

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2022

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

For the transition period from _____ to _____.

Commission File Number: 001-38180

HF FOODS GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

81-2717873

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

6325 South Rainbow Boulevard, Suite 420, Las Vegas, NV 89118

(Address of principal executive offices) (Zip Code)

(888) 905-0988

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$0.0001 par value	HFFG	Nasdaq Capital Market

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of January 27, 2023, the registrant had 53,706,392 shares of common stock outstanding.

HF FOODS GROUP INC. AND SUBSIDIARIES
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2022

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

**HF FOODS GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)**

(In thousands, except share data)	<u>September 30, 2022</u>	<u>December 31, 2021</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 17,806	\$ 14,792
Accounts receivable, net	44,276	36,281
Accounts receivable - related parties	428	249
Inventories	132,524	102,690
Other current assets	9,890	5,559
TOTAL CURRENT ASSETS	204,924	159,571
Property and equipment, net	141,300	145,908
Operating lease right-of-use assets	15,917	11,664
Long-term investments	2,632	2,462
Customer relationships, net	160,390	159,161
Trademarks and other intangibles, net	37,773	35,891
Goodwill	85,118	80,257
Other long-term assets	2,623	2,032
TOTAL ASSETS	\$ 650,677	\$ 596,946
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Checks issued not presented for payment	\$ 18,517	\$ 17,834
Line of credit	71,329	55,293
Accounts payable	49,260	57,745
Accounts payable - related parties	1,498	1,941
Current portion of long-term debt, net	6,442	5,557
Current portion of obligations under finance leases	2,246	2,274
Current portion of obligations under operating leases	3,933	2,482
Accrued expenses and other liabilities	15,717	12,138
TOTAL CURRENT LIABILITIES	168,942	155,264
Long-term debt, net of current portion	116,990	81,811
Promissory note payable - related party	—	4,500
Obligations under finance leases, non-current	11,187	11,676
Obligations under operating leases, non-current	12,085	9,251
Deferred tax liabilities	36,064	39,455
Lease guarantee liability, net of current portion	5,549	—
TOTAL LIABILITIES	350,817	301,957
Commitments and contingencies (Note 15)		
SHAREHOLDERS' EQUITY		
Preferred stock, \$0.0001 par value, 1,000,000 shares authorized, no shares issued and outstanding as of September 30, 2022 and December 31, 2021	—	—
Common stock, \$0.0001 par value, 100,000,000 shares authorized, 53,813,366 and 53,706,392 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	5	5
Additional paid-in capital	597,738	597,227
Accumulated deficit	(302,470)	(306,284)
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO HF FOODS GROUP INC.	295,273	290,948
Noncontrolling interests	4,587	4,041
TOTAL SHAREHOLDERS' EQUITY	299,860	294,989
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 650,677	\$ 596,946

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

HF FOODS GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

(In thousands, except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net revenue - third parties	\$ 298,929	\$ 213,179	\$ 873,218	\$ 560,629
Net revenue - related parties	1,782	2,363	5,350	7,839
TOTAL NET REVENUE	300,711	215,542	878,568	568,468
Cost of revenue - third parties	247,703	171,431	719,052	453,990
Cost of revenue - related parties	1,515	2,199	4,726	8,004
TOTAL COST OF REVENUE	249,218	173,630	723,778	461,994
GROSS PROFIT	51,493	41,912	154,790	106,474
Distribution, selling and administrative expenses	54,589	31,048	140,840	88,927
(LOSS) INCOME FROM OPERATIONS	(3,096)	10,864	13,950	17,547
Other expense (income)				
Interest expense	2,274	902	5,101	2,732
Other income	(462)	(573)	(1,401)	(1,437)
Change in fair value of interest rate swap contracts	(284)	(52)	(850)	(1,371)
Lease guarantee expense	(58)	—	5,831	—
Total Other Expense (Income), net	1,470	277	8,681	(76)
(LOSS) INCOME BEFORE INCOME TAX PROVISION	(4,566)	10,587	5,269	17,623
Income tax (benefit) provision	(672)	2,676	1,529	4,738
NET (LOSS) INCOME AND COMPREHENSIVE INCOME	(3,894)	7,911	3,740	12,885
Less: net income (loss) attributable to noncontrolling interests	(30)	357	(74)	566
NET (LOSS) INCOME AND COMPREHENSIVE INCOME ATTRIBUTABLE TO HF FOODS GROUP INC.	\$ (3,864)	\$ 7,554	\$ 3,814	\$ 12,319
(LOSS) EARNINGS PER COMMON SHARE - BASIC	\$ (0.07)	\$ 0.15	\$ 0.07	\$ 0.24
(LOSS) EARNINGS PER COMMON SHARE - DILUTED	\$ (0.07)	\$ 0.15	\$ 0.07	\$ 0.24
WEIGHTED AVERAGE SHARES - BASIC	53,798,131	51,913,411	53,716,464	51,913,411
WEIGHTED AVERAGE SHARES - DILUTED	53,798,131	51,932,712	53,981,687	51,919,932

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

HF FOODS GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In thousands)	Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 3,740	\$ 12,885
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	18,245	14,233
Gain from disposal of property and equipment	(1,327)	(33)
Provision for doubtful accounts	226	(374)
Deferred tax benefit	(3,391)	(2,126)
Income from equity method investment	(317)	(67)
Return on equity method investment	147	—
Change in fair value of interest rate swap contracts	(849)	(1,371)
Stock-based compensation	673	375
Amortization of debt issuance and other debt-related costs	144	120
Non-cash lease expense	2,562	580
Lease guarantee expense	5,831	—
Other operating expense	502	—
Changes in operating assets and liabilities (excluding effects of acquisitions):		
Accounts receivable	(8,221)	(8,861)
Accounts receivable - related parties	(178)	296
Inventories	(15,988)	(18,704)
Advances to suppliers - related parties	—	197
Other current assets	(3,769)	1,974
Other long-term assets	(593)	(451)
Accounts payable	8,953	14,083
Accounts payable - related parties	(443)	644
Operating lease liabilities	(2,530)	(489)
Accrued expenses and other liabilities	3,515	(1,578)
Net cash provided by operating activities	6,932	11,333
Cash flows from investing activities:		
Purchase of property and equipment	(5,745)	(1,521)
Proceeds from disposal of property and equipment	7,805	77
Payment made for acquisition of noncontrolling interest	—	(5,000)
Payment made for acquisition of Sealand	(34,849)	—
Payment made for acquisition of Great Wall Group	(17,445)	—
Net cash used in investing activities	(50,234)	(6,444)
Cash flows from financing activities:		
Checks issued not presented for payment	682	4,583
Proceeds from line of credit	938,251	582,617
Repayment of line of credit	(922,080)	(577,974)
Proceeds from long-term debt	45,956	—
Repayment of long-term debt	(9,614)	(4,544)
Payment of debt financing costs	(556)	—
Repayment of promissory note payable - related party	(4,500)	(2,000)
Repayment of obligations under finance leases	(1,876)	(1,577)
Proceeds from noncontrolling interest shareholder	240	180
Cash distribution to shareholders	(187)	(212)
Net cash provided by (used in) financing activities	46,316	1,073
Net increase in cash	3,014	5,962
Cash at beginning of the period	14,792	9,581
Cash at end of the period	\$ 17,806	\$ 15,543

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

HF FOODS GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(UNAUDITED)

(In thousands)	Nine Months Ended September 30,	
	2022	2021
Supplemental disclosure of cash flow data:		
Cash paid for interest	\$ 3,873	\$ 2,948
Cash paid for income taxes	\$ 8,358	\$ 5,680
Supplemental disclosure of non-cash operating, investing and financing activities:		
Right of use assets obtained in exchange for operating lease liabilities	\$ 6,815	\$ 2,108
Property acquired in exchange for finance leases	\$ 1,272	\$ 8,554
Property and equipment purchases from notes payable	\$ —	\$ 257
Intangible asset acquired in exchange for noncontrolling interests	\$ 566	\$ —

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

HF FOODS GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

(In thousands, except share data)	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity Attributable to HF Foods Group Inc.	Noncontrolling Interests	Total Shareholders' Equity
	Number of Shares	Amount					
Balance at January 1, 2021	51,913,411	\$ 5	\$ 587,579	\$ (328,429)	\$ 259,155	\$ 4,367	\$ 263,522
Net income	—	—	—	1,358	1,358	300	1,658
Distribution to shareholders	—	—	—	—	—	(73)	(73)
Balance at March 31, 2021	51,913,411	5	587,579	(327,071)	260,513	4,594	265,107
Net income (loss)	—	—	—	3,407	3,407	(91)	3,316
Acquisition of noncontrolling interest	—	—	(3,856)	—	(3,856)	(1,144)	(5,000)
Distribution to shareholders	—	—	—	—	—	(77)	(77)
Balance at June 30, 2021	51,913,411	5	583,723	(323,664)	260,064	3,282	263,346
Net income	—	—	—	7,554	7,554	357	7,911
Capital contributions by shareholders	—	—	—	—	—	180	180
Distribution to shareholders	—	—	—	—	—	(62)	(62)
Stock-based compensation	—	—	375	—	375	—	375
Balance at September 30, 2021	51,913,411	\$ 5	\$ 584,098	\$ (316,110)	\$ 267,993	\$ 3,757	\$ 271,750
Balance at January 1, 2022	53,706,392	\$ 5	\$ 597,227	\$ (306,284)	\$ 290,948	\$ 4,041	\$ 294,989
Net income	—	—	—	3,114	3,114	26	3,140
Capital contributions by shareholders	—	—	—	—	—	806	806
Distribution to shareholders	—	—	—	—	—	(89)	(89)
Stock-based compensation	—	—	290	—	290	—	290
Balance at March 31, 2022	53,706,392	5	597,517	(303,170)	294,352	4,784	299,136
Net income (loss)	—	—	—	4,564	4,564	(70)	4,494
Distribution to shareholders	—	—	—	—	—	(97)	(97)
Stock-based compensation	—	—	221	—	221	—	221
Balance at June 30, 2022	53,706,392	5	597,738	(298,606)	299,137	4,617	303,754
Net loss	—	—	—	(3,864)	(3,864)	(30)	(3,894)
Issuance of common stock pursuant to equity compensation plan	138,412	—	—	—	—	—	—
Shares withheld for tax withholdings on vested stock awards	(31,438)	—	(162)	—	(162)	—	(162)
Stock-based compensation	—	—	162	—	162	—	162
Balance at September 30, 2022	53,813,366	\$ 5	\$ 597,738	\$ (302,470)	\$ 295,273	\$ 4,587	\$ 299,860

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

HF FOODS GROUP INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BUSINESS DESCRIPTION

Organization and General

HF Foods Group Inc. and subsidiaries (collectively “HF Group”, or the “Company”) is an Asian foodservice distributor that markets and distributes fresh produce, seafood, frozen and dry food, and non-food products to primarily Asian restaurants and other foodservice customers throughout the United States. The Company's business consists of one operating segment, which is also its one reportable segment: HF Group, which operates solely in the United States. The Company's customer base consists primarily of Chinese and Asian restaurants, and it provides sales and service support to customers who mainly converse in Mandarin or Chinese dialects.

On December 30, 2021, the Company completed the acquisition of Great Wall Seafood Supply, Inc., Great Wall Restaurant Supplier, Inc., and First Mart Inc. (collectively the “Great Wall Group”), and substantially all of the operating assets of the Great Wall Group’s seafood and restaurant products sales, marketing, and distribution businesses (the “Great Wall Acquisition”). The acquisition was completed as part of the Company’s strategy to develop a national footprint through expansion into the Midwest, Southwest and Southern regions of the United States. The total acquisition price for all operating assets and inventory was approximately \$68.2 million.

On April 29, 2022, the Company completed the acquisition of substantially all of the assets of Sealand Food, Inc. (“Sealand”). This included equipment, machinery and vehicles for cash consideration of \$20.0 million plus, inventory for cash consideration of \$14.4 million, and additional fixed assets for cash consideration of approximately \$0.5 million (the “Sealand Acquisition”). The acquisition was completed as part of the Company’s strategy to develop a national footprint through continued expansion in the East Coast of the United States, from Massachusetts to Florida, as well as Pennsylvania, West Virginia, Ohio, Kentucky, and Tennessee.

See *Note 7 - Acquisitions* for additional information on recent acquisitions.

Independent Investigation Update

In March 2020, an analyst report suggested certain improprieties in the Company’s operations. These allegations became the subject of two putative stockholder class action lawsuits which have subsequently been dismissed. In response to the allegations in the analyst report, the Company's Board of Directors appointed a Special Investigation Committee of Independent Directors (the “Special Investigation Committee”) to conduct an independent investigation with the assistance of independent legal counsel. As a result of the investigation, the SIC determined certain factual findings. Management evaluated the factual findings, as presented by the SIC, and analyzed them to determine which had impact on the historical financial statements, including disclosures, of the Company.

In addition to the independent investigation, the Securities and Exchange Commission (“SEC”) initiated a formal, non-public investigation of the Company, and the SEC informally requested, and later issued a subpoena for, documents and other information. The subpoena relates to but is not necessarily limited to the matters identified in the class action lawsuits. The Special Investigation Committee and the Company are cooperating with the SEC. The SEC investigation is still ongoing.

As with any SEC investigation, there is also the possibility of potential fines and penalties. At this time, however, there has not been any demand made by the SEC nor is it possible to estimate the amount of any such fines and penalties, should they occur. See *Note 15 - Commitments and Contingencies* for additional information.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information pursuant to the rules and regulations of the SEC and have been consistently applied. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been

included. These financial statements are condensed and should be read in conjunction with the audited financial statements and notes thereto for the fiscal years ended December 31, 2021 and 2020. Operating results for the three and nine months ended September 30, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022.

The accompanying consolidated financial statements include the accounts of HF Group and certain variable interest entities for which the Company is the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation. For consolidated entities where we own or are exposed to less than 100% of the economics, the Company records net income (loss) attributable to noncontrolling interest in its consolidated statements of income equal to the percentage of the economic or ownership interest retained in such entity by the respective noncontrolling party.

Variable Interest Entities

GAAP provides guidance on the identification of VIEs and financial reporting for entities over which control is achieved through means other than voting interests. The Company evaluates each of its interests in an entity to determine whether or not the investee is a VIE and, if so, whether the Company is the primary beneficiary of such VIE. In determining whether the Company is the primary beneficiary, the Company considers if the Company (1) has power to direct the activities that most significantly affect the economic performance of the VIE, and (2) receives the economic benefits of the VIE that could be significant to the VIE. If deemed the primary beneficiary, the Company consolidates the VIE.

Noncontrolling Interests

GAAP requires that noncontrolling interests in subsidiaries and affiliates be reported in the equity section of the Company's condensed consolidated balance sheet. In addition, the amounts attributable to the net income of those subsidiaries are reported separately in the condensed consolidated statements of operations and comprehensive income.

As of September 30, 2022 and December 31, 2021, noncontrolling interest equity consisted of the following:

(\$ in thousands)	Ownership of Noncontrolling Interest	September 30, 2022	December 31, 2021
HF Foods Industrial, Inc. ("HFFI")	45.00%	\$ 527	\$ 462
Min Food, Inc.	39.75%	1,618	1,363
Monterey Food Service, LLC	35.00%	452	453
Ocean West Food Services, LLC	32.50%	1,900	1,763
Syncglobal Inc. ^(a)	43.00%	90	—
Total		\$ 4,587	\$ 4,041

(a) During the three months ended March 31, 2022, the Company entered into a joint venture with Syncglobal Inc. contributing \$0.6 million and acquiring developed technology. During the three months ended June 30, 2022, the joint venture began to wind down operations, accordingly, the developed technology was fully impaired. See *Note 7 - Goodwill and Intangibles* for additional information.

Uses of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during each reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the Company's consolidated financial statements include, but are not limited to, allowance for doubtful accounts, inventory reserves, useful lives of property and equipment, lease assumptions, impairment of long-lived assets, impairment of long-term investments, lease guarantee liability, impairment of goodwill, the purchase price allocation and fair value of assets and liabilities acquired with respect to business combinations, realization of deferred tax assets, uncertain income tax positions, the liability for self-insurance and stock-based compensation.

Recent Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13 ("ASU 2016-13"), Measurement of Credit Losses on Financial Instruments (Topic 326): *Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires companies to measure credit losses utilizing a methodology that reflects expected credit losses and requires a consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 was further amended in

November 2019 in “Codification Improvements to Topic 326, Financial Instruments–Credit losses”. This guidance is effective for fiscal years beginning after December 15, 2019, including those interim periods within those fiscal years. For emerging growth companies, the effective date has been extended to fiscal years beginning after December 15, 2022. The Company will adopt this ASU within the annual reporting period ending as of December 31, 2022 with an effective date of January 1, 2022 because, as of December 31, 2022, the Company will no longer be an emerging growth company. The Company is currently assessing the impact of adopting this standard, but based upon its preliminary assessment, does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, Business Combinations (Topic 805): *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The guidance requires an acquirer to, at the date of acquisition, recognize and measure the acquired contract assets and contract liabilities acquired in the same manner that they were recognized and measured in the acquiree's financial statements before the acquisition. This guidance is effective for interim and annual periods beginning after December 15, 2022, with early adoption permitted. The amendments in this update should be applied prospectively to business combinations occurring on or after the effective date. The Company is in the process of assessing the impact of this ASU on its future consolidated financial statements, but does not expect it to have a material impact.

NOTE 3 - VARIABLE INTEREST ENTITIES

The Company has three VIEs for which the Company is not the primary beneficiary and therefore does not consolidate, and 14 VIEs for which the Company was the primary beneficiary and consolidates. The VIEs are summarized as follows noting which VIE's the Company no longer has transactions with in 2022:

- Unconsolidated VIEs (collectively "Unconsolidated VIEs"):
 - Revolution Industry, LLC (“Revolution Industry”) – Supplier of goods (until March 2021)
 - UGO USA, Inc. (“UGO”) – Supplier of online goods, customer, and lessee (until April 2021)
 - AnHeart, Inc. ("AnHeart")

- Consolidated VIEs (collectively "Consolidated VIEs"):
 - FUSO Trucking LLC ("FUSO")
 - 13 staffing agencies (collectively, the “Staffing Agencies”) – Suppliers of staffing services through 2021:
 - Anfu, Inc.
 - Anshun, Inc.
 - Chen Enterprises (until December 2020)
 - Georgia Kam (until December 2020)
 - Inchoi, Inc.
 - Malways, Inc.
 - Rousafe
 - S&P
 - SNP
 - Suntone
 - THLI, Inc. (until December 2020)
 - THLR, Inc. (until December 2020)
 - TWRR, Inc. (until December 2020)

Consolidated VIEs

FUSO

FUSO was established solely to provide exclusive trucking services to the Company. The entity lacks sufficient equity to finance its activities without additional subordinated financial support from the Company, and the Company has the power to direct the VIEs’ activities. In addition, the Company receives the economic benefits from the entity and has concluded that the Company is the primary beneficiary. The carrying amounts of the assets, liabilities, the results of operations and cash flows of

the VIE included in the Company's consolidated balance sheets, statements of income and comprehensive income (loss) and statements of cash flows are immaterial.

Staffing Agencies

The Staffing Agencies were set up by an employee of the Company, or their relatives, and provided temporary labor services exclusively to the Company at the direction of the Company. There were no other substantive business activities of the Staffing Agencies. There were immaterial assets held, immaterial liabilities owed by the Staffing Agencies and immaterial equity. The Company has determined it was the primary beneficiary for the Staffing Agencies through December 31, 2021 as it controlled how and when the labor force would be utilized. The Company did not have any guarantees, commitments or other forms of financing to the Staffing Agencies. Beginning January 1, 2022, the Company no longer has involvement with any of the Staffing Agencies.

Unconsolidated VIEs

Revolution Industry and UGO

Revolution Industry was established to produce egg roll mix for the Company. UGO was originally designed to be an online marketplace for various Asian goods. Revolution Industry and UGO were thinly capitalized and were not able to finance their activities without additional subordinated support. The former Co-CEO's (Mr. Ni) son, as sole equity holder of Revolution Industry, had unilateral control over the ongoing activities of Revolution Industry and significantly benefited from their operations. Therefore, the Company is not the primary beneficiary for Revolution Industry. The former Co-CEO (Mr. Ni) and his niece, as equity holders, had unilateral control over the ongoing activities of UGO and significantly benefited from its operations. Therefore, the Company is not the primary beneficiary for UGO.

Revolution Industry and UGO are also related parties and were generally the Company's suppliers or customers and the Company did not have other involvement with these entities. Therefore, the Company's exposure to loss due to its involvement with these entities was limited to amounts due from these entities. The Company did not have any guarantees, commitments, or other forms of financing with these entities. All transactions with Revolution Industry and UGO ceased in 2021, therefore, these entities are no longer considered VIE's as of September 30, 2022. Related party transactions, such as purchases of goods and services, with Revolution Industry and UGO are disclosed in *Note 13 - Related Party Transactions*.

AnHeart

AnHeart, Inc. ("AnHeart") was previously a subsidiary of the Company designed to sell traditional Chinese medicine, sold to a third-party in February 2019. As discussed in *Note 15 - Commitments and Contingencies*, after the sale, the Company continued to provide a guarantee for all rent and related costs associated with two leases of AnHeart in Manhattan, New York. The Company reassessed its relationship with AnHeart and determined that AnHeart is a VIE as a result of the guarantee. However, the Company concluded it was not the primary beneficiary of AnHeart because it does not have the power to direct the activities of AnHeart that most significantly impact AnHeart's economic performance. Therefore, the Company is not the primary beneficiary for AnHeart. Please refer to *Note 15 - Commitments and Contingencies* for additional information regarding the Company's maximum exposure to loss to AnHeart.

NOTE 4 - REVENUE

The Company recognizes revenue from the sale of products when control of each product passes to the customer and the customer accepts the goods, which occurs at delivery. Sales taxes invoiced to customers and remitted to government authorities are excluded from net sales.

The Company follows ASC Topic 606 ("ASC 606"), *Revenue from Contracts with Customers*. The Company recognizes revenue that represents the transfer of goods and services to customers in an amount that reflects the consideration to which the Company expects to be entitled in such exchange. This requires the Company to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time, based on when control of goods and services transfer to a customer. The Company's contracts contain performance obligations which are satisfied when customers have physical possession of each product. The Company's revenue streams are recognized at a specific point in time.

For the three and nine months ended September 30, 2022 and 2021, revenue recognized from performance obligations related to prior periods was immaterial. Revenue expected to be recognized in any future periods related to remaining performance obligations is immaterial.

The following table presents the Company's net revenue disaggregated by principal product categories:

(\$ in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
Asian Specialty	\$ 73,380	24 %	\$ 62,592	29 %	\$ 223,393	25 %	\$ 170,433	30 %
Commodity	17,480	6 %	11,905	6 %	48,833	6 %	35,322	6 %
Fresh Produce	31,260	10 %	27,251	13 %	92,215	10 %	72,376	13 %
Meat and Poultry	63,647	21 %	61,283	28 %	187,671	21 %	152,895	27 %
Packaging and Other	20,867	7 %	17,909	8 %	64,176	7 %	49,460	9 %
Seafood	94,077	32 %	34,602	16 %	262,280	31 %	87,982	15 %
Total	\$ 300,711	100 %	\$ 215,542	100 %	\$ 878,568	100 %	\$ 568,468	100 %

NOTE 5 - BALANCE SHEET COMPONENTS

Accounts receivable, net consisted of the following:

(In thousands)	September 30, 2022	December 31, 2021
Accounts receivable	\$ 45,334	\$ 37,121
Less: allowance for doubtful accounts	(1,058)	(840)
Accounts receivable, net	\$ 44,276	\$ 36,281

Movement of allowance for doubtful accounts is as follows:

(In thousands)	Nine Months Ended September 30,	
	2022	2021
Beginning balance	\$ 840	\$ 909
Increase (decrease) in provision for doubtful accounts	226	(374)
Write off	(8)	(186)
Ending balance	\$ 1,058	\$ 349

Long-term investments consisted of the following:

(In thousands)	Ownership as of	September 30, 2022	December 31, 2021
	September 30, 2022	September 30, 2022	December 31, 2021
Asahi Food, Inc.	49%	\$ 832	\$ 662
Pt. Tamron Akuatik Produk Industri ("Tamron")	12%	1,800	1,800
Total		\$ 2,632	\$ 2,462

The investment in Tamron is accounted for using the measurement alternative under ASC Topic 321 ("ASC 321"), *Investments – Equity Securities*, which is measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments, if any. The investment in Asahi Food, Inc. is accounted for under the equity method due to the fact that the Company has significant influence but does not exercise control over this investee. The Company determined there was no impairment as of September 30, 2022 and December 31, 2021 for these investments.

Property and equipment, net consisted of the following:

(In thousands)	September 30, 2022	December 31, 2021
Automobiles	\$ 34,794	\$ 31,577
Buildings	70,881	68,998
Building improvements	12,023	19,004
Furniture and fixtures	356	211
Land	49,920	51,412
Machinery and equipment	17,636	14,114
Total property and equipment at cost	185,610	185,316
Less: accumulated depreciation	(44,310)	(39,408)
Property and equipment, net	\$ 141,300	\$ 145,908

Depreciation expense was \$2.2 million and \$2.0 million for the three months ended September 30, 2022 and 2021, respectively. Depreciation expense was \$6.6 million and \$6.0 million for the nine months ended September 30, 2022 and 2021, respectively.

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company follows the provisions of ASC Topic 820 ("ASC 820"), *Fair Value Measurements and Disclosures*. ASC 820 clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

- Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.
- Level 2 - Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.
- Level 3 - Inputs are unobservable inputs which reflect the reporting entity's own assumptions about what assumptions market participants would use in pricing the asset or liability based on the best available information.

Any transfers of assets or liabilities between Level 1, Level 2, and Level 3 of the fair value hierarchy will be recognized at the end of the reporting period in which the transfer occurs. There were no transfers between fair value levels in any of the periods presented herein.

The carrying amounts reported in the unaudited condensed consolidated balance sheets for cash, accounts receivable, other current assets, accounts payable, checks issued not presented for payment, and accrued expenses and other liabilities approximate their fair value based on the short-term maturity of these instruments.

The carrying value of the variable rate debt approximates its fair value because of the variability of interest rates associated with these instruments. For the Company's fixed rate debt, the fair values were estimated using discounted cash flow analyses, based on the current incremental borrowing rates for similar types of borrowing arrangements.

As of September 30, 2022, the carrying value of the fixed rate debt was \$4.7 million and the fair value was \$4.1 million. As of December 31, 2021, the carrying value of the fixed rate debt, which included the Company's promissory note payable to related party, was \$15.0 million and the fair value was \$12.2 million. The variable and fixed rate debt are both classified as Level 2. Please refer to *Note 10 - Debt* and *Note 13 - Related Party Transactions* for additional information regarding the Company's debt.

Of the \$4.7 million of fixed rate debt as of September 30, 2022, \$2.4 million is attributable to real estate term loans with East West Bank, \$2.0 million is attributable to vehicle and equipment term loans with Bank of America, and \$0.3 million is attributable to vehicle loans with other financial institutions.

Of the \$15.0 million of fixed rate debt as of December 31, 2021, \$4.5 million is related to the Company's promissory note payable to related party, \$2.5 million is attributable to real estate term loans with East West Bank, \$2.7 million is attributable to vehicle and equipment term loans with Bank of America, \$4.5 million is attributable to loans with First Horizon Bank, and \$0.8 million is attributable to vehicle loans with other financial institutions.

Please refer to *Note 9 - Derivative Financial Instruments* for additional information regarding the fair value of the Company's derivative financial instruments which are classified as Level 2.

NOTE 7 - ACQUISITIONS

Sealand Acquisition

On April 29, 2022, the Company completed the acquisition of substantially all of the operating assets of Sealand including equipment, machinery and vehicles. The acquisition was completed to expand the Company's territory along the East Coast, from Massachusetts to Florida, as well as Pennsylvania, West Virginia, Ohio, Kentucky, and Tennessee.

The price for the purchased assets was \$20.0 million paid in cash at closing. In addition to the closing cash payment, the Company separately acquired all of the Sellers' saleable product inventory for approximately \$14.4 million and additional fixed assets for approximately \$0.5 million. The Company is in the process of finalizing its purchase accounting, which relates to the valuation of intangible assets, which may impact the valuation of goodwill.

The Company accounted for this transaction under ASC 805, *Business Combinations*, by applying the acquisition method of accounting and established a new basis of accounting on the date of acquisition. The assets acquired by the Company were measured at their estimated fair values as of the date of acquisition. Goodwill is calculated as the excess of the purchase price over the net assets recognized and represent synergies and benefits expected as a result from combining operations with an emerging national presence. The transaction costs for the acquisition totaled approximately \$0.7 million and were reflected in distribution, selling and administrative expenses in the unaudited condensed consolidated statement of operations and comprehensive income for the nine months ended September 30, 2022.

The information included herein has been prepared based on the allocation of the purchase price using estimates of the fair value of assets acquired and liabilities assumed which were determined using a combination of quoted market prices, discounted cash flows, and other estimates made by management. The purchase price allocation is subject to further adjustment until all pertinent information regarding the assets and liabilities acquired are fully evaluated by the Company, not to exceed one year as permitted under ASC 805.

Preliminary Purchase Price Allocation

The Company has performed an allocation of the total consideration paid to acquire the assets and liabilities of Sealand, as set forth below:

(In thousands)	Amount
Inventory	\$ 13,846
Property plant, and equipment	1,424
Right-of-use assets	127
Intangible assets	14,717
Total assets acquired	30,114
Obligations under operating leases	127
Total liabilities assumed	127
Net assets	29,987
Goodwill	4,861
Total consideration	\$ 34,848

The Company recorded acquired intangible assets of \$14.7 million, which were measured at fair value using Level 3 inputs. These intangible assets include tradenames and trademarks of \$4.4 million, customer relationships of \$8.9 million and non-compete agreements of \$1.4 million. The fair value of customer relationships was determined by applying the income approach utilizing the excess earnings methodology and Level 3 inputs including a discount rate. The fair value of tradenames and trademarks was determined by applying the income approach utilizing the relief from royalty methodology and Level 3 inputs including a royalty rate of 1% and a discount rate. The fair value of non-competition agreements was determined by applying the income approach and Level 3 inputs including a discount rate. Discount rates used in determining fair values for customer relationships, tradenames and trademarks, and non-competition agreements ranged from 17.5% to 18.0%. The useful lives of the tradenames and trademarks are ten years, customer relationships are ten years and non-compete agreements are three years, with a weighted average amortization period of approximately nine years. The associated goodwill is deductible for tax purposes.

Great Wall Acquisition

On December 30, 2021, the Company executed an Asset Purchase Agreement with Great Wall Seafood Supply Inc., a Texas Corporation; Great Wall Restaurant Supplier Inc., an Ohio Corporation, and First Mart Inc., an Illinois Corporation (collectively the “Great Wall Group”) to purchase substantially all of the operating assets of the Great Wall Group’s seafood and restaurant products sales, marketing, and distribution businesses (the “Great Wall Acquisition”). The acquisition was completed as part of the Company’s strategy to develop a national footprint through expansion into the Midwest, Southwest and Southern regions of the United States.

The final aggregate price for the purchased assets was \$43.7 million with \$30.8 million paid in cash at closing and the issuance of 1,792,981 shares of common stock of the Company (based on a 60-day VWAP of \$7.36), with a fair value of \$12.9 million based on the share price of \$8.11 per share at closing and an 11.5% discount due to a lock-up restriction. In addition to the closing cash payment, the Company separately acquired all of the Sellers’ saleable product inventory for approximately \$24.3 million (fair value of \$24.7 million) of which approximately \$6.8 million was paid during the year ended December 31, 2021 and \$17.4 million was recorded in accounts payable on the consolidated balance sheets as of December 31, 2021. The Company also acquired additional vehicles for approximately \$0.2 million. As such, the total acquisition price for all operating assets and inventory was approximately \$68.2 million. During the three months ended March 31, 2022, the Company paid \$17.4 million to acquire the remaining saleable product inventory.

The Company accounted for this transaction under ASC 805, *Business Combinations*, by applying the acquisition method of accounting and established a new basis of accounting on the date of acquisition. The assets acquired by the Company were measured at their estimated fair values as of the date of acquisition. Goodwill is calculated as the excess of the purchase price over the net assets recognized and represent synergies and benefits expected as a result from combining operations with an emerging national presence. The transaction costs for the acquisition were reflected in distribution, selling and administrative expenses in the condensed consolidated statements of operations and comprehensive income (loss) and totaled \$0.4 million for the nine months ended September 30, 2022.

The information included herein has been prepared based on the allocation of the purchase price using estimates of the fair value of assets acquired and liabilities assumed which were determined using a combination of quoted market prices, discounted cash flows, and other estimates made by management.

Purchase Price Allocation

The total consideration paid to acquire the assets and liabilities of the Great Wall Group is as set forth below:

(In thousands)	Amount
Inventory	\$ 24,728
Property plant, and equipment	1,537
Intangible assets	30,145
Total assets acquired	56,410
Goodwill	11,745
Total consideration	\$ 68,155

The Company recorded acquired intangible assets of \$30.1 million, which were measured at fair value using Level 3 inputs. These intangible assets include tradenames and trademarks of \$10.5 million, customer relationships of \$17.2 million and non-compete agreements of \$2.4 million. The fair value of customer relationships was determined by applying the income approach utilizing the excess earnings methodology and Level 3 inputs including a discount rate. The fair value of tradenames and trademarks was determined by applying the income approach utilizing the relief from royalty methodology and Level 3 inputs including a royalty rate of 1% and a discount rate. The fair value of non-competition agreements was determined by applying the income approach and Level 3 inputs including a discount rate. Discount rates used in determining fair values for customer relationships, tradenames and trademarks, and non-competition agreements ranged from 11.5% to 14.0%. The useful lives of the tradenames and trademarks are ten years, customer relationships are ten years and non-compete agreements are three years, with a weighted average amortization period of approximately nine years. The associated goodwill is deductible for tax purposes.

Unaudited Supplemental Pro Forma Financial Information

The following table presents the Company's unaudited pro forma results for the three and nine months ended September 30, 2022, as if both the Great Wall Acquisition and Sealand Acquisition had been consummated on January 1, 2021. The unaudited pro forma financial information presented includes the effects of adjustments related to the amortization of acquired intangible assets and excludes synergies and other non-recurring transaction costs directly associated with the acquisition such as legal and other professional service fees. Statutory rates were used to calculate income taxes. Accordingly, the unaudited pro forma information does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations.

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Pro forma net revenue	\$ 300,712	\$ 288,157	\$ 910,397	\$ 769,881
Pro forma net income	(3,364)	13,163	\$ 3,316	20,325
Pro forma net income attributable to HF Group	(3,368)	12,806	\$ 3,389	19,758

NOTE 8 - GOODWILL AND ACQUIRED INTANGIBLE ASSETS

Goodwill

The changes in the carrying amount of goodwill are presented below:

(In thousands)	Amount
Balance at December 31, 2021	\$ 80,257
Acquisition of Sealand Food, Inc.	4,861
Balance at September 30, 2022	\$ 85,118

The Company's policy is to test goodwill for impairment annually in the fourth quarter or more frequently if certain triggering events or circumstances indicate it could be impaired. The Company is monitoring the decline in its stock price and the potential for this to impact its recorded goodwill. While the Company has determined there to be no triggering events at September 30, 2022, a sustained decline in the Company's stock price could result in the Company performing a quantitative test of impairment in the fourth quarter.

Acquired Intangible Assets

The components of the intangible assets are presented below:

(In thousands)	September 30, 2022			December 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Non-competition agreement	\$ 3,892	\$ (808)	\$ 3,084	\$ 2,407	\$ —	\$ 2,407
Tradenames	44,256	(9,567)	34,689	39,833	(6,349)	33,484
Customer relationships	185,266	(24,876)	160,390	176,408	(17,247)	159,161
Developed technology	440	(440)	—	—	—	—
Total	\$ 233,854	\$ (35,691)	\$ 198,163	\$ 218,648	\$ (23,596)	\$ 195,052

Amortization expense for intangible assets was \$4.1 million and \$2.7 million for the three months ended September 30, 2022 and September 30, 2021, respectively. Amortization expense for intangible assets was \$11.7 million and \$8.2 million for the nine months ended September 30, 2022 and September 30, 2021, respectively. During the nine months ended September 30, 2022, the Company impaired its acquired developed technology and recognized impairment expense of \$0.4 million in distribution, selling and administrative expenses in the unaudited condensed consolidated statements of operations and comprehensive income (loss).

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes interest rate swaps ("IRS") contracts for the sole purpose of mitigating interest rate fluctuation risk associated with floating rate debt instruments (as defined in *Note 10 - Debt*). The Company does not use any other derivative financial instruments for trading or speculative purposes.

On August 20, 2019, HF Group entered into two IRS contracts with East West Bank (the "EWB IRS") for initial notional amounts of \$1.1 million and \$2.6 million, respectively. The EWB IRS contracts were entered into in conjunction with two mortgage term loans of corresponding amounts that were priced at USD 1-month LIBOR (London Interbank Offering Rate) plus 2.25% per annum for the entire duration of the term loans. The EWB IRS contracts fixed the two term loans at 4.23% per annum until maturity in September 2029.

On December 19, 2019, HF Group entered into an IRS contract with Bank of America (the "BOA IRS") for an initial notional amount of \$2.7 million in conjunction with a newly contracted mortgage term loan of corresponding amount. The term loan was contracted at USD 1-month LIBOR plus 2.15% per annum, but was fixed at 4.25% per annum resulting from the corresponding BOA IRS contract. On December 19, 2021, the Company entered into the Second Amendment to Loan Agreement, which pegged the mortgage term loan to SOFR (Secured Overnight Financing Rate) + 2.5%. The BOA IRS was modified accordingly to fix the SOFR based loan to approximately 4.50%. The term loan and corresponding BOA IRS contract mature in December 2029.

On June 24, 2020, HF Group entered into a forward starting IRS contract with J.P. Morgan Chase Bank (the "JPM IRS") for a fixed \$80.0 million notional amount, effective from June 30, 2021 and expiring on June 30, 2025, as a means to partially hedge its existing floating rate loans exposure. On March 3, 2021, the Company unwound the JPM IRS. The contract was unwound with a view that 1-month LIBOR will continue to remain low in the foreseeable future despite the spike at the long end of the yield curve. The Company recorded a gain of approximately \$0.7 million in the three months ended March 31, 2021.

The Company evaluated the above mentioned interest rate swap contracts currently in place and did not designate those as cash flow hedges. Hence, the fair value change on the aforementioned interest rate swap contracts are accounted for and recognized

as a change in fair value of interest rate swap contracts in the unaudited condensed consolidated statements of operations and comprehensive income (loss).

As of September 30, 2022, the Company determined that the fair value of the IRS contracts in an asset position was \$0.6 million, which is included in other current assets in the unaudited condensed consolidated balance sheets. As of December 31, 2021, the Company determined that the fair value of the interest rate swap contracts in a liability position was \$0.3 million, which is included in accrued expenses and other liabilities in the unaudited condensed consolidated balance sheets. In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as consider counterparty credit risk in its assessment of fair value. The IRS are classified as Level 2 in the fair value hierarchy.

NOTE 10 - DEBT

On November 4, 2019, the Company entered into a credit agreement with J.P. Morgan Chase Bank (the "JPM Credit Agreement"). The JPM Credit Agreement provided for a \$100.0 million asset-secured revolving credit facility maturing on November 4, 2022, with an option to renew at the bank's discretion. On January 17, 2020, the Company and certain of its wholly-owned subsidiaries and affiliates of the Company as borrowers, and certain material subsidiaries of the Company as guarantors, entered into the Second Amended Credit Agreement ("Second Amended Credit Agreement"). On December 31, 2021, the Company entered into the Consent, Waiver, Joinder and Amendment No. 3 to the Second Amended Credit Agreement with JP Morgan, as Administrative Agent, and certain lender parties thereto including Comerica Bank. The Second Amended Credit Agreement, provided for (i) a \$100.0 million asset-secured revolving credit facility maturing on November 4, 2022 (the "Revolving Facility"), and (ii) a mortgage-secured term loan of \$75.6 million (the "Term Loan"), and (iii) amendment to the referenced interest rate from 1-month LIBOR to 1-month Secured Overnight Financing Rate ("SOFR") plus a credit adjustment of 0.1% (difference between LIBOR and SOFR plus 1.375% per annum).

The existing revolving credit facility balance under the Second Amended Credit Agreement, was rolled over to the Revolving Facility on December 30, 2021. On the same day, the Company utilized an additional \$33.3 million drawdown from the Revolving Facility to fund the Great Wall Acquisition. The Second Amended Credit Agreement, as amended, contains certain financial covenants, including, but not limited to, a fixed charge coverage ratio and effective tangible net worth.

On March 31, 2022, the Company amended the JPM Credit Agreement extending the Revolver Facility for five years with a maturity date of November 4, 2027. The amendment provides for a \$100.0 million asset-secured revolving credit facility with a 1-month SOFR plus a credit adjustment of 0.1% plus 1.375% per annum as well as an increase in the Term Loan from \$69.0 million to \$115.0 million with a 1-month SOFR plus a credit adjustment of 0.1% plus 1.875% per annum, (the "2022 Credit Agreement"). In connection with the amendment, the Company incurred \$0.6 million in financing fees, of which \$0.5 million will be amortized over the life of the respective facilities. Additionally, \$0.1 million of the unamortized financing fees related to the Revolving Facility has been deferred and will be amortized over the life of the Revolving Facility.

As of September 30, 2022, the Company was in compliance with its covenants. Subsequent to September 30, 2022, the Company's lenders consented to the delivery of the Company's 2021 audited financial statements on or before January 31, 2023. The outstanding principal balance on the line of credit as of September 30, 2022 was \$71.3 million.

Long-Term Debt

Long-term debt at September 30, 2022 and December 31, 2021 is as follows:

Bank Name	Maturity	Interest Rate as of September 30, 2022		(in thousands)	
				September 30, 2022	December 31, 2021
Bank of America ^(a)	October 2022 - December 2029	3.73%	— 5.80%	\$ 4,514	\$ 5,134
East West Bank ^(b)	August 2027 - September 2029	4.25%	— 4.40%	5,863	5,994
First Horizon Bank ^(c)	Paid off in May 2022	—	—	—	4,571
J.P. Morgan Chase ^(d)	February 2023 - January 2030	2.93%	— 3.05%	113,163	70,866
Other finance institutions ^(e)	October 2022 - March 2024	3.90%	— 6.14%	204	838
Total debt, principal amount				123,744	87,403
Debt issuance costs				(312)	(35)
Total debt, carrying value				123,432	87,368
Less: current portion				(6,442)	(5,557)
Long-term debt				\$ 116,990	\$ 81,811

- (a) Loan balance consists of real estate term loan, equipment term loans, and vehicle term loans, collateralized by one real property and specific equipment and vehicles. The real estate term is pegged to TERM SOFR + 2.5%.
- (b) Real estate term loans with East West Bank are collateralized by four real properties. Balloon payments of \$1.8 million and \$2.9 million are due at maturity in 2027 and 2029, respectively.
- (c) Secured by real property. During the nine months ended September 30, 2022, the Company sold the real property for approximately \$7.2 million to Enson Seafood (a related party), recognized a gain of \$1.5 million, which is included in other income in the unaudited condensed consolidated statements of operations and comprehensive income (loss), and used a portion of the proceeds to pay the \$4.5 million loan outstanding with First Horizon Bank.
- (d) Real estate term loan with a principal balance of \$112.6 million as of September 30, 2022 and \$69.8 million as of December 31, 2021 is secured by assets held by the Company and has a maturity date of January 2030. Equipment term loan with a principal balance of \$0.5 million as of September 30, 2022 and \$1.0 million as of December 31, 2021 is secured by specific vehicles and equipment as defined in loan agreements. Equipment term loans mature in February 2023 and December 2023.
- (e) Secured by vehicles.

The terms of the various loan agreements related to long-term bank borrowings require the Company to comply with certain financial covenants, including, but not limited to, a fixed charge coverage ratio and effective tangible net worth. As of September 30, 2022 and December 31, 2021, the Company was in compliance with its covenants. Subsequent to September 30, 2022, the Company's lenders consented to the delivery of the Company's 2021 audited financial statements on or before January 31, 2023.

NOTE 11 - EARNINGS PER SHARE

The Company computes earnings per share ("EPS") in accordance with ASC Topic 260 ("ASC 260"), *Earnings per Share*. ASC 260 requires companies with complex capital structures to present basic and diluted EPS. Basic EPS is measured as net income divided by the weighted average common shares outstanding for the period. Diluted EPS is similar to basic EPS, but presents the dilutive effect on a per share basis of potential common shares (e.g., convertible securities, options, warrants and restricted stock) as if they had been converted at the beginning of the periods presented, or issuance date, if later. Potential common shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS. There were 3,536 potential common shares related to total shareholder return performance-based restricted stock units that were excluded from the calculation of diluted EPS for the nine months ended September 30, 2022, because their effect would have been anti-dilutive. There were no anti-dilutive potential common shares for the three and nine months ended September 30, 2021.

The following table sets forth the computation of basic and diluted EPS:

(In thousands, except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Numerator:				
Net (loss) income attributable to HF Foods Group Inc.	\$ (3,864)	\$ 7,554	\$ 3,814	\$ 12,319
Denominator:				
Weighted-average common shares outstanding	53,798,131	51,913,411	53,716,464	51,913,411
Effect of dilutive securities	—	19,301	265,223	6,521
Weighted-average dilutive shares outstanding	53,798,131	51,932,712	53,981,687	51,919,932
(Loss) earnings per common share:				
Basic	\$ (0.07)	\$ 0.15	\$ 0.07	\$ 0.24
Diluted	\$ (0.07)	\$ 0.15	\$ 0.07	\$ 0.24

NOTE 12 - INCOME TAXES

The determination of the Company's overall effective income tax rate requires the use of estimates. The effective income tax rate reflects the income earned and taxed in U.S. federal and various state jurisdictions based on enacted tax law, permanent differences between book and tax items, tax credits and the Company's change in relative income in each jurisdiction. Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and the Company's effective income tax rate in the future. The Company has no operations outside the U.S., as such, no foreign income tax was recorded.

For the three and nine months ended September 30, 2022, the Company's effective income tax rate of 14.7% and 29.0%, respectively, differed from the federal statutory tax rate primarily as a result of state income taxes. For the three and nine months ended September 30, 2021, the Company's effective income tax rate of 25.3% and 26.9% differed from the federal statutory tax rate primarily as a result of state income taxes.

NOTE 13 - RELATED PARTY TRANSACTIONS

The Company makes regular purchases from and sales to various related parties. Related party affiliations were attributed to transactions conducted between the Company and those business entities partially or wholly owned by the Company, the Company's officers and/or shareholders who owned no less than 10% shareholdings of the Company.

Mr. Zhou Min Ni ("Mr. Ni"), the Company's former Co-Chief Executive Officer, resigned from all of his official posts on February 23, 2021. Mr. Ni and his immediate family members are treated as related parties for purposes of this report because Mr. Ni is a principal holder of the Company's securities.

North Carolina Good Taste Noodle, Inc. ("NC Noodle") is a related party due to Mr. Jian Ming Ni's, a former Chief Financial Officer of the Company, continued ownership interest in NC Noodle.

Revolution Industry and UGO, are also considered non-consolidated VIEs as discussed further in *Note 3 – Variable Interest Entities*.

The related party transactions as of September 30, 2022 and December 31, 2021 and for the three and nine months ended September 30, 2022 and 2021 are identified as follows:

Related Party Sales and Purchases Transactions

The Company makes regular sales to and purchases from various related parties.

a. Purchase - related parties

Below is a summary of purchases of goods and services from related parties recorded for the three and nine months ended September 30, 2022 and 2021, respectively:

(In thousands)	Nature	Three Months Ended September 30,		Nine Months Ended September 30,	
		2022	2021	2022	2021
(a) Best Food Services, LLC	Trade	\$ 2,246	\$ 2,738	\$ 8,738	\$ 6,225
(b) Eastern Fresh NJ LLC	Trade	—	1,457	1,093	4,425
(c) Enson Group, Inc. (formerly "Enson Group, LLC")	Trade	—	—	—	128
(d) First Choice Seafood, Inc.	Trade	25	106	134	266
(e) Fujian RongFeng Plastic Co., Ltd.	Trade	—	808	398	2,398
(f) North Carolina Good Taste Noodle, Inc.	Trade	1,798	1,345	5,226	3,938
(g) Ocean Pacific Seafood Group Inc.	Trade	107	114	385	452
(h) Revolution Industry, LLC	Trade	—	—	—	190
(i) UGO USA Inc.	Trade	—	—	—	212
	Other	115	54	199	219
Total		\$ 4,291	\$ 6,622	\$ 16,173	\$ 18,453

- (a) Mr. Zhang previously owned an equity interest in this entity indirectly through its parent company as of October 31, 2020. This equity interest was transferred to three Irrevocable Trusts for the benefit of Mr. Zhang's children effective November 1, 2020.
- (b) Mr. Ni owns an equity interest in this entity.
- (c) Mr. Ni owns an equity interest in this entity.
- (d) Mr. Ni owns an equity interest in this entity indirectly through its parent company.
- (e) Mr. Ni owns an equity interest in this entity indirectly through its parent company.
- (f) Mr. Jian Ming Ni, former Chief Financial Officer owns an equity interest in this entity.
- (g) Mr. Ni owns an equity interest in this entity.
- (h) Raymond Ni, one of Mr. Ni's family members, owns an equity interest in this entity. On February 25, 2021, Han Feng executed an asset purchase agreement to acquire the machinery and equipment of Revolution Industry, LLC ("RIL"). Han Feng has acquired substantially all of the operating assets used or held for use in such business operation for the amount of \$250,000 plus the original wholesale purchase value of all verified, useable cabbage and egg roll mix inventory of RIL. Advances due from RIL at the time of transaction were an offset to the purchase price paid to RIL. Going forward, Han Feng has taken the egg roll production business in house and ceased its vendor relationship with RIL.
- (i) Mr. Ni owns an equity interest in this entity.

b. Sales - related parties

Below is a summary of sales to related parties recorded for the three and nine months ended September 30, 2022 and 2021, respectively:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(a) ABC Food Trading, LLC	\$ 815	\$ 715	\$ 3,077	\$ 1,935
(b) Asahi Food, Inc.	126	185	495	527
(c) Best Food Services, LLC	189	309	1,058	709
(d) Eagle Food Service, LLC	576	745	576	2,821
(e) Eastern Fresh NJ LLC	—	55	—	155
(f) Enson Group, Inc. (formerly "Enson Group, LLC")	—	—	—	53
(g) Enson Seafood GA, Inc. (formerly "GA-GW Seafood, Inc.")	—	18	—	573
(h) First Choice Seafood Inc	9	7	27	89
(i) Fortune One Foods, Inc.	67	136	81	301
(i) Heng Feng Food Services, Inc.	—	23	—	128
(j) N&F Logistics, Inc.	—	164	36	531
Other	—	6	—	17
Total	\$ 1,782	\$ 2,363	\$ 5,350	\$ 7,839

- (a) Mr. Zhang previously owned an equity interest in this entity indirectly through its parent company as of October 31, 2020. This equity interest was transferred to three Irrevocable Trusts for the benefit of Mr. Zhang's children effective November 1, 2020.
- (b) The Company, through its subsidiary MF, owns an equity interest in this entity.
- (c) Mr. Zhang previously owned an equity interest in this entity indirectly through its parent company as of October 31, 2020. This equity interest was transferred to three Irrevocable Trusts for the benefit of Mr. Zhang's children effective November 1, 2020.
- (d) Tina Ni, one of Mr. Ni's family members, owns an equity interest in this entity indirectly through its parent company.
- (e) Mr. Ni owns an equity interest in this entity.
- (f) Mr. Ni owns an equity interest in this entity.
- (g) Mr. Ni owns an equity interest in this entity.
- (h) Mr. Ni owns an equity interest in this entity indirectly through its parent company.
- (i) Mr. Ni owns an equity interest in this entity.
- (j) Mr. Ni owns an equity interest in this entity.

c. Lease agreements - related parties

The Company leases various facilities to related parties.

The Company leased a facility to UGO USA Inc. under an operating lease agreement which was mutually terminated by both parties effective April 1, 2021. No rental income was recorded for the three and nine months ended September 30, 2022 and for the three months ended September 30, 2021. Rental income was \$7,000 for the nine months ended September 30, 2021 and is included in other income in the unaudited condensed consolidated statements of operations and comprehensive income (loss).

The Company leased a facility to iUnited Services, LLC ("iUnited"), which has been determined to be a related party due to the equity ownership interest in iUnited of Mr. Jian Ming Ni, the Company's former Chief Financial Officer. The lease agreement was terminated in connection with the sale of the facility on November 3, 2021. The building and related land was sold to iUnited for \$1.5 million and a gain of \$0.8 million. Rental income for the three and nine months ended September 30, 2021 was \$15,000 and \$45,000, respectively, which is included in other income in the consolidated statements of operations and comprehensive income (loss).

The Company leased a production area to Revolution Industry, LLC under a month-to-month lease agreement. This lease agreement was terminated as a result of the asset purchase agreement executed on February 25, 2021. No rental income was recorded for the three and nine months ended September 30, 2022 and for the three months ended September 30, 2021. Rental income was \$6,000 for the nine months ended September 30, 2021 and is included in other income in the unaudited condensed consolidated statements of operations and comprehensive income (loss).

The Company leased a warehouse to Enson Seafood GA Inc. (formerly "GA-GW Seafood, Inc.") under an operating lease agreement expiring on September 21, 2027. During the three months ended June 30, 2022, the Company sold the warehouse to Enson Seafood GA Inc. (see *Note 10 - Debt* for additional information). There was no rental income for the three months ended September 30, 2022. Rental income for the three months ended September 30, 2021 was \$120,000 and is included in other income in the unaudited condensed consolidated statements of operations and comprehensive income (loss). Rental income for nine months ended September 30, 2022 and 2021 was \$200,000 and \$360,000, respectively and is included in other income in the unaudited condensed consolidated statements of operations and comprehensive income (loss).

In 2020, the Company renewed a warehouse lease from Yoan Chang Trading Inc. ("Yoan") under an operating lease agreement expiring on December 31, 2020. In February 2021, the Company executed a new five year operating lease agreement with Yoan effective January 1, 2021 and expiring on December 31, 2025. Rent incurred was \$86,000 and \$77,000 for the three months ended September 30, 2022 and 2021, respectively, and is included in distribution, selling and administrative expenses in the unaudited condensed consolidated statements of operations and comprehensive income (loss). Rent incurred to the related party was \$231,000 and \$232,000 for the nine months ended September 30, 2022 and 2021, respectively, and is included in distribution, selling and administrative expenses in the unaudited condensed consolidated statements of operations and comprehensive income (loss).

Related Party Balances

a. Accounts receivable - related parties, net

Below is a summary of accounts receivable with related parties recorded as of September 30, 2022 and December 31, 2021, respectively:

(In thousands)	September 30, 2022	December 31, 2021
(a) ABC Food Trading, LLC	\$ 102	\$ 76
(b) Asahi Food, Inc.	152	72
(c) Best Food Services, LLC	—	1
Other	174	100
Total	\$ 428	\$ 249

- (a) Mr. Zhang previously owned an equity interest in this entity indirectly through its parent company as of October 31, 2020. This equity interest was transferred to 3 Irrevocable Trusts for the benefit of Mr. Zhang's children effective November 1, 2020.
- (b) The Company, through its subsidiary MF, owns an equity interest in this entity.
- (c) Mr. Zhang previously owned an equity interest in this entity indirectly through its parent company as of October 31, 2020. This equity interest was transferred to 3 Irrevocable Trusts for the benefit of Mr. Zhang's children effective November 1, 2020.

All accounts receivable from these related parties are current and considered fully collectible. No allowance is deemed necessary as of September 30, 2022 and December 31, 2021.

b. Accounts payable - related parties, net

All the accounts payable to related parties are payable upon demand without interest. Below is a summary of accounts payable with related parties recorded as of September 30, 2022 and December 31, 2021, respectively:

(In thousands)	September 30, 2022	December 31, 2021
(a) Best Food Services, LLC	\$ 788	\$ 699
(b) Eastern Fresh NJ, LLC	18	581
(c) North Carolina Good Taste Noodle, Inc.	581	595
Other	111	66
Total	\$ 1,498	\$ 1,941

- (a) Mr. Zhang previously owned an equity interest in this entity indirectly through its parent company as of October 31, 2020. This equity interest was transferred to 3 Irrevocable Trusts for the benefit of Mr. Zhang's children effective November 1, 2020.
- (b) Mr. Ni owns an equity interest in this entity.
- (c) Mr. Jian Ming Ni, former Chief Financial Officer owns an equity interest in this entity.

c. Advances to suppliers - related parties, net

The Company periodically provides purchase advances to various vendors, including the related party suppliers. There were no advances to related party suppliers recorded as of September 30, 2022 and December 31, 2021.

d. Promissory note payable - related party

The Company issued a \$7.0 million Unsecured Subordinated Promissory Note to BRGR (a related party via ownership by certain shareholders of the Company, and a former VIE through 2020) in January 2020 as part of the payment for the acquisition of BRGR. The note was to mature in January 2030 and carried a fixed interest rate of 6% per annum. There was no requirement to make principal repayments until maturity. During the three months ended June 30, 2022, the Company paid the remaining \$4.5 million of the Unsecured Subordinated Promissory Note. Interest payments paid were \$84,000 for the three months ended September 30, 2021. Interest payments paid were \$129,000 and \$282,000 for the nine months ended September 30, 2022 and 2021, respectively.

NOTE 14 - STOCK-BASED COMPENSATION

In July 2021, the Company began issuing awards under the HF Foods Group Inc. 2018 Omnibus Equity Incentive Plan (the “2018 Incentive Plan”), which reserves up to 3,000,000 shares of the Company's common stock for issuance of awards to employees, non-employee directors and consultants. As of September 30, 2022, the Company had 549,613 time-based vesting restricted stock units (“RSUs”) outstanding, 119,396 performance-based restricted stock units (“PSUs”) outstanding, and 2,224,017 shares remaining available for future awards under the 2018 Incentive Plan.

For the three and nine months ended September 30, 2022, stock-based compensation expense was \$0.2 million and \$0.7 million, respectively. For the three and nine months ended September 30, 2021, stock-based compensation expense was \$0.4 million. Stock-based compensation expense is recorded in distribution, selling and administrative expenses in the Company's unaudited condensed consolidated statements of operations and comprehensive income.

As of September 30, 2022, there was \$2.9 million of total unrecognized compensation cost related to all non-vested outstanding RSUs and PSUs outstanding under the 2018 Incentive Plan, with a weighted average remaining service period of 2.60 years.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

From time to time, the Company is a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. When the Company becomes aware of a claim or potential claim, it assesses the likelihood of any loss or exposure. In accordance with authoritative guidance, the Company records loss contingencies in its financial statements only for matters in which losses are probable and can be reasonably estimated. Where a range of loss can be reasonably estimated with no best estimate in the range, the Company records the minimum estimated liability. If the loss is not probable or the amount of the loss cannot be reasonably estimated, the Company discloses the nature of the specific claim if the likelihood of a potential loss is reasonably possible and the amount involved is material. The Company continuously assesses the potential liability related to the Company's pending litigation and revises its estimates when additional information becomes available. Adverse outcomes in some or all of these matters may result in significant monetary damages or injunctive relief against us that could adversely affect our ability to conduct our business. There also exists the possibility of a material adverse effect on our financial statements for the period in which the effect of an unfavorable outcome becomes probable and reasonably estimable.

On May 20, 2022, the Board of Directors of HF Group received a letter from a purported stockholder, James Bishop (the “Bishop Demand”). The Bishop Demand alleges that certain current and former officers and directors of HF Group engaged in misconduct and breached their fiduciary duties, and demands that HF Group investigate the allegations and, if warranted, assert claims against those current or former officers and directors. Many of the allegations contained in the Bishop Demand were the subject of a shareholder derivative action that Bishop filed in August 2020 (the “Bishop Derivative Action”). On November 24, 2021, after the United States District Court for the Central District of California dismissed with prejudice a related securities

class action, captioned *Mendoza v. HF Foods Group Inc. et al.*, the Bishop Derivative Action was voluntarily dismissed without prejudice.

On June 30, 2022, the Board of Directors of HF Group resolved to form a special committee (the “Special Litigation Committee”) comprised of independent directors and advised by counsel to analyze and evaluate the allegations in the Bishop Demand in order to determine whether the Company should assert any claims against the current or former officers and directors.

On August 19, 2022, James Bishop filed a verified stockholder derivative complaint in the Court of Chancery of the State of Delaware (the “Delaware Action”), which asserts similar allegations to those set forth in the Bishop Demand. On September 21, 2022, Bishop and the Company filed a stipulation to stay the Delaware Action for 90 days, which the court granted on September 22, 2022. On December 20, 2022, Bishop and the Company filed a stipulation to extend the stay of the Delaware Action for an additional 60 days, which the court granted on December 21, 2022.

The Special Litigation Committee is in the process of analyzing and evaluating the claims alleged in the Bishop Demand and Delaware Action, and has not determined whether any claims should be asserted or the probability of recovery for such claims.

In addition, the SEC initiated a formal, non-public investigation of the Company, and the SEC informally requested, and later issued a subpoena for, documents and other information. The subpoena relates to but is not necessarily limited to the matters identified in the two putative class actions which were subsequently dismissed. The Special Investigation Committee and the Company are cooperating with the SEC. While the SEC investigation is ongoing, the Special Investigation Committee has made certain factual findings based on evidence adduced during the investigation and made recommendations to management regarding improvements to Company operations and structure, including but not limited to its dealings with related parties. The Company is working to implement those improvements. See the Company's 2021 Annual Report for additional information on the findings of the Special Investigation Committee.

As with any SEC investigation, there is also the possibility of potential fines and penalties. At this time, however, there has not been any demand made by the SEC nor is it possible to estimate the amount of any such fines and penalties should they occur.

AnHeart Lease Guarantee

As discussed in *Note 3 - Variable Interest Entities*, the Company provided a guarantee for two separate leases for two properties located in Manhattan, New York, at 273 Fifth Avenue and 275 Fifth Avenue, for 30 years and 15 years, respectively.

On February 10, 2021, the Company entered into an Assignment and Assumption of Lease Agreement (“Assignment”), dated effective as of January 21, 2021, with AnHeart and Premier 273 Fifth, LLC, pursuant to which it assumed the lease of the premises at 273 Fifth Avenue (the “273 Lease Agreement”). At the same time, the closing documents were delivered to effectuate the amendment of the 273 Lease Agreement pursuant to an Amendment to Lease (the “Lease Amendment”). The Assignment and the Lease Amendment were negotiated in light of the Company's guarantee obligations as guarantor under the Lease Agreement. The Company agreed to observe all the covenants and conditions of the Lease Agreement, as amended, including the payment of all rents due. Under the terms of the Lease Agreement and the Assignment, the Company has undertaken to construct, at its own expense, a building on the premises at a minimum cost of \$2.5 million. The Lease Amendment permits subletting of the premises, and the Company intends to sublease the newly constructed premises to defray the rental expense undertaken pursuant to its guaranty obligations.

On January 17, 2022, the Company received notice that AnHeart had defaulted on its obligations as tenant under the lease for 275 Fifth Avenue. On February 7, 2022, the Company undertook its guaranty obligations by assuming responsibility for payment of monthly rent and other tenant obligations, including past due rent as well as property tax obligations beginning with the January 2022 rent due. On February 25, 2022, the Company instituted a legal action to pursue legal remedies against AnHeart and Minsheng. In March 2022, the Company agreed to stay litigation against AnHeart in exchange for AnHeart's payment of certain back rent from January to April 2022 and its continued partial payment of monthly rent. While the case remains pending in New York, the Company is not actively litigating the claim.

In accordance with ASC 460, *Guarantees*, the Company has determined that its maximum exposure resulting from the 275 Fifth Avenue lease guarantee includes future minimum lease payments plus potential additional payments to satisfy maintenance, property tax and insurance requirements under the leases with a remaining term of approximately 11 years. The Company elected a policy to apply the discounted cash flow method to loss contingencies with more than 18 months of

payments. During the three months ended March 31, 2022, the Company recorded a lease guarantee-liability of \$5.9 million. The Company determined the discounted value of the lease guarantee liability using a discount rate of 4.55% and is classified as Level 2 in the fair value hierarchy. The current portion of the lease guarantee liability of \$0.3 million is recorded in Accrued expenses and other liabilities on the condensed consolidated balance sheet. The Company's monthly rental payments, which commenced during the three months ended March 31, 2022, range from approximately \$42,000 per month to \$63,000 per month, with the final payment due in 2034.

The estimated future minimum lease payments as of September 30, 2022 are presented below:

(In thousands)	Amount
Year Ending December 31,	
2022 (remaining three months)	\$ 127
2023	543
2024	582
2025	604
2026	621
Thereafter	5,116
Total	7,593
Less: Imputed interest	(1,771)
Total	<u>\$ 5,822</u>

NOTE 16 - SUBSEQUENT EVENTS

See *Note 10 - Debt* regarding the Company's waiver received related to the timing of the filing of its consolidated financial statements.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

All statements other than statements of historical fact included in this Quarterly Report on Form 10-Q including, without limitation, statements under this "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding our financial position, business strategy and the plans and objectives of management for future operations, are forward-looking statements. When used in this Quarterly Report on Form 10-Q, words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "ongoing," "plan," "possible," "potential," "predict," "project," "will" and similar expressions, as they relate to us or our management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of management, as well as assumptions made by, and information currently available to, our management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors detailed in our filings with the Securities and Exchange Commission ("SEC"). All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are qualified in their entirety by this paragraph. All forward-looking statements are subject to risks and uncertainties that could cause actual results and events to differ materially from those included in forward-looking statements. Important factors that could cause actual results to differ materially from our expectations, or cautionary statements, include without limitation:

- The effects of the COVID-19 pandemic or other pandemics;
- Low margins in the foodservice distribution industry and periods of significant or prolonged inflation;
- Qualified labor shortages;
- Unfavorable macroeconomic conditions in the United States;
- Competition in the foodservice distribution industry particularly the entry of new competitors into the Chinese/Asian restaurant supply market niche;
- Increases in fuel costs;
- Disruption of relationships with vendors and increases in product prices;
- Dependency on the timely delivery of products from vendors, particularly the prolonged diminution of global supply chains;
- Our business has been affected and may in the future be affected by the COVID-19 pandemic and the steps taken by the Chinese government to address the pandemic;
- Disruption of relationships with or loss of customers;
- Changes in consumer eating and dining out habits;
- Related party transactions and possible conflicts of interests;
- Related parties and variable interest entities consolidation;
- Failure to protect our intellectual property rights;
- Our ability to renew or replace our current warehouse leases on favorable terms, or terminations prior to expiration of stated terms;
- Failure to retain our senior management and other key personnel, particularly our CEO, COO, CFO and CCO/General Counsel;
- Our ability to attract, train and retain employees;
- Changes in and enforcement of immigration laws;
- Failure to comply with various federal, state and local rules and regulations regarding food safety, sanitation, transportation, minimum wage, overtime and other health and safety laws;
- Product recalls, voluntary recalls or withdrawals if any of the products we distribute are alleged to have caused illness, been mislabeled, misbranded or adulterated or to otherwise have violated applicable government regulations;
- Costs to comply with environmental laws and regulations;
- Litigation;
- Increases in commodity prices;
- U.S. government tariffs on products imported into the United States, particularly from China;
- Severe weather, natural disasters and adverse climate change;
- Unfavorable geopolitical conditions;
- Any cyber security incident, other technology disruption or delay in implementing our information technology systems;
- Current indebtedness affecting our liquidity and ability of future financing;

- Failure to acquire other distributors or wholesalers and enlarge our customer base could negatively impact our results of operations and financial condition;
- Scarcity of and competition for acquisition opportunities;
- Our ability to obtain acquisition financing;
- The impact of non-cash charges relating to the amortization of intangible assets related to material acquisitions;
- Our ability to identify acquisition candidates;
- Increases in debt in order to successfully implement our acquisition strategy;
- Difficulties in integrating operations, personnel, and assets of acquired businesses that may disrupt our business, dilute stockholder value, and adversely affect our operating results;
- Our ability to regain compliance with Securities Exchange Act of 1934 reporting requirements; and
- The development of an active trading market for our common stock.

All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements as well as other cautionary statements that are made from time to time in our other filings with the Securities and Exchange Commission (the "SEC") and public communications. We caution you that the important factors referenced above may not contain all of the risks, uncertainties (some of which are beyond our control) or other assumptions that are important to you. Factors that might cause or contribute to such differences include, but are not limited to, those contained in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC. We assume no obligation to revise or publicly release any revision to any forward-looking statements contained in this Quarterly Report on Form 10-Q, unless required by law.

Company Background and Overview

We market and distribute Asian specialty food products, seafood, fresh produce, frozen and dry food, and non-food products primarily to Asian restaurants and other foodservice customers throughout the United States. HF Group was formed through a merger between two complementary industry participants, HF Foods Group Inc. and B&R Global.

On December 30, 2021, HF Group acquired the Great Wall Group, a seafood supplier, resulting in the addition of three distribution centers, located in Illinois and Texas (the "Great Wall Acquisition").

On April 29, 2022, HF Group acquired substantially all of the assets of Sealand Food, Inc. (the "Sealand Acquisition"), one of the largest frozen seafood suppliers servicing the Asian/Chinese restaurant market along the eastern seaboard, from Massachusetts to Florida, as well as Pennsylvania, West Virginia, Ohio, Kentucky, and Tennessee.

See *Note 7 - Acquisitions* for additional information regarding recent acquisitions.

Capitalizing on our institutional understanding of the Chinese culture, our over 1,000 employees and subcontractors and our support from two outsourced call centers in China, we serve over 15,000 Asian restaurants in 46 states with 18 distribution centers strategically located throughout the nation, providing round-the-clock sales and service support to customers who mainly converse in Mandarin or other Chinese dialects. We are dedicated to serving the vast array of Asian and Chinese restaurants in need of high-quality and specialized food ingredients at competitive prices.

As a market leader in servicing the Asian/Chinese restaurant sector, we are well-positioned for long-term success. The fragmented nature of the Asian/Chinese foodservice industry and the current environment creates opportunities for a company that has the necessary expertise and a comprehensive cultural understanding of this unique customer base. We believe we are differentiated from our competitors given our extensive footprint, strong vendor and customer relationships, and value-added service offerings, all of which have allowed and will continue to allow us to better serve our customers in these unprecedented conditions.

Financial Overview

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	Change		2022	2021	Change	
(In thousands)			Amount	%			Amount	%
Net revenue	\$ 300,711	\$ 215,542	\$ 85,169	39.5 %	\$ 878,568	\$ 568,468	\$ 310,100	54.6 %
Net income (loss) attributable to HF Foods Group Inc.	\$ (3,864)	\$ 7,554	\$ (11,418)	(151.2)%	\$ 3,814	\$ 12,319	\$ (8,505)	(69.0)%
Adjusted EBITDA	\$ 3,985	\$ 16,555	\$ (12,570)	(75.9)%	\$ 35,822	\$ 33,592	\$ 2,230	6.6 %

For additional information on our non-GAAP financial measures, EBITDA and Adjusted EBITDA, see the section entitled "EBITDA and Adjusted EBITDA" below.

COVID-19 Impact

The devastating impact of the COVID-19 pandemic seen in 2020 has generally subsided. Our net revenue for the fiscal year ended December 31, 2021 recovered to 96% of pre-COVID-19 pandemic levels. Based on current sales volumes and adjusted cost structures, we continue to generate positive operating cash flows on a weekly basis and do not have immediate liquidity concerns. We remain optimistic with regards to the long-term prospects for our business although the extent to which the COVID-19 pandemic will impact our financial condition or results of operations is uncertain and will depend on future developments including new information that may emerge on the severity or transmissibility of the disease, new variants, government responses, trends in infection rates, development and distribution of effective medical treatments and vaccines, and future consumer spending behavior, among other factors.

How to Assess HF Group's Performance

In assessing our performance, we consider a variety of performance and financial measures, including principal growth in net revenue, gross profit, distribution, selling and administrative expenses, as well as certain non-GAAP financial measures, including EBITDA and adjusted EBITDA. The key measures that we use to evaluate the performance of our business are set forth below:

Net Revenue

Net revenue is equal to gross sales minus sales returns, sales incentives that we offer to our customers, such as rebates and discounts that are offsets to gross sales; and certain other adjustments. Our net revenue is driven by changes in number of customers and average customer order amount, product inflation that is reflected in the pricing of our products and mix of products sold.

Gross Profit

Gross profit is equal to net revenue minus cost of revenue. Cost of revenue primarily includes inventory costs (net of supplier consideration), inbound freight, customs clearance fees and other miscellaneous expenses. Cost of revenue generally changes as we incur higher or lower costs from suppliers and as the customer and product mix changes.

Distribution, Selling and Administrative Expenses

Distribution, selling and administrative expenses consist primarily of salaries, stock-based compensation and benefits for employees and contract laborers, trucking and fuel expenses, utilities, maintenance and repair expenses, insurance expenses, depreciation and amortization expenses, selling and marketing expenses, professional fees and other operating expenses.

EBITDA and Adjusted EBITDA

Discussion of our results includes certain non-GAAP financial measures, including EBITDA and Adjusted EBITDA, that we believe provides an additional tool for investors to use in evaluating ongoing operating results and trends and in comparing our financial performance with other companies in the same industry, many of which present similar non-GAAP financial measures to investors. We present EBITDA and Adjusted EBITDA in order to provide supplemental information that we consider relevant for the readers of our consolidated financial statements included elsewhere in this report, and such information is not meant to replace or supersede GAAP measures.

Management uses EBITDA to measure operating performance, defined as net income before interest expense, income taxes, and depreciation and amortization. In addition, management uses Adjusted EBITDA, defined as net income before interest expense, interest income, income taxes, and depreciation and amortization, further adjusted to exclude certain unusual, non-cash, or non-recurring expenses. Management believes that Adjusted EBITDA is less susceptible to variances in actual performance resulting from non-recurring expenses, and other non-cash charges and is more reflective of other factors that affect our operating performance.

The definition of EBITDA and Adjusted EBITDA may not be the same as similarly titled measures used by other companies in the industry. EBITDA and Adjusted EBITDA are not defined under GAAP and are subject to important limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of HF Group's results as reported under GAAP. For example, Adjusted EBITDA:

- excludes certain tax payments that may represent a reduction in cash available to the Company;
- does not reflect any cash capital expenditure requirements for the assets being depreciated and amortized that may have to be replaced in the future;

- does not reflect changes in, or cash requirements for, our working capital needs; and
- does not reflect the significant interest expense, or the cash requirements, necessary to service our debt.

For additional information on EBITDA and Adjusted EBITDA, see the table entitled “EBITDA and Adjusted EBITDA” below.

Results of Operations for the Three Months Ended September 30, 2022 and 2021

The following table sets forth a summary of our consolidated results of operations for the three months ended September 30, 2022 and 2021. The historical results presented below are not necessarily indicative of the results that may be expected for any future period.

(In thousands)	Three Months Ended September 30,		Change	
	2022	2021	Amount	%
Net revenue	\$ 300,711	\$ 215,542	\$ 85,169	39.5 %
Cost of revenue	249,218	173,630	75,588	43.5 %
Gross profit	51,493	41,912	9,581	22.9 %
Distribution, selling and administrative expenses	54,589	31,048	23,541	75.8 %
(Loss) income from operations	(3,096)	10,864	(13,960)	(128.5)%
Interest expense	2,274	902	1,372	152.1 %
Other income, net	(462)	(573)	111	(19.4)%
Change in fair value of interest rate swap contracts	(284)	(52)	(232)	NM
Lease guarantee expense	(58)	—	(58)	NM
(Loss) income before income tax provision	(4,566)	10,587	(15,153)	(143.1)%
Income tax (benefit) provision	(672)	2,676	(3,348)	(125.1)%
Net (loss) income	(3,894)	7,911	(11,805)	(149.2)%
Less: net income (loss) attributable to non-controlling interests	(30)	357	(387)	NM
Net (loss) income attributable to HF Foods Group Inc.	\$ (3,864)	\$ 7,554	\$ (11,418)	NM

NM - Not meaningful

The following table sets forth the components of our consolidated results of operations expressed as a percentage of net revenue for the periods indicated:

	Three Months Ended September 30,	
	2022	2021
Net revenue	100.0 %	100.0 %
Cost of revenue	82.9 %	80.6 %
Gross profit	17.1 %	19.4 %
Distribution, selling and administrative expenses	18.2 %	14.4 %
(Loss) income from operations	(1.1)%	5.0 %
Interest expense	0.8 %	0.4 %
Other income, net	(0.2)%	(0.3)%
Change in fair value of interest rate swap contracts	(0.1)%	— %
Income before income tax provision	(1.6)%	4.9 %
(Benefit) provision for income taxes	(0.2)%	1.2 %
Net (loss) income	(1.4)%	3.7 %
Less: net income (loss) attributable to noncontrolling interests	— %	0.2 %
Net (loss) income attributable to HF Foods Group Inc.	(1.4)%	3.5 %

Net Revenue

Net revenue for the three months ended September 30, 2022 increased by \$85.2 million or 39.5% compared to the same period in 2021, primarily due to the additional revenue generated due to recent acquisitions and overall product cost inflation. Recent acquisitions, which shifted our product mix to higher Seafood sales compared to the same period in 2021, contributed \$70.7 million and organic growth contributed the remaining \$14.5 million.

Gross Profit

Gross profit for the three months ended September 30, 2022 increased by \$9.6 million or 22.9%, compared to the same period in 2021 primarily due to recent acquisitions, which contributed \$11.1 million of gross profit for the three months ended September 30, 2022. Overall gross margin decreased from 19.4% in the three months ended September 30, 2021 to 17.1% in the three months ended September 30, 2022, primarily due to the lower gross margin from recent acquisitions due to the expected lower margin on our increased Seafood sales and timing of inventory purchases and higher than expected fluctuations in key commodity pricing.

Distribution, Selling and Administrative Expenses

Distribution, selling and administrative expenses for the three months ended September 30, 2022 increased by \$23.5 million, or 75.8%, to \$54.6 million compared to \$31.0 million for the three months ended September 30, 2021. Of the distribution, selling and administrative expenses increase, \$9.3 million primarily resulted from payroll and related labor costs, inclusive of the additional costs due to recent acquisitions, as more workers were, and will continue to be, required to handle the increasing sales demand, \$2.5 million was delivery related cost primarily driven by increasing fuel prices and revenue growth, and an increase of \$4.9 million in professional fees primarily driven by legal costs, acquisition-related costs and increased compliance costs as a result of the SEC and SIC investigations and an SEC comment letter inquiry. Distribution, selling and administrative expenses as a percentage of net revenue increased from 14.4% for the three months ended September 30, 2021 to 18.2% for the three months ended September 30, 2022 primarily due to the costs disclosed above.

Interest Expense

Interest expense for the three months ended September 30, 2022 increased by \$1.4 million, or 152.1%, compared to the same period in 2021 mainly due to higher utilization of the line of credit coupled with a higher interest rate and, to a lesser extent, the increase of \$46.0 million to our mortgage-secured term loan. Our average daily line of credit balance increased by \$42.2 million, or 259.0%, to \$58.5 million for the three months ended September 30, 2022 from \$16.3 million for three months ended September 30, 2021. The average daily interest rate on our line of credit balance increased to 3.61% for the three months ended September 30, 2022 from 1.47% for three months ended September 30, 2021.

Income Tax Provision

Our provision for income taxes decreased by \$3.3 million, or 125.1%, from \$2.7 million for the three months ended September 30, 2021 to \$(0.7) million for the three months ended September 30, 2022 primarily due to a decrease in income before income taxes.

Net (Loss) Income Attributable to HF Foods Group Inc.

Net loss attributable to HF Foods Group Inc. was \$3.9 million for the three months ended September 30, 2022, compared to net income attributable to HF Foods Group Inc. of \$7.6 million for the three months ended September 30, 2021. The decrease of \$11.4 million, or 151.2%, is primarily attributable to the increased costs disclosed above.

EBITDA and Adjusted EBITDA

The following table sets forth the calculation of EBITDA and Adjusted EBITDA, and reconciliation to net income, the closest GAAP measure:

(In thousands)	Three Months Ended September 30,		Change	
	2022	2021	Amount	%
Net (loss) income	\$ (3,894)	\$ 7,911	\$ (11,805)	(149.2)%
Interest expense	2,274	902	1,372	152.1 %
Income tax provision	(672)	2,676	(3,348)	(125.1)%
Depreciation and amortization	6,386	4,743	1,643	34.6 %
EBITDA	4,094	16,232	(12,138)	(74.8)%
Lease guarantee expense	(58)	—	(58)	NM
Change in fair value of interest rate swap contracts	(284)	(52)	(232)	446.2 %
Stock-based compensation expense	162	375	(213)	(56.8)%
Acquisition and integration costs	71	—	71	NM
Adjusted EBITDA	\$ 3,985	\$ 16,555	\$ (12,570)	(75.9)%
Adjusted EBITDA margin	1.3 %	7.7 %		

NM - Not meaningful

Adjusted EBITDA was \$4.0 million for the three months ended September 30, 2022, a decrease of \$12.6 million, or 75.9%, compared to \$16.6 million for the three months ended September 30, 2021. The \$12.6 million decrease in Adjusted EBITDA was primarily attributable to the increase in distribution, selling and administrative expenses as well as lower gross profit margin. Adjusted EBITDA margin decreased by 640 basis points primarily due to the increase in distribution, selling and administrative expenses as a percentage of net revenue of 380 basis points and a decrease of 230 basis points on gross profit margin.

Results of Operations for the Nine Months Ended September 30, 2022 and 2021

The following table sets forth a summary of our consolidated results of operations for the nine months ended September 30, 2022 and 2021. The historical results presented below are not necessarily indicative of the results that may be expected for any future period.

(In thousands)	Nine Months Ended September 30,		Change	
	2022	2021	Amount	%
Net revenue	\$ 878,568	\$ 568,468	\$ 310,100	54.6 %
Cost of revenue	723,778	461,994	261,784	56.7 %
Gross profit	154,790	106,474	48,316	45.4 %
Distribution, selling and administrative expenses	140,840	88,927	51,913	58.4 %
Income from operations	13,950	17,547	(3,597)	(20.5)%
Interest expense	5,101	2,732	2,369	86.7 %
Other income, net	(1,401)	(1,437)	36	(2.5)%
Change in fair value of interest rate swap contracts	(850)	(1,371)	521	(38.0)%
Lease guarantee expense	5,831	—	5,831	NM
Income before income tax provision	5,269	17,623	(12,354)	(70.1)%
Income tax provision	1,529	4,738	(3,209)	(67.7)%
Net income	3,740	12,885	(9,145)	(71.0)%
Less: net (loss) income attributable to noncontrolling interests	(74)	566	(640)	(113.1)%
Net income attributable to HF Foods Group Inc.	\$ 3,814	\$ 12,319	\$ (8,505)	(69.0)%

NM - Not meaningful

The following table sets forth the components of our consolidated results of operations expressed as a percentage of net revenue for the periods indicated:

	Nine Months Ended September 30,	
	2022	2021
Net revenue	100.0 %	100.0 %
Cost of revenue	82.4 %	81.3 %
Gross profit	17.6 %	18.7 %
Distribution, selling and administrative expenses	16.0 %	15.6 %
Income from operations	1.6 %	3.1 %
Interest expense	0.6 %	0.5 %
Other income, net	(0.2)%	(0.3)%
Change in fair value of interest rate swap contracts	(0.1)%	(0.2)%
Lease guarantee expense	0.7 %	— %
Income before income tax provision	0.6 %	3.1 %
Provision for income taxes	0.2 %	0.8 %
Net income	0.4 %	2.3 %
Less: net income attributable to noncontrolling interests	— %	0.1 %
Net income attributable to HF Foods Group Inc.	0.4 %	2.2 %

Net Revenue

Net revenue for the nine months ended September 30, 2022 increased by \$310.1 million, or 54.6% compared to the same period in 2021, primarily due to the easing of COVID-19-related restrictions in 2022 that resulted in more dine-in business for our customers and an increase in overall foot traffic to restaurants, as well as the additional revenue generated due to recent acquisitions and overall product cost inflation. Organic growth contributed \$125.7 million and recent acquisitions, which shifted our product mix to higher Seafood sales compared to the same period in 2021, contributed the remaining \$184.4 million.

Gross Profit

Gross profit for the nine months ended September 30, 2022 increased by \$48.3 million or 45.4%, compared to the same period in 2021 mainly due to strong revenue growth and recent acquisitions, which contributed \$26.0 million of gross profit for the nine months ended September 30, 2022. Overall gross margin decreased from 18.7% in the nine months ended September 30, 2021 to 17.6% in the nine months ended September 30, 2022, primarily due to lower gross margin from recent acquisitions due to the expected lower margin on our increased Seafood sales, increases in fuel costs, incremental lower margin sales from newly acquired customers, timing of inventory purchases and higher than expected fluctuations in key commodity pricing.

Distribution, Selling and Administrative Expenses

Distribution, selling and administrative expenses for the nine months ended September 30, 2022 increased by \$51.9 million, or 58.4%, to \$140.8 million compared to \$88.9 million for the nine months ended September 30, 2021. Of the distribution, selling and administrative expenses increase, \$25.5 million primarily resulted from payroll and related labor costs, inclusive of the additional costs due to recent acquisitions, as more workers were, and will continue to be, required to handle the increasing sales demand, \$7.5 million was in delivery related cost primarily driven by increasing fuel prices and revenue growth, and an increase of \$7.5 million in professional fees primarily driven by legal costs, acquisition-related costs and increased compliance costs as a result of the SEC and SIC investigations and an SEC comment letter inquiry. Distribution, selling and administrative expenses as a percentage of net revenue increased from 15.6% for the nine months ended September 30, 2021 to 16.0% for the nine months ended September 30, 2022 primarily due to the costs disclosed above partially offset by strong revenue growth and fixed cost leverage.

Interest Expense

Interest expense for the nine months ended September 30, 2022 increased by \$2.4 million, or 86.7%, compared to the same period in 2021 mainly due to higher utilization of our line of credit coupled with a higher interest rate and, to a lesser extent, the increase of \$46.0 million to our mortgage-secured term loan. Our average daily line of credit balance increased by \$39.1 million, or 271.0%, to \$53.5 million for the nine months ended September 30, 2022 from \$14.4 million for nine months ended September 30, 2021. The average daily interest rate on our line of credit increased to 2.45% for the nine months ended September 30, 2022 from 1.48% for nine months ended September 30, 2021.

Income Tax Provision

Our provision for income taxes slightly decreased by \$3.2 million, or 67.7%, from \$4.7 million for the nine months ended September 30, 2021 to \$1.5 million for the nine months ended September 30, 2022 primarily due to decreased profitability.

Net Income Attributable to HF Foods Group Inc.

Net income attributable to HF Foods Group Inc. was \$3.8 million for the nine months ended September 30, 2022, compared to \$12.3 million for the nine months ended September 30, 2021. The decrease of \$8.5 million, or 69.0%, is primarily attributable to the \$5.8 million in lease guarantee expense related to our AnHeart lease guarantee and the increased costs disclosed above, partially offset by the increased consumer demand for dine-in/take-out meals as COVID-19 restrictions eased in 2022, thereby prompting restaurants to replenish products more frequently.

EBITDA and Adjusted EBITDA

The following table sets forth the calculation of EBITDA and Adjusted EBITDA, and reconciliation to net income, the closest GAAP measure:

(\$ in thousands)	Nine Months Ended September 30,		Change	
	2022	2021	Amount	%
Net income	\$ 3,740	\$ 12,885	\$ (9,145)	(71.0)%
Interest expense	5,101	2,732	2,369	86.7 %
Income tax provision	1,529	4,738	(3,209)	(67.7)%
Depreciation and amortization	18,245	14,233	4,012	28.2 %
EBITDA	28,615	34,588	(5,973)	(17.3)%
Lease guarantee expense	5,831	—	5,831	NM
Change in fair value of interest rate swap contracts	(849)	(1,371)	522	(38.1)%
Stock-based compensation expense	673	375	298	79.5 %
Acquisition and integration costs	1,130	—	1,130	NM
Impairment loss	422	—	422	NM
Adjusted EBITDA	\$ 35,822	\$ 33,592	\$ 2,230	6.6 %
Adjusted EBITDA margin	4.1 %	5.9 %		

NM - Not meaningful

Adjusted EBITDA was \$35.8 million for the nine months ended September 30, 2022, an increase of \$2.2 million, or 6.6%, compared to \$33.6 million for the nine months ended September 30, 2021. The \$2.2 million increase in Adjusted EBITDA was primarily attributable to our strong business recovery to pre-COVID-19 pandemic levels partially offset by the increase of distribution, selling and administrative expenses as a percentage of net revenue from 15.6% for the nine months ended September 30, 2021 to 16.0% for the nine months ended September 30, 2022. Adjusted EBITDA margin decreased by 180 basis points primarily due to the decrease of 110 basis points on gross profit margin.

Liquidity and Capital Resources

As of September 30, 2022, we had cash of approximately \$17.8 million, checks issued not presented for payment of \$18.5 million and access to approximately \$28.7 million in additional funds through our \$100.0 million line of credit, subject to a borrowing base calculation. We have funded working capital and other capital requirements primarily by cash flow from operations and our line of credit. Cash is required to pay purchase costs for inventory, salaries, fuel and trucking expenses, selling expenses, rental expenses, income taxes, other operating expenses and to service debts.

Based on current sales volume, which has been increasing steadily quarter-on-quarter since the third quarter of fiscal year 2020, we believe that our cash flow generated from operations is sufficient to meet our normal working capital needs and debt obligations for at least the next twelve months. However, our ability to repay our current obligations will depend on the future realization of our current assets. Management has taken into consideration historical experience, general economic trends in the United States, and trends in the foodservice distribution industry to determine the expected collectability of accounts receivable and the realization of inventories as of September 30, 2022.

On March 31, 2022, we amended the Credit Agreement with J.P. Morgan extending our line of credit for five years. The amendment provided for a \$100.0 million asset-secured revolving credit facility with a 1-month SOFR plus a credit adjustment of 0.1% plus 1.375% per annum, as well as an increase to our mortgage-secured term loan from \$69.0 million to \$115.0 million. In April of 2022, the \$46.0 million increase to the mortgage-secured term loan was used to pay down our \$100.0 million line of credit. We also received a waiver through January 31, 2023 related to the timing of our filing of our 2021 audited financial statements.

On April 29, 2022, we completed the Sealand Acquisition for cash consideration of \$20.0 million plus approximately \$14.4 million of inventory. We financed the Sealand Acquisition through our \$100.0 million line of credit. See *Note 7 - Acquisitions* for additional information regarding the Sealand Acquisition.

During the three months ended June 30, 2022, we sold a warehouse to a related party for approximately \$7.2 million and used a portion of the proceeds to pay the outstanding balance of our \$4.5 million loan with First Horizon Bank. See *Note 10 - Debt* for additional information.

During the three months ended June 30, 2022, we paid the remaining \$4.5 million of our related party promissory note payable. See *Note 13 - Related Party Transactions* for additional information.

Based on the above considerations, management believes we have sufficient funds to meet our working capital requirements and debt obligations in the next twelve months. However, there are a number of factors that could potentially arise which might result in shortfalls in anticipated cash flow, such as the demand for our products, economic conditions, government intervention in response to a potential resurgence of COVID-19, competitive pricing in the foodservice distribution industry, and our bank and suppliers being able to provide continued support. If the future cash flow from operations and other capital resources is insufficient to fund our liquidity needs, we may have to resort to reducing or delaying our expected acquisition plans, liquidating assets, obtaining additional debt or equity capital, or refinancing all or a portion of our debt.

As of September 30, 2022, we have no off balance sheet arrangements that currently have or are reasonably likely to have a material effect on our consolidated financial position, changes in financial condition, results of operations, liquidity, capital expenditures or capital resources.

The following table summarizes cash flow data for the nine months ended September 30, 2022 and 2021:

(In thousands)	Nine Months Ended September 30,		Change	
	2022	2021	Amount	%
Net cash provided by operating activities	\$ 6,932	\$ 11,333	\$ (4,401)	(38.8)%
Net cash used in investing activities	(50,234)	(6,444)	(43,790)	679.5%
Net cash provided by (used in) financing activities	46,316	1,073	45,243	NM
Net increase in cash and cash equivalents	\$ 3,014	\$ 5,962	\$ (2,948)	(49.4)%

NM - Not meaningful

Operating Activities

Net cash provided by operating activities decreased to \$6.9 million for the nine months ended September 30, 2022, compared to \$11.3 million for the nine months ended September 30, 2021 primarily due to lower net income partially offset by changes in working capital items.

Investing Activities

Net cash used in investing activities was \$50.2 million for the nine months ended September 30, 2022, compared to net cash used in investing activities of \$6.4 million for the nine months ended September 30, 2021, an increase of \$43.8 million primarily due to the Sealand Acquisition of \$34.9 million and the \$17.4 million paid for the inventory acquired related to the Great Wall Acquisition partially offset by proceeds from the \$7.2 million sale of a warehouse.

Financing Activities

Net cash provided by financing activities was \$46.3 million for the nine months ended September 30, 2022, compared to net cash used in financing activities of \$1.1 million for the nine months ended September 30, 2021, primarily due to the \$46.0 million increase of our mortgage-secured term loan and the net impact of \$15.4 million on our line of credit from net proceeds of \$0.8 million for the nine months ended September 30, 2021 to net proceeds of \$16.2 million for the nine months ended September 30, 2022, partially offset by the \$4.5 million payoff of our related party promissory note payable and the \$4.5 million repayment of long-term debt related to our warehouse sale mentioned above.

Critical Accounting Policies and Estimates

We have prepared the financial information in this Quarterly Report in accordance with GAAP. Preparing our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during these reporting periods. We base our estimates and judgments on historical experience and other factors we believe are reasonable under the circumstances. These assumptions form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Part II, Item 7 — “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of the 2021 Annual Report on Form 10-K includes a summary of the critical accounting policies we believe are the most important to aid in understanding our financial results. There have been no changes to those critical accounting policies that have had a material impact on our reported amounts of assets, liabilities, revenue, or expenses during the nine months ended September 30, 2022.

Our policy is to test goodwill for impairment annually in the fourth quarter or more frequently if certain triggering events or circumstances indicate it could be impaired. We are monitoring the decline in our stock price and the potential for this to impact our recorded goodwill. While we have determined there to be no triggering events at September 30, 2022, a sustained decline in our stock price could result in a quantitative test of impairment in the fourth quarter.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements, refer to Recent Accounting Pronouncements in *Note 2 - Summary of Significant Accounting Policies* in our unaudited condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Interest Rate Risk

Our debt exposes us to risk of fluctuations in interest rates. Floating rate debt, where the interest rate fluctuates periodically, exposes us to short-term changes in market interest rates. Fixed rate debt, where the interest rate is fixed over the life of the instrument, exposes us to changes in market interest rates reflected in the fair value of the debt and to the risk that we may need to refinance maturing debt with new debt at higher rates. We manage our debt portfolio to achieve an overall desired proportion of fixed and floating rate debts and may employ interest rate swaps as a tool from time to time to achieve that position. To manage our interest rate risk exposure, we entered into three interest rate swap contracts to hedge the floating rate term loans. See *Note 10 - Debt* to the unaudited condensed consolidated financial statements in this Form 10-Q for additional information.

As of September 30, 2022, our aggregate floating rate debt's outstanding principal balance was \$184.2 million, or 94.6% of total debt, consisting of long-term debt and our revolving line of credit. See *Note 10 - Debt* to the unaudited condensed consolidated financial statements in this Form 10-Q for additional information. Our floating rate debt interest is based on the floating 1-month SOFR plus a predetermined credit adjustment rate plus the bank spread. The remaining 5.4% of our debt is fixed-rate and floating rate with hedge. In a hypothetical scenario, a 1% change in the applicable rate would cause the interest expense on our floating rate debt to change by approximately \$1.8 million per year.

Fuel Price Risk

We are also exposed to risks relating to fluctuations in the price and availability of diesel fuel. We require significant quantities of diesel fuel for our vehicle fleet, and the inbound delivery of the products we sell is also dependent upon shipment by diesel-fueled vehicles. We currently are able to obtain adequate supplies of diesel fuel, despite the fact that prices in the current quarter increased by 69.9% from the comparable period of 2021. However, it is impossible to predict the future availability or price of diesel fuel. The price and supply of diesel fuel fluctuates based on external factors not within our control, including geopolitical developments, supply and demand for oil and gas, regional production patterns, weather conditions and environmental concerns. Increases in the cost of diesel fuel could increase our cost of goods sold and operating costs to deliver products to our customers.

We do not actively hedge against price fluctuations of diesel fuel in general. Instead, we seek to minimize fuel cost risk through delivery route optimization and fleet utilization improvements.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial and accounting officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this report. In connection with this review and the audit of our consolidated financial statements for the year ended December 31, 2021, we identified two material weaknesses as were reported previously, which continue to exist as of September 30, 2022. In addition, there were other material weaknesses identified during 2021 that exist as of September 30, 2022. We did not properly design or maintain effective controls over the control environment, risk assessment, monitoring, control activities, and information and communication components of the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

Based on this evaluation, our principal executive officer and principal financial and accounting officer have concluded that as a result of the material weaknesses and control deficiencies as reported in our Annual Report on Form 10-K for the year ended December 31, 2021, our disclosure controls and procedures were not effective as of September 30, 2022. Notwithstanding the weaknesses, our management has concluded that the financial statements included elsewhere in this report present fairly, and in all material respects, our financial position, results of operation and cash flow in conformity with GAAP.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

In order to address and resolve the foregoing material weaknesses, we have begun to implement measures designed to improve our internal control over financial reporting to remediate these material weaknesses, including continuously hiring additional financial personnel with requisite training and experience in the preparation of financial statements in compliance with applicable SEC requirements, formalizing our processes to generate documentation sufficient to support customer orders and purchase orders, and implementing controls to obtain documentation evidencing customer agreements to transaction amounts and account balances.

The measures we are implementing are subject to continued management review supported by confirmation and testing, as well as audit committee oversight. Management remains committed to ongoing efforts to address these material weaknesses. Although we will continue to implement measures to remedy our internal control deficiencies, there can be no assurance that our efforts will be successful or avoid potential future material weaknesses. In addition, until remediation steps have been completed and operated for a sufficient period of time, and subsequent evaluation of their effectiveness is completed, the material weaknesses identified and described above will continue to exist.

There have been no other change to our internal control over financial reporting during the three months ended September 30, 2022.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we are a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. With respect to our outstanding legal matters, we believe that the amount or estimable range of reasonably possible loss will not, either individually or in the aggregate, have a material adverse effect on our business, consolidated financial position, results of operations, or cash flows. For information relating to legal proceedings, see *Note 15 - Commitments and Contingencies* in our consolidated financial statements.

Item 1A. Risk Factors.

There have been no material changes from the risk factors that we believe are material to our business, results of operations, and financial condition from those disclosed in Part I, Item 1A — “Risk Factors” of the Annual Report on Form 10-K for the year ended December 31, 2021.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The following exhibits are being filed or furnished with this Quarterly Report on Form 10-Q:

Exhibit Number	Description	Incorporated by Reference		
		Form	Exhibit	Filing Date
3.1	Second Amended and Restated Certificate of Incorporation	8-K	3.1	8/11/2017
3.2	Certificate of Amendment to Certificate of Incorporation	8-K	3.1.2	8/27/2018
3.3	Amended and Restated Bylaws	8-K	3.02	11/4/2022
4.1	Specimen Common Stock Certificate	S-1/A	4.2	7/28/2017
4.2	Form of Rights Agreement, dated August 8, 2017, by and between American Stock Transfer & Trust Company, LLC and the Registrant	8-K	4.1	8/11/2017
4.3	Form of Unit Purchase Option between the Registrant and Chardan Capital Markets, LLC	S-1/A	4.5	7/28/2017
10.1 †	Letter Agreement, dated June 30, 2022, by and among HF Foods Group Inc. and Jose Maroto	8-K	10.1	7/7/2022
10.2 †	Offer Letter, dated July 8, 2022, by and among HF Foods Group, Inc. and Carlos A. Rodriguez	8-K	10.1	7/14/2022
31.1 *	Certification of Chief Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended.			
31.2 *	Certification of Chief Financial Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended.			
32.1 **	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			
32.2 **	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			
101.INS*	XBRL Instance Document			
101.SCH*	XBRL Taxonomy Extension Schema Document			
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document			
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document			
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document			
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document			
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)			

* Filed herewith.

** Furnished herewith.

† Indicates a management contract or compensatory plan or arrangement.

SIGNATURES

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

HF FOODS GROUP INC.

By: /s/ Xiao Mou Zhang

Xiao Mou Zhang
Chief Executive Officer

By: /s/ Carlos Rodriguez

Carlos Rodriguez
Chief Financial Officer
(Principal accounting and financial officer)

Date: January 31, 2023

Certification of Chief Executive Officer

I, Xiao Mou Zhang, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of HF Foods Group 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(s) 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(s) 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.

Date: January 31, 2023

By: /s/ Xiao Mou Zhang

Xiao Mou Zhang
Chief Executive Officer

Certification of Chief Financial Officer

I, Carlos Rodriguez, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of HF Foods Group 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(s) 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(s) 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.

Date: January 31, 2023

By: /s/ Carlos Rodriguez

Carlos Rodriguez
Chief Operating Officer and Interim Chief Financial Officer

Section 1350 Certification of Chief Executive Officer

In connection with the Quarterly Report on Form 10-Q of HF Foods Group Inc. (the "Company") for the quarterly period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Xiao Mou Zhang, Chief Executive Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Xiao Mou Zhang

Xiao Mou Zhang
Chief Executive Officer
January 31, 2023

Section 1350 Certification of Chief Financial Officer

In connection with the Quarterly Report on Form 10-Q of HF Foods Group Inc. (the "Company") for the quarterly period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Carlos Rodriguez, Chief Financial Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Carlos Rodriguez

Carlos Rodriguez
Chief Financial Officer
January 31, 2023