required by this item will be set forth in the Proxy Statement and is incorporated into this report by this reference.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this item will be set forth in the Proxy Statement and is incorporated into this report by this reference.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

The information required by this item will be set forth in the Proxy Statement and is incorporated into this report by this reference.

#### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item will be set forth in the Proxy Statement and is incorporated into this report by this reference.

### **Part IV**

#### **ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) We have filed the following documents as part of this Annual Report on Form 10-K:

1. The financial statements listed in the "Index to Financial Statements" on page F-1 are filed as part of this report.
2. Financial statement schedules are omitted because they are not applicable, or the required information is shown in the financial statements or notes thereto.
3. Exhibits included or incorporated herein: See below.

Exhibit No.	Description
3.1	<a href="#">Certificate of Incorporation of Karat Packaging Inc. (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
3.2	<a href="#">Bylaws of Karat Packaging Inc. (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
4.1	<a href="#">Form of Common Stock Certificate (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
4.2*	<a href="#">Description of Registrant's Securities</a>
10.1+	<a href="#">Karat Packaging Inc. 2019 Stock Incentive Plan (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
10.2+	<a href="#">Form of Restricted Stock Unit Award Agreement Pursuant to the Karat Packaging Inc. 2019 Stock Incentive Plan (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
10.3+	<a href="#">Form of Karat Packaging Inc. 2019 Stock Incentive Plan Stock Option Agreement (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
10.4	<a href="#">Amended and Restated Lease Agreement, by and between the Company and Global Wells Investment Group LLC for the Texas facility (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
10.5	<a href="#">Standard Industrial/Commercial Single-Tenant Lease-Gross, dated February 6, 2013, by and between First Industrial, LP, a Delaware limited partnership and Lollicup USA Inc. (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
10.6	<a href="#">First Amendment to Standard Industrial/Commercial Single-Tenant Lease-Gross, dated November 14, 2018, by and between First Industrial, LP, a Delaware limited partnership and Lollicup USA Inc. (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
10.7	<a href="#">Lease Agreement dated July 16, 2020, by and between Lollicup USA Inc. and Global Wells Investment Group LLC for the New Jersey facility (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
10.8	<a href="#">Share Exchange Agreement and Plan of Reorganization, dated as of September 27, 2018, entered into by the Company, Lollicup USA Inc., and each of Alan Yu, Marvin Cheng, Karat Global Group, LTD. (now known as Keary Global Group, LTD.) and Plutus Investment Holding Company (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
10.9	<a href="#">Assignment and Assumption of Grants, by and between Lollicup USA Inc. and Global Wells Investment Group LLC effective as of July 1, 2018 (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
10.10	<a href="#">Form of Indemnification Agreement (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>

10.11	<a href="#">Purchase and Sale Agreement dated April 9, 2019 by and between Global Wells Investment Group LLC and Atosa Catering Equipment, Inc. (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
10.12	<a href="#">Business Loan Agreement dated February 23, 2018 by and between Lollicup USA Inc. and Hanmi Bank (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
10.13	<a href="#">Business Loan Agreement dated March 17, 2020 by and between Lollicup USA Inc. and Hanmi Bank (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
10.14	<a href="#">Note dated April 16, 2020 by and between Lollicup USA Inc. and Hanmi Bank (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
10.15	<a href="#">Commercial Security Agreement dated June 30, 2020 by and between Global Wells Investment Group LLC and Hanmi Bank (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
10.16+	<a href="#">Form of Employment Agreement by and between the Company and Alan Yu (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
10.17+	<a href="#">Form of Employment Agreement by and between the Company and Marvin Cheng (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
10.18+	<a href="#">Form of Employment Agreement by and between the Company and Joanne Wang (Incorporated by reference from the Registration Statement on Form S-1, filed with the Securities and Exchange Commission on February 18, 2021 and declared effective on April 14, 2021).</a>
10.20	<a href="#">Business Loan Agreement dated October 6, 2021 by and between Lollicup USA Inc. and Hanmi Bank (Incorporated by reference to Exhibit 10.20 from the Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 31, 2022).</a>
10.21+	<a href="#">Employment Agreement, dated February 1, 2022, by and between the Company and Jian Guo (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed with the Securities and Exchange Commission on February 1, 2022).</a>
10.22	<a href="#">Agreement, dated April 6, 2022, by and between Lollicup USA Inc. and Happiness Moon Co., Ltd. (English Translation) (Incorporated by reference to Exhibit 10.1 in the Company's Current Report on Form 8-K filed on April 7, 2022).</a>
10.23	<a href="#">Business Loan Agreement between Global Wells Investment Group LLC and East West Bank, dated June 15, 2022 (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed with the Securities and Exchange Commission on June 22, 2022).</a>
10.24	<a href="#">Interest Rate Swap Termination Agreement, dated June 10, 2022, by and between Global Wells Investment Group LLC and East West Bank (Incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on August 11, 2022).</a>
10.25	<a href="#">Change In Terms Agreement, dated August 18, 2022, by and between Lollicup USA Inc and Hanmi Bank (Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q, filed with the Securities and Exchange Commission on November 14, 2022).</a>
10.26* 10.26	<a href="#">Change In Terms Agreement, dated March 14, 2023, by and between Lollicup USA Inc and Hanmi Bank (Incorporated by reference to Exhibit 10.26 to the Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 16, 2023).</a>
10.27	<a href="#">Agreement by and between Lollicup USA Inc., Keary Global Ltd., Happiness Moon Co. Ltd., and Bio Earth Technology, dated May 8, 2023 (English Translation) (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2023).</a>
10.28	<a href="#">Share Transfer Agreement by and between Lollicup USA Inc. and Keary Global Ltd., dated May 8, 2023 (English Translation) (incorporated by reference to Exhibit 10.2 of the Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 10, 2023).</a>
10.29	<a href="#">Change In Terms Agreement, dated June 20, 2023, by and between Lollicup USA Inc and Hanmi Bank (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 22, 2023).</a>
10.30	<a href="#">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).</a>

10.31	<a href="#">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).</a>
10.32*+	<a href="#">Amendment to Employment Agreement, dated March 12, 2024, between Karat Packaging Inc. and Alan Yu, Chief Executive Officer.</a>
10.33*+	<a href="#">Amendment to Employment Agreement, dated March 12, 2024, between Karat Packaging Inc. and Jian Guo, Chief Financial Officer.</a>
19.1*	<a href="#">Karat Packaging Inc.'s Amended Insider Trading Policy, effective as of March 12, 2024</a>
21.1	<a href="#">List of Subsidiaries (incorporated by reference to Exhibit 21.1 to the Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 31, 2022).</a>
23.1*	<a href="#">Consent of BDO USA, LLP, independent registered public accounting firm (PricewaterhouseCoopers LLP).</a>
23.2*	<a href="#">Consent of independent registered public accounting firm (BDO USA, P.C.).</a>
31.1*	<a href="#">Certification pursuant to Section 302 of the Sarbanes-Oxley Act</a>
31.2*	<a href="#">Certification pursuant to Section 302 of the Sarbanes-Oxley Act</a>
32.1**	<a href="#">Certification pursuant to Section 906 of the Sarbanes-Oxley Act</a>
32.2**	<a href="#">Certification pursuant to Section 906 of the Sarbanes-Oxley Act</a>
97.1*	<a href="#">Karat Packaging Inc.'s Clawback Policy, effective as of October 2, 2023.</a>
101.INS*	XBRL Instance Document.
101.SCG*	XBRL Taxonomy Extension Schema.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase.
101.LAB*	XBRL Taxonomy Extension Label Linkbase.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase.
104*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

\* Filed herewith.

\*\* Furnished herewith.

+ Indicates management compensatory agreement.

#### ITEM 16. FORM 10-K SUMMARY

None.

#### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 16, 2023 March 15, 2024

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)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Alan Yu Alan Yu	Chairman and Chief Executive Officer (Principal Executive Officer)	March 15, 2024
/s/ Jian Guo Jian Guo	Chief Financial Officer and Director (Principal Financial Officer and Principal Accounting Officer)	March 15, 2024
/s/ Eric Chen Eric Chen	Director	March 15, 2024
/s/ Paul Chen Paul Chen	Director	March 15, 2024
/s/ Eve Yen Eve Yen	Director	March 15, 2024

#### Amendment to Employment Agreement

This Amendment to Employment Agreement (this "Amendment"), is made and entered into on March 12, 2024, by and among Karat Packaging Inc., a Delaware corporation (the "Company") and Alan Yu (the "Executive"). All capitalized terms used in this Amendment and not defined herein shall have the meanings set forth in the Amended Agreement.

WHEREAS, the Parties entered into that certain Employment Agreement (the "Agreement"), where the Executive was employed by the Company as its Chief Executive Officer; and

WHEREAS, effective as of the signing date of this Amendment (the "Effective Date"), the Company intends to continue to employ the Executive as Chief Executive Officer, and the Executive desires the same.

NOW THEREFORE, in consideration of the promises and mutual covenants and agreements contained herein, the adequacy of all of which consideration is hereby acknowledged, the parties hereby agree to the following amendments to the Amended Agreement:

**1. Section 1(e) Term.** is hereby deleted in its entirety and amended and restated as follows:

The Executive's employment as the Company's Chief Executive Officer shall continue on the Effective Date and end at 11:59 p.m. on March 12, 2026 (the "Initial Term Expiration Date"), subject to earlier termination as provided in Section 5 of the Agreement; provided, that, commencing on the Initial Term Expiration Date, and on each anniversary thereafter (each, an "Extension Date"). This Agreement shall be deemed to be automatically extended on the Extension Date, upon the same terms and conditions, unless those conditions are otherwise changed by the Company, for successive periods of one year, unless either party provides written notice of its intention not to extend the term of the Agreement at least 60 days' prior to the applicable Extension Date. The Company reserves the right to change existing conditions or impose new conditions on this Agreement at any time, provided that those terms comply with applicable federal and state law. Despite the use of the word "term" and any automatic renewal described in this Section 1(e), your employment with the Company is at will, and the Company expressly reserves the right to terminate your employment at any time, with or without notice, and with or without cause.

**2. Section 2(a) and (c)** is hereby deleted in its entirety and amended and restated as follows:

**(a) Salary.** The Company will pay you as compensation for your services an annual base salary, currently \$300,000 ("salary"), payable in accordance with the Company's standard payroll procedures. Your salary is determined by the Compensation Committee of the Board of Directors (the "Compensation Committee") and is subject to change at any time during your employment. The Compensation Committee Board will automatically review your salary for the following calendar year and will notify you of any changes prior to the first day of the following calendar year. The Compensation Committee's automatic review does not in any way limit the Company's ability to adjust your salary at any time. This is an exempt position, which means that your salary is intended to compensate you for all hours worked, and you will not be eligible for overtime pay or other certain rights afforded by state and federal law.

**(c) RSU Grant.** is hereby deleted in its entirety and amended and restated as follows:

The Company will grant the Executive an aggregate of 24,000 shares restricted stock units ("RSUs") on the Effective Date pursuant to the Company's Stock Incentive Plan, in which 24,000 RSUs shall vest in three, equal installments on May 12, 2024, May 12, 2025 and May 12, 2026. In the event the Executive resigns or is terminated before the vesting of the last installment on May 12, 2026, the RSUs the Executive is entitled to receive are subject to Section 5 of the Agreement.

---

IN WITNESS WHEREOF, the Parties have duly executed this Amendment on the date last written below.

Signature /s/ Alan Yu  
Alan Yu  
Chief Executive Officer  
Karat Packaging Inc.

Date: March 12, 2024

Title /s/ Marvin Cheng  
Date Marvin Cheng  
Vice President – Manufacturing, and Secretary  
Karat Packaging Inc.

Date: March 12, 2024

#### Amendment to Employment Agreement

This Amendment to Employment Agreement (this "Amendment"), is made and entered into on March 12, 2024, by and among Karat Packaging Inc., a Delaware corporation (the "Company") and Jian Guo (the "Executive"). All capitalized terms used in this Amendment and not defined herein shall have the meanings set forth in the Amended Agreement.

WHEREAS, the Parties entered into that certain Employment Agreement (the "Agreement"), effective February 1, 2022, where the Executive was employed by the Company as its Chief Financial Officer; and

WHEREAS, effective as of the signing date of this Amendment (the "Effective Date"), the Company intends to continue to employ the Executive as Chief Financial Officer, and the Executive desires the same.

NOW THEREFORE, in consideration of the promises and mutual covenants and agreements contained herein, the adequacy of all of which consideration is hereby acknowledged, the parties hereby agree to the following amendments to the Amended Agreement:

1. **Section 1(e) Term.** is hereby deleted in its entirety and amended and restated as follows:

The Executive's employment as the Company's Chief Financial Officer shall continue on the Effective Date and end at 11:59 p.m. on March 23, 2026 (the "Initial Term Expiration Date"), subject to earlier termination as provided in Section 5 of the Agreement; provided, that, commencing on the Initial Term Expiration Date, and on each anniversary thereafter (each, an "Extension Date"). The Executive's employment with the Company is at-will, as further defined in Section 5 of the Agreement. The Executive has the right to terminate her employment at any time and with or without cause, provided she gives the Company's Board of Directors (the "Board") **60 days written notice** provided that the quarterly earnings call for the then-current fiscal quarter is completed prior to the Termination Date as defined in Section 5. The Company has the right to terminate the Executive's employment at any time, with or without notice, and with or without cause.

2. **Section 2(c) RSU Grant.** is hereby deleted in its entirety and amended and restated as follows:

The Company will grant the Executive an aggregate of 24,000 shares restricted stock units ("RSUs") on the Effective Date pursuant to the Company's Stock Incentive Plan, in which 24,000 RSUs shall vest in three, equal installments on May 12, 2024, May 12, 2025 and May 12, 2026. In the event the Executive resigns or is terminated before the vesting of the last installment on May 12, 2026, the RSUs the Executive is entitled to receive are subject to Section 5 of the Agreement.

IN WITNESS WHEREOF, the Parties have duly executed this Amendment on the date last written below.

/s/ Alan Yu

\_\_\_\_\_  
Alan Yu

Chairman  
and Chief  
Executive  
Officer      March  
16,  
2023  
(Principal  
Executive  
Officer)

/s/ Jian Guo

\_\_\_\_\_  
Jian Guo

Chief      March  
Financial      16,  
Officer      2023/s/  
Alan  
Yu  
(Principal Alan  
Yu

Chief Financial Officer and Principal Accounting

Karat Packaging Inc.

Chief  
Executive  
Officer  
Karat  
Packaging  
Inc.

Date: March 12, 2024

Date: March  
12, 2024

#### KARAT PACKAGING INC.

Subject: **POLICY ON INSIDER TRADING**

Affects: All Employees (Including Temporary Employees) Independent Consultants, Contractors, and Members of the Board of Directors of Karat Packaging Inc. and its subsidiaries (collectively, the "Company").

#### Introduction

You may learn confidential and sensitive information concerning the Company, its vendors, suppliers, distributors, or other companies with which the Company has business or contractual relationships. Some of this information has the potential for affecting the market price of the stock of the Company or the other companies involved.

The federal securities laws impose considerable civil and criminal penalties on anyone who improperly obtains or uses material, non-public information in connection with a purchase or sale of stock or securities. In addition to civil damages of up to three times the profit gained, an individual may be subject to criminal sanctions, including imprisonment of up to 20 years and a criminal fine of up to \$5,000,000, for any violation. The United States Securities and Exchange Commission ("SEC") and courts have significant power to impose penalties for violations of the insider trading laws. The SEC, together with the U.S. Department of Justice, pursue insider trading violations vigorously, both from a criminal and civil perspective, against both individuals and companies.

With this in mind, you are asked to carefully read this Policy on Insider Trading. You are encouraged to contact the Chief Financial Officer if you have any questions regarding, or do not understand any aspect of, this Policy. In addition to serving as a resource regarding compliance with the insider trading laws, the Chief Financial Officer is responsible for monitoring compliance with this Policy and is accountable to the Company's Board of Directors.

***Failure to observe and comply with all of the provisions contained in this Policy may subject you to disciplinary action by the Company, including discharge from employment or service.***

#### **Explanation of the Law**

The Company's common stock is publicly traded on The Nasdaq Global Select Market ("Nasdaq"). Federal securities laws and regulations generally make it illegal to buy or sell shares of stock (or other securities) of a company while you are aware of *material non-public information* concerning that company. It is also illegal to share material, non-public information with a third party (commonly called "tipping") so that the third party can buy or sell the stock. These prohibitions apply to the common stock of our Company and any other securities, including debt securities, of the Company.

#### **What is "material, non-public information"?**

"Material" information is any information that (a) a reasonable person likely would consider important in deciding whether to buy, sell or retain a security or (b) could be expected to affect the market price of a company's stock, whether positive or negative. The following list are examples of information that will generally be regarded as material. These are examples only, and not intended as a complete list of what could be considered material inside information:

- matters involving new products or significant changes in corporate objectives;
- information about significant increases or decreases in the Company's sales or financial performance;

---

- matters relating to a new financing;
- gain or loss of a significant vendor, distributor, or supplier;
- earnings-related information, including preliminary financial results, either positive or negative;
- new internally developed financial projections;
- a pending or proposed merger, acquisition, joint venture, tender offer or exchange offer;
- a pending or proposed sale or disposition of significant assets;
- changes in dividend policies, the declaration of a stock split or the offering of additional securities;
- impending bankruptcy or financial liquidity problems;
- changes in senior management;
- changes in auditors or notification that an audit report can no longer be relied upon;
- a material failure, interruption, or security breach in the Company's information technology systems;
- changes in credit ratings; or
- significant litigation or notifications from regulatory agencies (such as the SEC or the Federal Trade Commission) or from an exchange or market on which Company securities are listed.

It is not possible to define all categories of material information, as the ultimate determination of materiality by enforcement authorities will be based on an assessment of all the facts and circumstances. Information that is material at one point and time may cease to be material at another, and vice versa. Determinations regarding the "materiality" of information are inherently judgment based; the Chief Financial Officer is always available to assist you if you are

unsure about what is or is not material information. Please remember that the public, media, and authorities may use hindsight in judging what information is material.

"Non-public" information is any information that has not been disclosed broadly to the marketplace and that the investing public has not yet had time to absorb and evaluate. Information is considered to be available to the public only when it has been publicly released or announced (for example, by means of a press release or a filing with the SEC) and enough time has passed to permit the market to learn about and evaluate the information. (at least one full trading days after the date of the public disclosure or announcement). For example, if the Company makes an announcement on a Monday (prior to the opening of the market), you should not trade in Company securities until Tuesday.

## The Company's Policy

### 1. Trading Company Securities Is Prohibited Except During a Trading Window and After Obtaining Pre-Clearance

In view of the Company's significant interest in avoiding even the appearance of trading impropriety, Covered Individuals may purchase or sell securities of the Company (i) only during the Company's quarterly trading window and (ii) only after obtaining pre-clearance from the Company's Chief Financial Officer. These trading restrictions apply to all purchases or sales of Company securities, including open-market purchases and sales of the Company's common stock, as well as transactions involving derivatives of the Company's securities. Please refer to Section 5 of this Policy for further explanation. Please note, however, that it is the Covered Individual's sole responsibility to comply with all applicable securities laws. The Company does not undertake any obligation with respect to a Covered Individual's securities law compliance by virtue of pre-clearing any particular trade, and the Company urges each Covered Individual to consult his or her legal counsel before engaging in transactions. Any advice regarding pre-clearance of a proposed transaction will relate solely to the restraints imposed by law and will not constitute advice regarding the investment aspects of any such trade. Clearance of a proposed transaction is valid for five (5) business days. If the transaction order is not completed within

---

that period, clearance of the transaction must be re-requested. If clearance is denied, the fact of such denial must be kept confidential by the Covered Individual requesting such clearance.

The quarterly trading window for the Company opens on the third trading day following the day that the Company's quarterly or annual report with SEC is filed in a given quarter and the trading window closes two weeks before the end of such quarter.

*Pre-clearance for all trades or transactions described above must be obtained by contacting Jian Guo, Chief Financial Officer, at [jian.guo@karatpackaging.com](mailto:jian.guo@karatpackaging.com).*

There are no exceptions to the policy of restricting trading to the quarterly trading window. Transactions that may be necessary or justifiable for independent reasons (such as the need to raise money for an emergency expenditure), or small transactions, are not excepted from this policy. The securities laws do not recognize any mitigating circumstances to insider trading liability.

### 2. 0b5-1 Plans.

The SEC has adopted a safe harbor rule, Rule 10b5-1, which provides a defense against insider trading liability for trades that are effected pursuant to a pre-arranged trading plan that meets specified conditions. The trading plan must be properly documented, and all of the procedural conditions of the Rule must be satisfied to avoid liability.

Rule 10b5-1 plans allow transactions for the account of an insider to occur during blackout periods or while the insider has material nonpublic information provided the insider has previously given instructions or other control to effect pre-planned transactions in securities of the Company to a third party. The insider must establish the plan at a time when they are not in possession of material nonpublic information and the insider may not exercise any subsequent influence over how, when or whether to effect transactions. The insider must also establish that he or she is adopting the plan in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b5-1. In addition to other specified conditions, a Rule 10b5-1 plan would specify in writing in advance the amount and price of the securities to be sold and the date for the sale (or a formula for determining the amount, price and date) or would otherwise not permit the insider to exercise any subsequent influence over how, when or whether to effect the sales. After adopting a valid Rule 10b5-1 plan, the insider will have an affirmative defense that a sale under the plan was not made "on the basis of" material nonpublic information.

Trades pursuant to a Rule 10b5-1 plan generally may occur at any time subject to the applicable cooling-off period between the establishment of a Rule 10b5-1 plan and commencement of any transactions under such plan. Trades pursuant to a Rule 10b5-1 plan may occur (1) 90 days following the plan's adoption or modification; or (2) two business days following the disclosure in a periodic report of the Company's financial results for the fiscal quarter in which the trading plan was adopted or modified (but not to exceed 120 days following plan adoption or modification). Trades by employees (who are not officers or directors) pursuant to a Rule 10b5-1 plan may occur 30 days following the plan's adoption or modification. An individual may not adopt more than one plan unless permitted under Rule 10b5-1. A modification or change to the amount, price, or timing of the purchase or sale of the securities (or a modification or change to a written formula or algorithm, or computer program that affects the amount, price, or timing of the purchase or sale of the securities) underlying a Rule 10b5-1 plan is deemed a termination of such plan, and the adoption of a new Rule 10b5-1 plan, and such new adoption will trigger a new cooling-off period.

The Company will treat the creation, modification or termination of a pre-planned trading program or arrangement established to meet the requirements of Rule 10b5-1 as a transaction subject to the blackout period rules set forth in Section 1 of this Policy. Transactions effected pursuant to a properly

---

established Rule 10b5-1 plan however will not be subject to the blackout periods under Section 1 of this Policy.

The Company will treat the creation, modification or termination of a pre-planned trading program or arrangement established to meet the requirements of Rule 10b5-1 as a transaction subject to pre-clearance under Section 1 of this Policy at the time the plan is established, modified or terminated. Persons subject to the pre-clearance policy should coordinate any such plans or arrangements with the Company's Chief Financial Officer. Even though each transaction effected under a Rule 10b5-1 plan does not need to be pre-cleared, it nonetheless must be made in accordance with Rule 144 and must be reported on a Form 4 under Section 16 of the Exchange Act.

### **3. No Trading On Material, Non-Public Information.**

**If you are aware of material, non-public information about the Company, you may not (i) buy or sell stock or other securities issued by the Company or engage in any other action or conduct to take personal advantage of that information, either directly or indirectly, or (ii) pass along the information to others outside the Company, including family members or friends (so-called "tipping").**

It is important that you understand the breadth of activities that constitute illegal insider trading and the consequences, which can be severe. Both the SEC and the Nasdaq investigate and are very effective at detecting insider trading. Cases have been successfully prosecuted against individuals as a result of trading by employee through foreign accounts, trading by family members and friends, and trading involving only a small number of shares. It does not matter if a transaction may be necessary or justifiable for independent reasons (such as a need to raise money for an emergency), and there are no exceptions for small or "immaterial" transactions. **Use of material inside information is never permitted.**

The Company recommends that you *do not* recommend or suggest that someone buy, sell or retain the Company's stock. This will minimize the chance that you could be subject to liability for tipping. You should never make recommendations or express opinions about trading in Company securities on the basis of material non-public information to any person.

You also should not:

- Disclose material non-public information to individuals (i) within the Company whose jobs do not require them to have that information or (ii) outside the Company, including to family members, friends, business associates, and investors, unless such disclosure is authorized by the Company; or
- Respond to any requests for information (particularly financial results and/or projections), including to affirm or deny information about the Company, from anyone outside the Company, such as a stock analyst. If you receive any such requests, please contact the Chief Financial Officer.

To allow for adequate public dissemination and evaluation of material information after public disclosure, you should allow a reasonable period of time to elapse (at least one full trading days after the date of the public disclosure or announcement) before trading. For example, if the Company makes an announcement on a Monday (prior to the opening of the market), you should not trade in Company securities until Tuesday.

#### **4. Transactions by Family Members.**

The restrictions on trading Company securities imposed by this Policy also apply to (i) the members of your immediate family who reside with you (i.e., any spouse, parents, children (including children away at college), grandchildren, grandparents, in-laws and siblings) and any other persons living in your household and (ii) any family members who do not live with you but whose transactions in Company securities are directed by, or subject to, your influence or control. Accordingly, you are responsible for informing any such persons of this Policy and ensuring that they conform their actions to the requirements of this Policy.

#### **5. Company Plans.**

The restrictions on trading also apply to certain transactions under Company plans, as follows.

- **Stock Options.** Although the restrictions in this Policy do not apply to the exercise of stock options granted to you by the Company, they do apply to the sale of the stock by you after you have exercised those options. The restrictions would also apply to broker-assisted cashless exercises of your options, or any other market sale where you are simultaneously selling some of the shares of your stock in order to pay the exercise price of options.
- **Restricted Stock.** This Policy does not apply to the vesting and settlement of restricted stock, or the withholding or sale of stock back to the Company to satisfy tax withholding obligations upon the vesting of any restricted stock. The Policy does apply, however, to any market sale of stock after vesting.

#### **6. Transactions in Other Public Company Securities.**

If you are working on a matter involving another publicly-held company, including a supplier, distributor, vendor, customer, partner, or company with which the Company has entered into or is negotiating a business or contractual relationship or transaction, you may not trade in the securities of such company on the basis of material non-public information, including information that you have obtained in the course of your employment with the Company. Additionally, if you are aware of material non-public information about any such company, you must not recommend or suggest that anyone buy, sell or retain securities of that company. Examples of material non-public information affecting another company include information about a major contract or potential merger. Note that even if information is immaterial to the Company, it may nevertheless be material to the other entity.

Regardless of whether you are working on a matter involving any of the foregoing types of suppliers, distributors, vendors, etc., you must notify the Company's Chief Financial Officer before taking a "material position" in the securities, or becoming a member of the Board of Directors, of such a company. For these purposes, "taking a material position" means acquiring beneficial ownership of greater than 5% of such outstanding securities or investing 10% or more of your net worth in such securities.

#### **7. Other Trading Restrictions.**

In addition to the trading restrictions described above, you are specifically prohibited from:

- Short selling Company securities (i.e., selling securities that you do not own at the time of sale); and
- Purchasing securities or other financial instruments, or otherwise engaging in transactions, that hedge or offset, or are designed to hedge or offset, any decrease in the

---

market value of the Company's securities or diminish the full ownership risks and rewards of your direct or indirect Company stock holdings. Examples of hedging transactions include "costless collars," forward sale contracts, equity swaps, and exchange funds.

#### **8. Post-Termination Transactions.**

This Policy applies even after termination of your employment or service with the Company. If your service as an employee of the Company terminates while you are aware of material non-public information regarding the Company, you will continue to be subject to this Policy, and specifically to the ongoing

prohibition against trading, until the information has become public or is no longer material.

#### **9. Stop-Transfer Instructions.**

The Company may, in its discretion, provide stop-transfer instructions to its transfer agent in order to enforce trading restrictions imposed by this Policy, including, without limitation, restrictions relating to post-termination transactions.

#### **10. Violations.**

As mentioned in the Introduction to this Policy, any person who violates the federal securities laws has committed a crime and may be subject to imprisonment and a criminal fine of up to \$5,000,000 and imprisonment for up to 20 years. A violator may also be personally liable in civil lawsuits for up to three times the profit gained for the harm caused by illegal trading by the violator or by third parties trading on material, non-public information provided by or through the violator. The Company will cooperate with any state or federal law enforcement agency investigating or prosecuting individuals for allegedly trading on or transmitting material, non-public information.

If you have any questions about this Policy on Insider Trading, or if you have any concerns regarding a proposed transaction involving the Company's stock, you are encouraged to contact our Chief Financial Officer. You should note, however, that as a matter of law and corporate policy, you are ultimately responsible for conforming your actions to the requirements of the insider trading laws and the Company's Policy on Insider Trading. Regardless of any advice or information you receive, you will bear the consequences of any legal or policy violations. Furthermore, the Chief Financial Officer's failure to raise an objection to a transaction will not constitute a recommendation by the Company or any of its directors, officers or employees that you engage in that transaction.

Failure to observe and comply with all of the provisions contained in this policy may subject you to disciplinary action by the Company, including discharge. The Company reserves the right to amend this Policy on Insider Trading at any time but intends to provide reasonable written notification of any such revision.

/s/ Joanne Wang

Director  
and Chief March  
Operating 16,  
Officer 2023

Joanne Wang

/s/ Eric Chen

Director March  
16,  
2023

Eric Chen

/s/ Paul Chen

Director March  
16,  
2023

Paul Chen

/s/ Eve Yen

Director March  
16,  
2023

Eve Yen



We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-268397) and on Form S-8 (No. 333-255486) of the rights Karat Packaging Inc. of our capital stock does not purport to be complete. This summary is subject to and qualified by the provisions of our Certificate of Incorporation and Bylaws, as filed as Exhibit 3.1 and Exhibit 3.2, respectively, to this Annual Report on Form 10-K and incorporated herein by reference. Additionally, the Delaware General Corporation Law ("DGCL"), as amended, also affects the terms of our capital stock. Common Stock We are authorized to issue 100,000,000 shares of common stock, par value \$0.001 per share. The holders of common stock will be entitled to one vote per share on all matters submitted to a vote of stockholders, including the election of directors, except for amendments to the certificate of incorporation relating solely to the terms of a series of preferred stock. Additionally, all matters submitted to a vote of stockholders will require the affirmative vote of the stockholders holding a majority of the shares. There will be no cumulative voting in the election of directors. In the event of our liquidation or dissolution, holders of common stock will be entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preferences of any outstanding shares of preferred stock. Holders of common stock will have no pre-emptive rights and will have no right to convert their common stock into any other securities and there will be no redemption provisions applicable to the common stock. The holders of common stock will be entitled to any dividends that may be declared by the Board out of funds legally available for payment of dividends subject to the prior rights of holders of preferred stock and any contractual restrictions the Company has against the payment of dividends on common stock. Preferred Stock We are authorized to issue 10,000,000 shares of "blank check" preferred stock, par value \$0.001 per share, with designations, rights and preferences as may be determined from time to time by the Board.

Delaware Laws Anti-takeover Provisions The Company's Certificate of Incorporation contains a provision expressly opting out of the application of Section 203 of the DGCL; therefore the anti-takeover statute does not apply to the Company. In general, Section 203 of the DGCL prohibits a Delaware corporation with a class of voting stock listed on a national securities exchange or held of record by 2000 or more stockholders from engaging in a "business combination" with an "interested stockholder" for a three-year period following the time that this stockholder becomes an interested stockholder, unless the business combination is approved in a prescribed manner. A "business combination" includes, among other things, a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns, or did own within three years prior to the determination of interested stockholder status, 15% or more of the corporation's voting stock.

Under Section 203, a business combination between a corporation and an interested stockholder is prohibited unless it satisfies one of the following conditions: • before the stockholder became interested, the board of directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;



slide2

68983697:2 • upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder), shares owned by persons who are directors and also officers, and employee stock plans, in some instances; or • at or after the time the stockholder became interested, the business combination was approved by the board of directors of the corporation and authorized at an annual or special meeting of the stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder. The DGCL permits a corporation to opt out of, or choose not to be governed by, its anti-takeover statute by expressly stating so in its original certificate of incorporation (or subsequent amendment to its certificate of incorporation or bylaws approved by its stockholders). The Company's certificate of incorporation contains a provision expressly opting out of the application of Section 203 of the DGCL; therefore the anti-takeover statute does not apply to the Company. Special Stockholder Meetings and Action by Written Consent Under our Bylaws, the chairperson of our board of directors, its president and a majority of the members of our board of directors may each call a special meeting of stockholders. The bylaws do not permit meetings of stockholders to be called by any other person. Our certificate of incorporation specifically prohibits action by its stockholders by written consent without a meeting of the stockholders unless authorized in advance by a resolution adopted by our board of directors or otherwise provided for or fixed pursuant to the provisions of the certificate of incorporation report dated March 15, 2024 rights of holders of any series of preferred stock. Any aspect of the foregoing, alone or together, could delay or prevent unsolicited takeovers and changes financial statements, which appears control or changes in our management. Exclusive Jurisdiction of Certain Actions Unless we consent in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought against or on behalf of the Company, (ii) any action asserting a claim of breach of a duty owed by any current or former director, officer, other employee or stockholder of the Company to the Company or the Company's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the DGCL, (iv) any action as to which the DGCL confers jurisdiction upon the Court of Chancery in the State of Delaware, or (v) any action asserting a claim governed by the internal affairs doctrine, shall, to the fullest extent permitted by law, be the Court of Chancery in the State of Delaware (or, only if the Court of Chancery in the State of Delaware declines to accept jurisdiction over a particular matter, any state or federal court located within the State of Delaware). However, Section 27 of the Exchange Act creates exclusive federal jurisdiction over all suits brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder, and as such, the exclusive jurisdiction clauses set forth above would not apply to such suits. Furthermore, Section 22 of the Securities Act provides for concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder, and as such, the exclusive jurisdiction clauses set forth above would not apply to such suits.

this Form 10-K.

slide3



68983697;2 Although we believe these provisions benefit us by providing increased consistency in the application of Delaware law for the specified types of actions and proceedings, these provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with the Company and its directors, officers, or other employees and may discourage lawsuits with respect to such claims. Any person or entity purchasing or otherwise acquiring any interest in our shares of capital stock shall be deemed to have notice of and consented to these provisions, but will not be deemed to have waived our compliance with the federal securities laws and the rules and regulations thereunder. In any underwriting agreement we enter into in connection with the sale of common stock being registered hereby, the underwriters will agree to indemnify, under certain conditions, us, our directors, our officers and persons who control us within the meaning of the Securities Act of 1933, as amended, against certain liabilities. Transfer Agent and Registrar Our transfer agent and registrar is VStock Transfer, LLC, 8 Lafayette Place, Woodmere, New York, 11598. Its telephone number is (212) 828-8436. Stock Exchange Listing Our common stock is listed on the NASDAQ Global Market under the symbol "KRT."

---

/s/ PricewaterhouseCoopers LLP

Los Angeles, California

March 15, 2024

slide1



Consent of Independent Registered Public Accounting Firm

Karat Packaging Inc.  
Chino, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-268397) and Form S-8 (No. 333-255486) of Karat Packaging Inc. of our report dated March 16, 2023, relating to the consolidated financial statements, which appears in this Annual Report on Form 10-K.

/s/ BDO USA, LLP P.C.

Los Angeles, California  
March 16, 2023 15, 2024

**Exhibit 31.1**

**CERTIFICATION**

I, Alan Yu, certify that:

- (1) I have reviewed this Annual Report on Form 10-K 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.



slide2

March 16, 2023

15, 2024

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 Annual Report on Form 10-K 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.

March 16, 2023 15, 2024

By: /s/ Jian Guo

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



Exhibit 32.1

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

In connection with the accompanying Annual Report on Form 10-K of Karat Packaging Inc. (the "Company") for the year ended **December 31, 2022** **December 31, 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.

March **16, 2023** **15, 2024**By: /s/ Alan Yu

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

Exhibit 32.2

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

In connection with the accompanying Annual Report on Form 10-K of Karat Packaging Inc. (the "Company") for the year ended **December 31, 2022** **December 31, 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.

March **16, 2023** **15, 2024**By: /s/ Jian Guo

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

## KARAT PACKAGING INC.



### CLAWBACK POLICY

(Adopted on November 6, 2023)

#### 1. INTRODUCTION

Karat Packaging Inc. (the "**Company**") is adopting this Clawback Policy (this "Policy"), effective as of October 2, 2023 (the "**Effective date**"), to provide for the Company's criteria and process of recovering certain incentive-based compensation erroneously awarded to or earned or received by certain officers under certain circumstances.

This Policy is administered by the Compensation Committee (the "**Committee**") of the Company's board of directors (the "**Board**"). The Committee will have full and final authority to make any and all determinations required under this Policy. Any determination by the Committee with respect to this Policy will be final, conclusive and binding on all parties. The Board may amend or terminate this Policy at any time upon the recommendation of the Committee.

This Policy is intended to comply with Section 10D of the Securities and Exchange Act of 1934, as amended (the "**Exchange Act**"), Rule 10D-1 thereunder, and the applicable rules of the Nasdaq Stock Market or any other national securities exchange on which the Company's securities are then listed (the "**Exchange**") and will be interpreted and administered consistent with that intent.

#### 2. EFFECTIVE DATE

This Policy will apply to all incentive-based compensation received by an Affected officer on or after the Effective date to the extent permitted or required by applicable law or the rules of the Exchange.

#### 3. DEFINITIONS

For purposes of this Policy, the following definitions apply:

**"Affected officer"** means any current or former "officer" as defined in Exchange Act Rule 16a-1.

**"Erroneously awarded compensation"** means the amount of Incentive-based compensation received that exceeds the amount of Incentive-based compensation that otherwise would have been received had it been determined based on the Restatement, computed without regard to any taxes paid. In the case of Incentive-based compensation based on stock price or total shareholder return, where the amount of Erroneously awarded compensation is not subject to mathematical recalculation directly from the information in the Restatement, the amount will reflect a reasonable estimate of the effect of the Restatement on the stock price or total shareholder return upon which the incentive-based compensation was received, as determined by the Committee in its sole discretion. The Company will maintain documentation of the determination of that reasonable estimate and provide the documentation to the Exchange as required by the Exchange.

**"Financial reporting measure"** means any measure that is determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measures that are derived wholly or in part from those measures, whether or not the measure is presented within the financial statements or included in a filing with the Securities and Exchange Commission. Stock price and total shareholder return are financial reporting measures.

**"Incentive-based compensation"** means any compensation that is awarded, earned or vested based in whole or in part on the attainment of a Financial reporting measure. Base salaries, bonuses or equity awards paid solely upon satisfying one or more subjective standards, strategic or operational measures, or continued employment are not considered incentive-based compensation, unless the awards were granted, paid or vested based in part on a Financial reporting measure.

**"Restatement"** means an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement that corrects errors (1) that are material to previously issued financial statements, or (2) that are not material to previously issued financial statements but would result in a material

misstatement if the errors were left uncorrected in the current report or the error correction was recognized in the current period.

#### 4. RECOVERY

If the Company is required to prepare a Restatement, the Company will seek to recover and claw back reasonably promptly all Erroneously awarded compensation received on or after the Effective date by an Affected officer:

- a. After beginning service as an Affected officer;
- b. Who served as an Affected officer at any time during the performance period for that Incentive-based compensation;
- c. While the Company has a class of securities listed on the Exchange; and slide5
- d. During the three completed fiscal years immediately preceding the date on which the Company was required to prepare the Restatement (including any transition period within or immediately following those three completed fiscal years that results from a change in the Company's fiscal year, determined in accordance with the rules of the Exchange).

To the extent any amounts are determined by the Committee to be Erroneously awarded compensation, if, after the release of earnings for any period for which a Restatement subsequently occurs and prior to the announcement of the Restatement for that period, the Affected officer sold any shares of Company common stock acquired under an equity incentive award that constitutes Incentive-based compensation, the Company will also seek to recover and claw back reasonably promptly the excess of (1) the actual aggregate sales proceeds from the Affected officer's sale of those shares, over (2) the aggregate sales proceeds the Affected officer would have received from the sale of those shares at a price per share determined appropriate by the Committee in its discretion to reflect what the Company's common stock price would have been if the Restatement had occurred prior to such sales; on condition that the aggregate sales proceeds determined by the Committee under this clause (2) with respect to shares acquired upon exercise of an option may not be less than the aggregate exercise price paid for those shares.

For purposes of this Policy:

1. Erroneously awarded compensation is deemed to be received in the Company's fiscal year during which the Financial reporting measure specified in the Incentive-based compensation is attained, even if the payment or grant of the Incentive-based compensation occurs after the end of that period; and
2. the date the Company is required to prepare a Restatement is the earlier of (1) the date the Board, the Committee or any officer of the Company authorized to take such action concludes, or reasonably should have concluded, that the Company is required to prepare the Restatement, and (2) the date a court, regulator, or other legally authorized body directs the Company to prepare the Restatement.
3. Notwithstanding anything in this Policy, in no event will the Company be required to award any Affected officers an additional payment or other compensation if the Restatement would have resulted in the grant, payment or vesting of Incentive-based compensation that is greater than the Incentive-based compensation actually received by the Affected officer. The recovery of Erroneously awarded compensation is not dependent on if or when the Restatement is filed.

#### 5. SOURCES OF RECOUPMENT

To the extent permitted by applicable law, the Committee may, in its discretion, seek recoupment of Erroneously awarded compensation from an Affected officer from any of the following sources: (1) prior Incentive-based compensation payments; (2) future payments of Incentive-based compensation; (3) cancellation of outstanding Incentive-based compensation; and (4) direct repayment. To the extent permitted by applicable law, the Company may offset such amount against any compensation or other amounts owed by the Company to the Affected officer.

If an Affected officer fails to repay all Erroneously awarded compensation to the Company when due, the Company will, or will cause one or more of its subsidiaries to, take all actions reasonable and appropriate to recover the Erroneously awarded compensation from the Affected officer; and in that case

the Affected officer will be required to reimburse the Company and its subsidiaries for any and all expenses reasonably incurred (including legal fees) by the Company or any of its subsidiaries in recovering the Erroneously awarded compensation.

## 6. LIMITED EXCEPTIONS TO RECOVERY

Notwithstanding the foregoing, the Committee, in its discretion, may choose to forgo recovery of Erroneously awarded compensation under the following circumstances, on condition that the Committee (or a majority of the independent members of the Board) has made a determination that recovery would be impracticable because:

- a. the direct expense paid to a third party to assist in enforcing this Policy would exceed the recoverable amounts, and in which case the Company has made a reasonable attempt to recover the Erroneously awarded compensation, has documented that attempt and has (to the extent required) provided that documentation to the Exchange; or
- b. recovery would violate home country law where the law was adopted prior to November 28, 2022, and in which case the Company provides an opinion of home country counsel to that effect to the Exchange that is acceptable to the Exchange; or
- c. recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of the Internal Revenue Code of 1986.

## 7. INDEMNIFICATION AND INSURANCE

slide6

Neither the Company nor any of its subsidiaries is permitted to indemnify or reimburse any Affected officer against the recovery of Erroneously awarded compensation. In addition, the Company and its subsidiaries are prohibited from paying the premiums on an insurance policy that would cover an Affected officer's potential clawback obligations, or entering into any agreement that exempts any Incentive-based compensation from this Policy or that waives the Company's or any of its subsidiary's rights to recover Erroneously awarded compensation in accordance with this Policy, and this Policy will supersede any such agreement.

## 8. SEVERABILITY

If any provision of this Policy or the application of any such provision to any Affected officer is adjudicated to be invalid, illegal or unenforceable in any respect, that invalidity, illegality or unenforceability will not affect any other provisions of this Policy, and the invalid, illegal or unenforceable provisions is to be deemed amended to the minimum extent necessary to render that provision or application enforceable.

## 9. NO IMPAIRMENT OF OTHER REMEDIES

This Policy does not preclude the Company from taking any other action to enforce an Affected officer's obligations to the Company or limit any other remedies that the Company may have available to it and any other actions that the Company may take, including termination of employment, institution of civil proceedings, or reporting of any misconduct to appropriate government authorities. The Company will comply with the disclosure, documentation and records requirements related to this Policy under Section 10D of the Exchange Act, applicable listing rules of the Exchange and applicable Securities and Exchange Commission filings. This Policy is in addition to the requirements of Section 304 of the Sarbanes-Oxley Act of 2002 that are applicable to the Company's chief executive officer and chief financial officer. Any right of recovery under this Policy is in addition to, and not in lieu of, any other remedies or rights of recovery that may be available to the Company and any of its subsidiaries under applicable law, regulation or rule or under the terms of any similar policy in any employment agreement, offer letter, compensation plan, equity award agreement, or similar agreement and any other legal remedies available to the Company or any of its subsidiaries. The Committee may require that any employment agreement, offer letter, compensation plan, equity award agreement, or any other agreement entered into on or after the Effective date will, as a condition to the grant of any benefit thereunder, require an Affected officer to agree to abide by the terms of this Policy.

\*\*\*

#### DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All rights reserved. Patents Pending.