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

FORM 10-Q

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

For the quarterly period ended September 26, 2020

or

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

Commission File No. 0-19621

JANONE INC.
(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	**41-1454591** (I.R.S. Employer Identification No.)
325 E. Warm Springs Road, Suite 102 **Las Vegas, Nevada** (Address of principal executive offices)	**89119** (Zip Code)

702-997-5968
(Registrant's telephone number, including area code)

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

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

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

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

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

Large accelerated filer	☐	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 October 30, 2020, there were 1,829,982 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)

	September 26, 2020 (Unaudited)	December 28, 2019
Assets		
Cash and cash equivalents	$ 638	$ 481
Trade and other receivables, net	5,019	6,578
Income taxes receivable	330	76
Inventories	1,071	1,348
Prepaid expenses and other current assets	931	356
Total current assets	7,989	8,839
Property and equipment, net	268	324
Right of use asset - operating leases	2,438	1,894
Intangible assets, net	14,950	17,705
Deposits and other assets	232	272
Total assets	$ 25,877	$ 29,034
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	$ 2,253	$ 4,365
Accrued liabilities - other	5,727	3,938
Accrued liability - California Sales Taxes	5,686	5,438
Lease obligation short term - operating leases	1,260	1,079
Short term debt	3,327	280
Related party note	1,000	2,473
Total current liabilities	19,253	17,573
Lease obligation long term - operating leases	1,350	850
Deferred income taxes, net	—	270
Total liabilities	20,603	18,693
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, series A - par value $0.001 per share 2,000,000 authorized, 259,729 shares issued and outstanding at September 26, 2020 and December 28, 2019, respectively	—	—
Common stock, par value $0.001 per share, 10,000,000 shares authorized, 1,829,982 and 1,919,048 shares issued and outstanding at September 26, 2020 and at December 28, 2019, respectively	2	2
Additional paid in capital	39,814	39,291
Accumulated other comprehensive loss	(588)	(533)
Accumulated deficit	(33,954)	(28,419)
Total stockholders' equity	5,274	10,341
Total liabilities and stockholders' equity	$ 25,877	$ 29,034

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

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

	For the Thirteen Weeks Ended		For the Thirty Nine Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Revenues	$ 12,266	$ 9,790	$ 24,723	$ 23,684
Cost of revenues	8,549	7,226	18,487	18,103
Gross profit	3,717	2,564	6,236	5,581
Operating expenses:				
Selling, general and administrative expenses	4,540	5,185	12,776	13,466
Operating loss	(823)	(2,621)	(6,540)	(7,885)
Other income (expense):				
Interest expense, net	(88)	(75)	(255)	(81)
Other income, net	2	6	812	784
Total other income (expense), net	(86)	(69)	557	703
Loss from operations before benefit from income taxes	(909)	(2,690)	(5,983)	(7,182)
Income tax benefit	99	732	448	1,825
Net loss	$ (810)	$ (1,958)	$ (5,535)	$ (5,357)
Loss per share:				
Basic loss per share	$ (0.43)	$ (1.14)	$ (2.98)	$ (3.14)
Diluted loss per share	$ (0.43)	$ (1.14)	$ (2.98)	$ (3.14)
Weighted average common shares outstanding:				
Basic	1,871,321	1,721,547	1,860,270	1,703,559
Diluted	1,871,321	1,721,547	1,860,270	1,703,559
Net loss	$ (810)	$ (1,958)	$ (5,535)	$ (5,357)
Other comprehensive income (loss), net of tax:				
Effect of foreign currency translation adjustments	(27)	(14)	(55)	3
Total other comprehensive income (loss), net of tax	(27)	(14)	(55)	3
Comprehensive loss	$ (837)	$ (1,972)	$ (5,590)	$ (5,354)

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 Thirty Nine Weeks Ended	
	September 26, 2020	September 28, 2019
OPERATING ACTIVITIES:		
Net loss	$ (5,535)	$ (5,357)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,104	3,046
Amortization of debt issuance costs	27	111
Stock based compensation expense	523	447
Non cash lease expense	137	33
Change in deferred rent	—	(48)
Change in deferred compensation	—	(148)
Change in deferred income taxes	(270)	(1,823)
Other	40	376
Changes in assets and liabilities:		
Accounts receivable	1,561	(93)
Income taxes receivable	(254)	(47)
Prepaid expenses and other current assets	(575)	71
Inventories	277	(919)
Accounts payable and accrued expenses	(77)	708
Net cash used in operating activities	(1,042)	(3,643)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(12)	(436)
Purchases of intangibles	(281)	—
Net payments received from ApplianceSmart note receivable	—	881
Net cash (used in) provided by investing activities	(293)	445
FINANCING ACTIVITIES:		
Proceeds from issuance of short term debt	3,469	—
Proceeds from issuance of long term debt obligations	—	471
Proceeds (payment) of related party note	(1,500)	2,500
Payments on debt obligations	(422)	(355)
Net cash provided by financing activities	1,547	2,616
Effect of changes in exchange rate on cash and cash equivalents	(55)	25
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	157	(557)
CASH AND CASH EQUIVALENTS, beginning of period	481	1,195
CASH AND CASH EQUIVALENTS, end of period	$ 638	$ 638
Supplemental cash flow disclosures:		
Interest paid	$ 126	$ 71
Income taxes paid	76	44
Right to use asset - operating leases capitalized	1,037	2,272

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

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

	Series A Preferred		Common stock		Additional Paid in Capital	Accumulated Other Comprehensive Deficit	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, June 27, 2020	259,729	$ —	1,871,321	$ 2	$ 39,802	$ (561)	$ (33,144)	$ 6,099
Share based compensation	—	—	(41,339)	—	12	—	—	12
Effect of foreign currency translation adjustments	—	—	—	—	—	(27)	—	(27)
Net loss	—	—	—	—	—	—	(810)	(810)
Balance, September 26, 2020	259,729	$ —	1,829,982	$ 2	$ 39,814	$ (588)	$ (33,954)	$ 5,274

	Series A Preferred		Common Stock		Additional Paid in Capital	Accumulated Other Comprehensive Deficit	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, June 29, 2019	259,729	$ —	1,694,565	$ 2	$ 38,660	$ (516)	$ (19,917)	$ 18,229
Share based compensation	—	—	223,214	—	447	—	—	447
Effect of foreign currency translation adjustments	—	—	—	—	—	(14)	—	(14)
Net loss	—	—	—	—	—	—	(1,958)	(1,958)
Balance, September 28, 2019	259,729	$ —	1,917,779	$ 2	$ 39,107	$ (530)	$ (21,875)	$ 16,704

	Series A Preferred		Common Stock		Additional Paid in Capital	Accumulated Other Comprehensive Deficit	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 28, 2019	259,729	$ —	1,919,048	$ 2	$ 39,291	$ (533)	$ (28,419)	$ 10,341
Shares cancelled	—	—	(122,257)	—	—	—	—	—
Share based compensation	—	—	33,191	—	523	—	—	523
Effect of foreign currency translation adjustments	—	—	—	—	—	(55)	—	(55)
Net loss	—	—	—	—	—	—	(5,535)	(5,535)
Balance, September 26, 2020	259,729	$ —	1,829,982	$ 2	$ 39,814	$ (588)	$ (33,954)	$ 5,274

	Series A Preferred		Common Stock		Additional Paid in Capital	Accumulated Other Comprehensive Deficit	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 30, 2018	288,588	$ —	1,694,565	$ 2	$ 38,660	$ (533)	$ (16,518)	$ 21,611
Shares cancelled	(28,859)	—	—	—	—	—	—	—
Share based compensation	—	—	223,214	—	447	—	—	447
Effect of foreign currency translation adjustments	—	—	—	—	—	3	—	3
Net loss	—	—	—	—	—	—	(5,357)	(5,357)
Balance, September 28, 2019	259,729	$ —	1,917,779	$ 2	$ 39,107	$ (530)	$ (21,875)	$ 16,704

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

Note 1: Background

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

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

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

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

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

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

Going concern

The Company currently faces a challenging competitive environment and is focused on improving its overall profitability, which includes managing expenses. The Company reported a net loss of $810 and $1,958 for the 13 weeks ended September 26, 2020 and September 28, 2019, respectively, and net loss of $5,535 and $5,357 for the 39 weeks ended September 26, 2020 and September 28, 2019, respectively. In addition, as of September 26, 2020, the Company had total current assets of $7,989 and total current liabilities $19,253 resulting in a net negative working capital of $11,264.

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

In March 2020, there was a global outbreak of COVID-19 (Coronavirus) that resulted in changes in global supply of certain products and an economic downturn. Beginning in March 2020, the outbreak started to have a material adverse impact on our operations and financial condition. For example, several customers in ourappliance recycling and appliance replacement business suspended our ability to pick upand or replace their customers' appliances, resulting in decreased revenues for both recycling and replacement business. During A pril 2020, and in response to the impacts of the COVID-19 virus and public health crisis, in an effort to manage its financial position and further preserve financial flexibility and longevity, the Company temporarily closed its corporate office in Minnesota and call center in Las Vegas, and idled all of its recycling processing centers in the United States and Canada. During the latter half of the second quarter, the Minnesota corporate office, Las Vegas call center, and the recycling processing centers reopened and the majority of our customers resumed their operating activities. Although our operations have recovered, the future impact of the outbreak is highly uncertain and cannot be predicted and there is no assurance that the outbreak will not have a material adverse impact on the future results of the Company. The extent of the impact, if any, will depend on future developments, including actions taken to contain the coronavirus.

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

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

Additionally, the Company has $1,500 of availability under its Revolving Credit Facility (as defined in Note 21).

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

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

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

Principles of Consolidation

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

Reclassifications

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

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumption that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Financial Instruments

Financial instruments consist primarily of cash equivalents, trade and other receivables, notes receivables, and obligations under accounts payable, accrued expenses and notes payable. The carrying amounts of cash equivalents, trade receivables and other receivables, accounts payable, accrued expenses and short-term notes payable approximate fair value because of the short maturity of these instruments. The fair value of the long-term debt is calculated based on interest rates available for debt with terms and maturities similar to the Company’s existing debt arrangements, unless quoted market prices were available (Level 2 inputs). The carrying amounts of short-term debt at September 26, 2020 and December 28, 2019 approximate fair value.

Cash and Cash Equivalents

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

Trade Receivables and Allowance for Doubtful Accounts

We carry unsecured trade receivables at the original invoice amount less an estimate made for doubtful accounts based on a monthly review of all outstanding amounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. We write off trade receivables when we deem them uncollectible. We record recoveries of trade receivables previously written off when we receive them. We consider a trade receivable to be past due if any portion of the receivable balance is outstanding for more than ninety days. We do not charge interest on past due receivables. Our management considers the allowance for doubtful accounts of $29 and $29 to be adequate to cover any exposure to loss as of September 26, 2020, and December 28, 2019, respectively.

Inventories

Inventories, consisting primarily of appliances, are stated at the lower of cost, determined on a specific identification basis, or net realizable value. We provide estimated provisions for the obsolescence of our appliance inventories, including adjustment to market, based on various factors, including the age of such inventory and our management's assessment of the need for such provisions. We look at historical inventory aging reports and margin analyses in determining our provision estimate. A revised cost basis is used once a provision for obsolescence is recorded. The Company does not have a reserve for excess or obsolete inventory at September 26, 2020 and December 28, 2019.

Property and Equipment

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

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

Intangible Assets

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

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

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

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

There was no impairment of intangibles as of September 26, 2020 or December 28, 2019 based on the intangible asset impairment review performed as of those dates.

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

Revenue Recognition

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

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

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

a. Identification of the contract, or contracts, with a customer,

b. Identification of the performance obligations in the contract,

c. Determination of the transaction price,

d. Allocation of the transaction price to the performance obligations in the contract, and

e. Recognition of revenue when, or as, we satisfy a performance obligation.

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

Replacement Product Revenue

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

Recycling Services Revenue

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

Byproduct Revenue

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

Biotechnology Revenue

We currently are not generating any revenue from our Biotechnology segment

Technology Revenue

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

Contract Liability

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

Assets Recognized from Costs to Obtain a Contract with a Customer

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

Other:

a. Taxes collected from customers and remitted to government authorities and that are related to sales of our products are excluded from revenues.

b. Sales commissions are expensed when incurred because the amortization period would have been one year or less. These costs are recorded in Selling, General and Administrative expense.

c. We do not disclose the value of unsatisfied performance obligations for (i) contracts with original expected lengths of one year or less or (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for the services performed.

Revenue recognized for Company contracts was $11,562 and $8,891 for the 13 weeks ended September 26, 2020 and September 28, 2019, respectively. Revenue recognized for Company contracts was $23,239 and $21,397 for the 39 weeks ended September 26, 2020 and September 28, 2019, respectively. Byproduct revenue is non-contract revenue and amounts for Byproduct revenue have been excluded from Revenue recognized for Company contracts for all periods presented.

Shipping and Handling

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

Advertising Expense

Advertising expense is charged to operations as incurred. Advertising expense totaled $162 and $168 for the 13 weeks ended September 26, 2020 and September 28, 2019, respectively and $284 and $623 for the 39 weeks ended September 26, 2020 and September 28, 2019, respectively.

Fair Value Measurements

ASC Topic 820, "Fair Value Measurements and Disclosures," requires disclosure of the fair value of financial instruments held by the Company. ASC Topic 825, "Financial Instruments," defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The three levels of valuation hierarchy are defined as follows: Level 1 - inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets. Level 2 – 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 Consolidated Statements of Income.

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

Lease Accounting

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

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

We lease warehouse facilities and office space. These assets and properties are generally leased under noncancelable agreements that expire at various dates through 2024 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 2-4 years with some being longer or shorter depending on needs of the business and the lease partners. Our lease agreements do not include variable lease payments. Our lessors do offer options to extend lease terms as leases expire and management evaluates against current rental markets and other strategic factors in making the decision to renew. When leases are within 6 months of being renewed, management will estimate probabilities of renewing for an additional term based on market and strategic factors and if the probability is more likely than not that the lease will be renewed, the financials will assume the lease is renewed under the lease renewal option

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

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

The weighted average lease term for operating leases is 31 months and the weighted average discount rate is 8%.

Stock-Based Compensation

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

Foreign Currency

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

Earnings Per Share

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

Segment Reporting

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

Concentration of Credit Risk

The Company maintains cash balances at several banks in several states including, Minnesota, California, and Nevada. Accounts are insured by the Federal Deposit Insurance Corporation up to $250 per institution as of September 26, 2020. At times, balances may exceed federally insured limits.

Note 3: Trade and other receivables

	September 26, 2020	December 28, 2019
Trade receivables, net	$ 6,102	$ 7,226
Factored accounts receivable	(1,544)	(2,165)
Prestige Capital reserve receivable	281	415
Due from Recleim	—	913
Other receivables	180	189
Trade and other receivables, net	$ 5,019	$ 6,578
Trade accounts receivable	$ 4,728	$ 5,928
Un-billed trade receivables	1,403	1,327
A/R Reserve	(29)	(29)
Total trade receivables, net	$ 6,102	$ 7,226

Note 4: Inventory

Appliances held for resale are stated at the lower of cost, determined on a specific identification basis, or net realizable value. Inventory raw material - chips, are stated at the lower of average cost or net realizable value. Total inventory consists of the following as of September 26, 2020 and December 28, 2019:

	September 26, 2020	December 28, 2019
Appliances held for resale	$ 871	$ 1,148
Inventory - raw material - chips	200	200
Total inventory	$ 1,071	$ 1,348

We provide estimated provisions for the obsolescence of inventories, including adjustments to net realizable value, based on various factors, including the age of such inventory and our management's assessment of the need for such provisions. We review historical inventory aging reports and margin analyses in determining our provision estimate. A revised cost basis is used once a provision for obsolescence is recorded. At September 26, 2020 and December 28, 2019, we do not have an inventory reserve.

Note 5: Prepaids and other current assets

Prepaids and other current assets as of September 26, 2020 and December 28, 2019 consist of the following:

	September 26, 2020	December 28, 2019
Prepaid insurance	$ 478	$ 282
Prepaid other	453	74
Total prepaid expenses and other current assets	$ 931	$ 356

Note 6: Note receivable

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

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

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

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

On December 9, 2019, ApplianceSmart filed a voluntary petition in the United States Bankruptcy Court for the Southern District of New York seeking relief under Chapter 11 of Title 11 of the United States Code. As a result, the Company has recorded an impairment charge of $2,992 for the amount owed by ApplianceSmart to the Company as of December 28, 2019. The Company continues to record interest income on the ApplianceSmart Note and a corresponding impairment charge. Interest income and impairment charges were $105 for the 39 weeks ended September 26, 2020. The outstanding balance of the ApplianceSmart Note at September 26, 2020 and December 28, 2019 was $3,097 and $2,992, respectively, exclusive of the impairment charges.

Note 7: Property and Equipment

Property and equipment as of September 26, 2020 and December 28, 2019 consist of the following:

	Useful Life (Years)	September 26, 2020	December 28, 2019
Buildings and improvements	3-30	$ 72	$ 69
Equipment	3-15	2,443	2,314
Projects under construction		—	120
Property and equipment		2,515	2,503
Less accumulated depreciation and amortization		(2,247)	(2,179)
Total property and equipment, net		$ 268	$ 324

Depreciation expense was $27 and $87 for the 13 weeks ended September 26, 2020 and September 28, 2019, respectively. Depreciation expense was $68 and $250 for the 39 weeks ended September 26, 2020 and September 28, 2019, respectively.

Note 8: Intangible Assets

Intangible assets as of September 26, 2020 and December 28, 2019 consist of the following:

	September 26, 2020	December 28, 2019
Intangible assets GeoTraq, net	$ 26,096	$ 26,096
Patent and domains	23	23
Computer software	4,448	4,167
Intangible assets	30,567	30,286
Less accumulated amortization	(15,617)	(12,581)
Total intangible assets	$ 14,950	$ 17,705

The useful life and amortization period of the GeoTraq intangible acquired is seven years from the acquisition date of August 18, 2017. Intangible amortization expense was $1,033 and $934 for the 13 weeks ended September 26, 2020 and September 28, 2019, respectively. Intangible amortization expense was $3,036 and $2,796 for the 39 weeks ended September 26, 2020 and September 28, 2019, respectively.

Note 9: Deposits and other assets

Deposits and other assets as of September 26, 2020 and December 28, 2019 consist of the following:

	September 26, 2020	December 28, 2019
Deposits	$ 165	$ 195
Other	67	77
Total deposits and other assets	$ 232	$ 272

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

Note 10: Leases

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

Total present value of lease payments as of September 26, 2020:

Remainder 2020	$ 409
2021	1,261
2022	645
2023	348
2024	214
Total	2,877
Less Interest	(267)
Present Value of Payments	$ 2,610

During the 39 weeks ended September 26, 2020 and September 28, 2019, $965 and $913, respectively, was included in operating cash flow for amounts paid for operating leases.

Additionally, we obtained right-of-use assets in exchange for lease liabilities of approximately $1,271 upon commencement of operating leases during the 39 weeks ended September 26, 2020. Additionally, we exercised an early termination clause in one our leases which reduces our right of use assets by $234.

Note 11: Accrued Liabilities

Accrued liabilities as of September 26, 2020 and December 28, 2019 consist of the following:

	September 26, 2020	December 28, 2019
Compensation and benefits	$ 585	$ 809
Contract liability	853	515
Accrued incentive and rebate checks	964	988
Accrued guarantees	767	767
Accrued purchase orders	577	—
Accrued transportation costs*	1,265	—
Other	716	859
Total accrued expenses	$ 5,727	$ 3,938

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

Note 12: Accrued Liability – California Sales Tax

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

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

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

As of September 26, 2020 and December 28, 2019, our accrued liability for California sales tax was $5,686 and $5,438, respectively

Note 13: Income Taxes

Our overall effective tax rate was 7.5% for the 39 weeks ended September 26, 2020, and we recorded a tax benefit of $448 against a pre-provision loss of $5,983. Our overall effective tax rate was 25.4% for the 39 weeks ended September 28, 2019, and we had a tax benefit of $1,825 against a pre-provision loss of $7,182. The effective tax rates and related provisional tax amounts vary from the U.S. federal statutory rate due to state taxes, foreign taxes, share-based compensation, valuation allowance, and certain non-deductible expenses.

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

Note 14: Short Term Debt

Short term debt and other financing obligations as of September 26, 2020 and December 28, 2019, consist of the following:

	September 26, 2020	December 28, 2019
AFCO Finance	$ 287	$ 155
GE 8% loan agreement	—	125
Payroll protection program	1,872	—
Vendor advance payments	1,168	—
Total short term debt	$ 3,327	$ 280

AFCO Finance

Annually, we enter into a financing agreement with AFCO Credit Corporation ("AFCO") purchased through Marsh Insurance to fund the annual premiums on insurance policies due June 1 of each year. These policies are related to workers' compensation and various liability policies including, but not limited to, General, Auto, Umbrella, Property, and Directors' and Officers' insurance. The total amount of the premiums financed during June 2020 was $429 with an interest rate of 3.3%. An initial down payment of $143 was due before July 1, 2020 with additional monthly payments of $48 made beginning July 1, 2020 and ending June 1, 2021.

The outstanding principal due AFCO at September 26, 2020 and December 28, 2019 was $287 and $155, respectively.

GE

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

Payroll Protection Program

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

Customer Advance Payments

As of the period ending June 27, 2020, the Company received advance payments authorized by the California Public Utilities Commission and processed through two California utilities for the purposes of sustaining the workforce during the COVID-19 pandemic shutdown. The use of these funds was limited to labor and labor benefits for impacted employees. Portions of these advances are forgivable if certain conditions are met the specifics which have not been finalized. Advance payments that are not forgiven will need to be paid back in full by December 31, 2021. Total funding received under this program as of September 26, 2020 amounted to $1,168. As of this same date, no amounts have been forgiven.

Note 15: Commitments and Contingencies

Litigation

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

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

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

Other Commitments

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

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

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

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

The Company is party from time to time to other ordinary course disputes that we do not believe to be material to our financial condition as of September 26, 2020.

Other litigation

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

Contract liabilities rollforward

The following table summarizes the contract liability activity for the 39 weeks ended September 26, 2020:

Beginning balance, December 28, 2019	$	515
Accrued		610
Settled		(272)
Ending balance, September 26, 2020	$	853

Note 16: Shareholders’ Equity

Common Stock: Our Articles of Incorporation authorize 10,000,000 shares of common stock that may be issued from time to time having such rights, powers, preferences and designations as the Board of Directors may determine. During the 39 weeks ended September 26, 2020 and September 28, 2019, 104,798 and 223,214 shares of common stock were granted and issued in lieu of professional services at a fair value of $351 and 1,000, respectively. Additionally, the Company was amortizing the fair value of 223,214 common shares granted during September 2019, but not vested, in lieu of professional services at a fair value of $1,000. This agreement terminated during August 2020. As such, 71,607 common shares were returned to the Company and the related stock-based compensation was reversed.

On November 5, 2020, the Company increased the total number of authorized shares of the Company’s common stock from 10,000,000 shares to 200,000,000 shares. See Note 22 for a complete discussion.

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

As of September 26, 2020, and December 28, 2019, there were 1,829,982 and 1,919,048 shares, respectively, of common stock issued and outstanding.

See Note 22 for additional information regarding the Company’s common shares.

Stock options: The 2016 Plan, which replaces the 2011 Plan, authorizes the granting of awards in any of the following forms: (i) incentive stock options, (ii) nonqualified stock options, (iii) restricted stock awards, and (iv) restricted stock units, and expires on the earlier of October 28, 2026, or the date that all shares reserved under the 2016 Plan are issued or no longer available. The 2016 Plan provides for the issuance of up to 400,000 shares of common stock pursuant to awards granted under the 2016 Plan. On November 4, 2020, the Company amended the 2016 Plan to increase the issuance of common shares from 400,000 to 800,000. See Note 22 for a complete discussion. Options granted to employees typically vest over two years, while grants to non-employee directors vest in six months. As of September 26, 2020, and December 28, 2019, 66,000 and 4,000 options were outstanding under the 2016 Plan, respectively.

Our 2011 Plan authorizes the granting of awards in any of the following forms: (i) stock options, (ii) stock appreciation rights, and (iii) other share-based awards, including but not limited to, restricted stock, restricted stock units or performance shares, and expires on the earlier of May 12, 2021, or the date that all shares reserved under the 2011 Plan are issued or no longer available. As of September 26, 2020, and December 28, 2019, 35,900 and 40,400 options, respectively, were outstanding under the 2011 Plan. No additional awards will be granted under the 2011 Plan.

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

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model for the 62,000 options granted during the 39 weeks ended September 26, 2020.

Additional information relating to all outstanding options is as follows:

	Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life
Balance December 30, 2018	100,900	$ 11.07	$ —	3.84
Cancelled/expired/forfeited	(56,500)	9.30		
Balance at December 28, 2019	44,400	$ 13.31	$ —	3.00
Granted	62,000	3.85		
Cancelled/expired/forfeited	(4,500)	9.45		
Balance at September 26, 2020	101,900	$ 11.10	$ 35	6.85

As of September 26, 2020, 56,900 stock options are exercisable with a weighted average exercise price of $12.04.

We recognized $46 and $91 share-based compensation expense related to option grants for the 13 weeks ended September 26, 2020 and September 28, 2019, respectively. We recognized $118 and $212 share-based compensation expense related to option grants for the 39 weeks ended September 26, 2020 and September 28, 2019, respectively.

There is estimated future share-based compensation expense as of September 26, 2020 of $76 to be amortized until July 2021.

Warrants:

As of September 26, 2020, and December 28, 2019, we had fully vested warrants outstanding to purchase 33,363 shares of common stock at a price of $3.40 per share and expire in November 2021.

Note 17: Loss Per Share

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

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

	For the Thirteen Weeks Ended		For the Thirty Nine Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Net loss	$ (810)	$ (1,958)	$ (5,535)	$ (5,357)
Basic loss per share	$ (0.43)	$ (1.14)	$ (2.98)	$ (3.14)
Diluted loss per share	$ (0.43)	$ (1.14)	$ (2.98)	$ (3.14)

Potentially dilutive securities were excluded from the calculation of diluted net loss per share. The number of dilutive securities excluded were 135,263 and 134,363 respectively, during the 39 weeks ended September 26, 2020 and September 28, 2019, because the effects were anti-dilutive based on the application of the treasury stock method.

Note 18: Major Customers and Suppliers

For the 13 weeks ended September 26, 2020, one customer represented 30% of our total revenues. For the 39 weeks ended September 26, 2020, two customers represented a combined 32% of our total revenue. As of September 26, 2020, two customers represented 38% of our total trade receivables.

For the 13 weeks ended September 28, 2019,one customer represented 16% of our total revenues. For the 39 weeks ended September 28, 2019,one customer represented 11% of our total revenue. As of December 28, 2019, three customers represented more than 10% of our total trade receivables, for a total of 49% of our total trade receivables.

During the 13 weeks and 39 weeks ended September 26, 2020 and September 28, 2019, we purchased appliances for resale from four suppliers. We have and are continuing to secure other vendors from which to purchase appliances. However, the curtailment or loss of one of these suppliers or any appliance supplier could adversely affect our operations.

Note 19: Defined Contribution Plan

We have a defined contribution salary deferral plan covering substantially all employees under Section 401(k) of the Internal Revenue Code. We contribute an amount equal to 10 cents for each dollar contributed by each employee up to a maximum of 5% of each employee's compensation. We recognized expense for contributions to the plans of $8 and $3 for the 13 weeks ended September 26, 2020 and September 28, 2019, respectively, and $20 and $20 for the 39 weeks ended September 26, 2020 and September 28, 2019, respectively.

Note 20: Segment Information

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

The following tables present our segment information for the 13 and 39 weeks ended September 26, 2020 and September 28, 2019:

	Thirteen Weeks Ended		Thirty Nine Weeks Ended	
	September 26, 2020	September 28, 2019	September 26, 2020	September 28, 2019
Revenues				
Recycling	$ 12,266	$ 9,790	$ 24,723	$ 23,684
Biotechnology	—	—	—	—
Technology	—	—	—	—
Total Revenues	$ 12,266	$ 9,790	$ 24,723	$ 23,684
Gross profit				
Recycling	$ 3,717	$ 2,564	$ 6,236	$ 5,581
Biotechnology	—	—	—	—
Technology	—	—	—	—
Total Gross profit	$ 3,717	$ 2,564	$ 6,236	$ 5,581
Operating loss				
Recycling	$ 1,249	$ (1,319)	$ (1,526)	$ (4,200)
Biotechnology	(845)	—	(1,652)	—
Technology	(1,227)	(1,302)	(3,362)	(3,685)
Total Operating loss	$ (823)	$ (2,621)	$ (6,540)	$ (7,885)
Depreciation and amortization				
Recycling	$ 124	$ 139	$ 295	$ 238
Biotechnology	—	—	—	—
Technology	936	937	2,809	2,808
Total Depreciation and amortization	$ 1,060	$ 1,076	$ 3,104	$ 3,046
Interest expense, net				
Recycling	$ 88	$ 75	$ 255	$ 81
Biotechnology	—	—	—	—
Technology	—	—	—	—
Total Interest expense, net	$ 88	$ 75	$ 255	$ 81
Net loss before benefit from income taxes				
Recycling	$ 1,193	$ (1,388)	$ (879)	$ (3,497)
Biotechnology	(845)	—	(1,652)	—
Technology	(1,257)	(1,302)	(3,452)	(3,685)
Total Net loss before benefit from income taxes	$ (909)	$ (2,690)	$ (5,983)	$ (7,182)

	As of September 26, 2020	As of December 28, 2019
Assets		
Recycling	$ 11,192	$ 11,505
Biotechnology	—	—
Technology	14,685	17,529
Total Assets	$ 25,877	$ 29,034
Intangible assets		
Recycling	$ 19	$ 465
Biotechnology	—	—
Technology	14,931	17,240
Total Intangible assets	$ 14,950	$ 17,705

Note 21: Related Parties

Tony Isaac, the Company's Chief Executive Officer, is the father of Jon Isaac, President and Chief Executive Officer of Live Ventures Incorporated ("Live") and managing member of Isaac Capital Group LLC, a greater than 5% stockholder of the Company. Tony Isaac, Chief Executive Officer, Virland Johnson, Chief Financial Officer, and Richard Butler, Board of Directors member, are members of our Board of Directors, Chief Financial Officer, Board of Directors member, and Board of Directors members, respectively, of Live. The Company also shares certain executive, accounting and legal services with Live. The total services shared were $61 and $52 for the 13 weeks ended September 26, 2020 and September 28, 2019, respectively, and $186 and $99 for the 39 weeks ended September 26, 2020 and September 28, 2019, respectively. Customer Connexx rents approximately 10,000 square feet of office space from Live in Las Vegas, Nevada. The total rent and common area expense were $54 and $45 for the 13 weeks ended September 26, 2020 and September 28, 2019, respectively, and $144 and $44 for the 39 weeks ended September 26, 2020 and September 28, 2019, respectively.

ApplianceSmart Note

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

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

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

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

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

Related Party Note

On August 28, 2019, ARCA Recycling entered into and delivered to Isaac Capital Group, LLC (the "Lender"), a secured revolving line of credit promissory note, whereby the Lender agreed to provide the ARCA Recycling with a $2,500 revolving credit facility (the "Revolving Credit Facility"). The Revolving Credit Facility matures on August 28, 2020. During August 2020, the parties agreed to extend the maturity date to December 31, 2020. The Revolving Credit Facility bears interest at 8.75% per annum and provides for the payment of interest, monthly in arrears. ARCA Recycling will pay a loan fee of 2.0% on each borrowing made under the Revolving Credit Facility. In connection with entering into the Revolving Credit Facility, the Borrower also entered into a security agreement in favor of the Lender, pursuant to which ARCA Recycling granted a security interest in all of its assets to the Lender. The obligations of ARCA Recycling under the Revolving Credit Facility are guaranteed by the Company. The foregoing transaction did not include the issuance of any shares of the Company's common stock, warrants, or other derivative securities. The Lender is a stockholder of the Company. Jon Isaac is the manager and sole member of the Lender, and the son of Tony Isaac, the Chief Executive Officer of the Company and ARCA Recycling. As of September 26, 2020 and December 28, 2019, $1,000 and $2,473, respectively, was outstanding on the Revolving Credit Facility.

Note 22: Subsequent Event

On October 1, 2020, the “Company filed with the Secretary of State of the State of Nevada an Amended and Restated Certificate of Designation for the Preferences, Rights, and Limitations of the Series A-1 Convertible Preferred Stock of the Company (the “Amended and Restated Certificate of Designation”). The Amended and Restated Certificate of Designation modified the conversion rights of the holders of such series. Prior to the amendment and restatement, the shares of Series A-1 Convertible Preferred Stock had conversion rights in respect of the Company’s common stock. As a result of the filing of the Amended and Restated Certificate of Designation, the shares of Series A-1 Convertible Preferred Stock have conversion rights into an aggregate of 85% of GeoTraq, Inc., currently a wholly-owned subsidiary of the Company.

On November 4, 2020, at the Annual Meeting, the Company’s stockholders approved an amendment (the “Plan Amendment”) to the 2016 Plan to increase the total number of shares of the Company’s common stock reserved for issuance under the 2016 Plan to 800,000 shares. The description of the Plan Amendment is qualified in its entirety by reference to the complete text of the Plan Amendment, a copy of which is filed as Exhibit 10.3 to this Quarterly Report on Form 10-Q and is incorporated herein by reference.

On November 4, 2020, at the Company’s Annual Meeting of Stockholders (the “Annual Meeting”), the Company’s stockholders approved an amendment (the “Charter Amendment”) to the Company’s Articles of Incorporation to increase the total number of authorized shares of the Company’s common stock from 10,000,000 shares to 200,000,000 shares. Following stockholder approval, the Charter Amendment was filed with the Nevada Secretary of State on November 5, 2020, at which time the Charter Amendment became effective. The Company’s Board of Directors had previously approved the Charter Amendment, subject to stockholder approval. The description of the Charter Amendment is qualified in its entirety by reference to the complete text of the Charter Amendment, a copy of which is filed as Exhibit 3.10 to this Quarterly Report on Form 10-Q and is incorporated herein by reference.

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

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

Forward-Looking and Cautionary Statements

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

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

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

Overview

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

We operate three reportable segments:

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

For the Thirteen Weeks Ended September 26, 2020 and September 28, 2019

Results of Operations

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

	13 Weeks Ended September 26, 2020		13 Weeks Ended September 28, 2019	
Statement of Operations Data:				
Revenue	$ 12,266	100.0%	$ 9,790	100.0%
Cost of revenue	8,549	69.7%	7,226	73.8%
Gross profit	3,717	30.3%	2,564	26.2%
Selling, general and administrative expense	4,540	37.0%	5,185	53.0%
Operating loss	(823)	-6.7%	(2,621)	-26.8%
Interest expense, net	(88)	-0.7%	(75)	-0.8%
Other income (expense)	2	0.0%	6	0.1%
Net loss before income taxes	(909)	-7.4%	(2,690)	-27.5%
Benefit (expense) of income taxes	99	0.8%	732	7.5%
Net loss	$ (810)	-6.6%	$ (1,958)	-20.0%

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

	13 Weeks Ended September 26, 2020		13 Weeks Ended September 28, 2019	
	Net Revenue	Percent of Total	Net Revenue	Percent of Total
Revenue				
Recycling and Byproducts	$ 6,005	49.0%	$ 6,650	67.9%
Replacement Appliances	6,261	51.0%	3,140	32.1%
Total Revenue	$ 12,266	100.0%	$ 9,790	100.0%

	13 Weeks Ended September 26, 2020		13 Weeks Ended September 28, 2019	
	Gross Profit	Gross Profit %	Gross Profit	Gross Profit %
Gross Profit				
Recycling and Byproducts	$ 444	7.4%	$ 1,491	22.4%
Replacement Appliances	3,273	52.3%	1,073	34.2%
Total Gross Profit	$ 3,717	30.3%	$ 2,564	26.2%

Revenue

Revenue increased $2,476 or 25.3% for the 13 weeks ended September 26, 2020, as compared to the 13 weeks ended September 28, 2019. Replacement Appliance revenue increased $3,121 or 99% due to an increase in customer volume and Recycling and Byproducts revenue decreased $645 or 9.7%. Specifically, during the 13 weeks ended September 26, 2020, the Company entered into an agreement with a new customer whereby the Company was engaged to provide replacement appliances to lower income families. The contract was significantly completed as of September 26, 2020.

Cost of Revenue

Cost of revenue increased $1,323, or 18.3% for the 13 weeks ended September 26, 2020, as compared to the 13 weeks ended September 28, 2019, proportionately with the increase in revenue described above, partially offset by cost cutting measures.

Gross Profit

Gross profit increased $1,153 or 45.0% for the 13 weeks ended September 26, 2020, as compared to the 13 weeks ended September 28, 2019 due to higher margins on certain replacement products.

Selling, General and Administrative Expense

Selling, general and administrative expense decreased $645 or 12.4%, for the 13 weeks ended September 26, 2020, as compared to the 13 weeks ended September 28, 2019, due to a temporary reduction in employees, cost cutting measures and other activities related to the closure of our facilities due to COVID-19.

Operating Loss

As a result of the factors described above, operating loss of $823 for the 13 weeks ended September 26, 2020 was significantly lower than the 13 weeks ended September 28, 2019 of $2,621.

Benefit from Income Taxes

We recorded an income tax benefit of $99 for the 13 weeks ended September 26, 2020, compared with a benefit from income taxes of $732 for in the same period of 2019, a decrease of $633.

Net Loss

The factors described above led to a net loss of $810 for the 13 weeks ended September 26, 2020, a decrease in loss of $1,148 from a net loss of $1,958 for the 13 weeks ended September 28, 2019.

Segment Performance

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

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

	13 Weeks Ended September 26, 2020				13 Weeks Ended September 28, 2019			
	Recycling	Biotechnology	Technology	Total	Recycling	Biotechnology	Technology	Total
Revenue	$ 12,266	$ —	$ —	$ 12,266	$ 9,790	$ —	$ —	$ 9,790
Cost of revenue	8,549	—	—	8,549	7,226	—	—	7,226
Gross profit	3,717	—	—	3,717	2,564	—	—	2,564
Selling, general and administrative expense	2,468	845	1,227	4,540	3,883	—	1,302	5,185
Operating income (loss)	$ 1,249	$ (845)	$ (1,227)	$ (823)	$ (1,319)	$ —	$ (1,302)	$ (2,621)

Recycling Segment

The recycling segment consists of ARCA Recycling, Customer Connexx, and ARCA Canada. Revenue for the 13 weeks ended September 26, 2020, increased by $2,576, or 25.3% as compared to the prior year period. Replacement Appliance revenue increased $3,121 or 99% due to an increase in customer volume and Recycling and Byproducts revenue decreased $645 or 9.7%. Specifically, during the 13 weeks ended September 26, 2020, the Company entered into an agreement with a new customer whereby the Company was engaged to provide replacement appliances to lower income families. The contract was significantly completed as of September 26, 2020

Cost of revenue for the 13 weeks ended September 26, 2020, increased $1,323 or 18.3% as compared to the prior year period, proportionately with revenue as described, partially offset by cost cutting measures.

Operating income for the 13 weeks ended September 26, 2020, was $1,249 as compared to the prior year period operating loss of $1,319. This represents an increase in gross profit of $1,153 and a decrease in selling, general and administrative expense of $1,415. The decrease in selling, general and administrative expense is primarily attributable to due to a temporary reduction in employees, cost cutting measures and other activities related to the closure of our facilities due to COVID-19.

Biotechnology Segment

Our biotechnology segment started during September 2019, and, as a result, incurred expenses of $845 related to employee costs and professional services related to research for the 13 weeks ended September 26, 2020.

Technology Segment

The technology segment consists of GeoTraq. Results for the 13 weeks ended September 26, 2020 include a loss of $1,227 which approximated the 13 weeks ended September 28, 2019 loss of $1,302. The loss represents intangible asset amortization expense and other selling general and administrative expense for each period.

For the Thirty-Nine Weeks Ended September 26, 2020 and September 28, 2019

Results of Operations

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

	39 Weeks Ended September 26, 2020		39 Weeks Ended September 28, 2019	
Statement of Operations Data:				
Revenue	$ 24,723	100.0%	$ 23,684	100.0%
Cost of revenue	18,487	74.8%	18,103	76.4%
Gross profit	6,236	25.2%	5,581	23.6%
Selling, general and administrative expense	12,776	51.7%	13,466	56.9%
Operating loss	(6,540)	-26.5%	(7,885)	-33.3%
Interest expense	(255)	-1.0%	(81)	-0.3%
Other income	812	3.3%	784	3.3%
Net loss before income taxes	(5,983)	-24.2%	(7,182)	-30.3%
Benefit of income taxes	448	1.8%	1,825	7.7%
Net loss	$ (5,535)	-22.4%	$ (5,357)	-22.6%

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:

	39 Weeks Ended September 26, 2020		39 Weeks Ended September 28, 2019	
	Net Revenue	Percent of Total	Net Revenue	Percent of Total
Revenue				
Recycling and Byproducts	$ 12,445	50.3%	$ 15,147	64.0%
Replacement Appliances	12,278	49.7%	8,537	36.0%
Total Revenue	$ 24,723	100.0%	$ 23,684	100.0%

	39 Weeks Ended September 26, 2020		39 Weeks Ended September 28, 2019	
	Gross Profit	Gross Profit %	Gross Profit	Gross Profit %
Gross Profit				
Recycling and Byproducts	$ 588	4.7 %	$ 2,674	17.7 %
Replacement Appliances	5,648	46.0 %	2,907	34.1 %
Total Gross Profit	$ 6,236	25.2 %	$ 5,581	23.6 %

Revenue

Revenue increased $1,039 or 4.4% for the 39 weeks ended September 26, 2020, as compared to the 39 weeks ended September 28, 2019. Replacement Appliance revenue increased $3,741 or 43.8% due to higher volumes from two customers. Recycling and Byproducts revenue decreased $2,702 or 17.8% due to the closure of our facilities and decreased volumes from our customers.

Cost of Revenue

Cost of revenue increased $384, or 2.1% for the 39 weeks ended September 26, 2020, as compared to the 39 weeks ended September 28, 2019, proportionately with the increase in revenue described above, partially offset by cost cutting measures.

Gross Profit

Gross profit increased $655 or 11.7% for the 39 weeks ended September 26, 2020, as compared to the 39 weeks ended September 28, 2019 due to the increase in revenue, partially offset by the increase in cost of revenue as discussed above.

Selling, General and Administrative Expense

Selling, general and administrative expense decreased $690 or 5.1% for the 39 weeks ended September 26, 2020, as compared to the 39 weeks ended September 28, 2019, due to a temporary reduction in employees, cost cutting measures and other activities related to the closure of our facilities due to COVID-19.

Operating Loss

As a result of the factors described above, the operating loss of $6,540 for the 39 weeks ended September 26, 2020 represented an decrease in loss of $1,345 over the comparable prior year 39 weeks ended September 28, 2019 of $7,885.

Interest Expense, net

Interest expense net increased $174 for the 39 weeks ended September 26, 2020, as compared to the 39 weeks ended September 28, 2019 primarily due to the increase in related party debt and California sales and use tax interest.

Other Income

Other income remained constant at $812 for the 39 weeks ended September 26, 2020 as compared to the 39 weeks ended September 28, 2019 of $784.

Benefit from Income Taxes

We recorded an income tax benefit of $448 for the 39 weeks ended September 26, 2020, compared with a benefit from income taxes of $1,825 for in the same period of 2019, a decrease of $1,377.

Net Loss

The factors described above led to a net loss of $5,535 for the 39 weeks ended September 26, 2020, an increase in loss of $178 from a net loss of $5,357 for the 39 weeks ended September 28, 2019.

Segment Performance

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

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

	39 Weeks Ended September 26, 2020				39 Weeks Ended September 28, 2019			
	Recycling	Biotechnology	Technology	Total	Recycling	Biotechnology	Technology	Total
Revenue	$ 24,723	$ —	$ —	$ 24,723	$ 23,684	$ —	$ —	$ 23,684
Cost of revenue	18,487	—	—	18,487	18,103	—	—	18,103
Gross profit	6,236	—	—	6,236	5,581	—	—	5,581
Selling, general and administrative expense	7,762	1,652	3,362	12,776	9,781	—	3,685	13,466
Operating loss	$ (1,526)	$ (1,652)	$ (3,362)	$ (6,540)	$ (4,200)	$ —	$ (3,685)	$ (7,885)

Recycling Segment

The recycling segment consists of ARCA Recycling, Customer Connexx, and ARCA Canada. Revenue for the 39 weeks ended September 26, 2020, increased by $1,039, or 4.4% as compared to the prior year period. Replacement Appliance revenue increased $3,741 or 43.8% due to higher volumes from two customers. Recycling and Byproducts revenue decreased $2,702 or 17.8% due to the closure of our facilities and decreased volumes from our customers.

Cost of revenue for the 39 weeks ended September 26, 2020, remained constant as compared to the prior year period.

Operating loss for the 39 weeks ended September 26, 2020, decreased to $1,526 as compared to the prior year period of $4,200. This represents an increase in gross profit of $655 and a decrease in selling, general and administrative expense of $2,019. The decrease in selling, general and administrative expense is primarily attributable to due to a temporary reduction in employees, cost cutting measures and other activities related to the closure of our facilities due to COVID-19.

Biotechnology Segment

Our biotechnology segment started during September 2019, and, as a result, incurred expenses of $1,652 related to employee costs and professional services related to research for the 39 weeks ended September 26, 2020.

Technology Segment

The technology segment consists of GeoTraq. Results for the 39 weeks ended September 26, 2020 include a loss of $3,362 which approximated the 39 weeks ended September 28, 2019 loss of $3,685. The loss represents intangible asset amortization expense and other selling, general and administrative expense for each period.

Liquidity and Capital Resources

Overview

As of September 26, 2020, we had total cash on hand of $638. As we continue to pursue strategic transactions to expand and grow our business, we regularly monitor capital market conditions and may raise additional funds through borrowings or public or private sales of debt or equity securities. The amount, nature and timing of any borrowings or sales of debt or equity securities will depend on our operating performance and other circumstances; our then-current commitments and obligations; the amount, nature and timing of our capital requirements; any limitations imposed by our current credit arrangements; and overall market conditions.

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

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

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

As of the period ending September 26, 2020, the Company received advance payments authorized by the California Public Utilities Commission and processed through two California utilities for the purposes of sustaining the workforce during the COVID 19 pandemic shutdown. The use of these funds was limited to labor and labor benefits for impacted employees. Portions of these advances are forgivable if certain conditions are met the specifics which have not been finalized. Advance payments that are not forgiven will need to be paid back in full by December 31, 2021. Total funding received under this program as of September 26, 2020 amounted to $1,168. As of September 26, 2020, no amounts have been forgiven.

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

Cash Flows

During the 39 weeks ended September 26, 2020, cash used in operations was $1,042, compared to cash used in operations of $3,643 during the 39 weeks ended September 28, 2019. The decrease in cash provided by operations was primarily due to:

A decrease in the change in deferred compensation of $148 and a decrease in the change in deferred income taxes of $1,553.

Changes in working capital accounts affecting operating cash flows were as follows: an decrease in accounts receivable of $1,654, an increase in income taxes receivable of $207, a decrease in accounts payable and accrued expenses of $785, a increase in prepaid expenses and other current assets of $982 and an decrease in inventory of $1,196.

Cash (used in) provided by investing activities was $(293) and $445 for the 39 weeks ended September 26, 2020 and the 39 weeks ended September 28, 2019, respectively. During fiscal 2020, the Company incurred purchases of intangibles and property and equipment of $293. During fiscal 2019, the Company received net payments received on a note receivable from ApplianceSmart of $881, and incurred purchases of property and equipment of $436.

Cash provided by financing activities was $1,547 and $2,616 for the 39 weeks ended September 26, 2020 and the 39 weeks ended September 28, 2019, respectively. During fiscal 2020, the Company received proceeds from short term debt of $3,469 primarily associated with the Payroll Protection Program and advances from certain customers for future services and paid $1,500 on its related party note. During fiscal 2019, the Company received proceeds from the related party note of $2,500 and the issuance of long-term obligation of $471, offset by payment of $355.

Sources of Liquidity

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

Future Sources of Cash; New Acquisitions, Products and Services

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market Risk and Impact of Inflation

Foreign Currency Exchange Rate Risk. We currently generate revenues in Canada. The reporting currency for our consolidated financial statements is U.S. dollars. It is not possible to determine the exact impact of foreign currency exchange rate changes; however, the effect on reported revenue and net loss can be estimated. We estimate that the U.S. dollar against the Canadian dollar had an immaterial impact on our consolidated financial statements for the period ended September 26, 2020. We do not currently hedge foreign currency fluctuations and do not intend to do so for the foreseeable future.

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), to allow timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act), at March 28, 2020. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at September 26, 2020, our disclosure controls and procedures were ineffective.

Changes in Internal Control over Financial Reporting

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

Management noted material weaknesses in internal control when conducting their evaluation of internal control as of December 28, 2019. (1) Insufficient information technology general controls ("ITGC") and segregation of duties. It was noted that people who were negotiating a contract, were also involved in approving invoices without proper oversight. Additional controls and procedures are necessary and are being implemented to have check and balance on significant transactions and governance with those charged with governance authority. (2) Inadequate control design or lack of sufficient controls over significant accounting processes. The cutoff and reconciliation procedures were not effective with certain accrued and deferred expenses. (3) Insufficient assessment of the impact of potentially significant transactions, and (4) Insufficient processes and procedures related to proper recordkeeping of agreements and contracts. In addition, contract to invoice reconciliation was not effective with certain transportation service providers. As part of its remediation plan, processes and procedures have been implemented to help ensure accruals and invoices are reviewed for accuracy and properly recorded in the appropriate period. These material weaknesses remained outstanding as of September 26, 2020 and management is currently working to remedy these outstanding material weaknesses.

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

PART II. Other Information

Item 1. Legal Proceedings.

On December 29, 2016, the Company served a Minnesota state court complaint for breach of contract on Skybridge Americas, Inc. (“SA”), the Company’s primary call center vendor throughout 2015 and most of 2016. The Company seeks damages in the millions of dollars as a result of alleged overcharging by SA and lost client contracts. On January 25, 2017, SA served a counterclaim for unpaid invoices in the amount of approximately $460,000 plus interest and attorneys’ fees. On March 29, 2017, the Hennepin County district court (the “District Court”) dismissed the Company’s breach of contract claim based on SA’s overuse of its Canadian call center but permitted the Company’s remaining claims to proceed. Following motion practice, on January 8, 2018 the District Court entered judgment in SA’s favor, which was amended as of February 28, 2018, for a total amount of 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. Trial was held in August 2020 and the parties are awaiting the judge’s ruling.

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

The California Department of Tax and Fee Administration (formerly known as the California Board of Equalization) (“CDTFA”) conducted a sales and use tax examination covering ARCA Recycling’s California operations for years 2011, 2012 and 2013. The Company believed it was exempt from collecting sales taxes under service agreements with utility customers that included appliance replacement programs. During the fourth quarter of 2014, the Company received communication from the CDTFA indicating they were not in agreement with the Company’s interpretation of the law. As a result, the Company applied for and, as of February 9, 2015, received approval to participate in the CDTFA’s Managed Audit Program. The period covered under this program included years 2011, 2012, 2013 and extended through the nine-month period ended September 30, 2014. On April 13, 2017 the Company received the formal CDTFA assessment for sales tax for tax years 2011, 2012 and 2013 in the amount of $4.1 million plus applicable interest of $0.5 million related to the appliance replacement programs that the Company administered on behalf of its customers on which it did not assess, collect or remit sales tax. The Company has appealed this assessment to the CDTFA Appeals Bureau. The appeal remains in process. Interest will continue to accrue until the matter is settled. The total estimated amount of sales tax plus interest was $5.6 million as of September 26, 2020.

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

Item 1A. Risk Factors.

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

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

Item 5.03. Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year.

On November 4, 2020, at the Annual Meeting (as defined below), the stockholders of the Company approved an amendment (the "Charter Amendment") to the Company's Articles of Incorporation to increase the total number of authorized shares of the Company's common stock from 10,000,000 shares to 200,000,000 shares. Following stockholder approval, the Charter Amendment was filed with the Nevada Secretary of State on November 5, 2020, at which time the Charter Amendment became effective. The Company's Board of Directors had previously approved the Charter Amendment, subject to stockholder approval. The description of the Charter Amendment is qualified in its entirety by reference to the complete text of the Charter Amendment, a copy of which is filed as Exhibit 3.1 to this Current Report on Form 8-K and is incorporated herein by reference.

Item 5.07 Submission of Matters to a Vote of Security Holders.

On November 4, 2020, the Company held its Annual Meeting of Stockholders (the "Annual Meeting") to vote on the matters disclosed in the Company's definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on October 2, 2020 (the "Proxy Statement"). The final voting results for the matters submitted to a vote of stockholders were as follows:

Proposal No. 1 – Election of Directors

At the Annual Meeting, the Company's stockholders elected the persons listed below as directors for a one-year term expiring on the date of the Annual Meeting in 2020 or until their respective successors are duly elected and qualified:

	Votes		
Nominee Name	**Votes For**	**Votes Withheld**	**Broker Non-Votes**
Tony Isaac	4,100,884	12,865	610,418
Richard D. Butler, Jr.	4,100,526	13,223	610,418
Nael Hajjar	4,100,779	12,970	610,418
John Bitar	4,100,692	13,057	610,418

Proposal No. 2 – Charter Amendment Proposal

The Company's stockholders approved an amendment to the Company's Articles of Incorporation to increase the number of authorized shares of the Company's common stock from 10,000,000 to 200,000,000.

Votes			
For	**Against**	**Abstain**	**Broker Non-Votes**
4,023,279	85,857	4,613	610,418

Proposal No. 3 – 2016 Plan Amendment Proposal

The Company's stockholders approved an amendment to the Company's 2016 Equity Incentive Plan (the "2016 Plan") to increase the number of shares subject to the 2016 Plan from 400,000 to 800,000.

Votes			
For	**Against**	**Abstain**	**Broker Non-Votes**
4,024,797	46,160	42,792	610,418

Proposal No. 4 – Ratification of Independent Accounting Firm

The Company's stockholders ratified the appointment of WSRP, LLC as the Company's independent registered public accounting firm for fiscal 2020.

Votes		
For	**Against**	**Abstain**
4,630,803	58,190	35,174

Item 6. Exhibits.

Index to Exhibits

Exhibit Number		Exhibit Description	Form	File Number	Exhibit Number	Filing Date
3.1		Articles of Incorporation of Appliance Recycling Centers of America, Inc.	8-K	0-19621	3.3	03/13/18
3.2		Articles of Conversion	8-K	0-19621	3.1	03/13/18
3.3		Articles of Conversion	8-K	0-19621	3.2	03/13/18
3.4		Certificate of Correction	10-Q	0-19621	3.1	08/14/18
3.5		Certificate of Change	8-K	0-19621	3.1	04/22/19
3.6		Certificate of Correction	8-K	0-19621	3.7	06/24/19
3.7		Certificate of Designation of Powers, Preferences, and Rights of Series A-1 Convertible Preferred Stock of JanOne Inc. (formerly known as Appliance Recycling Centers of America, Inc.)	8-K	0-19621	3.8	06/24/19
3.8		Articles of Merger for JanOne Inc. into Appliance Recycling Centers of America, Inc., filed with the Secretary of the State of Nevada on September 9, 2019, and effective on September 10, 2019	8-K	0-19621	3.10	09/13/19
3.9	*	Certificate of Amendment to Articles of Incorporation, filed with the Secretary of State for the State of Nevada on November 5, 2020.				
3.10		Bylaws of Appliance Recycling Centers of America, Inc.	8-K	0-19621	3.4	03/13/18
3.11		First Amendment to Bylaws of Appliance Recycling Centers of America, Inc.	8-K	0-19621	3.1	12/31/18
4.2	*	Specimen Stock Certificate				
10.1		Secured Revolving Line of Credit Promissory Note dated August 28, 2019	8-K	0-19621	10.1	08/30/19
10.2	*	Amendment to Secured Revolving Line of Credit Promissory Note dated August 25, 2020 between ARCA Recycling, Inc. and Isaac Capital Group, LLC				
10.3	*	First Amendment to 2016 Equity Incentive Plan				
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				
Ex. 101.INS	*	XBRL Instance Document				
Ex. 101.SCH	*	XBRL Taxonomy Extension Schema Document				
Ex. 101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document				
Ex. 101.DEF	*	XBRL Taxonomy Extension Definition Linkbase Document				
Ex. 101.LAB	*	XBRL Taxonomy Extension Label Linkbase Document				
Ex. 101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document				

* Filed herewith.

SIGNATURES

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

JanOne Inc.
(Registrant)

Date: November 9, 2020	By: /s/ Tony Isaac Tony Isaac Chief Executive Officer *(Principal Executive Officer)*
Date: November 9, 2020	By: /s/ Virland A. Johnson Virland A. Johnson Chief Financial Officer *(Principal Financial and Accounting Officer)*

Profit Corporation:

Certificate of Amendment (PURSUANT TO NRS 78.380 & 78.385/78.390)
Certificate to Accompany Restated Articles or Amended and Restated Articles (PURSUANT TO NRS 78.403)
Officer's Statement (PURSUANT TO NRS 80.030)

TYPE OR PRINT - USE DARK INK ONLY - DO NOT HIGHLIGHT

1. Entity information:	Name of entity as on file with the Nevada Secretary of State: JanOne Inc. Entity or Nevada Business Identification Number (NVID): E0123352018-3
2. Restated or Amended and Restated Articles: (Select one) (If amending and restating only, complete section 1, 2 3, 5 and 6)	☐ Certificate to Accompany Restated Articles or Amended and Restated Articles ☐ Restated Articles - No amendments; articles are restated only and are signed by an officer of the corporation who has been authorized to execute the certificate by resolution of the board of directors adopted on: The certificate correctly sets forth the text of the articles or certificate as amended to the date of the certificate. ☐ Amended and Restated Articles * Restated or Amended and Restated Articles must be included with this filing type.
3. Type of Amendment Filing Being Completed: (Select only one box) (If amending, complete section 1, 3, 5 and 6.)	☐ Certificate of Amendment to Articles of Incorporation (Pursuant to NRS 78.380 - Before Issuance of Stock) The undersigned declare that they constitute at least two-thirds of the following: (Check only one box) ☐ incorporators ☐ board of directors The undersigned affirmatively declare that to the date of this certificate, no stock of the corporation has been issued
	☒ Certificate of Amendment to Articles of Incorporation (Pursuant to NRS 78.385 and 78.390 - After Issuance of Stock) The vote by which the stockholders holding shares in the corporation entitling them to exercise at least a majority of the voting power, or such greater proportion of the voting power as may be required in the case of a vote by classes or series, or as may be required by the provisions of the articles of incorporation* have voted in favor of the amendment is: 64%
	☐ Officer's Statement (foreign qualified entities only) - Name in home state, if using a modified name in Nevada: Jurisdiction of formation: Changes to takes the following effect: ☐ The entity name has been amended. ☐ The purpose of the entity has been amended. ☐ The authorized shares have been amended. ☐ Other: (specify changes) ☐ Dissolution ☐ Merger ☐ Conversion * Officer's Statement must be submitted with either a certified copyof or a certificate evidencing the filing of any document, amendatory or otherwise, relating to the original articles in the place of the corporations creation.

This form must be accompanied by appropriate fees.

Profit Corporation:

Certificate of Amendment (PURSUANT TO NRS 78.380 & 78.385/78.390)

Certificate to Accompany Restated Articles or Amended and Restated Articles (PURSUANT TO NRS 78.403)

Officer's Statement (PURSUANT TO NRS 80.030)

4. Effective Date and Time: (Optional)	Date: Time: (must not be later than 90 days after the certificate is filed)
5. Information Being Changed: (Domestic corporations only)	Changes to takes the following effect: ☐ The entity name has been amended. ☐ The registered agent has been changed. (attach Certificate of Acceptance from new registered agent) ☐ The purpose of the entity has been amended. ☒ The authorized shares have been amended. ☐ The directors, managers or general partners have been amended. ☐ IRS tax language has been added. ☐ Articles have been added. ☐ Articles have been deleted. ☐ Other. The articles have been amended as follows: (provide article numbers, if available) Increase in the authorized number of shares of common stock to 200,000,000 per below. (attach additional page(s) if necessary)
6. Signature: (Required)	✘ /s/ Tony Isaac — President & CEO Signature of Officer or Authorized Signer — Title ✘ /s/ Virland A. Johnson — Chief Financial Officer Signature of Officer or Authorized Signer — Title *If any proposed amendment would alter or change anypreference or any relative or other right given to any class or series of outstanding shares, then the amendment must be approved by the vote, in addition to the affirmative vote otherwise required, of the holders of shares representing a majority of the voting power of each class or series affected by the amendment regardless to limitations or restrictions on the voting power thereof.

Please include any required or optional information in space below:
(attach additional page(s) if necessary)

The first paragraph of Article 3 (Authorized Stock), Section 3.1 (Designation of Class and Series) is amended to provide that the total number of shares of capital stock that the Corporation shall have authority to issue is 202,000,000 shares, of which (i) 200,000,000 shares shall be Common Stock, $0.001 par value per share (the "Common Stock") and (ii) 2,000,000 shares shall be Preferred Stock, $0.001 par value per share (the "Preferred Stock"), of which 288,588 shares are hereby designated "Series A Convertible Preferred Stock", with the voting powers, designations, preferences, limitations, restrictions, relative rights and distinguishing designation set forth in Section 3.2.

This form must be accompanied by appropriate fees.

Exhibit 4.2

NUMBER

SHARES

JanOne

INCORPORATED UNDER THE LAWS OF THE STATE OF NEVADA

SEE REVERSE SIDE
FOR CERTAIN DEFINITIONS

CUSIP 47089W 10 4

THIS CERTIFIES THAT

is the owner of

FULLY PAID AND NON-ASSESSABLE SHARES OF COMMON STOCK, $0.0001 PAR VALUE PER SHARE, OF

JanOne Inc.

transferable only on the books of the Corporation by the holder hereof in person or by Attorney upon surrender of this certificate properly endorsed. This certificate is not valid until countersigned by the Transfer Agent and Registrar.

IN WITNESS WHEREOF, the said Corporation has caused this certificate to be signed by facsimile signatures of its duly authorized officers.

Dated:

SECRETARY

PRESIDENT

COUNTERSIGNED AND REGISTERED:
EQUINITI TRUST COMPANY

TRANSFER AGENT
AND REGISTRAR

BY

AUTHORIZED SIGNATURE

THE CORPORATION WILL FURNISH TO ANY STOCKHOLDER UPON REQUEST AND WITHOUT CHARGE, A FULL STATEMENT OF THE DESIGNATIONS, PREFERENCES, LIMITATIONS, AND RELATIVE RIGHTS OF THE SHARE OF EACH CLASS OR SERIES AUTHORIZED TO BE ISSUED, SO FAR AS THEY HAVE BEEN DETERMINED, AND THE AUTHORITY OF THE BOARD TO DETERMINE THE RELATIVE RIGHTS AND PREFERENCES OF SUBSEQUENT CLASSES OR SERIES.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	– as tenants in common	UTMA – ________ Custodian ________ (Cust) (Minor)
TEN ENT	– as tenants by entireties	under Uniform Transfers to Minors
JT TEN	– as joint tenants with right of survivorship and not as tenants in common	Act ____________ (State)

Additional abbreviations may also be used though not in the above list.

For value received ____ hereby sell, assign, and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE

____

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS INCLUDING POSTAL ZIP CODE OF ASSIGNEE)

____

____

____________________________ *Shares*

of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint ________

____________________________ *Attorney*

to transfer the said stock on the books of the within-named Corporation with full power of substitution in the premises.

Dated ________ ____________________________

NOTICE: THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATEVER.

SIGNATURE GUARANTEED

Exhibit 10.2

AMENDMENT

This AMENDMENT TO SECURED REVOLVING LINE OF CREDIT PROMISSORY NOTE (this "***Amendment***") is entered into as of August 25, 2020, between ARCA Recycling, Inc., a California corporation ("***Borrower***"), and ISAAC CAPITAL GROUP, LLC, a Delaware limited liability company ("***Lender***").

RECITALS

A. Whereas, Lender and Borrower are parties to a Secured Revolving Line of Credit Promissory Note dated August 28, 2019 in the original aggregate principal amount of $2,500,000 (the "***Note***") (any capitalized terms not specifically defined herein will have the meaning ascribed to them in the Note); and

B. Whereas, Borrower and Lender have agreed to extend the Maturity Date of the Note.

NOW, THEREFORE, in consideration of the parties' mutual promises in this Amendment, and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties agree as follows:

AGREEMENT

1. **Extension of Maturity Date**. In accordance with the terms of the Note, the Lender hereby extends the Maturity Date from August 28, 2020 to December 31, 2020.

2. **No Waiver**. Except as set forth in this Amendment, all of the terms and conditions of the Agreement remain in full force and effect and none of such terms and conditions are, or shall be construed as, otherwise amended or modified, except as specifically set forth herein and nothing in this Amendment shall constitute a waiver by Lender of any default or event of default, or of any right, power or remedy available to Lender under the Note, whether any such defaults, rights, powers or remedies presently exist or arise in the future.

3. **Ratification**. The Note shall, together with this Amendment and any related documents, instruments, and agreements shall hereafter refer to the Note, as amended hereby.

4. **Other Provisions**. The provisions of the Note that are not expressly amended in this Amendment shall remain unchanged and in full force and effect. In the event of any conflict between the terms and provisions of this Amendment and the Note, the provisions of this Amendment shall control.

5. **Signatures**. This Amendment may be signed in counterparts. A facsimile or other electronic transmission of a signature page will be considered an original signature page. At the request of a party, the other party will confirm a fax-transmitted or electronically transmitted signature page by delivering an original signature page to the requesting party.

IN WITNESS WHEREOF, the parties have caused this Amendment to be duly executed and delivered as of the date first written above.

Borrower:

ARCA RECYCLING, INC.

By:	/s/ Virland A. Johnson
Name:	Virland A. Johnson
Title:	Chief Financial Officer

Lender:

ISAAC CAPITAL GROUP, LLC

By:	/s/ Jon Isaac
Name:	Jon Isaac
Title:	President and Chief Executive Officer

FIRST AMENDMENT
TO THE
JANONE INC.
2016 EQUITY INCENTIVE PLAN

THIS FIRST AMENDMENT (this "Amendment") is approved as of November 4, 2020, for the purpose of amending that certain JanOne Inc. (the "Company") 2016 Equity Incentive Plan (the "Plan"), adopted as of December 29, 2016. Capitalized terms used in this Amendment shall have the same meanings given to them in the Plan unless otherwise indicated.

1. Amendment. Section 6(a) of the Plan is hereby amended to read in its entirety as follows:

"(a) Number of Shares Reserved. The stock to be awarded or optioned under the Plan (the "Share Authorization") shall consist of authorized but unissued or reacquired shares of Common Stock. Subject to Section 13 of the Plan, the maximum aggregate number of shares of Common Stock reserved and available for Awards under the Plan is 800,000 shares; provided, however, that all shares of Stock reserved and available under the Plan shall constitute the maximum aggregate number of shares of Stock that may be issued through Incentive Stock Options."

2. Miscellaneous. Except as amended hereby, the Plan remains in full force and effect.

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: November 9, 2020

/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: November 9, 2020

/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 September 26, 2020 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2020

/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 September 26, 2020 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2020

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