

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

**JanOne Inc.**

**Form: 10-Q**

**Date Filed: 2020-08-10**

Corporate Issuer CIK: 862861

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 27, 2020

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File No. 0-19621

**JANONE INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of  
incorporation or organization)

**41-1454591**

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

**325 E. Warm Springs Road, Suite 102**

**Las Vegas, Nevada**

(Address of principal executive offices)

**89119**

(Zip Code)

**702-997-5968**

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value per share	JAN	The NASDAQ Stock Market LLC (The 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 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. (Check one)

Large accelerated filer   
Non-accelerated filer   
Emerging growth company

Accelerated filer   
Smaller reporting company

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 Act).  Yes  No

As of July 30, 2020, there were 2,023,846 outstanding shares of the registrant's common stock, with a par value of \$0.001.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. Condensed Consolidated Financial Statements

**JANONE INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands, except per share amounts)

	June 27, 2020 (Unaudited)	December 28, 2019
<b>Assets</b>		
Cash and cash equivalents	\$ 883	\$ 481
Trade and other receivables, net	3,276	6,578
Income taxes receivable	43	76
Inventories	1,829	1,348
Prepaid expenses and other current assets	845	356
Total current assets	6,876	8,839
Property and equipment, net	304	324
Right of use asset - operating leases	2,579	1,894
Intangible assets, net	15,816	17,705
Deposits and other assets	243	272
Deferred income taxes, net	203	—
Total assets	\$ 26,021	\$ 29,034
<b>Liabilities and Stockholders' Equity</b>		
Liabilities:		
Accounts payable	\$ 1,900	\$ 4,365
Accrued liabilities - other	4,741	3,938
Accrued liability - California Sales Taxes	5,603	5,438
Lease obligation short term - operating leases	1,245	1,079
Short term debt	3,469	280
Related party note	1,493	2,473
Total current liabilities	18,451	17,573
Lease obligation long term - operating leases	1,471	850
Deferred income taxes, net	—	270
Total liabilities	19,922	18,693
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, series A - par value \$0.001 per share 2,000,000 authorized, 259,729 shares issued and outstanding at June 27, 2020 and December 28, 2019, respectively	—	—
Common stock, par value \$0.001 per share, 10,000,000 shares authorized, 1,993,578 and 1,919,048 shares issued and outstanding at June 27, 2020 and at December 28, 2019, respectively	2	2
Additional paid in capital	39,802	39,291
Accumulated other comprehensive loss	(561)	(533)
Accumulated deficit	(33,144)	(28,419)
Total stockholders' equity	6,099	10,341
Total liabilities and stockholders' equity	\$ 26,021	\$ 29,034

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

**JANONE INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
**(UNAUDITED)**

(Dollars in thousands, except per share)

	For the Thirteen Weeks Ended		For the Twenty Six Weeks Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Revenues	\$ 4,007	\$ 7,601	\$ 12,457	\$ 13,894
Cost of revenues	2,962	5,733	9,938	10,877
Gross profit	<u>1,045</u>	<u>1,868</u>	<u>2,519</u>	<u>3,017</u>
Operating expenses:				
Selling, general and administrative expenses	3,363	4,257	8,236	8,281
Operating loss	(2,318)	(2,389)	(5,717)	(5,264)
Other income (expense):				
Interest income (expense), net	(54)	(14)	(167)	(6)
Other income, net	(8)	639	810	778
Total other income (expense), net	<u>(62)</u>	<u>625</u>	<u>643</u>	<u>772</u>
Loss from operations before benefit (expense) from income taxes	(2,380)	(1,764)	(5,074)	(4,492)
Income tax benefit (expense)	(62)	393	349	1,093
Net loss	<u>\$ (2,442)</u>	<u>\$ (1,371)</u>	<u>\$ (4,725)</u>	<u>\$ (3,399)</u>
Loss per share:				
Basic loss per share	\$ (1.22)	\$ (0.81)	\$ (2.41)	\$ (2.01)
Diluted loss per share	\$ (1.22)	\$ (0.81)	\$ (2.41)	\$ (2.01)
Weighted average common shares outstanding:				
Basic	1,993,578	1,694,565	1,961,210	1,694,565
Diluted	1,993,578	1,694,565	1,961,210	1,694,565
Net loss	\$ (2,442)	\$ (1,371)	\$ (4,725)	\$ (3,399)
Other comprehensive income (loss), net of tax:				
Effect of foreign currency translation adjustments	(34)	10	(28)	17
Total other comprehensive income (loss), net of tax	<u>(34)</u>	<u>10</u>	<u>(28)</u>	<u>17</u>
Comprehensive loss	<u>\$ (2,476)</u>	<u>\$ (1,361)</u>	<u>\$ (4,753)</u>	<u>\$ (3,382)</u>

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

**JANONE INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**  
**(In thousands)**

	For the Twenty Six Weeks Ended	
	June 27, 2020	June 29, 2019
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (4,725)	\$ (3,399)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,044	1,970
Amortization of debt issuance costs	20	74
Stock based compensation expense	511	120
Non cash lease expense	102	30
Change in deferred rent	—	(48)
Change in deferred compensation	—	(148)
Change in deferred income taxes	(473)	(1,094)
Other	29	381
Changes in assets and liabilities:		
Accounts receivable	3,304	914
Income taxes receivable	33	(131)
Prepaid expenses and other current assets	(489)	(363)
Inventories	(481)	(210)
Accounts payable and accrued expenses	(1,497)	783
Net cash used in operating activities	<u>(1,622)</u>	<u>(1,121)</u>
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(21)	(227)
Purchases of intangibles	(114)	—
Net payments received from ApplianceSmart note receivable	—	1,118
Net cash (used in) provided by investing activities	<u>(135)</u>	<u>891</u>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from issuance of short term debt	3,469	—
Proceeds from issuance of long term debt obligations	—	471
Payment of related party note	(1,000)	—
Payments on debt obligations	(280)	(103)
Net cash provided by financing activities	<u>2,189</u>	<u>368</u>
Effect of changes in exchange rate on cash and cash equivalents	(30)	37
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>402</b>	<b>175</b>
CASH AND CASH EQUIVALENTS, beginning of period	481	1,195
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 883</u>	<u>\$ 1,370</u>
Supplemental cash flow disclosures:		
Interest paid	\$ 103	\$ 13
Income taxes paid	—	131
Right to use asset - operating leases capitalized	930	2,272

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

**JANONE INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(UNAUDITED)**  
(Dollars in thousands)

	Series A Preferred		Common stock		Additional Paid in Capital	Accumulated Other Comprehensive Deficit	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, March 28, 2020	259,729	\$ —	1,993,578	\$ 2	\$ 39,667	\$ (527)	\$ (30,702)	\$ 8,440
Share based compensation	—	—	—	—	135	—	—	135
Other comprehensive income	—	—	—	—	—	(34)	—	(34)
Net loss	—	—	—	—	—	—	(2,442)	(2,442)
Balance, June 27, 2020	259,729	\$ —	1,993,578	\$ 2	\$ 39,802	\$ (561)	\$ (33,144)	\$ 6,099

	Series A Preferred		Common Stock		Additional Paid in Capital	Accumulated Other Comprehensive Deficit	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, March 30, 2019	288,588	\$ —	1,694,565	\$ 2	\$ 38,660	\$ (526)	\$ (18,546)	\$ 19,590
Other comprehensive income	—	—	—	—	—	10	—	10
Net loss	—	—	—	—	—	—	(1,371)	(1,371)
Balance, June 29, 2019	288,588	\$ —	1,694,565	\$ 2	\$ 38,660	\$ (516)	\$ (19,917)	\$ 18,229

	Series A Preferred		Common Stock		Additional Paid in Capital	Accumulated Other Comprehensive Deficit	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 28, 2019	259,729	\$ —	1,919,048	\$ 2	\$ 39,291	\$ (533)	\$ (28,419)	\$ 10,341
Share based compensation	—	—	74,530	—	511	—	—	511
Other comprehensive income	—	—	—	—	—	(28)	—	(28)
Net loss	—	—	—	—	—	—	(4,725)	(4,725)
Balance, June 27, 2020	259,729	\$ —	1,993,578	\$ 2	\$ 39,802	\$ (561)	\$ (33,144)	\$ 6,099

	Series A Preferred		Common Stock		Additional Paid in Capital	Accumulated Other Comprehensive Deficit	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 30, 2018	288,588	\$ —	1,694,565	\$ 2	\$ 38,660	\$ (533)	\$ (16,518)	\$ 21,611
Other comprehensive income	—	—	—	—	—	17	—	17
Net loss	—	—	—	—	—	—	(3,399)	(3,399)
Balance, June 29, 2019	288,588	\$ —	1,694,565	\$ 2	\$ 38,660	\$ (516)	\$ (19,917)	\$ 18,229

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

## Note 1: Background

The accompanying consolidated financial statements include the accounts of JanOne Inc., a Nevada corporation, and its subsidiaries (collectively the "Company" or "JanOne"). On September 10, 2019, Appliance Recycling Centers of America, Inc. changed its name to JanOne Inc.

The Company has three operating segments – Biotechnology, Recycling, and Technology.

During September 2019, JanOne, through its biotechnology segment, broadened its business perspectives to become a pharmaceutical company focused on finding treatments for conditions that cause severe pain and bringing to market drugs with non-addictive pain-relieving properties.

ARCA Recycling, Inc. ("ARCA Recycling") provides turnkey recycling services for electric utility energy efficiency programs in the United States. ARCA Canada Inc. ("ARCA Canada") provides turnkey recycling services for electric utility energy efficiency programs in Canada. Customer Connexx, LLC provides call center services for ARCA Recycling and ARCA Canada.

GeoTraq Inc. ("GeoTraq") is engaged in the development, design and, ultimately, we expect the sale, of cellular transceiver modules, also known as Mobile IoT modules, and associated wireless services.

The Company reports on a 52- or 53-week fiscal year. The 2020 fiscal year ("2020") will end on December 26, 2020, and the fiscal year ("2019") ended on December 28, 2019, each fiscal year is 52 weeks in length.

### *Going concern*

The Company currently faces a challenging competitive environment and are focused on improving our overall profitability, which includes managing expenses. The Company reported a net loss of \$2,442 and \$1,371 for the 13 weeks ended June 27, 2020 and June 29, 2019, respectively, and net loss of \$4,725 and \$3,399 for the 26 weeks ended June 27, 2020 and June 29, 2019, respectively. In addition, as of June 27, 2020, the Company has total current assets of \$6,876 and total current liabilities \$18,451 resulting in a net negative working capital of \$11,575.

The Company has available cash balances and funds available under an accounts receivable factoring program with Prestige Capital Finance, LLC ("Prestige Capital") to provide sufficient liquidity to fund the entity's operations, the entity's continued investments in center openings, and remodeling activities for at least the next twelve months. The Company expects to generate cash from operations for the remainder of fiscal year 2020 given its cost cutting measures in response to the revenue reductions resulting from the Coronavirus. However, depending on the U.S.'s continued restrictions related to the coronavirus public health crisis, the Company cannot be certain its efforts will suffice. The agreement with Prestige Capital allows the Company to get advance funding of 80% of an unpaid customer's invoice amount within 2 days and the balance less a mutually agreed upon fee upon ultimate collection in cash of the invoice. The Company expects that it will be able to utilize the available funds under the accounts receivable factoring agreement to provide liquidity and to pursue acquisitions and other strategic transactions to expand and grow the business to enhance shareholder value. Management also regularly monitors capital market conditions to ensure no other conditions or events exist that may materially affect the Company's financial conditions and liquidity and the Company may raise additional funds through borrowings or public or private sales of debt or equity securities, if necessary.

In March 2020, there was a global outbreak of COVID-19 (Coronavirus) that has resulted in changes in global supply of certain products. These changes, including a potential economic downturn, and any potential resulting direct and indirect negative impact to the Company cannot be determined but may have a material prospective impact to the Company's operations, cash flows, financial condition, and liquidity. Beginning in March 2020, the outbreak has started to have a material adverse impact on our operations. For example, several customers in our appliance recycling and appliance replacement business have suspended our ability to pick up and or replace their customers' appliances resulting in decreased revenues for both recycling and replacement business. During April 2020, and in response to the impacts of the COVID-19 virus and public health crisis, in an effort to manage its financial position and further preserve financial flexibility and longevity, the Company temporarily closed its corporate office and call center, and idled all of its recycling processing centers in the United States and Canada. The future impact of the outbreak is highly uncertain and cannot be predicted and there is no assurance that the outbreak will not have a material adverse impact on the future results of the Company. The extent of the impact, if any, will depend on future developments, including actions taken to contain the coronavirus.

During April 2020, as a result of the COVID-19 pandemic, the Company entered into an amendment to its contract services agreement with certain customers, whereby those customers agreed to advance the Company \$1,168 against the provision of future services. The advanced payment may only be utilized for the costs associated with labor and sustaining ARCA Recycling's workforce. The advance agreement provides for partial loan forgiveness if certain conditions are met. See Note 14 for a complete discussion of these advances.



On May 1, 2020, the Company entered into a promissory note with Texas Capital Bank, N.A. for \$1,872 under the Paycheck Protection Program under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). See Note 14 for a complete discussion about this loan.

Based on the above, management has concluded that as of the filing date on this quarterly report, the Company is not aware and did not identify any other conditions or events that would cause the Company to not be able to continue business as a going concern for the next twelve months.

## **Note 2: Summary of Significant Accounting Policies**

### **Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the U.S. ("U.S. GAAP") and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, these financial statements do not include all of the information and notes required for complete financial statements prepared in conformity with U.S. GAAP. In our opinion, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. However, our results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the full year. For further information, refer to the consolidated financial statements and notes thereto included in our Form 10-K for the fiscal year ended December 28, 2019.

### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

### **Reclassifications**

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on the previously reported net loss or stockholders' equity.

### **Use of Estimates**

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumption 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates made in connection with the accompanying consolidated financial statements include the estimated reserve for doubtful current and long-term trade and other receivables, the estimated reserve for excess and obsolete inventory, estimated fair value and forfeiture rates for stock-based compensation, fair values in connection with the analysis of other intangibles and long-lived assets for impairment, valuation allowance against deferred tax assets and estimated useful lives for intangible assets and property and equipment.

### **Financial Instruments**

Financial instruments consist primarily of cash equivalents, trade and other receivables, notes receivables, and obligations under accounts payable, accrued expenses and notes payable. The carrying amounts of cash equivalents, trade receivables and other receivables, accounts payable, accrued expenses and short-term notes payable approximate fair value because of the short maturity of these instruments. The fair value of the long-term debt is calculated based on interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements, unless quoted market prices were available (Level 2 inputs). The carrying amounts of short-term debt at June 27, 2020 and December 28, 2019 approximate fair value.

### **Cash and Cash Equivalents**

Cash and cash equivalents consist of highly liquid investments with a maturity of three months or less at the time of purchase. Fair value of cash equivalents approximates carrying value.

### **Trade Receivables and Allowance for Doubtful Accounts**

We carry unsecured trade receivables at the original invoice amount less an estimate made for doubtful accounts based on a monthly review of all outstanding amounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. We write off trade receivables when we deem them uncollectible. We record recoveries of trade receivables previously written off when we receive them. We consider a trade receivable to be past due if any portion of the receivable balance is outstanding for more than ninety days. We do not charge interest on past due receivables. Our management considers the allowance for doubtful accounts of \$29 and \$29 to be adequate to cover any exposure to loss as of June 27, 2020, and December 28, 2019, respectively.

### **Inventories**

Inventories, consisting primarily of appliances, are stated at the lower of cost, determined on a specific identification basis, or net realizable value. We provide estimated provisions for the obsolescence of our appliance inventories, including adjustment to market, based on various factors, including the age of such inventory and our management's assessment of the need for such provisions. We look at historical inventory aging reports and margin analyses in determining our provision estimate. A revised cost basis is used once a provision for obsolescence is recorded. The Company does not have a reserve for excess or obsolete inventory at June 27, 2020 and December 28, 2019.

### **Property and Equipment**

Property and Equipment are stated at cost less accumulated depreciation. Expenditures for repairs and maintenance are charged to expense as incurred and additions and improvements that significantly extend the lives of assets are capitalized. Upon sale or other retirement of depreciable property, the cost and accumulated depreciation are removed from the related accounts and any gain or loss is reflected in operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The useful life of building and improvements is 3 to 30 years, transportation equipment is 3 to 15 years, machinery and equipment is 5 to 10 years, furnishings and fixtures is 3 to 5 years and office and computer equipment is 3 to 5 years.

We periodically review our property and equipment when events or changes in circumstances indicate that their carrying amounts may not be recoverable or their depreciation or amortization periods should be accelerated. We assess recoverability based on several factors, including our intention with respect to maintaining our facilities and projected discounted cash flows from operations. An impairment loss would be recognized for the amount by which the carrying amount of the assets exceeds their fair value, as approximated by the present value of their projected discounted cash flows.

### **Intangible Assets**

The Company accounts for intangible assets in accordance with ASC 350, *Intangibles—Goodwill and Other*. Under ASC 350, intangible assets subject to amortization, shall be reviewed for impairment in accordance with the Impairment or Disposal of Long-Lived Assets in ASC 360, *Property, Plant, and Equipment*.

Under ASC 360, long-lived assets are tested for recoverability whenever events or changes in circumstances ('triggering event') indicate that the carrying amount may not be recoverable. In making this determination, triggering events that were considered included:

- A significant decrease in the market price of a long-lived asset (asset group);
- A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition;
- A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator;
- An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group);
- A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group); and,
- A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50 percent.

If a triggering event has occurred, for purposes of recognition and measurement of an impairment loss, a long-lived asset or assets shall be grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. After the asset group determination is completed, a two-step testing is performed. If after identifying a triggering event it is determined that the asset group's carrying value may not be recoverable, a recoverability test must then be performed. The recoverability test is performed by forecasting the expected cash flows to be derived from the asset group for the remaining useful life of the asset group's primary asset compared to their carrying value. The recoverability test relies upon the undiscounted cash flows (excluding interest and taxes) which are derived from the company's specific use of those assets (not how a market participant would use those assets); and, are based upon the existing service potential of the current assets (excluding any improvements that would materially enhance the assets). If the expected undiscounted cash flows exceed the carrying value, the assets are considered recoverable. If the recoverability test is failed a second fair market value test is required to calculate the amount of the impairment (if any). This second test calculates the fair value of the asset or asset group, with the impairment being the amount by which the carrying value exceeds the asset or asset group's fair value. Under this test, the financial projections have been created using market participant assumptions and fair value concepts.

There was no impairment of intangibles as of June 27, 2020 or December 28, 2019 based on the intangible asset impairment review performed as of those dates.

The Company's intangible assets consist of customer relationship intangibles, trade names, licenses for the use of internet domain names, Universal Resource Locators, or URL's, software, patent USPTO reference No. 10,182,402, and historical know-how, designs and related manufacturing procedures. Upon acquisition, critical estimates are made in valuing acquired intangible assets, which include but are not limited to: future expected cash flows from customer contracts, customer lists, and estimating cash flows from projects when completed; tradename and market position, as well as assumptions about the period of time that customer relationships will continue; and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from the assumptions used in determining the fair values. All intangible assets are capitalized at their original cost and amortized over their estimated useful lives as follows: domain name and marketing – 3 to 20 years; software – 3 to 5 years, technology intangibles – 7 years, customer relationships – 7 to 15 years.

### **Revenue Recognition**

We provide replacement appliances and provide appliance pickup and recycling services for consumers ("end users") of public utilities, our customers. As part of our de-manufacturing and recycling process, we receive revenue from scrap dealers for refrigerant, steel, plastic, glass, copper and other residual items.

We account for revenue in accordance with Accounting Standards Update, or ASU, No. 2014-09, Revenue from Contracts with Customers (Topic 606) and related ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12 and ASU No. 2016-20, which provide supplementary guidance, and clarifications.

Under the revenue standard we determine revenue recognition through the following steps:

- a. Identification of the contract, or contracts, with a customer,
- b. Identification of the performance obligations in the contract,
- c. Determination of the transaction price,
- d. Allocation of the transaction price to the performance obligations in the contract, and
- e. Recognition of revenue when, or as, we satisfy a performance obligation.

As part of its assessment of each contract, the Company evaluates certain factors including the customer's ability to pay, or credit risk. For each contract, the Company considers the promise to transfer products or services, each of which is distinct, to be the identified performance obligations. In determining the transaction price, the price stated on the contract is typically fixed and represents the net consideration to which the Company expects to be entitled per order, and therefore there is no variable consideration. As the Company's standard payment terms are less than 90 days, the Company has elected, as a practical expedient, to not assess whether a contract has a significant financing component. The Company allocates the transaction price to each distinct product or service based on its relative standalone selling price. The product or service price as specified on the contract is considered the standalone selling price as it is an observable source that depicts the price as if sold to a similar customer in similar circumstances.

### *Replacement Product Revenue*

We generate revenue by providing replacement appliances. We recognize revenue at the point in time when control over the replacement product is transferred to the end user, when our performance obligations are satisfied, which typically occur upon delivery from our center facility and installation at the end user's home.

#### *Recycling Services Revenue*

We generate revenue by providing pickup and recycling services. We recognize revenue at the point in time when we have picked up a to be recycled appliance and transfer of ownership has occurred, and therefore our performance obligations are satisfied, which typically occur upon pickup from our end user's home.

#### *Byproduct Revenue*

We generate other recycling byproduct revenue (the sale of refrigerant gas and copper, steel, aluminum, and other recoverable non-refrigerant byproducts) as part of our de-manufacturing process. We recognize byproduct revenue upon delivery and transfer of control of byproduct to a third-party recycling customer, having a mutually agreed upon price per pound and collection reasonably assured. Transfer of control occurs at the time the customer is in possession of the byproduct material. Revenue recognized is a function of byproduct weight, type and in some cases volume of the byproduct delivered multiplied by the market rate as quoted.

#### *Biotechnology Revenue*

We currently are not generating any revenue from our Biotechnology segment.

#### *Technology Revenue*

We currently are not generating any revenue from our Technology segment.

#### *Contract Liability*

Receivables are recognized in the period we ship the product or provide the service. Payment terms on invoiced amounts are based on contractual terms with each customer. When we receive consideration, or such consideration is unconditionally due, prior to transferring goods or services to the customer under the terms of a sales contract, we record deferred revenue, which represents a contract liability. We recognize a contract liability as net sales once control of goods and/or services have been transferred to the customer and all revenue recognition criteria have been met and any constraints have been resolved. We defer the product costs until recognition of the related revenue occurs.

#### *Assets Recognized from Costs to Obtain a Contract with a Customer*

We recognize an asset for the incremental costs of obtaining a contract with a customer if it expects the benefit of those costs to be longer than one year. We have concluded that no material costs have been incurred to meet the capitalization criteria, and as such, there are no material costs deferred and recognized as assets on the consolidated balance sheet at June 27, 2020 or December 28, 2019 under FASB Accounting Standards Codification ASC 606.

#### *Other:*

- a. Taxes collected from customers and remitted to government authorities and that are related to sales of our products are excluded from revenues.
- b. Sales commissions are expensed when incurred because the amortization period would have been one year or less. These costs are recorded in Selling, General and Administrative expense.
- c. We do not disclose the value of unsatisfied performance obligations for (i) contracts with original expected lengths of one year or less or (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for the services performed.

Revenue recognized for Company contracts was \$3,664 and \$6,835 for the 13 weeks ended June 27, 2020 and June 29, 2019, respectively. Revenue recognized for Company contracts was \$11,677 and \$12,506 for the 26 weeks ended June 27, 2020 and June 29, 2019, respectively. Byproduct revenue is non-contract revenue and amounts for Byproduct revenue have been excluded from Revenue recognized for Company contracts for all periods presented.

#### **Shipping and Handling**

The Company classifies shipping and handling charged to customers as revenues and classifies costs relating to shipping and handling as cost of revenues.

## Advertising Expense

Advertising expense is charged to operations as incurred. Advertising expense totaled \$31 and \$345 for the 13 weeks ended June 27, 2020 and June 29, 2019, respectively and \$122 and \$455 for the 26 weeks ended June 27, 2020 and June 29, 2019, respectively.

## Fair Value Measurements

ASC Topic 820, "Fair Value Measurements and Disclosures," requires disclosure of the fair value of financial instruments held by the Company. ASC Topic 825, "Financial Instruments," defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The three levels of valuation hierarchy are defined as follows: Level 1 - inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets. Level 2 - the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

## Income Taxes

The Company accounts for income taxes using the asset and liability method. The asset and liability method requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between tax bases and financial reporting bases of the Company's assets and liabilities. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided on deferred taxes if it is determined that it is more likely than not that the asset will not be realized. The Company recognizes penalties and interest accrued related to income tax liabilities in the provision for income taxes in its Consolidated Statements of Income.

Significant management judgment is required to determine the amount of benefit to be recognized in relation to an uncertain tax position. The Company uses a two-step process to evaluate tax positions. The first step requires an entity to determine whether it is more likely than not (greater than 50% chance) that the tax position will be sustained. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of the Company in future periods.

## Lease Accounting

We account for leases in accordance with Accounting Standards Update No. 2016-02, *Leases* (Topic 842). This accounting standard requires all lessees to record the impact of leasing contracts on the balance sheet as a right to use asset and corresponding liability. This is measured by taking the present value of the remaining lease payments over the lease term and recording a right to use asset ("ROU") and corresponding lease obligation for lease payments. Rent expense is realized on a straight-line basis and the lease obligation is amortized based on the effective interest method. The amounts recognized reflect the present value of remaining lease payments for all leases that have a lease term greater than 12 months. The discount rate used is an estimate of the Company's incremental borrowing rate based on information available at lease commencement. In considering the lease asset value, the Company considers fixed and variable payment terms, prepayments and options to extend, terminate or purchase. Renewal, termination or purchase options affect the lease term used for determining lease asset value only if the option is reasonably certain to be exercised

In considering the lease asset value, the Company considers fixed or variable payment terms, prepayments and options to extend, terminate or purchase. Renewal, termination or purchase options affect the lease term used for determining lease asset value only if the option is reasonably certain to be exercised. The Company uses an estimate of its incremental borrowing rate based on information available at lease commencement in determining present value of lease payments.

We lease warehouse facilities and office space. These assets and properties are generally leased under noncancelable agreements that expire at various dates through 2023 with various renewal options for additional periods. The agreements, which have and continue to be classified as operating leases, generally provide for base rent and require us to pay all insurance, taxes and other maintenance costs. The Company's operating leases are exclusively for building space in the different cities we have operations. The lease terms typically last from 2-3 years with some being longer or shorter depending on needs of the business and the lease partners. The Company has also engaged in month to month leases for parking spaces that the Company has elected to expense as incurred. Our lease agreements do not include variable lease payments. Our lessors do offer options to extend lease terms as leases expire and management evaluates against current rental markets and other strategic factors in making the decision to renew. When leases are within 6 months of being renewed, management will estimate probabilities of renewing for an additional term based on market and strategic factors and if the probability is more likely than not that the lease will be renewed, the financials will assume the lease is renewed under the lease renewal option.

The operating leases we have do not contain residual value guarantees and do not contain restrictive covenants. The Company currently has one sublease in Ontario, Canada.

Leases accounted under ASC 842 were determined based on analysis of the lease contracts using lease payments and timing as documented in the contract. Non lease contracts were also evaluated to understand if the contract terms provided for an asset that we controlled and provided us with substantially all the economic benefits. We did not observe any contracts with embedded leases. Lease contracts were reviewed, and distinctions made between non lease and lease payments. Only payments related to the lease of the asset were included in lease payment calculations. Management uses an estimation of its incremental borrowing rate at lease commencement over similar terms as the lease contracts in determining the present value of its lease obligations.

The weighted average lease term for operating leases is 33 months and the weighted average discount rate is 8%.

#### **Stock-Based Compensation**

The Company from time to time grants restricted stock awards and options to employees (including executives), non-employees, and members of the Board of Directors and Scientific Advisory Board. Such awards are valued based on the grant date fair-value of the instruments, net of estimated forfeitures. The value of each award is amortized on a straight-line basis over the vesting period.

#### **Foreign Currency**

The financial statements of the Company's non-U.S. subsidiary are translated into U.S. dollars in accordance with ASC 830, Foreign Currency Matters. Under ASC 830, if the assets and liabilities of the Company are recorded in certain non-U.S. functional currencies other than the U.S. dollar, they are translated at rates of exchange at year end. Revenue and expense items are translated at the average monthly exchange rates. The resulting translation adjustments are recorded directly into accumulated other comprehensive income (loss).

#### **Earnings Per Share**

Earnings per share is calculated in accordance with ASC 260, "*Earnings Per Share*". Under ASC 260 basic earnings per share is computed using the weighted average number of common shares outstanding during the period except that it does not include unvested restricted stock subject to cancellation. Diluted earnings per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of warrants, options, restricted shares and convertible preferred stock. The dilutive effect of outstanding restricted shares, options and warrants is reflected in diluted earnings per share by application of the treasury stock method. Convertible preferred stock is reflected on an if-converted basis.

#### **Segment Reporting**

ASC Topic 280, "*Segment Reporting*," requires use of the "management approach" model for segment reporting. The management approach model is based on the way a Company's management organizes segments within the Company for making operating decisions and assessing performance. The Company determined it has three reportable segments.

#### **Concentration of Credit Risk**

The Company maintains cash balances at several banks in several states including, Minnesota, California, and Nevada. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250 per institution as of June 27, 2020. At times, balances may exceed federally insured limits.

**Note 3: Trade and other receivables**

	June 27, 2020	December 28, 2019
Trade receivables, net	\$ 3,273	\$ 7,226
Factored accounts receivable	(281)	(2,165)
Prestige Capital reserve receivable	34	415
Due from Reclam	—	913
Other receivables	250	189
Trade and other receivables, net	<u>\$ 3,276</u>	<u>\$ 6,578</u>
Trade accounts receivable	\$ 2,288	\$ 5,928
Un-billed trade receivables	1,014	1,327
A/R Reserve	(29)	(29)
Total trade receivables, net	<u>\$ 3,273</u>	<u>\$ 7,226</u>

**Note 4: Inventory**

Appliances held for resale are stated at the lower of cost, determined on a specific identification basis, or net realizable value. Inventory raw material - chips, are stated at the lower of average cost or net realizable value. Total inventory consists of the following as of June 27, 2020 and December 28, 2019:

	June 27, 2020	December 28, 2019
Appliances held for resale	\$ 1,629	\$ 1,148
Inventory - raw material - chips	200	200
Total inventory	<u>\$ 1,829</u>	<u>\$ 1,348</u>

We provide estimated provisions for the obsolescence of inventories, including adjustments to net realizable value, based on various factors, including the age of such inventory and our management's assessment of the need for such provisions. We review historical inventory aging reports and margin analyses in determining our provision estimate. A revised cost basis is used once a provision for obsolescence is recorded. At June 27, 2020 and December 28, 2019, we do not have an inventory reserve.

**Note 5: Prepaids and other current assets**

Prepaids and other current assets as of June 27, 2020 and December 28, 2019 consist of the following:

	June 27, 2020	December 28, 2019
Prepaid insurance	\$ 677	\$ 282
Prepaid other	168	74
Total prepaid expenses and other current assets	<u>\$ 845</u>	<u>\$ 356</u>

**Note 6: Note receivable**

On December 30, 2017, we sold our retail appliance segment, ApplianceSmart, Inc. ("ApplianceSmart"), to ApplianceSmart Holdings LLC (the "Purchaser"), a wholly owned subsidiary of Live Ventures Incorporated, pursuant to a Stock Purchase Agreement (the "Agreement"). Pursuant to the Agreement, the Purchaser purchased from the Company all the issued and outstanding shares of capital stock (the "Stock") of ApplianceSmart in exchange for \$6,500 (the "Purchase Price"). Per the Agreement, the Purchase Price was due and payable on or before March 31, 2018.

Between March 31, 2018 and April 24, 2018, the Purchaser and the Company negotiated in good faith the method of payment of the remaining outstanding balance of the Purchase Price. On April 25, 2018, the Purchaser delivered to the Company a promissory note (the "ApplianceSmart Note") in the original principal amount of \$3,919 (the "Original Principal Amount"), as such amount may be adjusted per the terms of the ApplianceSmart Note. The ApplianceSmart Note is effective as of April 1, 2018 and matures on April 1, 2021 (the "Maturity Date"). The ApplianceSmart Note bears interest at 5% per annum with interest and principal payable at the Maturity Date. ApplianceSmart provided the Company a guaranty of repayment of the ApplianceSmart Note. The remaining \$2,581 of the Purchase Price was paid in cash by the Purchaser to the Company. The Purchaser may reborrow funds, and pay interest on such re-borrowings, from the Company up to the Original Principal Amount.

On December 26, 2018, the ApplianceSmart Note was amended and restated to grant the Company a security interest in the assets of the Purchaser, ApplianceSmart, and ApplianceSmart Contracting Inc. in exchange for modifying the repayments terms to provide for the payment in full of all accrued interest and principal on April 1, 2021, the maturity date of the ApplianceSmart Note.

On March 15, 2019, the Company entered into agreements with third parties pursuant to which it agreed to subordinate the payment of indebtedness under the ApplianceSmart Note and the Company's security interest in the assets of ApplianceSmart in exchange for a prepayment of up to \$1,200.

On December 9, 2019, ApplianceSmart filed a voluntary petition in the United States Bankruptcy Court for the Southern District of New York seeking relief under Chapter 11 of Title 11 of the United States Code. As a result, the Company has recorded an impairment charge of \$2,992 for the amount owed by ApplianceSmart to the Company as of December 28, 2019. The Company continues to record interest income on the ApplianceSmart Note and a corresponding impairment charge. The outstanding balance of the ApplianceSmart Note at June 27, 2020 and December 28, 2019 was \$3,062 and \$2,992, respectively, exclusive of the impairment charges.

#### Note 7: Property and Equipment

Property and equipment as of June 27, 2020 and December 28, 2019 consist of the following:

	Useful Life (Years)	June 27, 2020	December 28, 2019
Buildings and improvements	3-30	\$ 72	\$ 69
Equipment	3-15	2,332	2,314
Projects under construction		120	120
Property and equipment		2,524	2,503
Less accumulated depreciation and amortization		(2,220)	(2,179)
Total property and equipment, net		\$ 304	\$ 324

Depreciation expense was \$22 and \$24 for the 13 weeks ended June 27, 2020 and June 29, 2019, respectively. Depreciation expense was \$41 and \$104 for the 26 weeks ended June 27, 2020 and June 29, 2019, respectively.

#### Note 8: Intangible Assets

Intangible assets as of June 27, 2020 and December 28, 2019 consist of the following:

	June 27, 2020	December 28, 2019
Intangible assets GeoTraq, net	\$ 26,096	\$ 26,096
Patent and domains	23	23
Computer software	4,281	4,167
Intangible assets	30,400	30,286
Less accumulated amortization	(14,584)	(12,581)
Total intangible assets	\$ 15,816	\$ 17,705

The useful life and amortization period of the GeoTraq intangible acquired is seven years from the acquisition date of August 18, 2017. Intangible amortization expense was \$1,005 and \$933 for the 13 weeks ended June 27, 2020 and June 29, 2019, respectively. Intangible amortization expense was \$2,003 and \$1,866 for the 26 weeks ended June 27, 2020 and June 29, 2019, respectively.



**Note 9: Deposits and other assets**

Deposits and other assets as of June 27, 2020 and December 28, 2019 consist of the following:

	June 27, 2020	December 28, 2019
Deposits	\$ 168	\$ 195
Other	75	77
Total deposits and other assets	<u>\$ 243</u>	<u>\$ 272</u>

Deposits are primarily refundable security deposits with landlords the Company leases property from.

**Note 10: Leases**

We account for leases in accordance with ASC 842. The amount recorded is the present value of all remaining lease payments for leases with terms greater than 12 months. The right of use asset is offset by a corresponding liability. The discount rate is based on an estimate of our incremental borrowing rate for terms similar to our lease terms at the time of lease commencement. The asset will be amortized over remaining lease terms. See Lease Accounting in Note 2.

Total present value of lease payments as of June 27, 2020:

Remainder 2020	\$	748
2021		1,165
2022		575
2023		341
2024		196
2025		10
Total		<u>3,035</u>
Less Interest		(319)
Present Value of Payments	<u>\$</u>	<u>2,716</u>

During the 26 weeks ended June 27, 2020 and June 29, 2019, \$542 and \$586, respectively, was included in operating cash flow for amounts paid for operating leases.

Additionally, we obtained right-of-use assets in exchange for lease liabilities of approximately \$1,164 upon commencement of operating leases during the 26 weeks ended June 27, 2020. Additionally, we exercised an early termination clause in one of our leases which reduces our right of use assets by \$234.

**Note 11: Accrued Liabilities**

Accrued liabilities as of June 27, 2020 and December 28, 2019 consist of the following:

	June 27, 2020	December 28, 2019
Compensation and benefits	\$ 1,222	\$ 809
Contract liability	827	515
Accrued incentive and rebate checks	596	988
Accrued rent	—	228
Accrued guarantees	767	767
Accrued purchase orders	1,067	—
Other	262	631
Total accrued expenses	<u>\$ 4,741</u>	<u>\$ 3,938</u>

**Note 12: Accrued Liability – California Sales Tax**

We operate in fourteen states in the U.S. and in various provinces in Canada. From time to time, we are subject to sales and use tax audits that could result in additional taxes, penalties and interest owed to various taxing authorities.

The California Department of Tax and Fee Administration (formerly known as the California Board of Equalization) (“CDTFA”) conducted a sales and use tax examination covering ARCA Recycling’s California operations for years 2011, 2012 and 2013. The Company believed it was exempt from collecting sales taxes under service agreements with utility customers that included appliance replacement programs. During the fourth quarter of 2014, the Company received communication from the CDTFA indicating they were not in agreement with the Company’s interpretation of the law. As a result, the Company applied for and, as of February 9, 2015, received approval to participate in the CDTFA’s Managed Audit Program. The period covered under this program included years 2011, 2012, 2013 and extended through the nine-month period ended September 30, 2014.

On April 13, 2017 the Company received the formal CDTFA assessment for sales tax for tax years 2011, 2012 and 2013 in the amount of \$4,132 plus applicable interest of \$500 related to the appliance replacement programs that the Company administered on behalf of its customers on which it did not assess, collect or remit sales tax. The Company has appealed this assessment to the CDTFA Appeals Bureau. The appeal remains in process. Interest continues to accrue until the matter is settled.

As of June 27, 2020 and December 28, 2019, our accrued liability for California sales tax was \$5,603 and \$5,438, respectively .

**Note 13: Income Taxes**

Our overall effective tax rate was negative 6.9% for the 26 weeks ended June 27, 2020, and we recorded a tax provision benefit of \$349 against a pre-provision loss of \$5,074. Our overall effective tax rate was 24.2% for the 26 weeks ended June 29, 2019, and we had a tax benefit of \$1,093 against a pre-provision loss of \$4,492. The effective tax rates and related provisional tax amounts vary from the U.S. federal statutory rate due to state taxes, foreign taxes, share-based compensation, valuation allowance, and certain non-deductible expenses.

We regularly evaluate both positive and negative evidence related to retaining a valuation allowance against certain deferred tax assets. The realization of deferred tax assets is dependent upon sufficient future taxable income during the periods when deductible temporary differences and carryforwards are expected to be available to reduce taxable income. We have concluded based on the weight of evidence that a valuation allowance should be maintained against certain deferred tax assets that we do not expect to utilize in the near future. The Company continues to have a full valuation allowance against its Canadian operations. The Company recorded a full valuation allowance against its U.S. deferred tax assets except for \$203, the portion of NOL that will be carried back due to prior years under the Coronavirus Aid, Relief, and Economic Security (CARES) Act which was signed into law on March 27, 2020.

**Note 14: Short Term Debt**

Short term debt and other financing obligations as of June 27, 2020 and December 28, 2019, consist of the following:

	June 27, 2020	December 28, 2019
AFCO Finance	\$ 429	\$ 155
GE 8% loan agreement	—	125
Payroll protection plan	1,872	—
Vendor advance payments	1,168	—
<b>Total short term debt</b>	<b>\$ 3,469</b>	<b>\$ 280</b>

*AFCO Finance*

Annually, we enter into a financing agreement with AFCO Credit Corporation (“AFCO”) purchased through Marsh Insurance to fund the annual premiums on insurance policies due June 1 of each year. These policies are related to workers’ compensation and various liability policies including, but not limited to, General, Auto, Umbrella, Property, and Directors’ and Officers’ insurance. The total amount of the premiums financed during June 2020 was \$429 with an interest rate of 3.3%. An initial down payment of \$143 was due before July 1, 2020 with additional monthly payments of \$48 made beginning July 1, 2020 and ending December 1, 2020.

The outstanding principal due AFCO at June 27, 2020 and December 28, 2019 was \$ 429 and \$155, respectively.

#### *GE*

On August 14, 2017 as a part of the sale of the Company's equity interest in AAP, Reclim LLC, a Delaware limited liability company ("Reclim"), agreed to undertake, pay or assume the Company's GE obligations consisting of a promissory note (GE 8% loan agreement) and other payables which were incurred after the issuance of such promissory note. Reclim has agreed to indemnify and hold the Company harmless from any action to be taken by GE relating to such obligations. The Company had an offsetting receivable due from Reclim. Reclim has paid into an escrow account the money to pay the GE 8% loan agreement in full. The funds were remitted to GE upon settlement of the arbitration of the legal matter as described in Note 15.

#### Payroll Protection Program

On May 1, 2020, the Company entered into a promissory note (the "Promissory Note") with Texas Capital Bank, N.A. that provides for a loan in the amount of \$1,872 (the "PPP Loan") pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The PPP Loan matures on April 27, 2022 and bears interest at a rate of 1.0% per annum. Monthly amortized principal and interest payments are deferred for six months after the date of disbursement. The Promissory Note contains events of default and other provisions customary for a loan of this type. The Paycheck Protection Program provides that the use of the PPP Loan amount shall be limited to certain qualifying expenses and may be partially or wholly forgiven in accordance with the requirements set forth in the CARES Act. The Company intends to apply for forgiveness of a portion of the loan in accordance with the terms of the CARES Act to the extent applicable.

#### Customer Advance Payments

As of the period ending June 27, 2020, the Company received advance payments authorized by the California Public Utilities Commission and processed through two California utilities for the purposes of sustaining the workforce during the COVID-19 pandemic shutdown. The use of these funds was limited to labor and labor benefits for impacted employees. Portions of these advances are forgivable if certain conditions are met the specifics which have not been finalized. Advance payments that are not forgiven will need to be paid back in full by December 31, 2021. Total funding received under this program as of June 27, 2020 amounted to \$1,168. As of this same date, no amounts have been forgiven.

#### **Note 15: Commitments and Contingencies**

##### *Litigation*

On December 29, 2016, the Company served a Minnesota state court complaint for breach of contract on Skybridge Americas, Inc. ("SA"), the Company's primary call center vendor throughout 2015 and most of 2016. The Company seeks damages in the millions of dollars as a result of alleged overcharging by SA and lost client contracts. On January 25, 2017, SA served a counterclaim for unpaid invoices in the amount of approximately \$460 plus interest and attorneys' fees. On March 29, 2017, the Hennepin County district court (the "District Court") dismissed the Company's breach of contract claim based on SA's overuse of its Canadian call center but permitted the Company's remaining claims to proceed. Following motion practice, on January 8, 2018 the District Court entered judgment in SA's favor, which was amended as of February 28, 2018, for a total amount of \$614, including interest and attorneys' fees. On March 4, 2019, the Minnesota Court of Appeals (the "Court of Appeals") ruled and (i) reversed the District Court's judgment in favor of Skybridge on the call center location claim and remanded the issue back to the District Court for further proceedings, (ii) reversed the District Court's judgment in favor of Skybridge on the net payment issue and remanded the issue to the District Court for further proceedings, and (iii) affirmed the District Court's judgment in Skybridge's favor against the Company's claim that Skybridge breached the contract when it failed to meet the service level agreements. As a result of the decision by the Court of Appeals, the District Court's award of interest and attorneys' fees, etc. was reversed. The Company and SA held a mediation session in July 2020. Trial is scheduled for late August / early September 2020.

On November 15, 2016, the Company served an arbitration demand on Haier US Appliance Solutions, Inc., dba GE Appliances (“GEA”), alleging breach of contract and interference with prospective business advantage. The Company seeks over \$2,000 in damages. On April 18, 2017, GEA served a counterclaim for approximately \$337 in alleged obligations under the parties’ recycling agreement. Simultaneously with serving its counterclaim in the arbitration, which is venued in Chicago, GEA filed a complaint in the United States District Court for the Western District of Kentucky seeking damages of approximately \$530 plus interest and attorneys’ fees allegedly owed under a previous agreement between the parties. On December 12, 2017, the court stayed GEA’s complaint in favor of the arbitration. Under the terms of the Company’s transaction with Reclaim LLC (“Reclaim”), Reclaim is obligated to pay GEA on the Company’s behalf the amounts claimed by GEA in the arbitration and in the lawsuit pending in Kentucky. Those amounts were paid into escrow pending the outcome of the arbitration. On March 5, 2020, the arbitrator ruled in part in favor of the Company and in part in favor of GEA, and, as a result, GEA was awarded approximately \$125 in damages.

AMTIM Capital, Inc. (“AMTIM”) acts as our representative to market our recycling services in Canada under an arrangement that pays AMTIM for revenues generated by recycling services in Canada as set forth in the agreement between the parties. A dispute has arisen between AMTIM and us with respect to the calculation of amounts due to AMTIM pursuant to the agreement. In a lawsuit filed in the province of Ontario, AMTIM claims a discrepancy in the calculation of fees due to AMTIM by us of approximately \$2,000. Although the outcome of this claim is uncertain, we believe that no further amounts are due under the terms of the agreement and that we will continue to defend our position relative to this lawsuit.

#### *Other Commitments*

As previously disclosed and as discussed in Note 6: Note receivable, on December 30, 2017, the Company disposed of its retail appliance segment and sold ApplianceSmart to the Purchaser. In connection with that sale, as of December 28, 2019 the Company has an aggregate amount of future real property lease payments of \$767, which represents amounts guaranteed or which may be owed under certain lease agreements to third party landlords in which the Company either remains the counterparty, is a guarantor, or has agreed to remain contractually liable under the lease (“ApplianceSmart Leases”).

The Company evaluated the fair value of its potential obligation under the guidance of ASC 450: Contingencies and ASC 460: Guarantees. As a result, the Company accrued the amount of liability associated with these future guaranteed lease payments. The fair value was calculated based on the amounts reported as part of the bankruptcy proceedings as ApplianceSmart terminated the leases prior to the lease termination date.

The ApplianceSmart Leases either have the Company as the contract tenant only, or in the contract reflects a joint tenancy with ApplianceSmart. ApplianceSmart is the occupant of the ApplianceSmart Leases. The Company does not have the right to use the ApplianceSmart lease assets nor is the Company the primary obligor of the lease payments, hence capitalization under ASC 840 is not required. The ApplianceSmart Leases have historically been used by ApplianceSmart for their operations and the consideration has and is being paid by ApplianceSmart historically and in the future.

Any potential amounts paid out for the Company obligations and or guarantees under ApplianceSmart Leases would be recoverable to the extent there are assets available from ApplianceSmart. ApplianceSmart Leases are related party transactions. The Company divested itself of the ApplianceSmart Leases and leaseholds with the sale to Purchaser on December 30, 2017.

The Company is party from time to time to other ordinary course disputes that we do not believe to be material to our financial condition as of June 27, 2020.

#### *Other litigation*

On October 4, 2018, the Company initiated litigation against a former professional services provider (“PSP”), in Illinois state court, as well as a private arbitration proceeding that was scheduled to be held in Minneapolis, Minnesota, arising from PSP’s rendering of certain professional services to the Company during the period from 2011 through 2014. PSP filed a counterclaim in the arbitration seeking an award of its legal fees and costs arising from that proceeding. The parties subsequently agreed to consolidate their respective claims into the arbitration. The Company’s arbitration demand, as amended, sought an award of more than \$50 and other relief. On March 23, 2020, the parties entered into a settlement agreement, whereby, without any admission of liability, they exchanged mutual releases, agreed to dismiss their respective claims with prejudice, and PSP agreed to pay \$800 to the Company to, among other things, assist it with certain of its costs and obligations that related to various issues underlying the arbitration proceeding.

Contract liabilities rollforward

The following table summarizes the contract liability activity for the 26 weeks ended June 27, 2020:

Beginning balance, December 28, 2019	\$	515
Accrued		358
Settled		(46)
Ending balance, June 27, 2020	\$	<u>827</u>

**Note 16: Shareholders' Equity**

Common Stock: Our Articles of Incorporation authorize 10,000,000 shares of common stock that may be issued from time to time having such rights, powers, preferences and designations as the Board of Directors may determine. During the 26 weeks ended June 27, 2020 and June 29, 2019, 74,530 and nil shares of common stock were granted and issued in lieu of professional services at a fair value of \$376 and nil, respectively.

On November 8, 2016, the Company entered into a securities purchase agreement with Energy Efficiency Investments, LLC ("EEI") pursuant to which the Company agreed to issue up to \$7,732 principal amount of 3% Original Issue Discount Senior Convertible Promissory Notes of the Company and related common stock purchase warrants. On December 31, 2019, the Company terminated its agreement with EEI, as a result, EEI returned 122,257 common shares.

As of June 27, 2020, and December 28, 2019, there were 1,993,578 and 1,919,048 shares, respectively, of common stock issued and outstanding.

Additionally, the Company is amortizing the fair value of 223,214 common shares granted during September 2019, but not vested, in lieu of professional services at a fair value of \$1,000. The share-based compensation expense remaining of \$188 is being amortized through September 2021.

Stock options: The 2016 Plan, which replaces the 2011 Plan, authorizes the granting of awards in any of the following forms: (i) incentive stock options, (ii) nonqualified stock options, (iii) restricted stock awards, and (iv) restricted stock units, and expires on the earlier of October 28, 2026, or the date that all shares reserved under the 2016 Plan are issued or no longer available. The 2016 Plan provides for the issuance of up to 400,000 shares of common stock pursuant to awards granted under the 2016 Plan. Options granted to employees typically vest over two years, while grants to non-employee directors vest in six months. As of June 27, 2020, and December 28, 2019, 38,000 and 4,000 options were outstanding under the 2016 Plan, respectively.

Our 2011 Plan authorizes the granting of awards in any of the following forms: (i) stock options, (ii) stock appreciation rights, and (iii) other share-based awards, including but not limited to, restricted stock, restricted stock units or performance shares, and expires on the earlier of May 12, 2021, or the date that all shares reserved under the 2011 Plan are issued or no longer available. As of June 27, 2020, and December 28, 2019, 40,400 and 40,400 options, respectively, were outstanding under the 2011 Plan. No additional awards will be granted under the 2011 Plan.

We issue shares of new common stock when stock options are exercised. The Company periodically grants stock options that vest based upon the achievement of performance targets. For performance-based options, the Company evaluates the likelihood of the targets being met and records the expense over the probable vesting period.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model for the 34,000 options granted during the 26 weeks ended June 27, 2020.

Additional information relating to all outstanding options is as follows:

	Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life
Balance December 30, 2018	100,900	\$ 11.07	\$ —	3.84
Cancelled/expired/forfeited	(56,500)	9.30		
Balance at December 28, 2019	44,400	\$ 13.31	\$ —	3.00
Granted	34,000	3.85		
Balance at June 27, 2020	78,400	\$ 11.16	\$ —	5.60

As of June 27, 2020, 52,900 stock options are exercisable with a weighted average exercise price of \$11.51.

We recognized \$41 and \$60 share-based compensation expense related to option grants for the 13 weeks ended June 27, 2020 and June 29, 2019, respectively. We recognized \$72 and \$120 share-based compensation expense related to option grants for the 26 weeks ended June 27, 2020 and June 29, 2019, respectively.

There is estimated future share-based compensation expense as of June 27, 2020 of \$39 to be amortized until February 2021.

Warrants:

As of June 27, 2020, and December 28, 2019, we had fully vested warrants outstanding to purchase 33,363 shares of common stock at a price of \$3.40 per share and expire in November 2021.

**Note 17: Loss Per Share**

Net loss per share is calculated using the weighted average number of shares of common stock outstanding during the applicable period. Basic weighted average common shares outstanding do not include shares of restricted stock that have not yet vested, although such shares are included as outstanding shares in the Company's Consolidated Balance Sheet. Diluted net earnings per share is computed using the weighted average number of common shares outstanding and if dilutive, potential common shares outstanding during the period. Potential common shares consist of the additional common shares issuable in respect of restricted share awards, stock options and convertible preferred stock.

The following table presents the computation of basic and diluted net loss per share:

	For the Thirteen Weeks Ended		For the Twenty Six Weeks Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
Net loss	\$ (2,442)	\$ (1,371)	\$ (4,725)	\$ (3,399)
Basic loss per share	\$ (1.22)	\$ (0.81)	\$ (2.41)	\$ (2.01)
Diluted loss per share	\$ (1.22)	\$ (0.81)	\$ (2.41)	\$ (2.01)

Potentially dilutive securities were excluded from the calculation of diluted net loss per share. The number of dilutive securities excluded were 111,763 and 134,363 respectively, during the 26 weeks ended June 27, 2020 and June 29, 2019, because the effects were anti-dilutive based on the application of the treasury stock method.

**Note 18: Major Customers and Suppliers**

For the 13 weeks ended June 27, 2020, two customers represented a combined 37% of our total revenues. For the 26 weeks ended June 27, 2020, three customers represented a combined 34% of our total revenue. As of June 27, 2020, three customers represented 59% of our total trade receivables.

For the 13 weeks ended June 29, 2019, no customers represented 10% or more of our total revenues. For the 26 weeks ended June 29, 2019, one customer represented 10% or more of our total revenue for a total of 11%. As of December 28, 2019, three customers represented more than 10% of our total trade receivables, for a total of 49% of our total trade receivables.

During the 13 weeks and 26 weeks ended June 27, 2020 and June 29, 2019, we purchased appliances for resale from four suppliers. We have and are continuing to secure other vendors from which to purchase appliances. However, the curtailment or loss of one of these suppliers or any appliance supplier could adversely affect our operations.

**Note 19: Defined Contribution Plan**

We have a defined contribution salary deferral plan covering substantially all employees under Section 401(k) of the Internal Revenue Code. We contribute an amount equal to 10 cents for each dollar contributed by each employee up to a maximum of 5% of each employee's compensation. We recognized expense for contributions to the plans of \$3 and nil for the 13 weeks ended June 27, 2020 and June 29, 2019, respectively, and \$12 and \$17 for the 26 weeks ended June 27, 2020 and June 29, 2019, respectively.

**Note 20: Segment Information**

We operate within targeted markets through three reportable segments for continuing operations: biotechnology, recycling, and technology. The biotechnology segment started in September 2019 as the Company broadened its business perspectives to being a pharmaceutical company focused on finding treatments for conditions that cause severe pain and bringing to market drugs with non-addictive pain-relieving properties. The recycling segment includes all fees charged and costs incurred for collecting, recycling and installing appliances for utilities and other customers. The recycling segment also includes byproduct revenue, which is primarily generated through the recycling of appliances. The nature of products, services and customers for both segments varies significantly. Our technology segment is comprised of GeoTraq, which is in the process of developing technology to enable low cost, location-based products and services. As such, the segments are managed separately. Our Chief Executive Officer has been identified as the Chief Operating Decision Maker ("CODM"). The CODM evaluates performance and allocates resources based on sales and income from operations of each segment. Income (loss) from operations represents revenues less cost of revenues and operating expenses, including certain allocated selling, general and administrative costs. There are no intersegment sales or transfers.

The following tables present our segment information for the 13 and 26 weeks ended June 27, 2020 and June 29, 2019 :

	Thirteen Weeks Ended		Twenty Six Weeks Ended	
	June 27, 2020	June 29, 2019	June 27, 2020	June 29, 2019
<b>Revenues</b>				
Recycling	\$ 4,007	\$ 7,601	\$ 12,457	\$ 13,894
Biotechnology	—	—	—	—
Technology	—	—	—	—
<b>Total Revenues</b>	<b>\$ 4,007</b>	<b>\$ 7,601</b>	<b>\$ 12,457</b>	<b>\$ 13,894</b>
<b>Gross profit</b>				
Recycling	\$ 1,045	\$ 1,868	\$ 2,519	\$ 3,017
Biotechnology	—	—	—	—
Technology	—	—	—	—
<b>Total Gross profit</b>	<b>\$ 1,045</b>	<b>\$ 1,868</b>	<b>\$ 2,519</b>	<b>\$ 3,017</b>
<b>Operating loss</b>				
Recycling	\$ (846)	\$ (1,218)	\$ (2,775)	\$ (2,881)
Biotechnology	(464)	—	(807)	—
Technology	(1,008)	(1,171)	(2,135)	(2,383)
<b>Total Operating loss</b>	<b>\$ (2,318)</b>	<b>\$ (2,389)</b>	<b>\$ (5,717)</b>	<b>\$ (5,264)</b>
<b>Depreciation and amortization</b>				
Recycling	\$ 91	\$ —	\$ 171	\$ 99
Biotechnology	—	—	—	—
Technology	936	936	1,873	1,871
<b>Total Depreciation and amortization</b>	<b>\$ 1,027</b>	<b>\$ 936</b>	<b>\$ 2,044</b>	<b>\$ 1,970</b>
<b>Interest expense, net</b>				
Recycling	\$ 54	\$ 14	\$ 167	\$ 6
Biotechnology	—	—	—	—
Technology	—	—	—	—
<b>Total Interest expense, net</b>	<b>\$ 54</b>	<b>\$ 14</b>	<b>\$ 167</b>	<b>\$ 6</b>
<b>Net loss before benefit from income taxes</b>				
Recycling	\$ (841)	\$ (451)	\$ (2,072)	\$ (2,109)
Biotechnology	(464)	—	(807)	—
Technology	(1,075)	(1,313)	(2,195)	(2,383)
<b>Total Net loss before benefit from income taxes</b>	<b>\$ (2,380)</b>	<b>\$ (1,764)</b>	<b>\$ (5,074)</b>	<b>\$ (4,492)</b>
			As of June 27, 2020	As of December 28, 2019
<b>Assets</b>				
Recycling			\$ 10,392	\$ 11,505
Biotechnology			—	—
Technology			15,629	17,529
<b>Total Assets</b>			<b>\$ 26,021</b>	<b>\$ 29,034</b>
<b>Intangible assets</b>				
Recycling			\$ 19	\$ 465
Biotechnology			—	—
Technology			15,797	17,240
<b>Total Intangible assets</b>			<b>\$ 15,816</b>	<b>\$ 17,705</b>



## **Note 21: Related Parties**

Tony Isaac, the Company's Chief Executive Officer, is the father of Jon Isaac, President and Chief Executive Officer of Live Ventures Incorporated ("Live") and managing member of Isaac Capital Group LLC, a greater than 5% stockholder of the Company. Tony Isaac, Chief Executive Officer, Virland Johnson, Chief Financial Officer, and Richard Butler, Board of Directors member, are members of our Board of Directors, Chief Financial Officer, Board of Directors member, and Board of Directors members, respectively, of Live. The Company also shares certain executive, accounting and legal services with Live. The total services shared were \$69 and \$52 for the 13 weeks ended June 27, 2020 and June 29, 2019, respectively, and \$125 and \$99 for the 26 weeks ended June 27, 2020 and June 29, 2019, respectively. Customer Connexx rents approximately 9,879 square feet of office space from Live in Las Vegas, Nevada. The total rent and common area expense were \$46 and \$45 for the 13 weeks ended June 27, 2020 and June 29, 2019, respectively, and \$90 and \$44 for the 26 weeks ended June 27, 2020 and June 29, 2019, respectively.

### *ApplianceSmart Note*

On December 30, 2017, Purchaser entered into the Agreement with the Company and ApplianceSmart. Pursuant to the Agreement, the Purchaser purchased from the Company all of the Stock of ApplianceSmart in exchange for the Purchase Price. Effective April 1, 2018, the Purchaser issued the ApplianceSmart Note with a three-year term in the original principal amount of \$3,919 for the balance of the purchase price. ApplianceSmart is guaranteeing the repayment of the ApplianceSmart Note.

On December 26, 2018, the ApplianceSmart Note was amended and restated to grant the Company a security interest in the assets of the Purchaser, ApplianceSmart, and ApplianceSmart Contracting Inc. in exchange for modifying the repayment terms to provide for the payment in full of all accrued interest and principal on April 1, 2021, the maturity date of the ApplianceSmart Note.

On March 15, 2019, the Company entered into subordination agreements with third parties pursuant to which it agreed to subordinate the payment of indebtedness under the ApplianceSmart Note and the Company's security interest in the assets of ApplianceSmart and other related parties in exchange for up to \$1,200 payable within 15 days of the agreement. ApplianceSmart can re-borrow up to the principal amount of the Note, \$3,919.

On December 9, 2019, ApplianceSmart filed a voluntary petition (the "Chapter 11 Case") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") seeking relief under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code"). As a result of the Chapter 11 Case, the Company has recorded a full valuation allowance equal to the amount of the ApplianceSmart Note.

For discussion related to potential obligations and or guarantees under ApplianceSmart Leases, see Note 16.

### *Related Party Note*

On August 28, 2019, ARCA Recycling entered into and delivered to Isaac Capital Group, LLC (the "Lender"), a secured revolving line of credit promissory note, whereby the Lender agreed to provide the ARCA Recycling with a \$2,500 revolving credit facility (the "Revolving Credit Facility"). The Revolving Credit Facility matures on August 28, 2020. The Revolving Credit Facility bears interest at 8.75% per annum and provides for the payment of interest, monthly in arrears. ARCA Recycling will pay a loan fee of 2.0% on each borrowing made under the Revolving Credit Facility. In connection with entering into the Revolving Credit Facility, the Borrower also entered into a security agreement in favor of the Lender, pursuant to which ARCA Recycling granted a security interest in all of its assets to the Lender. The obligations of ARCA Recycling under the Revolving Credit Facility are guaranteed by the Company. The foregoing transaction did not include the issuance of any shares of the Company's common stock, warrants, or other derivative securities. The Lender is a stockholder of the Company. Jon Isaac is the manager and sole member of the Lender, and the son of Tony Isaac, the Chief Executive Officer of the Company and ARCA Recycling. As of June 27, 2020 and December 28, 2019, \$1,493 and \$2,473, respectively, was outstanding on the Revolving Credit Facility.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Dollars stated in thousands, except per share amounts.

### Forward-Looking and Cautionary Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the federal securities laws, including Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which involve risks and uncertainties. You can identify forward-looking statements because they contain words such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "estimates" or "anticipates" or similar expressions that concern our strategy, plans or intentions. Any statements we make relating to our future operations, performance and results, and anticipated liquidity are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those we expected. We derive most of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from our expectations, including, without limitation, in conjunction with the forward-looking statements included in this Form 10-Q, are disclosed in "Item 1-Business, Item 1A – Risk Factors" of our Form 10-K. Some of the factors that we believe could affect our results include:

- the continued effect on the U.S. economy of the coronavirus public health crisis;
- our ability to secure additional financing to execute our biotechnology business plan;
- our ability to obtain the marketing approval for JAN101, our initial drug product candidate;
- the strength of energy conservation recycling programs;
- our continued ability to purchase product from our suppliers at acceptable prices;
- costs and expenses being realized at higher than expected levels;
- our ability to secure an adequate supply of special-buy appliances for resale;
- the ability to secure appliance recycling and replacement contracts with sponsors of energy efficiency programs;
- the ability of customers to supply units under their recycling contracts with us;
- the outcome of the sales and use tax examination in California; and
- general economic conditions affecting consumer demand for appliances.

We caution you that the foregoing list of important factors may not contain all of the material factors that are important to you. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this Quarterly Report on Form 10-Q may not in fact occur. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. Our MD&A should be read in conjunction with our Form 10-K (including the information presented therein under the caption *Risk Factors*), together with our Quarterly Reports on Forms 10-Q and other publicly available information. All amounts herein are unaudited.

### Overview

JanOne is focused on finding treatments for conditions that cause severe pain and bringing to market drugs with non-addictive pain-relieving properties. In addition, through our subsidiaries ARCA Recycling, Inc. and ARCA Canada Inc., we are engaged in the business of recycling major household appliances in North America by providing turnkey appliance recycling and replacement services for utilities and other sponsors of energy efficiency programs. In addition, through our GeoTraq Inc. ("GeoTraq") subsidiary, we are engaged in the development, design and, ultimately, we expect the sale of wireless transceiver modules with technology that provides location-based services directly from global Mobile IoT networks.

We operate three reportable segments:

- Recycling: Our recycling segment is a turnkey appliance recycling program. We receive fees charged for recycling, replacement, and additional services for utility energy efficiency programs and have established 15 Regional Processing Centers (“RPCs”) for this segment throughout the United States and Canada.
- Biotechnology: Our biotechnology segment is engaged in finding treatments for conditions that cause severe pain and bringing to market drugs with non-addictive pain-relieving properties.
- Technology: GeoTraq is in the process of developing technology to enable low cost, location-based products and services.

**For the Thirteen Weeks Ended June 27, 2020 and June 29, 2019**

**Results of Operations**

The following table sets forth certain statement of operations items and as a percentage of revenue, for the periods indicated:

	13 Weeks Ended June 27, 2020		13 Weeks Ended June 29, 2019	
<b>Statement of Operations Data:</b>				
Revenue	\$ 4,007	100.0%	\$ 7,601	100.0%
Cost of revenue	2,962	73.9%	5,733	75.4%
Gross profit	1,045	26.1%	1,868	24.6%
Selling, general and administrative expense	3,363	83.9%	4,257	56.0%
Operating loss	(2,318)	-57.8%	(2,389)	-31.4%
Interest expense, net	(54)	-1.3%	(14)	-0.2%
Other income (expense)	(8)	-0.2%	639	8.4%
Net loss before income taxes	(2,380)	-59.4%	(1,764)	-23.2%
Benefit (expense) of income taxes	(62)	-1.5%	393	5.2%
Net loss	<u>\$ (2,442)</u>	<u>-60.9%</u>	<u>\$ (1,371)</u>	<u>-18.0%</u>

The following tables set forth revenues for key product and service categories, percentages of total revenue and gross profits earned by key product and service categories and gross profit percent as compared to revenues for each key product category indicated:

	13 Weeks Ended June 27, 2020		13 Weeks Ended June 29, 2019	
	Net Revenue	Percent of Total	Net Revenue	Percent of Total
<b>Revenue</b>				
Recycling and Byproducts	\$ 2,355	58.8%	\$ 5,269	73.3%
Replacement Appliances	1,652	41.2%	2,332	26.7%
Total Revenue	<u>\$ 4,007</u>	<u>100.0%</u>	<u>\$ 7,601</u>	<u>100.0%</u>

	13 Weeks Ended June 27, 2020		13 Weeks Ended June 29, 2019	
	Gross Profit	Gross Profit %	Gross Profit	Gross Profit %
<b>Gross Profit</b>				
Recycling and Byproducts	\$ 47	2.0%	\$ 1,158	22.0%
Replacement Appliances	998	60.4%	710	30.4%
Total Gross Profit	<u>\$ 1,045</u>	<u>26.1%</u>	<u>\$ 1,868</u>	<u>24.6%</u>

**Revenue**

Revenue decreased \$3,594 or 47.3% for the 13 weeks ended June 27, 2020, as compared to the 13 weeks ended June 29, 2019. Replacement Appliance revenue decreased \$680 or 29.2% and Recycling and Byproducts revenue decreased \$2,914 or 55.3% due to the temporary closure of our facilities and a decrease in customer volume due to COVID-19.

**Cost of Revenue**

Cost of revenue decreased \$2,771, or 48.3% for the 13 weeks ended June 27, 2020, as compared to the 13 weeks ended June 29, 2019, proportionately with the decrease in revenue described above.

**Gross Profit**

Gross profit decreased \$823 or 44.1% for the 13 weeks ended June 27, 2020, as compared to the 13 weeks ended June 29, 2019 due to temporary closure of our centers and a decrease in customer volume due to COVID-19.

**Selling, General and Administrative Expense**

Selling, general and administrative expense decreased \$894 or 21.0%, for the 13 weeks ended June 27, 2020, as compared to the 13 weeks ended June 29, 2019, due to a temporary reduction in employees and other activities related to the closure of our facilities due to COVID-19.

**Operating Loss**

As a result of the factors described above, operating loss of \$2,318 for the 13 weeks ended June 27, 2020 remained consistent with the comparable prior year 13 weeks ended June 29, 2019 of \$2,389.

**Interest Expense, net**

Interest expense net increased \$40 for the 13 weeks ended June 27, 2020, as compared to the 13 weeks ended June 29, 2019 primarily due to the increase in related party debt and California sales and use tax interest.

**Other Income**

Other income decreased \$647 for the 13 weeks ended June 27, 2020 as compared to the 13 weeks ended June 29, 2019. The decrease is primarily attributable to the settlement of billing overages during 2019. There were no such transactions during 2020.

**Benefit (Expense) from Income Taxes**

We recorded an income tax expense of \$62 for the 13 weeks ended June 27, 2020, compared with a benefit from income taxes of \$393 for in the same period of 2019, a decrease of \$455.

**Net Loss**

The factors described above led to a net loss of \$2,442 for the 13 weeks ended June 27, 2020, an increase in loss of \$1,071 from a net loss of \$1,371 for the 13 weeks ended June 29, 2019.

**Segment Performance**

We report our business in the following segments: Biotechnology, Recycling, and Technology. We identified these segments based on a combination of business type, customers serviced and how we divide management responsibility. Our revenues and profits from our recycling segment are driven through our recycling centers. We expect revenues and profits for our biotechnology segment to be driven by the development of pharmaceuticals that treat the root cause of pain but are non-opioid painkillers. We expect revenues and profits for our technology segment to be driven by the sale of IOT Modules.

Operating loss by operating segment, is defined as loss before net interest expense, other income and expense, provision for income taxes .

	13 Weeks Ended June 27, 2020				13 Weeks Ended June 29, 2019			
	Recycling	Biotechnology	Technology	Total	Recycling	Biotechnology	Technology	Total
Revenue	\$ 4,007	\$ —	\$ —	\$ 4,007	\$ 7,601	\$ —	\$ —	\$ 7,601
Cost of revenue	2,962	—	—	2,962	5,733	—	—	5,733
Gross profit	1,045	—	—	1,045	1,868	—	—	1,868
Selling, general and administrative expense	1,891	464	1,008	3,363	3,086	—	1,171	4,257
Operating loss	\$ (846)	\$ (464)	\$ (1,008)	\$ (2,318)	\$ (1,218)	\$ —	\$ (1,171)	\$ (2,389)

### Recycling Segment

The recycling segment consists of ARCA Recycling, Customer Connexx, and ARCA Canada. Revenue for the 13 weeks ended June 27, 2020, decreased by \$3,594, or 47.3% as compared to the prior year period. Replacement Appliance revenue decreased \$680 or 29.2% and Recycling and Byproducts revenue decreased \$2,914 or 55.3% due to the temporary closure of our facilities and a decrease in customer volume due to COVID-19.

Cost of revenue for the 13 weeks ended June 27, 2020, decreased \$2,771 or 48.3% as compared to the prior year period, proportionately with revenue as described.

Operating loss for the 13 weeks ended June 27, 2020, decreased \$372 as compared to the prior year period. This represents a decrease in gross profit of \$823 and selling, general and administrative expense of \$1,195.

### Biotechnology Segment

Our biotechnology segment started during September 2019, and, as a result, incurred expenses of \$464 related to employee costs and professional services related to research for the 13 weeks ended June 27, 2020.

### Technology Segment

The technology segment consists of GeoTraq. Results for the 13 weeks ended June 27, 2020 include a loss of \$1,008 which approximated the 13 weeks ended June 29, 2019 loss of \$1,171. The loss represents intangible asset amortization expense and other selling general and administrative expense for each period.

### For the Twenty-Six Weeks Ended June 27, 2020 and June 29, 2019

#### Results of Operations

The following table sets forth certain statement of operations items and as a percentage of revenue, for the periods indicated:

Statement of Operations Data:	26 Weeks Ended June 27, 2020		26 Weeks Ended June 29, 2019	
Revenue	\$ 12,457	100.0%	\$ 13,894	100.0%
Cost of revenue	9,938	79.8%	10,877	78.3%
Gross profit	2,519	20.2%	3,017	21.7%
Selling, general and administrative expense	8,236	66.1%	8,281	59.6%
Operating loss	(5,717)	-45.9%	(5,264)	-37.9%
Interest expense	(167)	-1.3%	(6)	0.0%
Other income	810	6.5%	778	5.6%
Net loss before income taxes	(5,074)	-40.7%	(4,492)	-32.3%
Benefit of income taxes	349	2.8%	1,093	7.9%
Net loss	\$ (4,725)	-37.9%	\$ (3,399)	-24.5%

The following tables set forth revenues for key product and service categories, percentages of total revenue and gross profits earned by key product and service categories and gross profit percent as compared to revenues for each key product category indicated:

	26 Weeks Ended June 27, 2020		26 Weeks Ended June 29, 2019	
	Net Revenue	Percent of Total	Net Revenue	Percent of Total
<b>Revenue</b>				
Recycling and Byproducts	\$ 6,440	51.7%	\$ 8,497	61.2%
Replacement Appliances	6,017	48.3%	5,397	38.8%
Total Revenue	<u>\$ 12,457</u>	<u>100.0%</u>	<u>\$ 13,894</u>	<u>100.0%</u>
	26 Weeks Ended June 27, 2020		26 Weeks Ended June 29, 2019	
	Gross Profit	Gross Profit %	Gross Profit	Gross Profit %
<b>Gross Profit</b>				
Recycling and Byproducts	\$ 144	2.2%	\$ 1,183	13.9%
Replacement Appliances	2,392	39.8%	1,834	34.0%
Total Gross Profit	<u>\$ 2,536</u>	<u>20.4%</u>	<u>\$ 3,017</u>	<u>21.7%</u>

#### Revenue

Revenue decreased \$1,437 or 10.3% for the 26 weeks ended June 27, 2020, as compared to the 26 weeks ended June 29, 2019. Replacement Appliance revenue increased \$620 or 11.5% due to higher volumes from two customers until the temporary closure of our customers' facilities due to COVID-19. Recycling and Byproducts revenue decreased \$2,057 or 24.2% due to the closure of our facilities and decreased volumes from our customers.

#### Cost of Revenue

Cost of revenue decreased \$939, or 8.8% for the 26 weeks ended June 27, 2020, as compared to the 26 weeks ended June 29, 2019, proportionately with the decrease in revenue described above.

#### Gross Profit

Gross profit decreased \$498 or 16.5% for the 26 weeks ended June 27, 2020, as compared to the 26 weeks ended June 29, 2019 due to the decreases in revenue and cost of revenue as discussed above.

#### Selling, General and Administrative Expense

Selling, general and administrative expense remained constant for the 26 weeks ended June 27, 2020, as compared to the 26 weeks ended June 29, 2019, due to increased corporate activity and stock based compensation during the first fiscal quarter, offset by a decreased expenses during the second fiscal quarter related to a temporary reduction in employees and other activities related to the closure of our facilities due to COVID-19.

#### Operating Loss

As a result of the factors described above, the operating loss of \$5,717 for the 26 weeks ended June 27, 2020 represented an increase in loss of \$453 over the comparable prior year 26 weeks ended June 29, 2019 of \$5,264.

#### Interest Expense, net

Interest expense net increased \$167 for the 26 weeks ended June 27, 2020, as compared to the 26 weeks ended June 29, 2019 primarily due to the increase in related party debt and California sales and use tax interest.

## Other Income

Other income remained constant at \$810 for the 26 weeks ended June 27, 2020 as compared to the 26 weeks ended June 29, 2019 of \$778.

## Benefit from Income Taxes

We recorded an income tax benefit of \$349 for the 26 weeks ended June 27, 2020, compared with a benefit from income taxes of \$1,093 for in the same period of 2019, a decrease of \$744.

## Net Loss

The factors described above led to a net loss of \$4,725 for the 26 weeks ended June 27, 2020, an increase in loss of \$1,326 from a net loss of \$3,399 for the 26 weeks ended June 29, 2019.

## Segment Performance

We report our business in the following segments: Biotechnology, Recycling, and Technology. We identified these segments based on a combination of business type, customers serviced and how we divide management responsibility. Our revenues and profits from our recycling segment are driven through our recycling centers. We expect revenues and profits for our biotechnology segment to be driven by the development of pharmaceuticals that treat the root cause of pain but are non-opioid painkillers. We expect revenues and profits for our technology segment to be driven by the sale of IOT Modules.

Operating loss by operating segment, is defined as loss before net interest expense, other income and expense, provision for income taxes.

	26 Weeks Ended June 27, 2020				26 Weeks Ended June 29, 2019			
	Recycling	Biotechnology	Technology	Total	Recycling	Biotechnology	Technology	Total
Revenue	\$ 12,457	\$ —	\$ —	\$ 12,457	\$ 13,894	\$ —	\$ —	\$ 13,894
Cost of revenue	9,938	—	—	9,938	10,877	—	—	10,877
Gross profit	2,519	—	—	2,519	3,017	—	—	3,017
Selling, general and administrative expense	5,294	807	2,135	8,236	5,898	—	2,383	8,281
Operating loss	\$ (2,775)	\$ (807)	\$ (2,135)	\$ (5,717)	\$ (2,881)	\$ —	\$ (2,383)	\$ (5,264)

## Recycling Segment

The recycling segment consists of ARCA Recycling, Customer Connexx, and ARCA Canada. Revenue for the 26 weeks ended June 27, 2020, decreased by \$1,437, or 10.3% as compared to the prior year period. Replacement Appliance revenue increased \$620 or 11.5% due to higher volumes from two customers until the temporary closure of our customers' facilities due to COVID-19. Recycling and Byproducts revenue decreased \$2,057 or 24.2% due to the closure of our facilities and decreased volumes from our customers.

Cost of revenue for the 26 weeks ended June 27, 2020, decreased \$939 or 8.6% as compared to the prior year period, proportionately with revenue as described.

Operating loss for the 26 weeks ended June 27, 2020, remained constant at \$2,755 as compared to the prior year period of \$2,881. This represents a decrease in gross profit of \$498 and selling, general and administrative expense of \$604.

## Biotechnology Segment

Our biotechnology segment started during September 2019, and, as a result, incurred expenses of \$807 related to employee costs and professional services related to research for the 26 weeks ended June 27, 2020.

## Technology Segment

The technology segment consists of GeoTraq. Results for the 26 weeks ended June 27, 2020 include a loss of \$2,135 which approximated the 26 weeks ended June 29, 2019 loss of \$2,383. The loss represents intangible asset amortization expense and other selling, general and administrative expense for each period.

## Liquidity and Capital Resources

### Overview

As of June 27, 2020, we had total cash on hand of \$883. As we continue to pursue strategic transactions to expand and grow our business, we regularly monitor capital market conditions and may raise additional funds through borrowings or public or private sales of debt or equity securities. The amount, nature and timing of any borrowings or sales of debt or equity securities will depend on our operating performance and other circumstances; our then-current commitments and obligations; the amount, nature and timing of our capital requirements; any limitations imposed by our current credit arrangements; and overall market conditions.

In December 2019, the novel coronavirus surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020, with respect to the outbreak. The widespread health crisis has adversely affected the global economy, resulting in an economic downturn that could impact demand for our products.

To date, the outbreak has had a material adverse impact on our operations. For example, several customers in our appliance recycling and appliance replacement business have suspended our ability to pick up and or replace their customers' appliances resulting in decreased revenues for both recycling and replacement business. The future impact of the outbreak is highly uncertain and cannot be predicted and there is no assurance that the outbreak will not have a material adverse impact on the future results of the Company. The extent of the impact, if any, will depend on future developments, including actions taken to contain the coronavirus.

On May 1, 2020, the Company entered into a promissory note (the "Promissory Note") with Texas Capital Bank, N.A. that provides for a loan in the amount of \$1,872 (the "PPP Loan") pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The PPP Loan matures on April 27, 2022 and bears interest at a rate of 1.0% per annum. Monthly amortized principal and interest payments are deferred for six months after the date of disbursement. The Promissory Note contains events of default and other provisions customary for a loan of this type. The Paycheck Protection Program provides that the use of PPP Loan amount shall be limited to certain qualifying expenses and may be partially or wholly forgiven in accordance with the requirements set forth in the CARES Act. The Company intends to apply for forgiveness of a portion of the loan in accordance with the terms of the CARES Act to the extent applicable.

As of the period ending June 27, 2020, the Company received advance payments authorized by the California Public Utilities Commission and processed through two California utilities for the purposes of sustaining the workforce during the COVID 19 pandemic shutdown. The use of these funds was limited to labor and labor benefits for impacted employees. Portions of these advances are forgivable if certain conditions are met the specifics which have not been finalized. Advance payments that are not forgiven will need to be paid back in full by December 31, 2021. Total funding received under this program as of June 27, 2020 amounted to \$1,168. As of June 27, 2020, no amounts have been forgiven.

Based on our current operating plans, we believe that available cash balances, funds available under our factoring agreement with Prestige Capital Finance, LLC ("Prestige Capital"), and or other refinancing of existing indebtedness will provide sufficient liquidity to fund our operations, our continued investments in store openings and remodeling activities for at least the next 12 months.

### Cash Flows

During the 26 weeks ended June 27, 2020, cash used in operations was \$1,622, compared to cash used in operations of \$1,121 during the 26 weeks ended June 29, 2019. The decrease in cash provided by operations was primarily due to:

A decrease in the change in deferred compensation of \$148, and a decrease in the change in deferred income taxes of \$621 and an increase in non-cash stock-based compensation of \$391.

Changes in working capital accounts affecting operating cash flows were as follows: an increase in accounts receivable of \$2,390, a decrease in income taxes receivable of \$164, a decrease in accounts payable and accrued expenses of \$2,280, an increase in prepaid expenses and other current assets of \$126 and an increase in inventory of \$271.

Cash (used in) provided by investing activities was \$(135) and \$891 for the 26 weeks ended June 27, 2020 and the 26 weeks ended June 29, 2019, respectively. During fiscal 2020, the Company incurred purchases of intangibles and property and equipment of \$135. During fiscal 2019, the Company received net payments received on a note receivable from ApplianceSmart of \$1,118, and incurred purchases of property and equipment of \$227.



Cash provided by financing activities was \$2,189 and \$368 for the 26 weeks ended June 27, 2020 and the 26 weeks ended June 29, 2019, respectively. During fiscal 2020, the Company received proceeds from short term debt of \$3,469 primarily associated with the Payroll Protection Program and advances from certain customers for future services and paid \$1,000 on its related party note. During fiscal 2019, the Company received proceeds from the issuance of long-term obligation of \$471, offset by payment of \$103.

#### *Sources of Liquidity*

We utilize cash on hand and factor on occasion certain accounts receivable invoices to cover normal and seasonal fluctuations in cash flows and to support our various growth initiatives. Our cash and cash equivalents are carried at cost and consist primarily of demand deposits with commercial banks. On March 26, 2018, the Company entered into a purchase and sale agreement with Prestige Capital, whereby from time to time the Company can factor certain accounts receivable to Prestige Capital up to a maximum advance and outstanding balance of \$11,000. Discount fees ultimately paid depend upon how long an invoice and related amount is outstanding from ARCA Recycling's customer. Prestige Capital has been granted a security interest in all ARCA Recycling's accounts receivable. The term of the purchase and sale agreement was six months from March 26, 2018 and has been renewed three times for successive terms of six months. The current purchase and sale agreement with Prestige Capital terminates October 2020.

#### *Future Sources of Cash; New Acquisitions, Products and Services*

We may require additional debt financing and/or capital to finance new acquisitions, refinance existing indebtedness or consummate other strategic investments in our business. Any financing obtained may further dilute or otherwise impair the ownership interest of our existing stockholders.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

#### **Market Risk and Impact of Inflation**

**Foreign Currency Exchange Rate Risk.** We currently generate revenues in Canada. The reporting currency for our consolidated financial statements is U.S. dollars. It is not possible to determine the exact impact of foreign currency exchange rate changes; however, the effect on reported revenue and net loss can be estimated. We estimate that the U.S. dollar against the Canadian dollar had an immaterial impact on our consolidated financial statements for the period ended June 27, 2020. We do not currently hedge foreign currency fluctuations and do not intend to do so for the foreseeable future.

We do not hold any derivative financial instruments, nor do we hold any securities for trading or speculative purposes.

### **Item 4. Controls and Procedures**

#### ***Evaluation of Disclosure Controls and Procedures***

We have established disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act 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 Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), to allow timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act), at March 28, 2020. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at June 27, 2020, our disclosure controls and procedures were ineffective.

### ***Changes in Internal Control over Financial Reporting***

During the second fiscal quarter of fiscal 2020, covered by this Quarterly Report on Form 10-Q, we did not make any changes to our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act).

Management noted material weaknesses in internal control when conducting their evaluation of internal control as of December 28, 2019. (1) Insufficient information technology general controls ("ITGC") and segregation of duties. It was noted that people who were negotiating a contract, were also involved in approving invoices without proper oversight. Additional controls and procedures are necessary and are being implemented to have check and balance on significant transactions and governance with those charged with governance authority. (2) Inadequate control design or lack of sufficient controls over significant accounting processes. The cutoff and reconciliation procedures were not effective with certain accrued and deferred expenses. (3) Insufficient assessment of the impact of potentially significant transactions, and (4) Insufficient processes and procedures related to proper recordkeeping of agreements and contracts. In addition, contract to invoice reconciliation was not effective with certain transportation service providers. As part of its remediation plan, processes and procedures have been implemented to help ensure accruals and invoices are reviewed for accuracy and properly recorded in the appropriate period. These material weaknesses remained outstanding as of June 27, 2020 and management is currently working to remedy these outstanding material weaknesses.

The Company's management, including the Company's CEO and CFO, do not expect that the Company's disclosure controls and procedures or the Company's internal control over financial reporting will prevent or detect all error and all fraud. A control system, regardless of how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met. These inherent limitations include the following: judgements in decision-making can be faulty, and control and process breakdowns can occur because of simple errors or mistakes, controls can be circumvented by individuals, acting alone or in collusion with each other, or by management override, the design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

**Item 1. Legal Proceedings.**

On December 29, 2016, the Company served a Minnesota state court complaint for breach of contract on Skybridge Americas, Inc. ("SA"), the Company's primary call center vendor throughout 2015 and most of 2016. The Company seeks damages in the millions of dollars as a result of alleged overcharging by SA and lost client contracts. On January 25, 2017, SA served a counterclaim for unpaid invoices in the amount of approximately \$460,000 plus interest and attorneys' fees. On March 29, 2017, the Hennepin County district court (the "District Court") dismissed the Company's breach of contract claim based on SA's overuse of its Canadian call center but permitted the Company's remaining claims to proceed. Following motion practice, on January 8, 2018 the District Court entered judgment in SA's favor, which was amended as of February 28, 2018, for a total amount of \$613,566, including interest and attorneys' fees. On March 4, 2019, the Minnesota Court of Appeals (the "Court of Appeals") ruled and (i) reversed the District Court's judgment in favor of Skybridge on the call center location claim and remanded the issue back to the District Court for further proceedings, (ii) reversed the District Court's judgment in favor of Skybridge on the net payment issue and remanded the issue to the District Court for further proceedings, and (iii) affirmed the District Court's judgment in Skybridge's favor against the Company's claim that Skybridge breached the contract when it failed to meet the service level agreements. As a result of the decision by the Court of Appeals, the District Court's award of interest and attorneys' fees, etc. was reversed. Trial is scheduled for late August / early September 2020.

AMTIM Capital, Inc. ("AMTIM") acts as our representative to market our recycling services in Canada under an arrangement that pays AMTIM for revenues generated by recycling services in Canada as set forth in the agreement between the parties. A dispute has arisen between AMTIM and us with respect to the calculation of amounts due to AMTIM pursuant to the agreement. In a lawsuit filed in the province of Ontario, AMTIM claims a discrepancy in the calculation of fees due to AMTIM by us of approximately \$2.0 million. Although the outcome of this claim is uncertain, we believe that no further amounts are due under the terms of the agreement and that we will continue to defend our position relative to this lawsuit.

The California Department of Tax and Fee Administration (formerly known as the California Board of Equalization) ("CDTFA") conducted a sales and use tax examination covering ARCA Recycling's California operations for years 2011, 2012 and 2013. The Company believed it was exempt from collecting sales taxes under service agreements with utility customers that included appliance replacement programs. During the fourth quarter of 2014, the Company received communication from the CDTFA indicating they were not in agreement with the Company's interpretation of the law. As a result, the Company applied for and, as of February 9, 2015, received approval to participate in the CDTFA's Managed Audit Program. The period covered under this program included years 2011, 2012, 2013 and extended through the nine-month period ended September 30, 2014. On April 13, 2017 the Company received the formal CDTFA assessment for sales tax for tax years 2011, 2012 and 2013 in the amount of \$4.1 million plus applicable interest of \$0.5 million related to the appliance replacement programs that the Company administered on behalf of its customers on which it did not assess, collect or remit sales tax. The Company has appealed this assessment to the CDTFA Appeals Bureau. The appeal remains in process. Interest will continue to accrue until the matter is settled. The total estimated amount of sales tax plus interest was \$5.5 million as of June 27, 2020.

We are party from time to time to other ordinary course disputes that we do not believe to be material.

**Item 1A. Risk Factors.**

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

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

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

**Item 1.01 Entry into a Material Definitive Agreement.**

On August 9, 2020, we entered into a first amendment to amendment and restated employment agreement (the "Employment Agreement Amendment") with Eric Bolling. Under the terms of the Employment Agreement Amendment, in exchange for the Company issuing Mr. Bolling 40,000 shares of fully vested, restricted common stock of the Company (the "August 2020 Shares"), Mr. Bolling (i) agreed to continue to provide the services described in his employment agreement, (ii) resigned his position as President of the Company and Chairman of the Board of Directors (the "Board"), provided that Mr. Bolling will continue as a member of the Board and further agreed that it is in the Company's sole discretion whether Mr. Bolling continues as a member of the Board following the Company's 2020 Annual Meeting of Stockholders; (iii) agreed to forego his base salary on a going forward basis and further agreed that he is not entitled to any base salary or any further remuneration or compensation from the Company whatsoever (other than the August 2020 Shares) after August 1, 2020, and (iv) forfeited the other 70,607 shares of the Company's common stock that was owed to him under the terms of the employment agreement prior to the execution and delivery of the Employment Agreement Amendment. The foregoing description of the Employment Agreement Amendment does not purport to be complete and is qualified in its entirety by reference to the complete text of the Employment Agreement Amendment, a copy of which is attached as Exhibit 10.2 to this Quarterly Report on Form 10-Q and is incorporated herein by reference in its entirety. Tony Isaac, the Company's Chief Executive Officer has been appointed Interim President of the Company.

**Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.**

Part II, Item 5 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

Item 6. Exhibits.

Index to Exhibits

Exhibit Number	Exhibit Description	Form	File Number	Exhibit Number	Filing Date
3.1	<a href="#">Articles of Incorporation of Appliance Recycling Centers of America, Inc.</a>	8-K	0-19621	3.3	03/13/18
3.2	<a href="#">Articles of Conversion</a>	8-K	0-19621	3.1	03/13/18
3.3	<a href="#">Articles of Conversion</a>	8-K	0-19621	3.2	03/13/18
3.4	<a href="#">Certificate of Correction</a>	10-Q	0-19621	3.1	08/14/18
3.5	<a href="#">Certificate of Change</a>	8-K	0-19621	3.1	04/22/19
3.6	<a href="#">Certificate of Correction</a>	8-K	0-19621	3.7	06/24/19
3.7	<a href="#">Certificate of Designation of Powers, Preferences, and Rights of Series A-1 Convertible Preferred Stock of JanOne Inc. (formerly known as Appliance Recycling Centers of America, Inc.)</a>	8-K	0-19621	3.8	06/24/19
3.8	<a href="#">Articles of Merger for JanOne Inc. into Appliance Recycling Centers of America, Inc., filed with the Secretary of the State of Nevada on September 9, 2019, and effective on September 10, 2019</a>	8-K	0-19621	3.10	09/13/19
3.9	<a href="#">Bylaws of Appliance Recycling Centers of America, Inc.</a>	8-K	0-19621	3.4	03/13/18
3.10	<a href="#">First Amendment to Bylaws of Appliance Recycling Centers of America, Inc.</a>	8-K	0-19621	3.1	12/31/18
10.1	<a href="#">Promissory Note between JanOne Inc., as borrower, and Texas Capital Bank, N.A., as lender.</a>	8-K	0-19621	10.1	05/04/20
10.2	* <a href="#">First Amendment to Amended and Restated Employment Agreement dated August 9, 2020 between JanOne Inc. and Eric Bolling</a>				
31.1	* <a href="#">Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>				
31.2	* <a href="#">Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>				
32.1	* <a href="#">Certification of the President and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>				
32.2	* <a href="#">Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>				
Ex. 101.INS	* XBRL Instance Document				
Ex. 101.SCH	* XBRL Taxonomy Extension Schema Document				
Ex. 101.CAL	* XBRL Taxonomy Extension Calculation Linkbase Document				
Ex. 101.DEF	* XBRL Taxonomy Extension Definition Linkbase Document				
Ex. 101.LAB	* XBRL Taxonomy Extension Label Linkbase Document				
Ex. 101.PRE	* XBRL Taxonomy Extension Presentation Linkbase Document				

\* Filed herewith.

**SIGNATURES**

Pursuant to the requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on our behalf by the undersigned, thereunto duly authorized.

JanOne Inc.  
(Registrant)

Date: August 10, 2020

By: /s/ Tony Isaac  
Tony Isaac  
Chief Executive Officer  
*(Principal Executive Officer)*

Date: August 10, 2020

By: /s/ Virland A. Johnson  
Virland A. Johnson  
Chief Financial Officer  
*(Principal Financial and Accounting Officer)*

**FIRST AMENDMENT TO AMENDED AND RESTATED EMPLOYMENT AGREEMENT**

THIS FIRST AMENDMENT TO AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this "**Amendment**") is made and entered into this 9<sup>th</sup> day of August, 2020 (the "**Effective Date**"), by and between JANONE INC. (formerly known as Appliance Recycling Centers of America, Inc.), a Nevada corporation (the "**Company**"), and ERIC BOLLING (the "**Executive**").

WHEREAS, the Company and the Executive are parties to the certain Amended and Restated Employment Agreement made effective as of September 9, 2019 (the "**Employment Agreement**"); and

WHEREAS, the Parties desire to amend the Employment Agreement on the terms and conditions as hereinafter set forth.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby severally acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. **Definitions.** Capitalized terms used in this Amendment, unless otherwise defined herein, shall have the meaning ascribed to such terms in the Employment Agreement.

2. **Amendments to Employment Agreement.** The Employment Agreement is hereby amended as follows:

a. Section 1 is hereby deleted in its entirety and replaced with the following:

"Effective upon the Effective Date, (i) Executive shall be deemed to have resigned his position as President of the Company and (ii) the Company shall engage the Executive and the Executive agrees to be engaged to provide the services described herein and separately as a member of the Company's Board of Directors (the "Board") until terminated pursuant to the terms of this Agreement (the "Term"); provided, however, the Executive acknowledges and agrees that it shall be in the Company's sole discretion as to whether the Executive continues as a member of the Board of Directors following the 2020 Annual Meeting of Stockholders. During the Term and in exchange for the consideration previously provided by the Company to the Executive and the issuance of the August 2020 Shares (as defined below), Executive shall and shall continue to (a) perform such duties and services as are reasonably identified by the Board or the Company's Chief Executive Officer ("CEO") in good faith related to the Opioid-Fighting Business; (b) be reasonably involved with the business affairs of the Company, including exploring new products and services, communicating with investors and potential investors, making public appearances, and building brand awareness of the Company and its development of pharmaceutical products to help fight addiction to opioids;

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and (c) use his reasonable judgment, skill and energy to perform such duties and services to promote the brand, products, services and goodwill of the Company and Opioid-Fighting Business by participating in good causes and appearing in the media including internet, television, radio, and podcasts to keep the Company, its subsidiaries and their products and services related to the Opioid-Fighting Business in the public domain. Executive shall devote such reasonable business time, attention, skill, and energy to the Opioid-Fighting Business of the Company as reasonably necessary to fulfill the services set forth in this Section 1. Executive shall be entitled to be engaged by Sinclair Broadcast Group or other networks or companies to perform television engagements and Executive shall manage his time effectively between both companies in a reasonable manner. The Parties shall meet on a regular basis to discuss Company projects and Executive's services."

b. Section 2(a) is hereby deleted in its entirety and replaced with the following:

"The Parties acknowledge and agree that notwithstanding the Effective Date of this Amendment, Executive's last day of receipt of Base Salary or any other cash compensation owed hereunder was Friday, August 1, 2020, and that Executive is not entitled to any further remuneration or compensation from the Company whatsoever after Friday, August 1, 2020 other than the August 2020 Shares."

c. Sections 2(c), 2(d), 3, 4, 5, and 6(c) are each hereby deleted in their entirety and replaced with the following:

"[Intentionally left blank.]"

d. Section 2(b) is hereby deleted in its entirety and replaced with the following:

"an aggregate total of 151,607 shares of the Company's common stock, consisting of (i) 111,607 shares which were issued on September 6, 2019, and (ii) 40,000 shares which shall be issued as of the Effective Date (the "August 2020 Shares") following the execution and delivery of this Amendment, all of which shall be vested in full. Executive shall make and be responsible for such appropriate filings under the Section 16 of the Securities Exchange Act of 1934, as amended, as a result of the provisions of this Section 2(b), as the same has been amended and restated. The shares issued pursuant hereto are unrestricted other than restrictions imposed by the federal and state securities laws, including but not limited to Rule 144 promulgated under the Securities Act of 1933, as amended."



e. References to "employment" in the Employment Agreement shall be deleted in their entirety and replaced with "engagement".

f. Section 13(b) is hereby deleted in its entirety and replaced with the following:

"(b) **Notices.** All notices, requests, consents, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); or (c) on the date sent by e-mail of a PDF document (with confirmation of transmission), as follows:

If to the Executive, addressed (including via e-mail) at the address (including e-mail address) then shown in the Company's employment records, with a copy to:

Jessica T. Rosenberg  
Kasowitz Benson Torres LLP  
1633 Broadway  
New York, New York 10019  
E-mail: [jrosenberg@kasowitz.com](mailto:jrosenberg@kasowitz.com)

If to the Company at:

JanOne Inc.  
325 E. Warm Springs Road  
Suite 102  
Las Vegas, Nevada 89119  
Attn: Michael J. Stein, Corporate Secretary  
E-mail: [michael@janone.com](mailto:michael@janone.com)

With a copy to:

Windels Marx Lane & Mittendorf, LLP  
156 West 56<sup>th</sup> Street  
New York, New York 10019  
Attention: Scott R. Matthews, Esq.  
E-mail: [smatthews@windelsmarx.com](mailto:smatthews@windelsmarx.com)

Any Party may change the address to which notices are to be sent by giving notice of such change of address to the other Party in the manner provided above for giving notice.

**3. Reference to Employment Agreement.** Upon the effectiveness of this Amendment, each reference in the Employment Agreement to "this Agreement," "hereunder," or

words of like import shall mean and be a reference to the Employment Agreement, as amended by this Amendment

4. **Effect of Amendment.** Except as otherwise expressly provided in this Amendment, nothing herein shall be deemed to amend or modify any provision of the Employment Agreement, which shall remain in full force and effect.

5. **Effectiveness; Governing Law.** This Amendment shall be governed by and construed in accordance with, the laws of the State of Nevada, without regard to the principles thereof relating to the conflict of laws.

6. **Successors and Assigns.** This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

7. **Miscellaneous.** This Amendment expresses the entire understanding of the parties with respect to the subject matter hereof and may not be amended except in a writing signed by the parties.

8. **Further Assurances.** Each Party agrees to take such further actions as the other shall reasonably request from time to time in connection herewith to evidence or give effect to the amendments set forth herein or any of the transactions contemplated hereby.

9. **Electronic Execution and Delivery.** A reproduction of this Amendment may be executed by one or more Parties hereto, and an executed copy of this Amendment may be delivered by one or more Parties hereto by electronic transmission pursuant to which the signature of or on behalf of such Party can be seen, and such execution and delivery shall be considered valid, binding and effective for all purposes. At the request of any Party hereto, all Parties hereto agree to execute an original of this Amendment as well as any electronic or other reproduction hereof.

10. **Representations.** Executive hereby represents and warrants to the Company that the execution and delivery of this Amendment, and the performance of his obligations hereunder, are not in violation of, and do not and will not conflict with or constitute a default under, any of the terms and provisions of any agreement or instrument to which Executive is subject; and that this Amendment has been duly executed and delivered by Executive and is a valid and binding obligation in accordance with its terms. It is important that Executive completely understands the terms and conditions in this Amendment. Executive expressly acknowledges and represents that: (i) Executive is competent to execute this Amendment; (ii) the Company has advised Executive to consult with an attorney before signing this Amendment; and (iii) Executive is executing this Amendment voluntarily.

11. **Counterparts.** This Amendment may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

*(Remainder of this page intentionally left blank; signatures begin on the next page.)*

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed under seal and delivered by their respective duly authorized officers on the date first written above.

**JANONE INC.**

By:                   /s/ Tony Isaac                    
Tony Isaac, Chief Executive Officer

          /s/ Eric Bolling                                    
Eric Bolling

## CERTIFICATIONS:

I, Tony Isaac, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of JanOne Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. 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: August 10, 2020

/s/ Tony Isaac

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Tony Isaac  
Chief Executive Officer

## CERTIFICATIONS:

I, Virland A. Johnson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of JanOne Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. 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: August 10, 2020

/s/ Virland A. Johnson  
Virland A. Johnson  
Chief Financial Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), the undersigned Chief Executive Officer of JanOne Inc. (the "Company") hereby certifies that the Quarterly Report on Form 10-Q of the Company for the period ended June 27, 2020 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 10, 2020

/s/ Tony Isaac

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Tony Isaac  
Chief Executive Officer

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), the undersigned Chief Financial Officer of JanOne Inc. (the "Company") hereby certifies that the Quarterly Report on Form 10-Q of the Company for the period ended June 27, 2020 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 10, 2020

/s/ Virland A. Johnson  
Virland A. Johnson  
Chief Financial Officer

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