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

FORM 10-Q

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

For the quarterly period ended July 2, 2022

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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth 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 August 11, 2022, there were 3,150,230 outstanding shares of the registrant's common stock, with a par value of $0.001.

JANONE INC.

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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)

	July 2, 2022 (Unaudited)	January 1, 2022
Assets		
Cash and cash equivalents	$ 1,181	$ 705
Trade and other receivables, net	4,273	4,220
Income taxes receivable	12	—
Inventories	494	1,209
Prepaid expenses and other current assets	869	1,423
Total current assets	6,829	7,557
Property and equipment, net	2,676	2,113
Right to use asset - operating leases	4,268	3,671
Intangible assets, net	345	268
Note receivable, net	11,277	—
Marketable securities	570	—
Deposits and other assets	1,554	1,556
Total assets	$ 27,519	$ 15,165
Liabilities and Stockholders' Equity (Deficit)		
Liabilities:		
Accounts payable	$ 5,839	$ 5,266
Accrued liabilities - other	4,963	5,232
Accrued liability - California Sales Taxes	6,140	6,022
Lease obligation short–term - operating leases	1,405	1,304
Short–term debt	—	288
Current portion of notes payable	315	261
Current portion of related party note payable	223	1,000
Total current liabilities	18,885	19,373
Lease obligation long term - operating leases	2,964	2,470
Long–term portion of notes payable	1,509	1,318
Long-term portion related party note payable	724	—
Other noncurrent liabilities	219	680
Total liabilities	24,301	23,841
Commitments and contingencies (Note 15)		
Stockholders' equity (deficit):		
Preferred stock, series A - par value $0.001 per share 2,000,000 authorized, 222,588 and 238,729 shares issued and outstanding at July 2, 2022 and January 1, 2022, respectively	—	—
Common stock, par value $0.001 per share, 10,000,000 shares authorized, 3,150,230 and 2,827,410 shares issued and outstanding at July 2, 2022 and January 1, 2022, respectively	2	2
Additional paid-in capital	45,747	45,743
Accumulated deficit	(41,914)	(53,804)
Accumulated other comprehensive loss	(617)	(617)
Total stockholders' equity (deficit)	3,218	(8,676)
Total liabilities and stockholders' equity (deficit)	$ 27,519	$ 15,165

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

JANONE INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)
(Dollars in thousands, except per-share)

	For the Thirteen Weeks Ended		For the Twenty Six Weeks Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Revenues	$ 10,538	$ 8,606	$ 19,862	$ 17,278
Cost of revenues	8,889	6,863	16,360	14,114
Gross profit	1,649	1,743	3,502	3,164
Operating expenses:				
Selling, general and administrative expenses	2,908	4,595	5,853	8,125
Gain on sale of GeoTraq	(12,091)	—	(12,091)	—
Operating income (loss)	10,832	(2,852)	9,740	(4,961)
Other income (expense):				
Interest expense, net	(98)	(125)	(290)	(198)
Gain on Payroll Protection Program loan forgiveness	—	—	—	1,872
Gain (loss) on litigation settlement, net	—	(1,950)	1,835	(1,950)
Gain on settlement of vendor advance payments	—	131	—	941
Gain on reversal of contingency loss	—	—	637	—
Unrealized loss on marketable securities	(376)	—	(376)	—
Other income, net	333	22	359	22
Total other income (expense), net	(141)	(1,922)	2,165	687
Income (loss) from operations before provision for income taxes	10,691	(4,774)	11,905	(4,274)
Provision (benefit) for income taxes	4	205	7	203
Net income (loss)	$ 10,687	$ (4,979)	$ 11,898	$ (4,477)
Net income per share:				
Basic income per share	$ 3.39	$ (2.07)	$ 3.78	$ (1.94)
Diluted income per share	$ 3.06	$ (2.07)	$ 3.40	$ (1.94)
Weighted average common shares outstanding:				
Basic	3,150,230	2,405,410	3,150,230	2,312,024
Diluted	3,496,250	2,405,410	3,496,250	2,312,024
Net income (loss)	$ 10,687	$ (4,979)	$ 11,898	$ (4,477)
Other comprehensive income (loss), net of tax:				
Effect of foreign currency translation adjustments	41	—	—	(42)
Total other comprehensive income (loss), net of tax	41	—	—	(42)
Comprehensive income (loss)	$ 10,728	$ (4,979)	$ 11,898	$ (4,519)

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 July 2, 2022	July 3, 2021
OPERATING ACTIVITIES:		
Net income (loss)	$ 11,898	$ (4,477)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	270	2,090
Amortization of debt issuance costs	7	—
Stock based compensation expense	4	180
Accretion of note receivable discount	(27)	—
Gain on legal settlement	(115)	—
Gain on Payroll Protection Program loan forgiveness	—	(1,872)
Gain on settlement of vendor advance payments	—	(941)
Gain on reversal of contingent liability	(637)	—
Gain on sale of GeoTraq	(12,091)	—
Unrealized loss on marketable securites	376	—
Changes in assets and liabilities:		
Accounts receivable	(53)	(204)
Income taxes receivable	(12)	173
Prepaid expenses and other current assets	554	110
Inventories	610	303
Right of use assets	(597)	(681)
Lease liability	595	650
Accounts payable and accrued expenses	713	2,485
Deposits and other Assets	(6)	(123)
Net cash provided by (used in) operating activities	1,489	(2,307)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(721)	(1,458)
Purchases of intangibles	(189)	(65)
Net cash used in investing activities	(910)	(1,523)
FINANCING ACTIVITIES:		
Proceeds from equity financing, net	—	5,544
Proceeds from stock option exercise	—	27
Proceeds from notes payable	366	1,835
Payments on related party notes payable	(53)	—
Payments on notes payable	(128)	(59)
Payments on short-term notes payable	(288)	(144)
Net cash provided by (used in) financing activities	(103)	7,203
Effect of changes in exchange rate on cash and cash equivalents	—	(42)
INCREASE IN CASH AND CASH EQUIVALENTS	476	3,331
CASH AND CASH EQUIVALENTS, beginning of period	705	379
CASH AND CASH EQUIVALENTS, end of period	$ 1,181	$ 3,710
Supplemental cash flow disclosures:		
Interest paid	$ 120	$ 84
Income taxes paid	54	28
Right to use asset - operating leases capitalized	1,451	1,244

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	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Deficit	Equity (Deficit)
Balance, January 1, 2022	238,729	$ —	2,827,410	$ 2	$ 45,743	$ (53,804)	$ (617)	$ (8,676)
Share based compensation	—	—	—	—	4	—	—	4
Other comprehensive loss	—	—	—	—	—	(8)	(41)	(49)
Net income	—	—	—	—	—	1,211	—	1,211
Balance, April 2, 2022	238,729	—	2,827,410	2	45,747	(52,601)	(658)	(7,510)
Series A-1 preferred converted	(16,141)	—	322,820	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	—	41	41
Net income	—	—	—	—	—	10,687	—	10,687
Balance, July 2, 2022	222,588	$ —	3,150,230	$ 2	$ 45,747	$ (41,914)	$ (617)	$ 3,218

	Series A Preferred		Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Deficit	Equity
Balance, January 1, 2021	259,729	$ —	1,829,982	$ 2	$ 39,869	$ (36,917)	$ (588)	$ 2,366
Shares issued	—	—	571,428	—	5,544	—	—	5,544
Share based compensation	—	—	—	—	109	—	—	109
Stock option exercise	—	—	2,000	—	11	—	—	11
Other comprehensive loss	—	—	—	—	—	—	(42)	(42)
Net income	—	—	—	—	—	502	—	502
Balance, April 3, 2021	259,729	—	2,403,410	2	45,533	(36,415)	(630)	8,490
Share based compensation	—	—	—	—	71	—	—	71
Stock option exercise	—	—	4,000	—	16	—	—	16
Net loss	—	—	—	—	—	(4,979)	—	(4,979)
Balance, July 3, 2021	259,729	$ —	2,407,410	$ 2	$ 45,620	$ (41,394)	$ (630)	$ 3,598

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").

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") is the Company's Recycling segment and 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 ("Connexx") provides call center services for ARCA Recycling and ARCA Canada. On February 19, 2021, the Company entered into an Asset Purchase Agreement (the "Purchase Agreement") with (i) ARCA Affiliated Holdings Corporation, a Delaware corporation, (ii) ARCA Services Inc., a Delaware corporation, and (iii) Connexx Services Inc, a Delaware corporation (collectively, the "Buyers"), pursuant to which the Buyers agreed to acquire substantially all of the assets, and assume certain liabilities, of ARCA Recycling and Connexx (the "Disposition Transaction"). The principal of the Buyers is Virland A. Johnson, our Chief Financial Officer. On November 14, 2021, the parties entered into an amendment to the Purchase Agreement, which provided for the immediate termination of the transactions proposed by the Purchase Agreement and for an amendment for the Buyers to pay to us a "break fee." The break fee was amended to an aggregate of $100,000, payable in two $50,000 installments: (i) the first of which is due to be paid on or around August 12, 2022 (the one-year anniversary of the Recycling Sale Agreement and which at the time of filing has not yet been paid) and (ii) the second of which is due to be paid not later than the last day of our next fiscal year, which is December 31, 2022. However, if, prior to the date on which either installment of the amended break fee is payable, we sell ARCA Recycling, ARCA Canada, and Connexx to an otherwise unaffiliated third party for an aggregate amount less than $25 million, then the Buyers will be relieved of their obligation to pay to us any not-yet-then-due installment of the break fee. Additionally, if, prior to the date on which the second installment of the amended break fee is payable, we have not sold ARCA Recycling, ARCA Canada, and Connexx to any third party, then the Buyers will be relieved of their obligation to pay to us the second installment of the break fee. Finally, if, prior to a date on which either installment of the amended break fee is due, we sell ARCA Recycling, ARCA Canada, and Connexx to the Buyers, then, the purchase price therefore will be reduced by an amount equivalent to any break fee that had been previously paid to us by the Buyers and the Buyers shall also be relieved of their obligation to pay to us any not-yet-due installment of the break fee.

GeoTraq Inc. ("GeoTraq") was the Company's Technology segment. The Company suspended all operations for GeoTraq during the year ended January 1, 2022. On May 24, 2022, the Company sold substantially all of the GeoTraq assets (see Note 24).

The Company reports on a 52- or 53-week fiscal year. The Company's 2021 fiscal year ("2021") ended on January 1, 2022, and the current fiscal year ("2022") will end on December 31, 2022.

Going concern

The Company currently faces a challenging competitive environment and is focused on improving its overall profitability, which includes managing expenses. The Company reported net income of approximately $10.7 million and a net loss of approximately $5.0 million for the 13 weeks ended July 2, 2022 and July 3, 2021, respectively, and net income of approximately $11.9 million and a net loss of approximately $4.5 million for the 26 weeks ended July 2, 2022 and July 3, 2021, respectively. In addition, as of July 2, 2022, the Company has total current assets of approximately $6.8 million and total current liabilities of approximately $18.9 million resulting in a net negative working capital of approximately $12.1 million.

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 and remodeling activities for at least the next twelve months. The Company expects to generate cash from operations for the remainder of fiscal year 2022, given its cost cutting measures in response to the revenue reductions resulting from the Coronavirus. However, depending on continued U.S. 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 obtain advanced funding of 80% of an unpaid customer's invoice amount within two 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.

As of January 1, 2022, the Company had recorded a full impairment of the GeoTraq intangible asset. On May 24, 2022, the Company sold substantially all of the GeoTraq assets, as discussed in Note 24 below.

Based on the above, management has concluded that, as of July 2, 2022, the Company is not aware of, 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.

Coronavirus

In December 2019, the 2019 novel coronavirus (COVID-19) surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020, and most countries initiated travel restrictions limiting travel to other countries and lock-downs within their borders. While various vaccines have been introduced into the marketplace, the impacts of variant strains of the COVID-19 virus is still unknown. 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 had a material adverse impact on our operations. For example, several customers in our appliance recycling and appliance replacement business have previously 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 another 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. A key task for the Company in 2022 is to begin late-stage clinical development with its pharmaceutical product, JAN101. However, the COVID-19 pandemic has significantly impacted clinical trials, delaying recruitment in most non-COVID-19 clinical trials and even eliminating recruitment in some trials. While clinical sites have largely resumed conducting non-COVID-19 clinical trials, the backlog of subjects may adversely affect our ability to recruit for its trial, leading to longer and more expensive trials. In addition, the unknown effectiveness of the COVID-19 vaccines, particularly concerning variant strains of COVID-19, could lead to clinical sites terminating patient recruitment again during the course of the study.

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, the Company's 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 January 1, 2022.

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.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP 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 receivable, 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 July 2, 2022 and January 1, 2022 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

The Company carries 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. The Company writes off trade receivables when deemed uncollectible. The Company records recoveries of trade receivables previously written off when payment is received. The Company considers a trade receivable to be past due if any portion of the receivable balance is outstanding for more than ninety days. The Company does not charge interest on past due receivables. The Company has no allowance for doubtful accounts as of July 2, 2022 or January 1, 2022.

Inventories

Inventories, consisting primarily of appliances, are stated at the lower of cost, determined on a specific identification basis, or net realizable value. The Company provides estimated provisions for the obsolescence of appliance inventories, including adjustment to market, based on various factors, including the age of such inventory and 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 has no reserve for excess or obsolete inventory as of July 2, 2022 or January 1, 2022.

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.

The Company periodically reviews 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. If after identifying a triggering event it is determined that the asset group’s carrying value may not be recoverable, a 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 its 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.

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.

Based on a qualitative evaluation, for the year ended January 1, 2022, the Company recorded an impairment charge for the full unamortized balance of its GeoTraq intangible, in the amount of $9.8 million. The Company has recorded no impairment charges during the 13 weeks and 26 weeks ended July 2, 2022.

Revenue Recognition

<u>Biotechnology Revenue</u>

The Company is currently generating no revenue from its Biotechnology segment.

<u>Recycling Revenue</u>

The Company provides replacement appliances and provides appliance pickup and recycling services for consumers (“end users”) of public utilities, our customers. As part of the Company’s de-manufacturing and recycling process, it receives revenue from scrap dealers for refrigerant, steel, plastic, glass, copper and other residual items.

The Company accounts for revenue in accordance with Accounting Standards Codification 606 *Revenue from Contracts with Customers*.

Under the revenue standard, the Company determines 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, the performance obligation(s) is satisfied.

As part of our 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

The Company generates revenue by providing replacement appliances. Revenue is recognized at the point in time when control of the replacement product is transferred to the end user and when performance obligations are satisfied, which typically occurs upon delivery from the Company's center facility and installation at the end user's home.

Recycling Services Revenue

The Company generates revenue by providing pickup and recycling services. Revenue is recognized at the point in time when a to-be recycled appliance has been picked up and transfer of ownership has occurred, thereby satisfying the performance obligation.

Byproduct Revenue

The Company generates other recycling byproduct revenue (the sale of copper, steel, plastic, and other recoverable non-refrigerant byproducts) as part of a de-manufacturing process. The Company recognizes byproduct revenue upon delivery and transfer of control of the byproduct to a third-party recycling customer having mutually agreed upon a price per pound, and that collection is reasonably assured. Transfer of control occurs at the time the customer assumes 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.

Contract Liability

Receivables are recognized in the period the Company ships the product or provides the service. Payment terms on invoiced amounts are based on contractual terms with each customer. When the Company receives consideration, or such consideration is unconditionally due, prior to transferring goods or services to the customer under the terms of a sales contract, they are recorded as deferred revenue, which represents a contract liability. The Company recognizes 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. The Company defers product costs until recognition of the related revenue occurs.

Assets Recognized from Costs to Obtain a Contract with a Customer

The Company recognizes 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. The Company has concluded that no material costs have been incurred to obtain and fulfill our FASB Accounting Standards Codification, or ASC 606 contracts, meet the capitalization criteria, and as such, there are no material costs deferred and recognized as assets on the consolidated balance sheet at July 2, 2022 or January 1, 2022.

Other:

a.Taxes collected from customers and remitted to government authorities and that are related to sales of the Company's 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.The Company does 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.

The majority of the Company's revenue recognized is derived from contracts with customers.

<u>Technology Revenue</u>

The Company is currently generating no revenue from its Technology segment.

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. The Company had no advertising expenses for the 26 weeks ended July 2, 2022 and July 3, 2021, 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 – to 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 Condensed Consolidated Statements of Operations and Other Comprehensive 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

The Company accounts for leases in accordance with ASC 842 – *Leases.* 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 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.

The Company leases warehouse facilities and office space. These assets and properties are generally leased under noncancelable agreements that expire at various dates through 2025 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 engages 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. The Company's lessors offer options to extend lease terms as leases expire, and management evaluates current rental markets and other strategic factors in making the decision whether to renew. When leases are within six months of renewal, 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 Company's operating leases contain no residual value guarantees or contain restrictive covenants.

Lease amounts accounted for 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 determine if the contract terms provided an asset that was controlled by the Company, and provided it with substantially all relevant economic benefits. The Company is not a party to any contracts containing embedded leases. All lease contracts were reviewed, and distinctions made between lease and non-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.

Stock-Based Compensation

The Company from time to time grants stock awards, restricted stock awards, and options to employees (including executives), non-employees, and members of the Board of Directors. Such awards are valued based on the grant date fair-value of the instruments, net of estimated forfeitures. The value of each award is recognized 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.

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 has determined it has three reportable segments.

Concentration of Credit Risk

The Company maintains cash balances at several banks in several states including, California, Minnesota, and Nevada. Accounts are insured by the Federal Deposit Insurance Corporation up to $250,000 per institution as of July 2, 2022. At times, balances may exceed federally insured limits.

Note 3: Trade and other receivables

The Company's trade and other receivables as of July 2, 2022 and January 1, 2022, respectively, were as follows (in $000's):

	July 2, 2022	January 1, 2022
Trade receivables, net	$ 5,443	$ 6,105
Factored accounts receivable	(1,718)	(2,194)
Prestige Capital reserve receivable	297	172
Other receivables	251	137
Trade and other receivables, net	$ 4,273	$ 4,220
Trade accounts receivable	$ 3,739	$ 4,449
Un-billed trade receivables	1,704	1,656
Total trade receivables, net	$ 5,443	$ 6,105

Note 4: Inventory

Appliances held for sale 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 July 2, 2022 and January 1, 2022 (in $000's):

	July 2, 2022	January 1, 2022
Appliances held for resale	$ 494	$ 1,104
Inventory – raw material – chips	—	105
Total inventory	$ 494	$ 1,209

The Company provides 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. The Company reviews 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. As of July 2, 2022 and January 1, 2022, the Company has recorded no inventory reserve.

Note 5: Prepaids and other current assets

Prepaids and other current assets as of July 2, 2022 and January 1, 2022 consist of the following (in $000's):

	July 2, 2022	January 1, 2022
Prepaid insurance	$ 91	$ 493
Prepaid rent	155	180
Prepaid other	623	750
Total prepaid expenses and other current assets	$ 869	$ 1,423

Note 6: Notes receivable

ApplianceSmart

On December 30, 2017, the Company sold its 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 of the issued and outstanding shares of capital stock of ApplianceSmart in exchange for $6.5 million. On April 25, 2018, the Purchaser delivered to the Company a promissory note (the “ApplianceSmart Note”) in the original principal amount of approximately $3.9 million.

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. Consequently, the Company recorded an impairment charge of approximately $3.0 million for the amount owed by ApplianceSmart to the Company as of December 28, 2019.

On October 13, 2021, a hearing was held to consider approval of a disclosure statement filed by ApplianceSmart in conjunction with its bankruptcy proceedings. On December 14, 2021, a hearing was held to confirm ApplianceSmart’s plan for reorganization (the “Plan”). On January 10, 2022, ApplianceSmart paid $25,000 to JanOne in settlement of its debt, as provided for in the confirmed Plan, and the ApplianceSmart Note was reversed. A final decree was issued by the court on February 28, 2022, upon the full satisfaction of the Plan, at which time ApplianceSmart emerged from Chapter 11. The outstanding balance of the ApplianceSmart Note at July 2, 2022 and January 1, 2022 was zero and approximately $3.0 million, respectively, exclusive of the impairment charge.

GeoTraq

On May 24, 2022, the Company entered into an Asset Purchase Agreement with SPYR Technologies Inc. (“SPYR”), pursuant to which the Company sold to SPYR substantially all of the assets and none of the specified liabilities of GeoTraq, as discussed in Note 24 below. In connection with the Purchase Agreement, SPYR delivered to the Company a five-year Promissory Note in the initial principal amount of $12.6 million. The Promissory Note bears simple interest at the rate of 8% per annum, provides quarterly interest payments due on the first day of each calendar quarter, and may be prepaid at any time without penalty. Interest payments may be remitted in either restricted shares of common stock of SPYR, or in cash. The Promissory Note matures on May 24, 2027.

In connection with the asset sale, the Company engaged a third-party valuation firm to assess the fair market value of the consideration received. Based on the valuation, the Promissory Note was valued at approximately $11.3 million. The amount of the discount, or approximately $1.3 million, has been recorded as an offset to the principal amount of the Promissory Note, and will be accreted ratably to interest income over the term of the Note. The balance appearing on the Company's unaudited Condensed Consolidated Balance Sheets represents the principal balance of the Promissory Note, net of the discount balance. During the 13 weeks ended July 2, 2022, approximately $27,000 of the discount was recorded as interest income. As of July 2, 2022, the net principal balance on the Note was approximately $11.3 million.

Note 7: Property and Equipment

Property and equipment as of July 2, 2022 and January 1, 2022 consist of the following (in $000’s):

	Useful Life (Years)	July 2, 2022	January 1, 2022
Buildings and improvements	3-30	$ 80	$ 80
Equipment	3-15	3,646	3,638
Projects under construction		1,522	851
Property and equipment		5,248	4,569
Less accumulated depreciation and amortization		(2,572)	(2,456)
Total property and equipment, net		$ 2,676	$ 2,113

Depreciation expense was approximately $78,000 and $41,000 for the 13 weeks ended July 2, 2022 and July 3, 2021, respectively, and $158,000 and $79,000 for the 26 weeks ended July 2, 2022 and July 3, 2021, respectively.

Equipment Financing Agreement

On March 25, 2021, ARCA Recycling entered into a Master Equipment Finance Agreement (collectively, the “Equipment Finance Agreement”) with KLC Financial, Inc. (“KLC”). Under the terms of the Equipment Finance Agreement, KLC has agreed to make loans to ARCA Recycling secured by certain equipment purchased or to be purchased by ARCA Recycling on terms set forth or to be set forth in schedules to the Equipment Finance Agreement. Under the terms of Schedule No. 01 (the “Initial Loan”), KLC has agreed to loan

ARCA Recycling approximately $1.8 million secured by existing equipment and new equipment to be purchased by ARCA Recycling. ARCA Recycling will make monthly payments of $31,000, inclusive of principal and interest, over a period of five years, at which time it is intended that the Initial Loan will be repaid in full. The Initial Loan bears interest at 7.59% per annum. KLC will have a first priority security interest over, among other things, all equipment identified in the schedules. The Initial Loan is personally guaranteed by Virland Johnson, the Chief Financial Officer of JanOne and Chief Financial Officer and Secretary of ARCA Recycling. The Equipment Finance Agreement contains customary affirmative and negative covenants, representations and warranties, and events of default for transactions of this nature. As of July 2, 2022 and January 1, 2022, the outstanding balance due under this agreement was approximately $1.8 million and $1.6 million, respectively.

Note 8: Intangible Assets

Intangible assets as of July 2, 2022 and January 1, 2022 consist of the following (in $000's):

	July 2, 2022	January 1, 2022
Patent and domains	$ 23	$ 23
Computer software	4,733	4,559
Intangible assets	4,756	4,582
Less accumulated amortization	(4,411)	(4,314)
Total intangible assets	$ 345	$ 268

Intangible amortization expense was approximately $58,000 and $1.0 million for the 13 weeks ended July 2, 2022 and July 3, 2021, respectively, and approximately $112,000 and approximately $2.0 million for the 26 weeks ended July 2, 2022 and July 3, 2021, respectively.

Note 9: Marketable Securities

Marketable securities as of July 2, 2022 and January 1, 2022 consist of the following (in $000's):

	Shares	Amount
Beginning balance, January 1, 2022	—	$ —
Securities received	30,000,000	946
Mark-to-market	—	(376)
Ending balance, July 2, 2022	30,000,000	$ 570

Marketable securities reflect shares of SPYR stock received by the Company in connection with the sale of GeoTraq (see Note 24). Shares held are marked to fair market value as of each balance sheet date, with the resulting change recorded as an unrealized gain or loss. Unrealized loss recorded for the 13 weeks and 26 weeks ended July 2, 2022 was approximately $376,000.

Note 10: Deposits and other assets

Deposits and other assets as of July 2, 2022 and January 1, 2022 consist of the following (in $000's):

	July 2, 2022	January 1, 2022
Deposits	$ 1,524	$ 1,513
Other	30	43
Total deposits and other assets	$ 1,554	$ 1,556

Deposits are for a refundable "deposit in lieu of bond", in the amount of $1.3 million, relating the Skybridge matter (see Note 15) and for refundable security deposits with landlords from which the Company leases property.

Note 11: Leases

The Company accounts 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 future lease payments as of July 2, 2022 (in $000's):

Twelve months ended,		
2023	$	920
2024		1,483
2025		1,235
2026		705
2027		522
Thereafter		155
Total		5,020
Less Interest		(651)
Present Value of Payments	$	4,369

During the 26 weeks ended July 2, 2022 and July 3, 2021, approximately $882,000 and $650,000, respectively, were included in operating cash flow for amounts paid for operating leases.

Additionally, the Company obtained right-of-use assets in exchange for lease liabilities of approximately $1.9 million upon commencement of new and renewed operating leases during the 26 weeks ended July 2, 2022. The weighted average lease term for operating leases is 2.31 years and the weighted average discount rate is 8.29%.

Note 12: Accrued Liabilities

Accrued liabilities as of July 2, 2022 and January 1, 2022 consist of the following (in $000's):

		July 2, 2022		January 1, 2022
Compensation and benefits	$	752	$	731
Contract liability		331		17
Accrued incentive and rebate checks		1,357		1,427
Accrued transportation costs*		—		904
Accrued guarantees		130		767
Accrued purchase orders		—		23
Accrued taxes		511		543
Accrued litigation settlement		680		680
Other		1,202		140
Total accrued expenses	$	4,963	$	5,232

During the 26 weeks ended July 2, 2022, the Company reversed approximately $637,000 in contingent liabilities relating to guarantees of ApplianceSmart leases that no longer exist as a result of ApplianceSmart's emergence from bankruptcy (see Note 6). No such transactions occurred during the 26 weeks ended July 3, 2021.

*Accrued transportation costs are related to delayed billing from certain vendors.

Contract liabilities rollforward

The following table summarizes the contract liability activity for the 26 weeks ended July 2, 2022 (in $000's):

Beginning balance, January 1, 2022	$	17
Accrued		1,260
Settled		(946)
Ending balance, July 2, 2022	$	331

Note 13: Accrued Liability – California Sales Tax

The Company operates in fourteen states in the U.S. and in various provinces in Canada. From time to time, the Company is 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 the years 2011, 2012, and 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 approximately $4.1 million plus applicable interest of $500,000 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 July 2, 2022, and January 1, 2022, the Company's accrued liability for California sales tax was approximately $6.1 million and $6.0 million respectively.

Note 14: Income Taxes

The Company's overall effective tax rate was 0.05% for the 26 weeks ended July 2, 2022, and a tax provision expense of $6,500 was recorded against pre-provision income of approximately $11.9 million. The Company's overall effective tax rate was 4.7% for the 26 weeks ended July 3, 2021, and it had a tax provision expense of approximately $203,000 against a pre-provision loss of approximately $4.3 million. 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.

The Company regularly evaluates 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. The Company has concluded, based on the weight of evidence, that a valuation allowance should be maintained against deferred tax assets that are not expected to be utilized in the near future. The Company continues to recognize a full valuation allowance against its Canadian operations.

Note 15: Short Term Debt

Short term debt and other financing obligations as of July 2, 2022 and January 1, 2022, consist of the following (in $000's):

	July 2, 2022	January 1, 2022
AFCO Finance	$ —	$ 288
Total short term debt	$ —	$ 288

AFCO Finance

The Company has entered into a financing agreement with AFCO Credit Corporation ("AFCO") purchased through Marsh Insurance on an annual basis to fund the annual premiums on insurance policies due July 1 of each year. These policies relate 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 in July 2021 was approximately $538,000 with an interest rate of 3.3%. An initial down payment of approximately $134,000 was made on July 1, 2021 with additional monthly payments of approximately $72,000 made beginning August 1, 2021 and ending on April 1, 2022.

The outstanding principal due AFCO at July 2, 2022 and January 1, 2022 was approximately $0 and $288,000, respectively.

Note 16: Commitments and Contingencies

Litigation

SEC Complaint

On August 2, 2021, the U.S. Securities and Exchange Commission ("SEC") filed a civil complaint (the "SEC Complaint") in the United States District Court for the District of Nevada naming the Company and one of its executive officers, Virland Johnson, the Company's Chief Financial Officer, as defendants (collectively, the "Defendants").

The SEC Complaint alleges financial, disclosure and reporting violations against the Company and the executive officer under Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5. The SEC Complaint also alleges various claims against the executive officer under Sections 13(a), 13(b)(2)(A), 13(b)(2)(B) and 13(b)(5) of the Exchange Act and Rules 12b-20, 13a-1, 13a-13, 13a-14, 13b2-1, and 13b2-2. The SEC seeks permanent injunctions and civil penalties against the Defendants, and an officer-and-director bar against the executive officer. The foregoing is only a general summary of the SEC Complaint, which may be accessed on the SEC's website at https://www.sec.gov/litigation/litreleases/2021/lr25155.htm.

The Company continues to assert that the SEC's pursuit of this matter will not result in any benefit to investors and instead will only serve as a distraction from core business. On October 1, 2021, the Company, filed a motion with the court to dismiss the complaint. The SEC filed its response opposing the motions on November 1, 2021. The Defendants filed their reply to the SEC's opposition on November 15, 2021. The motions to dismiss are now under submission and the court has not yet scheduled a hearing date. Pursuant to the automatic stay of proceedings under the Private Securities Litigation Reform Act, all discovery has been stayed pending the motions to dismiss.

The Defendants strongly dispute and deny the allegations and are vigorously defending themselves against the claims.

Skybridge

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 approximately $614,000 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 was held in August 2020 and on February 1, 2021, the District Court assessed damages against the Company in the amount of approximately $715,000 plus interest, fees, and costs. The Company filed a motion for a new trial and is waiting for the District Court to rule.

AMTIM Capital

AMTIM Capital, Inc. ("AMTIM") acts as the Company's 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 the Company 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 the Company of approximately $2.0 million. Although the outcome of this claim is uncertain, the Company believes that no further amounts are due under the terms of the agreement and that it will continue to defend its position relative to this lawsuit. Trial commenced in February 2022; but, as of the date of this Quarterly Report, the court has not rendered a judgment.

GeoTraq

On or about April 9, 2021, GeoTraq, Gregg Sullivan, Tony Isaac, and the Company, among others, resolved all of their claims that related to, among other items, the Company's acquisition of GeoTraq in August 2017, all post-acquisition activities, and Mr. Sullivan's post-acquisition employment relationship with GeoTraq (all of such claims, the "GeoTraq Matters"). The resolution was effectuated through the parties' execution and delivery of a Settlement Agreement and Mutual Agreement of Claims (the "GeoTraq Settlement Agreement").

Under the terms of the Settlement Agreement, the Company, on its own behalf and on behalf of GeoTraq and Mr. Isaac, agreed to tender to Mr. Sullivan an aggregate of $1.95 million (the "GeoTraq Settlement Consideration") in the following manner: (i) $250,000, which was tendered in cash on or about the date of the Settlement Agreement and (ii) up to 10 quarterly installments of not less than $170,000 that commenced on June 1, 2021, and shall continue not less frequently than every three months thereafter (the "GeoTraq Installments"). The Company may tender the GeoTraq Installments in cash or in the equivalent value of shares of its common stock (the value of the shares to be determined by a formula set forth in the Settlement Agreement), in either case at the Company's discretion. The Company may also prepay one or more GeoTraq Installments in full or in part at any time or from time to time either in cash or in shares of its common stock (a "GeoTraq Prepayment"). If the Company elects to prepay one or more GeoTraq Installments with shares of its common stock, Mr. Sullivan reserves the right not to consent to a tender thereof in excess of 50% of the value of that specific GeoTraq Prepayment; however, Mr. Sullivan is restricted in the reasons for which he can refuse to provide his written consent. The number of shares of our common stock to be issued upon any GeoTraq Prepayment is determined by a different formula than the one to be utilized for a GeoTraq Installment.

Pursuant to the terms of the Settlement Agreement, Mr. Sullivan provided the Company with his proxy to vote his remaining shares of its Series A-1 Preferred Stock that the Company had issued to him in connection with its acquisition of GeoTraq in 2017, as well as his proxy for the shares of the Company's common stock into which those shares of preferred stock may be converted. The Company may utilize the proxy in the context of an annual meeting of its stockholders, a special meeting of its stockholders, and a written consent of its stockholders. Subject to the above-described contingent GeoTraq Prepayment tender 50% restriction, Mr. Sullivan provided the Company with the sole ability to determine the time and amount of each conversion of those shares of preferred stock.

The parties to the Settlement Agreement released and forever discharged one another from any and all known and unknown claims that were asserted or could have been asserted arising out of the GeoTraq Litigation Matters. As of July 2, 2022, the accrued liability for payments due to Mr. Sullivan under the settlement agreement was $850,000.

Other Commitments

As previously disclosed and as discussed, on December 30, 2017, the Company disposed of its retail appliance segment and sold ApplianceSmart to the Purchaser (see Note 6). In connection with that sale, as of December 28, 2019, the Company accrued an aggregate amount of future real property lease payments of approximately $767,000 which represented amounts guaranteed or which may have been owed under certain lease agreements to three third party landlords in which the Company either remained the counterparty, was a guarantor, or had agreed to remain contractually liable under the lease ("ApplianceSmart Leases"). A final decree was issued by the court on February 28, 2022, upon the full satisfaction of the Plan, at which time ApplianceSmart emerged from Chapter 11. During the 26 weeks ended July 2, 2022, the Company reversed approximately $637,000 of the accrual, as the Company is no longer liable for two of these guarantees upon ApplianceSmart's emergence from bankruptcy (see Note 11). As of July 2, 2022, a balance of approximately $130,000 remains as an accrued liability due to an ongoing dispute concerning one of the leases.

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 July 2, 2022.

Note 17: Stockholders' Equity

Common Stock: Our Articles of Incorporation authorize 200,000,000 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 July 2, 2022 and July 3, 2021, no shares of common stock were issued in lieu of professional services.

As of July 2, 2022, and January 1, 2022, there were 3,150,230, and 2,827,410 shares, respectively, of common stock issued and outstanding.

Equity Offering

On January 29, 2021, the Company entered into a Securities Purchase Agreement (the “Purchase Agreement”) with certain institutional investors (the “Purchasers”) for the sale by the Company in a registered direct offering (the “Offering”) of 571,428 shares of the Company’s common stock, par value $0.001 per share (the “Common Stock”), at a purchase price per share of Common Stock of $10.50. The Offering closed on February 2, 2021 with gross proceeds to the Company of approximately $6.0 million before deducting placement agent fees and other offering expenses. The Company is utilizing the net proceeds for general working capital.

The Purchase Agreement contains customary representations, warranties and agreements by the Company and the Purchasers and customary indemnification rights and obligations of the parties.

A.G.P./Alliance Global Partners acted as the sole placement agent (the “Placement Agent”) for the Company on a “reasonable best efforts” basis in connection with the Offering. The Company entered into a Placement Agency Agreement, dated as of January 29, 2021, by and between the Company and the Placement Agent (the “Placement Agency Agreement”). Pursuant to the Placement Agency Agreement, the Placement Agent was paid a cash fee of 7% of the gross proceeds paid to the Company for the securities or $420,000, and reimbursement for accountable legal expenses incurred by it in connection with the Offering of $35,000.

The shares of Common Stock sold in the Offering were offered and sold by the Company pursuant to an effective shelf registration statement on Form S-3 (File No. 333-251645) (the “Registration Statement”), which was initially filed with the Securities and Exchange Commission on December 23, 2020 and was declared effective on December 29, 2020.

The representations, warranties and covenants contained in the Purchase Agreement were made solely for the benefit of the parties to the Purchase Agreement. In addition, such representations, warranties, and covenants (i) are intended as a way of allocating the risk between the parties to the Purchase Agreement and not as statements of fact, and (ii) may apply standards of materiality in a way that is different from what may be viewed as material by stockholders of, or other investors in, the Company. Accordingly, the Purchase Agreement incorporated by reference in this filing only to provide investors with information regarding the terms of the transaction, and not to provide investors with any other factual information regarding the Company. Stockholders should not rely on the representations, warranties, and covenants or any descriptions thereof as characterizations of the actual state of facts or condition of the Company or any of its subsidiaries or affiliates. Moreover, information concerning the subject matter of the representations and warranties may change after the date of the Purchase Agreement, which subsequent information may or may not be fully reflected in public disclosures.

The foregoing descriptions of the Purchase Agreement and the Placement Agency Agreement are not complete and are qualified in their entireties by reference to the full text of the Purchase Agreement and the Placement Agency Agreement, a copy of each of which is filed as Exhibit 10.1 and Exhibit 1.1, respectively, to the Company’s Current Report on Form 8-K as filed on January 29, 2021 and each is incorporated by reference herein.

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 800,000 shares of common stock pursuant to awards granted under the 2016 Plan. The vesting period is determined by the Board of Directors at the time of the stock option grant. As of July 2, 2022, and January 1, 2022, 90,000 options were outstanding under the 2016 Plan.

The Company's 2011 Plan, which has expired, 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. As of July 2, 2022, and January 1, 2022, 27,500 options were outstanding under the 2011 Plan. No additional awards will be granted under the 2011 Plan.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. No options were granted during the 13 weeks ended July 2, 2022.

Additional information relating to all outstanding options is as follows:

	Options Outstanding		Weighted Average Exercise Price		Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life
Outstanding at January 2, 2021	113,900	$	11.97	$	78	7.0
Granted	38,000		8.16			
Cancelled/expired	(28,400)		9.71			
Exercised	(6,000)		4.32			
Outstanding at January 1, 2022	117,500	$	7.16	$	21	7.0
Granted	—		—			
Cancelled/expired/forfeited	—		—			
Balance at July 2, 2022	117,500	$	7.16	$	—	6.5
Exercisable at July 2, 2022	117,500	$	7.16	$	—	6.5

The Company recognized approximately $1,000 and $71,000 of share-based compensation expense for the 13 weeks ended July 2, 2022 and July 3, 2021, respectively, and $4,000 and $180,000 of share-based compensation expense for the 26 weeks ended July 2, 2022 and July 3, 2021, respectively.

As of July 2, 2022, the Company has no unrecognized share-based compensation expense associated with stock option awards.

Series A-1 Preferred Stock

Shares of Series A-1 Preferred Stock are convertible into the Company's common shares at a ratio of 1:20. During the 26 weeks ended July 2, 2022, 16,141 shares of Series A-1 Preferred Stock were converted into 322,820 shares of the Company's common stock. As of July 2, 2022 and January 1, 2022, there were 222,588 and 238,729 shares, respectively, of Series A-1 Preferred Stock outstanding.

Note 18: 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 loss 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. As discussed in Note 17 above, 16,141 shares of Series A-1 Preferred Stock were converted into 322,820 shares of the Company's common stock. For purposes of determining the weighted average common shares outstanding for the 13 weeks and 26 weeks ended July 2, 2022, respectively, these shares are considered to be outstanding for the entire period.

The following table presents the computation of basic and diluted net loss per share (in $000's, except share and per–share data):

	For the Thirteen Weeks Ended				For the Twenty Six Weeks Ended			
		July 2, 2022		July 3, 2021		July 2, 2022		July 3, 2021
Net income	$	10,687	$	(4,979)	$	11,898	$	(4,477)
Basic								
Basic income (loss) per share	$	3.39	$	(2.07)	$	3.78	$	(1.94)
Weighted average common shares outstanding		3,150,230		2,405,410		3,150,230		2,312,024
Diluted								
Diluted income (loss) per share	$	3.06	$	(2.07)	$	3.40	$	(1.94)
Weighted average common shares outstanding		3,496,250		2,405,410		3,496,250		2,312,024

Potentially dilutive securities totaling 117,500 and 78,000 were excluded from the calculation of diluted earnings per share for the 26 weeks ended July 2, 2022 and July 3, 2021, respectively, because the effects were anti-dilutive based on the application of the treasury stock method. Additionally, 205,287 shares of Series A-1 Preferred Stock, convertible into 4,105,732 of the Company's common shares, were excluded from the calculation of diluted earnings per share as, by agreement, these shares could not be converted as of July 2, 2022.

Note 19: Major Customers and Suppliers

For the 13 weeks ended July 2, 2022, eight customers represented approximately 50% of the Company’s total revenue. For the 13 weeks and 26 weeks ended July 3, 2021, one customer represented approximately 14% of the Company's total revenue. For the 26 weeks ended July 2, 2022, four customers represented approximately 33% of the Company’s total revenue. For the 26 weeks ended July 3, 2021, one customer represented approximately 17% of the Company's total revenue

As of July 2, 2022, four customers represented a combined 39% of the Company’s total trade receivables. As of January 1, 2022, five customers represented five percent or more than of the Company's total trade receivables, and represented 38% of the Company's trade receivables in aggregate.

During the 26 weeks ended July 2, 2022 and July 3, 2021, the Company purchased appliances for resale from five and four suppliers, respectively. The Company has, and is 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 the Company’s operations.

Note 20: Defined Contribution Plan

The Company has a defined contribution salary deferral plan covering substantially all employees under Section 401(k) of the Internal Revenue Code. The Company contributes an amount equal to 10 cents for each dollar contributed by each employee up to a maximum of 5% of each employee’s compensation. The Company recognized expense for contributions to the plans of approximately $9,000 and $6,000 for the 13 weeks ended July 2, 2022 and July 3, 2021, respectively, and approximately $16,000 and $6,000 for the 26 weeks ended July 2, 2022 and July 3, 2021, respectively.

Note 21: Segment Information

The Company operates within targeted markets through three reportable segments for continuing operations: biotechnology, recycling, and technology. The biotechnology segment commenced operations in September 2019 and is focused on development of new and innovative solutions for ending the opioid epidemic ranging from digital technologies to educational advocacy. 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 technology segment designed wireless modules to connect devices to the Mobile Internet of Things ("IoT") which contain location-based service ("LBS") capabilities and can interface to external sensors to allow them to communicate both sensor status and position information. The nature of products, services and customers for each segment varies significantly. 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. Operating loss 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 26 weeks ended July 2, 2022 and July 3, 2021 (in $000's):

	Thirteen Weeks Ended		Twenty Six Weeks Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Revenues				
Biotechnology	$ —	$ —	$ —	$ —
Recycling	10,538	8,606	19,862	17,278
Technology	—	—	—	—
Total Revenues	$ 10,538	$ 8,606	$ 19,862	$ 17,278
Gross profit				
Biotechnology	$ —	$ —	$ —	$ —
Recycling	1,649	1,743	3,502	3,164
Technology	—	—	—	—
Total Gross profit	$ 1,649	$ 1,743	$ 3,502	$ 3,164
Operating Income (loss)				
Biotechnology	$ (110)	$ (808)	$ (352)	$ (1,050)
Recycling	(1,147)	(1,099)	(1,993)	(2,027)
Technology	12,089	(945)	12,085	(1,884)
Total Operating income (loss)	$ 10,832	$ (2,852)	$ 9,740	$ (4,961)
Depreciation and amortization				
Biotechnology	$ —	$ —	$ —	$ —
Recycling	137	110	268	218
Technology	—	935	2	1,872
Total Depreciation and amortization	$ 137	$ 1,045	$ 270	$ 2,090
Interest (income) expense, net				
Biotechnology	$ —	$ —	$ —	$ —
Recycling	98	125	290	198
Technology	—	—	—	—
Total Interest expense, net	$ 98	$ 125	$ 290	$ 198
Net income (loss) before benefit from income taxes				
Biotechnology	$ (110)	$ (808)	$ (352)	$ (1,050)
Recycling	(1,464)	(2,992)	26	(1,353)
Technology	12,265	(974)	12,231	(1,871)
Total Net income (loss) before benefit from income taxes	$ 10,691	$ (4,774)	$ 11,905	$ (4,274)

	As of July 2, 2022	As of January 1, 2022
Assets		
Biotechnology	$ —	$ —
Recycling	27,519	15,165
Technology	—	—
Total Assets	$ 27,519	$ 15,165
Intangible assets		
Biotechnology	$ —	$ —
Recycling	345	268
Technology	—	—
Total Intangible assets	$ 345	$ 268

Note 22: Related Parties

Shared Services

Tony Isaac, the Company's Chief Executive Officer, is the father of Jon Isaac, President and Chief Executive Officer of Live Ventures Incorporated ("Live Ventures") and managing member of Isaac Capital Group LLC ("ICG"), a greater than 5% stockholder of the Company. Tony Isaac, Chief Executive Officer, and Richard Butler, Board of Directors member of the Company, are members of the Board of Directors of Live Ventures. The Company also shares certain executive, accounting and legal services with Live Ventures. The total services shared were approximately $92,000 and $69,000 for the 13 weeks ended July 2, 2022 and July 3, 2021, respectively, and approximately $167,000 and $133,000 for the 26 weeks ended July 2, 2022 and July 3, 2021, respectively. Customer Connexx rents approximately 9,900 square feet of office space from Live Ventures in Las Vegas, Nevada. The total rent and common area expense was approximately $52,000 and $55,000 for the 13 weeks ended July 2, 2022 and July 3, 2021, respectively, and approximately $108,000 and $106,000 for the 26 weeks ended July 2, 2022 and July 3, 2021, respectively.

ApplianceSmart Note

As stated in Note 6, on December 30, 2017, the Company sold its 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 of the issued and outstanding shares of capital stock of ApplianceSmart in exchange for $6.5 million. On April 25, 2018, the Purchaser delivered to the Company a promissory note (the "ApplianceSmart Note") in the original principal amount of approximately $3.9 million.

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. Consequently, the Company recorded an impairment charge of approximately $3.0 million for the amount owed by ApplianceSmart to the Company as of December 28, 2019.

On October 13, 2021, a hearing was held to consider approval of a disclosure statement filed by ApplianceSmart in conjunction with its bankruptcy proceedings. On December 14, 2021, a hearing was held to confirm ApplianceSmart's plan for reorganization (the "Plan"). On January 10, 2022, ApplianceSmart paid $25,000 to JanOne in settlement of its debt, as provided for in the confirmed Plan, and the ApplianceSmart Note was reversed. A final decree was issued by the court on February 28, 2022, upon the full satisfaction of the Plan, at which time ApplianceSmart emerged from Chapter 11. The outstanding balance of the ApplianceSmart Note at July 2, 2022 and January 1, 2022 was zero and approximately $3.0 million, respectively, exclusive of the impairment charge.

For discussion related to potential obligations and or guarantees under ApplianceSmart Leases, see Note 15.

Related Party ICG Group Note

On August 28, 2019, ARCA Recycling entered into and delivered to ICG a secured revolving line of credit promissory note, whereby ICG agreed to provide ARCA Recycling with a $2.5 million revolving credit facility (the “ICG Note”). The ICG Note originally matured on August 28, 2020. On August 25, 2020, the ICG Note was amended to extend the maturity date to December 31, 2020. On March 30, 2021, ARCA Recycling entered into a Second Amendment and Waiver (the “Second Amendment”) to the ICG Note to further extend the maturity date to August 18, 2021 and waive certain defaults under the ICG Note. The ICG Note 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 ICG Note. In connection with entering into the ICG Note, 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 ICG Note 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. As of January 1, 2022, the balance due on ICG note was $1.0 million. Beginning in April 2022, the revolving credit facility will convert to a term note that amortizes ratably through its maturity date of March 2026. The principal amount of the note is $1.0 million, and bears interest at 8.75% per annum. Monthly payments on this note will be approximately $24,767. ICG is a record and beneficial owner of 13.9% of the outstanding common stock of the Company. Jon Isaac is the manager and sole member of ICG, and the son of Tony Isaac, the Chief Executive Officer of JanOne and ARCA Recycling. As of July 2, 2022, the principal balance of the note is approximately $947,000.

ARCA Purchasing Agreement

On April 5, 2022, ARCA entered into a Purchasing Agreement with Live Ventures. Pursuant to the agreement, Live agrees to purchase inventory from time to time for ARCA, as set forth in submitted purchase orders. The inventory is owned by Live until which time payment by ARCA is received. All purchases made by the ARCA shall be paid back to Live in full plus an additional five percent surcharge or broker-type fee. The term of the Agreement is one year, and automatically renews if not terminated by either party, as provided for in the Agreement.

Note 23. Sale of ARCA and Connexx

On February 19, 2021, the Company, together with its subsidiaries (a) ARCA Recycling, Inc., a California corporation (“ARCA”), and (b) Customer Connexx LLC, a Nevada limited liability company (“Connexx”), entered into an Asset Purchase Agreement (the “Purchase Agreement”) with (i) ARCA Affiliated Holdings Corporation, a Delaware corporation, (ii) ARCA Services Inc., a Delaware corporation, and (iii) Connexx Services Inc, a Delaware corporation (collectively, the “Buyers”), pursuant to which the Buyers agreed to acquire substantially all of the assets, and assume certain liabilities, of ARCA and Connexx (the “Disposition Transaction”). The principal of the Buyers is Virland A. Johnson, our Chief Financial Officer. The Disposition Transaction was previously expected to be consummated on or before August 18, 2021 (the "Outside Date"). On August 12, 2021, the parties entered into Amendment No. One to Asset Purchase Agreement (the “Recycling Sale Amendment”) to extend the Outside Date to September 30, 2021. In the event the Disposition Transaction is not closed by such date, the Purchase Agreement may be terminated and, in accordance with its terms, the Buyers may be required to pay to us a “break fee” of $250,000. On November 14, 2021, the parties entered into Amendment No. Two to the Asset Purchase Agreement, which provided for the immediate termination of the transactions proposed by the Purchase Agreement, as amended by the Recycling Sale Amendment, and for an amendment for the Buyers to pay to us a “break fee.” The break fee was amended to an aggregate of $100,000, payable in two $50,000 installments: (i) the first of which is due on or around August 12, 2022 (the one-year anniversary of the Recycling Sale Agreement and which at the time of filing has not yet been paid) and (ii) the second of which is due to be paid not later than the last day of our next fiscal year. However, if, prior to the date on which either installment of the amended break fee is payable, we sell ARCA and Connexx to an otherwise unaffiliated third party for an aggregate amount less than $25 million, then the Buyers will be relieved of their obligation to pay to us any not-yet-then-due installment of the break fee. Additionally, if, prior to the date on which the second installment of the amended break fee is payable, we have not sold ARCA and Connexx to any third party, then the Buyers will be relieved of their obligation to pay to us the second installment of the break fee. Finally, if, prior to a date on which either installment of the amended break fee is due, we sell ARCA and Connexx to the Buyers, then, the purchase price therefore will be reduced by an amount equivalent to any break fee that had been previously paid to us by the Buyers and the Buyers shall also be relieved of their obligation to pay to us any not-yet-due installment of the break fee.

Note 24. Sale of GeoTraq

On May 24, 2022, the Company entered into an Asset Purchase Agreement with SPYR Technologies Inc., pursuant to which the Company sold to SPYR substantially all the assets and none of the liabilities of its wholly-owned subsidiary GeoTraq Inc. The aggregate purchase price for the GeoTraq Assets was $13.5 million, payable in cash and shares of SPYR’s common stock. As of the closing of the transaction on May 24, 2022, SPYR issued to the Company 30,000,000 shares of its common stock at $0.03 per share, and delivered a five-year Promissory Note in the principal amount of $12.6 million. The Promissory Note bears simple interest at the rate of 8% per annum, provides quarterly interest payments due the first day of each calendar quarter, and may be prepaid at any time without penalty. Quarterly interest payments may be made in cash or in SPYR's restricted common stock. The Promissory Note matures on May 23, 2027.

In connection with the Asset Purchase Agreement, the Company employed an independent third-party firm to assess the fair value of the 30,000,000 shares of SPYR stock and the Promissory Note. The assessment determined that the fair market value of the SPYR common stock was approximately $946,000, or approximately $0.032 per share, which was approximately $46,000 greater than the amount of the shares received at close. The Promissory Note was valued at approximately $11.3 million, which was approximately $1.4 million less than the Note issued. Consequently, the Company recorded the shares of SPYR stock at fair market value of $946,000, and recorded a discount offsetting the Promissory Note in the amount of $1.35 million. The discount will be accreted ratably over the term of the Promissory Note, and recorded as interest income. Additionally, approximately $105,000 in GeoTraq inventory was transferred as part of the sale, and was, thus, derecognized.

The following table illustrates the calculation of the gain on sale of GeoTraq, as shown on the income statement (in $000's):

Purchase price	$	13,500
Discount on note receivable		(1,350)
Premium on shares received		46
Derecognition of GeoTraq inventory		(105)
Gain on sale	$	12,091

Note 25. Subsequent event

The Company has evaluated subsequent events through the filing of this Quarterly Report on Form 10-Q and determined that there have been no events that have occurred that would require adjustments to disclosures in its condensed consolidated financial statements. Other than described below, the Company did not identify any subsequent events that would have required adjustment or disclosure in its financial statements.

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 and Part II, Item 1A of this Form 10-Q. 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 effect that the SEC Complaint has on the Company, if any;
- 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

We are 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, Connexx, and ARCA Canada, 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. Also, through our GeoTraq Inc. subsidiary, we have been engaged in the development, design of wireless transceiver modules with technology that provides LBS directly from global Mobile IoT networks. However, Our GeoTraq subsidiary has not generated any revenue to date, including in the fiscal year ended January 1, 2022. Consequently, during the year ended January 1, 2022, the Company took a full write-down of the unamortized portion of the GeoTraq intangible asset of approximately $9.8 million. Further, as discussed in Note 24 above, on May 24, 2022, we sold substantially all of the GeoTraq assets.

We operate three reportable segments:

•Biotechnology: Our biotechnology segment is focused on finding treatments for conditions that cause severe pain and bringing to market drugs with non-addictive pain-relieving properties.

•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 18 Regional Processing Centers (“RPCs”) for this segment throughout the United States and Canada.

•Technology: We have suspended all operations for GeoTraq, and, on May 24, 2022, sold substantially all of the GeoTraq assets.

For the 13 weeks ended July 2, 2022 and July 3, 2021

Results of Operations

The following table sets forth certain statement of operations items and as a percentage of revenue, for the periods indicated (in $000's):

	13 Weeks Ended July 2, 2022		13 Weeks Ended July 3, 2021	
Statement of Operations Data:				
Revenue	$ 10,538	100.0 %	$ 8,606	100.0 %
Cost of revenue	8,889	84.4 %	6,863	79.7 %
Gross profit	1,649	15.6 %	1,743	20.3 %
Selling, general and administrative expense	2,908	27.6 %	4,595	53.4 %
Gain on sale of GeoTraq	(12,091)	-114.7 %	—	0.0 %
Operating income (loss)	10,832	102.8 %	(2,852)	-33.1 %
Interest expense, net	(98)	-0.9 %	(125)	-1.5 %
Gain on settlement of vendor advance payments	—	0.0 %	131	1.5 %
Loss on litigation settlement	—	0.0 %	(1,950)	-22.7 %
Unrealized loss on marketable securities	(376)	-3.6 %	—	0.0 %
Other income	333	3.2 %	22	0.3 %
Net income (loss) before income taxes	10,691	101.5 %	(4,774)	-55.5 %
Provision for income taxes	4	0.0 %	205	2.4 %
Net income (loss)	$ 10,687	101.4 %	$ (4,979)	-57.9 %

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 (in $000's):

	13 Weeks Ended July 2, 2022		13 Weeks Ended July 3, 2021	
	Net Revenue	Percent of Total	Net Revenue	Percent of Total
Revenue				
Recycling and Byproducts	$ 5,139	48.8 %	$ 4,888	73.3 %
Replacement Appliances	5,399	51.2 %	3,718	26.7 %
Total Revenue	$ 10,538	100.0 %	$ 8,606	100.0 %

	13 Weeks Ended July 2, 2022		13 Weeks Ended July 3, 2021	
	Gross Profit	Gross Profit %	Gross Profit	Gross Profit %
Gross Profit				
Recycling and Byproducts	$ (107)	-2.1 %	$ 519	10.6 %
Replacement Appliances	1,756	0.0 %	1,224	32.9 %
Total Gross Profit	$ 1,649	15.6 %	$ 1,743	20.3 %

Revenue

Revenue increased by approximately $1.9 million, or 22.4%, for the 13 weeks ended July 2, 2022, as compared to the 13 weeks ended July 3, 2021. The increase is primarily due to increased customer demand, and strong commodity markets.

Cost of Revenue

Cost of revenue increased by approximately $2.0 million, or 29.5%, for the 13 weeks ended July 2, 2022, as compared to the 13 weeks ended July 3, 2021, due to increased sales volume.

Selling, General and Administrative Expense

Selling, general and administrative expense decreased by approximately $1.7 million, or 36.7%, for the 13 weeks ended July 2, 2022, as compared to the 13 weeks ended July 3, 2021, primarily due to the suspension of operations of GeoTraq, as well decreases in stock-based compensation and professional fees, offset by increases in labor costs.

Interest Expense, net

Interest expense, net decreased by approximately $27,000 for the 13 weeks ended July 2, 2022, as compared to the 13 weeks ended July 3, 2021 primarily due to interest income recorded in connection with the sale of GeoTraq.

Gain on Sale of GeoTraq

During the 13 weeks ended July 2, 2022, we recorded a gain on the sale of GeoTraq of approximately $12.1 million. See Note 24 of unaudited Condensed Consolidated Financial Statements.

Unrealized Loss on Marketable Securities

For the 13 weeks ended July 2, 2022, an unrealized loss on marketable securities of approximately $376,000 was recorded to mark to fair value securities received in connection to the sale of GeoTraq. See Note 24 of unaudited Consolidated Financial Statements. There were no similar transactions for the 13 weeks ended July 3, 2021.

Gain on Settlement of Vendor Advance Payments

For the 13 weeks ended July 3, 2021, a portion of the vendor advance payments were settled, which resulted in a gain of approximately $131,000. There were no similar transactions for the 13 weeks ended July 2, 2022.

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 are driven through our recycling centers, e-commerce, individual sales reps and our internet services for our recycling and technology segment.

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 include corporate expenses within the Recycling segment.

Operating loss by operating segment, is defined as loss before net interest expense, other income and expense, provision for income taxes ($000's):

	13 Weeks Ended July 2, 2022				13 Weeks Ended July 3, 2021			
	Biotechnology	Recycling	Technology	Total	Biotechnology	Recycling	Technology	Total
Revenue	$ —	$ 10,538	$ —	$ 10,538	$ —	$ 8,606	$ —	$ 8,606
Cost of revenue	—	8,889	—	8,889	—	6,863	—	6,863
Gross profit	—	1,649	—	1,649	—	1,743	—	1,743
Selling, general and administrative expense	110	2,796	(12,089)	(9,183)	808	2,842	945	4,595
Operating income (loss)	$ (110)	$ (1,147)	$ 12,089	$ 10,832	$ (808)	$ (1,099)	$ (945)	$ (2,852)

Biotechnology Segment

Our biotechnology segment incurred expenses of approximately $110,000 and $808,000 related to employee costs and professional services related to research for the 13 weeks ended July 2, 2022 and July 3, 2021, respectively.

Recycling Segment

The recycling segment consists of ARCA Recycling, Customer Connexx, and ARCA Canada. Revenue for the 13 weeks ended July 2, 2022, increased by approximately $1.9, or 22.4%, as compared to the prior year period. Replacement services were up by approximately $1.7, period over period, primarily due to strong consumer demand. Recycling services increased by approximately $144,000 primarily due to by strong consumer demand. Byproducts increased by approximately $76,400 primarily due to strong commodity markets. Marketing services increased by approximately $28,400 primarily due to high demand from utility customers recycling services programs.

Cost of revenue for the 13 weeks ended July 2, 2022, increased by approximately $2.0, or 29.5%, as compared to the prior year period, due to increased sales volumes.

Operating loss for the 13 weeks ended July 2, 2022, increased by approximately $48,000, or 5.9%, as compared to the prior year period. The increase is due to an increase in gross profit of approximately $432,000, offset by an increase in selling, general and administrative expenses of approximately $592,000.

Technology Segment

The technology segment consists of GeoTraq. Results for the 13 weeks ended July 2, 2022 includes income of approximately $12.1 million, as compared to a loss of $945,000 for the 13 weeks ended July 3, 2021. The increase is due to income from the sale of GeoTraq. See Note 24 of unaudited Consolidated Financial Statements.

For the 26 weeks ended July 2, 2022 and July 3, 2021

Results of Operations

The following table sets forth certain statement of operations items and as a percentage of revenue, for the periods indicated (in $000's):

		26 Weeks Ended July 2, 2022			26 Weeks Ended July 3, 2021	
Statement of Operations Data:						
Revenue	$	19,862	100.0 %	$	17,278	100.0 %
Cost of revenue		16,360	82.4 %		14,114	81.7 %
Gross profit		3,502	17.6 %		3,164	18.3 %
Selling, general and administrative expense		5,853	29.5 %		8,125	47.0 %
Gain on sale of GeoTraq		(12,091)	-73.9 %		—	0.0 %
Operating income (loss)		9,740	49.0 %		(4,961)	-28.7 %
Interest expense, net		(290)	-1.5 %		(198)	-1.1 %
Gain on Payroll Protection Program loan forgiveness		—	0.0 %		1,872	10.8 %
Gain on settlement of vendor advance payments		—	0.0 %		941	5.4 %
Gain (loss) on litigation settlement, net		1,835	9.2 %		(1,950)	-11.3 %
Gain on reversal of contingency loss		637	3.2 %		—	0.0 %
Unrealized loss on marketable securities		(376)	-1.9 %		—	0.0 %
Other income, net		359	1.8 %		22	0.1 %
Net income (loss) before income taxes		11,905	59.9 %		(4,274)	-24.7 %
Provision for income taxes		7	0.0 %		203	1.2 %
Net income (loss)	$	11,898	59.9 %	$	(4,477)	-25.9 %

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 (in $000's):

		26 Weeks Ended July 2, 2022			26 Weeks Ended July 3, 2021	
		Net Revenue	Percent of Total		Net Revenue	Percent of Total
Revenue						
Recycling and Byproducts	$	9,516	47.9 %	$	8,866	51.3 %
Replacement Appliances		10,346	52.1 %		8,412	48.7 %
Total Revenue	$	19,862	100.0 %	$	17,278	100.0 %

		26 Weeks Ended July 2, 2022			26 Weeks Ended July 3, 2021	
		Gross Profit	Gross Profit %		Gross Profit	Gross Profit %
Gross Profit						
Recycling and Byproducts	$	(132)	-1.4 %	$	462	5.2 %
Replacement Appliances		3,634	35.1 %		2,702	32.1 %
Total Gross Profit	$	3,502	17.6 %	$	3,164	18.3 %

Revenue

Revenue increased by approximately $2.6 million, or 15%, for the 26 weeks ended July 2, 2022, as compared to the 26 weeks ended July 3, 20212. The increase is primarily due to increased customer demand, and strong commodity markets.

Cost of Revenue

Cost of revenue increased by approximately $2.2 million, or 15.9%, for the 26 weeks ended July 2, 2022, as compared to the 26 weeks ended July 3, 2021, due to increased sales volume.

Selling, General and Administrative Expense

Selling, general and administrative expense decreased by approximately $2.3, or 28%, for the 26 weeks ended July 2, 2022, as compared to the 26 weeks ended July 3, 2021, primarily due to the suspension of operations of GeoTraq, as well decreases in stock-based compensation and other corporate expenses and professional fees, offset by increases in labor costs.

Interest Expense, net

Interest expense, net increased by approximately $92,000 for the 26 weeks ended July 2, 2022, as compared to the 26 weeks ended July 3, 2021 primarily due to interest on notes payable, partially offset by interest income recorded in connection with the sale of GeoTraq.

Gain on Sale of GeoTraq

During the 26 weeks ended July 2, 2022, we recorded a gain on the sale of GeoTraq of approximately $12.1 million. See Note 24 of unaudited Condensed Consolidated Financial Statements.

Unrealized Loss on Marketable Securities

For the 26 weeks ended July 2, 2022, an unrealized loss on marketable securities of approximately $376,000 was recorded to to mark to fair value securities received in connection to the sale of GeoTraq. See Note 24 of unaudited Consolidated Financial Statements. There were no similar transactions for the 26 weeks ended July 3, 2021.

Gain on Litigation Settlement, net

Gain on litigation settlement includes the receipt of a $1.95 million payment from Sompo International Companies (“Sompo”) in exchange for a full release in favor of Sampo from liability for both the GeoTraq and SEC-related matters, partially offset by an accrual of approximately $115,000 to finalize the Blackhawk settlement.

Gain on Reversal of Contingency Loss

Gain on reversal of continency loss reverses approximately $637,000 in contingent liabilities relating to guarantees of ApplianceSmart leases that no longer exist as a result of ApplianceSmart's emergence from bankruptcy (see Notes 6 and 11 to the unaudited financial statements).

Gain on Settlement of Vendor Advance Payments

For the 26 weeks ended July 3, 2021, a portion of the vendor advance payments were settled, which resulted in a gain of approximately $941,000. There were no similar transactions for the 26 weeks ended July 2, 2022.

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 are driven through our recycling centers, e-commerce, individual sales reps and our internet services for our recycling and technology segment. 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 include corporate expenses within the Recycling segment.

Operating loss by operating segment, is defined as loss before net interest expense, other income and expense, provision for income taxes ($000’s):

	26 Weeks Ended July 2, 2022				26 Weeks Ended July 3, 2021			
	Biotechnology	Recycling	Technology	Total	Biotechnology	Recycling	Technology	Total
Revenue	$ —	$ 19,862	$ —	$ 19,862	$ —	$ 17,278	$ —	$ 17,278
Cost of revenue	—	16,360	—	16,360	—	14,114	—	14,114
Gross profit	—	3,502	—	3,502	—	3,164	—	3,164
Selling, general and administrative expense	352	5,495	(12,085)	(6,238)	1,050	5,191	1,884	8,125
Operating income (loss)	$ (352)	$ (1,993)	$ 12,085	$ 9,740	$ (1,050)	$ (2,027)	$ (1,884)	$ (4,961)

Biotechnology Segment

Our biotechnology segment incurred expenses of approximately $352,000 and $1.1 million related to employee costs and professional services related to research for the 26 weeks ended July 2, 2022 and July 3, 2021, respectively.

Recycling Segment

The recycling segment consists of ARCA Recycling, Customer Connexx, and ARCA Canada. Revenue for the 26 weeks ended July 2, 2022, increased by approximately $2.6 million, or 15%, as compared to the prior year period. Replacement services were up by approximately $1.9, period over period, primarily due to strong consumer demand. Recycling services increased by approximately $359,000 primarily due to by strong consumer demand. Byproducts increased by approximately $179,000 primarily due to strong commodity markets. Marketing services increased by approximately $109,000 primarily due to high demand from utility customers recycling services programs.

Cost of revenue for the 26 weeks ended July 2, 2022, increased by approximately $2.2 million, or 15.9%, as compared to the prior year period, due to increased sales volumes.

Operating loss for the 26 weeks ended July 2, 2022, decreased by approximately $34,000, or 1.7%, as compared to the prior year period. The increase is due to an increase in gross profit of approximately $432,000, offset by an increase in selling, general and administrative expenses of approximately $592,000.

Technology Segment

The technology segment consists of GeoTraq. Results for the 26 weeks ended July 2, 2022 includes income of approximately $12.1 million, as compared to a loss of approximately $1.9 million for the 26 weeks ended July 3, 2021. The increase is due to income from the sale of GeoTraq.

Liquidity and Capital Resources

Overview

As of July 2, 2022, we had total cash on hand of approximately $1.2 million. As we continue to prepare to begin late-stage clinical development with our pharmaceutical product, JAN101, and potentially 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 2019 novel coronavirus (COVID-19) surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020, and most countries have initiated travel restrictions limiting travel to other countries and lock-downs within their borders. While various vaccines have recently been introduced into the marketplace, the impacts of variant strains of the COVID-19 virus are still unknown. 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 had a material adverse impact on our operations. For example, several customers in our appliance recycling and appliance replacement business have previously 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 another 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. A key task for the Company in 2021 is to begin late-stage clinical development with its pharmaceutical product, JAN101. However, the COVID-19 pandemic significantly impacted clinical trials in 2020, delaying recruitment in most non-COVID-19 clinical trials and even eliminating recruitment in some trials. While clinical sites have largely resumed conducting non-COVID-19 clinical trials, the backlog of subjects may adversely affect our ability to recruit for its trial, leading to longer and more expensive trials. In addition, the unknown effectiveness of the COVID-19 vaccines, particularly concerning variant strains of COVID-19, could lead to clinical sites terminating patient recruitment again during the course of the study.

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 July 2, 2022, cash provided by operations was approximately $1.5 million, compared to cash used in operations of approximately $2.3 million during the 26 weeks ended July 3, 2021. The increase in cash used in operations was primarily due to results of operations, as discussed above.

Cash used in investing activities was approximately $910,000 and $1.5 million, respectively, for the 26 weeks ended July 2, 2022 and the 26 weeks ended July 3, 2021, primarily related to purchases of property and equipment and intangibles.

Cash used in financing activities was approximately $103,000 for the 26 weeks ended July 2, 2022, and was primarily due to the repayment of debt obligations. Cash provided by financing activities was approximately $7.2 million for the 26 weeks ended July 3, 2021 primarily due to net proceeds received from an equity financing in the amount approximately $5.5 million.

Sources of Liquidity

We utilize cash on hand and factor 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 million. 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 current purchase and sale agreement with Prestige Capital automatically renews every six months unless terminated by the parties.

We acknowledge that we continue to face a challenging competitive environment as we continue to focus on our overall profitability, including managing expenses. We reported net income of approximately $11.9 million and a net loss of approximately $4.5 million, respectively, for the 26 weeks ended July 2, 2022 and July 3, 2021. In addition, the Company has total current assets of approximately $6.8 million and total current liabilities of approximately $18.9 million resulting in a net negative working capital of approximately $12.1 million as of July 2, 2022.

Based on the above, management has concluded that 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

Future Sources of Cash; Phase 2b Trials, New Acquisitions, Products, and Services

We may require additional debt financing and/or capital to finance new acquisitions, refinance existing indebtedness, conduct our Phase IIb clinical trials, 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

Interest Rate Risk. We do not believe there is any significant risk related to interest rate fluctuations on our short and long-term fixed rate debt.

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 earnings can be estimated. We estimate that the overall strength of the U.S. dollar against the Canadian dollar had an immaterial impact on the revenues and net income for the fiscal year ended January 1, 2022. 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

Evaluation of Disclosure Control and Procedures. We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer (our CEO) and principal financial officer (our CFO), of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of July 2, 2022, the period covered in this report, our disclosure controls and procedures were not effective to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting. There were no changes in the Company's internal control over financial reporting during the quarter ended July 2, 2022, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of July 2, 2022. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013 regarding Internal Control – Integrated Framework. Based on our assessment using those criteria, our management concluded that our internal control over financial reporting was not effective as of July 2, 2022.

Management noted material weaknesses in internal control when conducting their evaluation of internal control as of July 2, 2022. (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 the filing date of this quarterly report on Form 10-Q 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.

PART II. Other Information

Item 1. Legal Proceedings

The information in response to this item is included in Note 15, Commitments and Contingencies, to the Consolidated Financial Statements included in Part I, Item 1, of this Form 10-Q.

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. However, in light of the SEC Complaint, the Company provides the following additional risk factor, which supplements the risk factors previously disclosed by the Company in Part I, Item 1A, Risk Factors, of the 2020 10-K.

We are the subject of an SEC Complaint, which could divert management's focus, result in substantial litigation expenses and have an adverse impact on our business, reputation, financial condition, results of operations or stock price.

We are currently subject to an SEC Complaint. Refer to Note 15 to our Consolidated Financial Statements and Part II, Item 1 of this Quarterly Report for additional information regarding this specific matter. We may be subject to additional investigations, arbitration proceedings, audits, regulatory inquiries and similar actions, including matters related to intellectual property, employment, securities laws, disclosures, tax, accounting, class action and product liability, as well as regulatory and other claims related to our business and our industry, which we refer to collectively as legal proceedings. We cannot predict the outcome of any particular proceeding, or whether ongoing investigations, will be resolved favorably or ultimately result in charges or material damages, fines or other penalties, enforcement actions, bars against serving as an officer or director, or practicing before the SEC, or civil or criminal proceedings against us or members of our senior management.

Legal proceedings in general, and securities and class action litigation and regulatory investigations in particular, can be expensive and disruptive. Our insurance may not cover all claims that may be asserted against us, and we are unable to predict how long the legal proceedings to which we are currently subject will continue. An unfavorable outcome of any legal proceeding may have an adverse impact on our business, financial condition and results of operations or our stock price. Any proceeding could negatively impact our reputation among our stakeholders. Furthermore, publicity surrounding ongoing legal proceedings, even if resolved favorably for us, could result in additional legal proceedings against us, as well as damage our image.

We may not be able to maintain compliance with the continued listing requirements of The Nasdaq Global Market.

Our common stock is listed on the Nasdaq Capital Market. In order to maintain that listing, we must satisfy minimum financial and other requirements including, without limitation, a requirement that our closing bid price be at least $1.00 per share. If we fail to continue to meet all applicable continued listing requirements for The Nasdaq Global Market in the future and Nasdaq determines to delist our common stock, the delisting could adversely affect the market liquidity of our common stock, our ability to obtain financing to repay debt, and fund our operations.

On April 13, 2022, we received a notice from The NASDAQ Stock Market (“Nasdaq”) that we did not presently comply with Nasdaq’s Listing Rule 5550(b)(1) (the “Rule”) that requires a Company to maintain a minimum of $2,500,000 in stockholders’ equity for continued listing. The notice did not have any immediate effect on the listing of our common stock on the Nasdaq Capital Market and we had 45 calendar days from the date of the notice to submit a plan to Nasdaq to regain compliance with Nasdaq’s continued listing rules. We submitted such a plan on May 31, 2022, wherein we discussed the GeoTraq sale (see Note 24) and how that placed the Company back into compliance with the Rule. As of the filing date, we have received no further communication on the matter.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Index to Exhibits

Exhibit Number		Exhibit Description	Form	File Number	Exhibit Number	Filing Date
10.28		Asset Purchase Agreement between JanOne Inc. and SPYR Technologies Inc., dated May 24, 2022	8-K	0-19621	10.28	5/31/22
10.29		Promissory Note of SPYR Technologies Inc. in favor of JanOne Inc., dated May 24, 2022	8-K	0-19621	10.29	5/31/22
31.1	*	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2	*	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1	*	Certification of the President and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
32.2	*	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
101.INS	*	Inline XBRL Instance Document				
101.SCH	*	Inline XBRL Taxonomy Extension Schema Document				
101.CAL	*	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	*	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	*	Inline XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	*	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104		Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)				

* Filed herewith.
† Portions of this exhibit have been redacted in compliance with Regulation S-K Item 601(b)(10)(iv).

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 16, 2022	By:	/s/ Tony Isaac Tony Isaac Chief Executive Officer *(Principal Executive Officer)*
Date:	August 16, 2022	By:	/s/ Virland A. Johnson Virland A. Johnson Chief Financial Officer *(Principal Financial and Accounting Officer)*

Exhibit 31.1

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 16, 2022

/s/ Tony Isaac
Tony Isaac
Chief Executive Officer

Exhibit 31.2

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 16, 2022

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

Exhibit 32.1

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 July 2, 2022 (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 16, 2022

/s/ Tony Isaac
Tony Isaac
Chief Executive Officer

Exhibit 32.2

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 July 2, 2022 (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 16, 2022

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