

**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 July 3, 2021

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 10, 2021, there were 2,407,410 outstanding shares of the registrant's common stock, with a par value of \$0.001.

JANONE INC.
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PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

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

	July 3, 2021 (Unaudited)	January 2, 2021
Assets		
Cash and cash equivalents	\$ 3,710	\$ 379
Trade and other receivables, net	3,804	3,600
Income taxes receivable	23	196
Inventories	1,327	1,630
Prepaid expenses and other current assets	1,026	1,136
Total current assets	9,890	6,941
Property and equipment, net	2,111	732
Right to use asset - operating leases	3,139	2,458
Intangible assets, net	12,043	13,989
Deposits and other assets	273	231
Total assets	<u>\$ 27,456</u>	<u>\$ 24,351</u>
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	\$ 6,025	\$ 4,701
Accrued liabilities - other	5,073	4,888
Accrued liability - California Sales Taxes	5,895	5,769
Lease obligation short term - operating leases	1,333	1,197
Short term debt	85	3,042
Current portion of note payable	252	—
Related party note	1,000	1,000
Total current liabilities	19,663	20,597
Lease obligation long term - operating leases	1,902	1,388
Note payable	1,443	—
Other noncurrent liabilities	850	—
Total liabilities	23,858	21,985
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, series A-1 - par value \$0.001 per share 2,000,000 authorized, 259,729 shares issued and outstanding at July 3, 2021 and January 2, 2021, respectively	—	—
Common stock, par value \$0.001 per share, 200,000,000 shares authorized, 2,407,410 and 1,829,982 shares issued and outstanding at July 3, 2021 and at January 2, 2021, respectively	2	2
Additional paid in capital	45,620	39,869
Accumulated other comprehensive loss	(630)	(588)
Accumulated deficit	(41,394)	(36,917)
Total stockholders' equity	3,598	2,366
Total liabilities and stockholders' equity	<u>\$ 27,456</u>	<u>\$ 24,351</u>

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

JANONE INC.
CONDENSED CON SOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(UNAUDITED)

(Dollars in thousands, except per share)

	For the Thirteen Weeks Ended		For the Twenty Six Weeks Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
Revenues	\$ 8,606	\$ 4,007	\$ 17,278	\$ 12,457
Cost of revenues	6,863	2,962	14,114	9,938
Gross profit	1,743	1,045	3,164	2,519
Operating expenses:				
Selling, general and administrative expenses	4,595	3,363	8,125	8,236
Operating loss	(2,852)	(2,318)	(4,961)	(5,717)
Other income (expense):				
Interest expense, net	(125)	(54)	(198)	(167)
Gain on Payroll Protection Program loan forgiveness	—	—	1,872	—
Gain on settlement of vendor advance payments	131	—	941	—
Loss on litigation settlement	(1,950)	—	(1,950)	—
Other income (expense), net	22	(8)	22	810
Total other income (expense), net	(1,922)	(62)	687	643
Loss from operations before benefit from income taxes	(4,774)	(2,380)	(4,274)	(5,074)
Income tax benefit (expense)	(205)	(62)	(203)	349
Net loss	<u>\$ (4,979)</u>	<u>\$ (2,442)</u>	<u>\$ (4,477)</u>	<u>\$ (4,725)</u>
Dividends declared - Series A-1 preferred stock	\$ —	\$ —	\$ —	\$ —
Dividends declared - Common stock	\$ —	\$ —	\$ —	\$ —
Loss per share:				
Basic loss per share	\$ (2.07)	\$ (1.22)	\$ (1.94)	\$ (2.41)
Diluted loss per share	\$ (2.07)	\$ (1.22)	\$ (1.94)	\$ (2.41)
Weighted average common shares outstanding:				
Basic	2,405,410	1,993,578	2,312,024	1,961,210
Diluted	2,405,410	1,993,578	2,312,024	1,961,210
Net loss	<u>\$ (4,979)</u>	<u>\$ (2,442)</u>	<u>\$ (4,477)</u>	<u>\$ (4,725)</u>
Other comprehensive loss, net of tax:				
Effect of foreign currency translation adjustments	—	(34)	(42)	(28)
Total other comprehensive loss, net of tax	—	(34)	(42)	(28)
Comprehensive income loss	<u>\$ (4,979)</u>	<u>\$ (2,476)</u>	<u>\$ (4,519)</u>	<u>\$ (4,753)</u>

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

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

	For the Twenty Six Weeks Ended	
	July 3, 2021	June 27, 2020
OPERATING ACTIVITIES:		
Net loss	\$ (4,477)	\$ (4,725)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,090	2,044
Amortization of debt issuance costs	—	20
Stock based compensation expense	180	511
Gain on Payroll Protection Program loan forgiveness	(1,872)	—
Gain on settlement of vendor advance payments	(941)	—
Change in deferred income taxes	—	(473)
Other	(123)	29
Changes in assets and liabilities:		
Accounts receivable	(204)	3,304
Income taxes receivable	173	33
Prepaid expenses and other current assets	110	(489)
Inventories	303	(481)
Right of use assets	(681)	102
Lease liability	650	—
Accounts payable and accrued expenses	2,485	(1,497)
Net cash used in operating activities	(2,307)	(1,622)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,458)	(21)
Purchases of intangibles	(65)	(114)
Net cash used in investing activities	(1,523)	(135)
FINANCING ACTIVITIES:		
Proceeds from issuance of short term debt	—	3,469
Proceeds from equity financing, net	5,544	—
Proceeds from stock option exercise	27	—
Proceeds from note payable	1,835	—
Payment on note payable	(59)	—
Payment on related party note	—	(1,000)
Payments on short term notes payable	(144)	(280)
Net cash provided by financing activities	7,203	2,189
Effect of changes in exchange rate on cash and cash equivalents	(42)	(30)
INCREASE IN CASH AND CASH EQUIVALENTS	3,331	402
CASH AND CASH EQUIVALENTS, beginning of period	379	481
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 3,710</u>	<u>\$ 883</u>
Supplemental cash flow disclosures:		
Interest paid	\$ 84	\$ 103
Income taxes paid	28	—
Right to use asset - operating leases capitalized	1,244	930

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-1 Preferred		Common Stock		Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, January 2, 2021	259,729	\$ —	1,829,982	\$ 2	\$ 39,869	\$ (36,917)	\$ (588)	\$ 2,366
Shares issued	—	—	571,428	—	5,544	—	—	5,544
Share based compensation	—	—	—	—	180	—	—	180
Stock option exercise	—	—	6,000	—	27	—	—	27
Other comprehensive loss	—	—	—	—	—	—	(42)	(42)
Net loss	—	—	—	—	—	(4,477)	—	(4,477)
Balance, July 3, 2021	<u>259,729</u>	<u>\$ —</u>	<u>2,407,410</u>	<u>\$ 2</u>	<u>\$ 45,620</u>	<u>\$ (41,394)</u>	<u>\$ (630)</u>	<u>\$ 3,598</u>

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

	Series A-1 Preferred		Common Stock		Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, April 3, 2021	259,729	\$ —	2,403,410	\$ 2	\$ 45,533	\$ (36,415)	\$ (630)	\$ 8,490
Share based compensation	—	—	—	—	71	—	—	71
Stock option exercise	—	—	4,000	—	16	—	—	16
Net loss	—	—	—	—	—	(4,979)	—	(4,979)
Balance, July 3, 2021	<u>259,729</u>	<u>\$ —</u>	<u>2,407,410</u>	<u>\$ 2</u>	<u>\$ 45,620</u>	<u>\$ (41,394)</u>	<u>\$ (630)</u>	<u>\$ 3,598</u>

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

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. On February 19, 2021, we entered into an Asset Purchase Agreement (the “Purchase Agreement”) with (i) ARCA Affiliated Holdings Corporation, a Delaware corporation, (ii) ARCA Services Inc., a Delaware corporation, and (iii) Connexx Services Inc, a Delaware corporation (collectively, the “Buyers”), pursuant to which the Buyers agreed to acquire substantially all of the assets, and assume certain liabilities, of ARCA Recycling and Connexx (the “Disposition Transaction”). The principal of the Buyers is Virland A. Johnson, our Chief Financial Officer. The Disposition Transaction is expected to be consummated during August 2021.

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.

We report on a 52- or 53-week fiscal year. Our 2020 fiscal year (“2020”) ended on January 2, 2021, and our current fiscal year (“2021”) will end on January 1, 2022.

Going concern

We currently face a challenging competitive environment and are focused on improving our overall profitability, which includes managing expenses. We reported a net loss of \$4,979 and \$2,442 in for the 13 weeks ended July 3, 2021 and June 27, 2020, respectively, and \$4,477 and \$4,725 for the 26 weeks ended July 3, 2021 and June 27, 2020, respectively. In addition, as of July 3, 2021 the Company has total current assets of \$9,890 and total current liabilities \$19,663 resulting in a net negative working capital of \$9,773.

The Company has available cash balances and funds available under an accounts receivable factoring program with Prestige Capital Finance, LLC (“Prestige Capital”) to provide sufficient liquidity to fund the entity’s operations and remodeling activities for at least the next twelve months. The Company expects to generate cash from operations for the remainder of fiscal year 2021 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.

Based on the above, management has concluded that at July 3, 2021 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.

Coronavirus

In December 2019, the 2019 novel coronavirus (COVID-19) surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020, and most countries have initiated travel restrictions limiting travel to other countries and lock-downs within their borders. While various vaccines have recently been introduced into the marketplace, the impacts of variant strains of the COVID-19 virus are still unknown. The widespread health crisis has adversely affected the global economy, resulting in an economic downturn that could impact demand for our products. To date, the outbreak had a material adverse impact on our operations. For example, several customers in our appliance recycling and appliance replacement business have previously suspended our ability to pick up and or replace their customers’ appliances resulting in decreased revenues for both recycling and replacement business. The future impact of the outbreak is highly uncertain and cannot be predicted and there is no assurance that the outbreak will not have another

material adverse impact on the future results of the Company. The extent of the impact, if any, will depend on future developments, including actions taken to contain the coronavirus. A key task for the Company in 2021 is to begin late-stage clinical development with its pharmaceutical product, JAN101. However, the COVID-19 pandemic significantly impacted clinical trials in 2020 and 2021, delaying recruitment in most non-COVID-19 clinical trials and even eliminating recruitment in some trials. While clinical sites have largely resumed conducting non-COVID-19 clinical trials, the backlog of subjects may adversely affect our ability to recruit for its trial, leading to longer and more expensive trials. In addition, the unknown effectiveness of the COVID-19 vaccines, particularly concerning variant strains of COVID-19, could lead to clinical sites terminating patient recruitment again during the course of the study.

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.

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 January 2, 2021.

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. GAAP requires management to make estimates and assumption that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Financial Instruments

Financial instruments consist primarily of cash equivalents, trade and other receivables, notes receivable, and obligations under accounts payable, accrued expenses and notes payable. The carrying amounts of cash equivalents, trade receivables and other receivables, accounts payable, accrued expenses and short-term notes payable approximate fair value because of the short maturity of these instruments. The fair value of the long-term debt is calculated based on interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements, unless quoted market prices were available (Level 2 inputs). The carrying amounts of short-term debt at July 3, 2021 and January 2, 2021 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. The Company does not have an allowance for doubtful accounts as of July 3, 2021 or January 2, 2021.

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 July 3, 2021 or January 2, 2021.

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:

- ① A significant decrease in the market price of a long-lived asset (asset group);
- ① 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;
- ① 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;
- ① An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group);
- ① 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,

① A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50 percent.

If a triggering event has occurred, for purposes of recognition and measurement of an impairment loss, a long-lived asset or assets shall be grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If after identifying a triggering event it is determined that the asset group's carrying value may not be recoverable, a recoverability test is performed by forecasting the expected cash flows to be derived from the asset group for the remaining useful life of the asset group's primary asset compared to its carrying value. The recoverability test relies upon the undiscounted cash flows (excluding interest and taxes) which are derived from the Company's specific use of those assets (not how a market participant would use those assets); and are based upon the existing service potential of the current assets (excluding any improvements that would materially enhance the assets). If the expected undiscounted cash flows exceed the carrying value, the assets are considered recoverable.

There was no impairment of intangibles as of July 3, 2021 or January 2, 2021 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

Biotechnology Revenue

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

Recycling Revenue

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 Codification 606 *Revenue from Contracts with Customers*.

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

Replacement Product Revenue

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 copper, steel, plastic, 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.

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 obtain and fulfill our FASB Accounting Standards Codification, or ASC 606 contracts, meet the capitalization criteria, and as such, there are no material costs deferred and recognized as assets on the consolidated balance sheet at July 3, 2021 or January 2, 2021.

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.

The majority of revenue recognized is derived from contracts with customers.

Technology Revenue

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

Shipping and Handling

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

Advertising Expense

Advertising expense is charged to operations as incurred. Advertising expense totaled \$nil and \$31 for the 13 weeks ended July 3, 2021 and June 27, 2020 respectively, and \$nil and \$122 for the 26 weeks ended July 3, 2021 and June 27, 2020, respectively.

Fair Value Measurements

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

Income Taxes

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

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 ASC 842 - *Leases*. This accounting standard requires all lessees to record the impact of leasing contracts on the balance sheet as a right to use asset and corresponding liability. This is measured by taking the present value of the remaining lease payments over the lease term and recording a right to use asset ("ROU") and corresponding lease obligation for lease payments. Rent expense is realized on a straight-line basis and the lease obligation is amortized based on the effective interest method. The amounts recognized reflect the present value of remaining lease payments for all leases that have a lease term greater than 12 months. The discount rate used is an estimate of the Company's incremental borrowing rate based on information available at lease commencement.

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

We lease warehouse facilities and office space. These assets and properties are generally leased under noncancelable agreements that expire at various dates through 2025 with various renewal options for additional periods. The agreements, which have and continue to be classified as operating leases, generally provide for base rent and require us to pay all insurance, taxes and other maintenance costs. The Company's operating leases are exclusively for building space in the different cities we have operations. The lease terms typically last from 2-3 years with some being longer or shorter depending on needs of the business and the lease partners. The Company has also engaged in month-to-month leases for parking spaces that the Company has elected to expense as incurred. Our lease agreements do not include variable lease payments. Our lessors do offer options to extend lease terms as leases expire and management evaluates against

current rental markets and other strategic factors in making the decision to renew. When leases are within 6 months of being renewed, management will estimate probabilities of renewing for an additional term based on market and strategic factors and if the probability is more likely than not that the lease will be renewed, the financials will assume the lease is renewed under the lease renewal option.

The operating leases we have do not contain residual value guarantees and do not contain restrictive covenants.

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.

Stock-Based Compensation

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

Foreign Currency

The financial statements of the Company's non-U.S. subsidiary are translated into U.S. dollars in accordance with ASC 830, Foreign Currency Matters. Under ASC 830, if the assets and liabilities of the Company are recorded in certain non-U.S. functional currencies other than the U.S. dollar, they are translated at rates of exchange at year end. Revenue and expense items are translated at the average monthly exchange rates. The resulting translation adjustments are recorded directly into accumulated other comprehensive 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, California, Minnesota, and Nevada. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250 per institution as of July 3, 2021. At times, balances may exceed federally insured limits.

Note 3: Trade and other receivables

	July 3, 2021	January 2, 2021
Trade receivables, net	\$ 4,454	\$ 4,174
Factored accounts receivable	(960)	(891)
Prestige Capital reserve receivable	148	162
Other receivables	162	155
Trade and other receivables, net	<u>\$ 3,804</u>	<u>\$ 3,600</u>
Trade accounts receivable	\$ 2,889	\$ 2,698
Un-billed trade receivables	1,565	1,476
Total trade receivables, net	<u>\$ 4,454</u>	<u>\$ 4,174</u>

Note 4: Inventory

Appliances held for sale are stated at the lower of cost, determined on a specific identification basis, or net realizable value. Inventory raw material - chips, are stated at the lower of average cost or net realizable value. Total inventory consists of the following as of July 3, 2021 and January 2, 2021:

	July 3, 2021	January 2, 2021
Appliances held for resale	\$ 1,222	\$ 1,430
Inventory - raw material - chips	105	200
Total inventory	<u>\$ 1,327</u>	<u>\$ 1,630</u>

We provide estimated provisions for the obsolescence of inventories, including adjustments to net realizable value, based on various factors, including the age of such inventory and our management's assessment of the need for such provisions. We review historical inventory aging reports and margin analyses in determining our provision estimate. A revised cost basis is used once a provision for obsolescence is recorded. At July 3, 2021 and January 2, 2021, we do not have an inventory reserve.

Note 5: Prepaids and other current assets

Prepaids and other current assets as of July 3, 2021 and January 2, 2021 consist of the following:

	July 3, 2021	January 2, 2021
Prepaid insurance	\$ 134	\$ 371
Prepaid rent	174	95
Prepaid purchase orders	—	366
Prepaid other	718	304
Total prepaid expenses and other current assets	<u>\$ 1,026</u>	<u>\$ 1,136</u>

Note 6: Note receivable

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

Between March 31, 2018 and April 24, 2018, the Purchaser and the Company negotiated in good faith the method of payment of the remaining outstanding balance of the Purchase Price. On April 25, 2018, the Purchaser delivered to the Company a promissory note (the "ApplianceSmart Note") in the original principal amount of \$3,919 (the "Original Principal Amount"), as such amount may be adjusted per the terms of the ApplianceSmart Note. The ApplianceSmart Note is effective as of April 1, 2018 and matured 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 outstanding balance of the ApplianceSmart Note at July 3, 2021 and January 2, 2021 was \$2,992 and \$2,992, respectively, exclusive of the impairment charges.

Note 7: Property and Equipment

Property and equipment as of July 3, 2021 and January 2, 2021 consist of the following:

	Useful Life (Years)	July 3, 2021	January 2, 2021
Buildings and improvements		\$ 80	\$ 75
Equipment	3-15	2,592	2,528
Projects under construction		1,776	387
Property and equipment		4,448	2,990
Less accumulated depreciation and amortization		(2,337)	(2,258)
Total property and equipment, net		<u>\$ 2,111</u>	<u>\$ 732</u>

Depreciation expense was \$41 and \$22 for the 13 weeks ended July 3, 2021 and June 27, 2020, respectively. Depreciation expense was \$79 and \$41 for the 26 weeks ended July 3, 2021 and June 27, 2020, respectively.

Equipment Financing Agreement

On March 25, 2021, ARCA Recycling entered into a Master Equipment Finance Agreement (collectively, the "Equipment Finance Agreement") with KLC Financial, Inc. ("KLC"). Under the terms of the Equipment Finance Agreement, KLC has agreed to make loans to ARCA Recycling secured by certain equipment purchased or to be purchased by ARCA Recycling on terms set forth or to be set forth in schedules to the Equipment Finance Agreement. Under the terms of Schedule No. 01 (the "Initial Loan"), KLC has agreed to loan ARCA Recycling approximately \$ 1,800 secured by existing equipment of and new equipment to be purchased by ARCA Recycling. ARCA Recycling will make monthly payments of \$31, inclusive of principal and interest, over a period of five years, at which time it is intended that the Initial Loan will be repaid in full. The Initial Loan bears interest at 7.59% per annum. KLC will have a first priority security interest over, among other things, all equipment identified in the schedules. The Initial Loan is guaranteed by Virland Johnson, the Chief Financial Officer of JanOne and Chief Financial Officer and Secretary of ARCA Recycling. The Equipment Finance Agreement contains customary affirmative and negative covenants, representations and warranties, and events of default for transactions of this nature.

Note 8: Intangible Assets

Intangible assets as of July 3, 2021 and January 2, 2021 consist of the following:

	July 3, 2021	January 2, 2021
Intangible assets GeoTraq, net	\$ 26,096	\$ 26,096
Patent and domains	23	23
Computer software	4,559	4,494
Intangible assets	30,678	30,613
Less accumulated amortization	(18,635)	(16,624)
Total intangible assets	<u>\$ 12,043</u>	<u>\$ 13,989</u>

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 \$1,004 and \$1,005 for the 13 weeks ended July 3, 2021 and June 27, 2020, respectively. Intangible amortization expense was \$2,011 and \$2,003 for the 26 weeks ended July 3, 2021 and June 27, 2020, respectively.

Note 9: Deposits and other assets

Deposits and other assets as of July 3, 2021 and January 2, 2021 consist of the following:

	July 3, 2021	January 2, 2021
Deposits	\$ 217	\$ 169
Other	56	62
Total deposits and other assets	<u>\$ 273</u>	<u>\$ 231</u>

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

Note 10: Leases

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

Total present value of lease payments as of July 3, 2021:

Remainder 2021	\$ 1,498
2022	917
2023	671
2024	356
2025	179
2026	15
Total	3,636
Less Interest	(401)
Present Value of Payments	<u>\$ 3,235</u>

During the 26 weeks ended July 3, 2021 and June 27, 2020, \$650 and \$546, 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 \$1,244 upon commencement of new and renewed operating leases during the 26 weeks ended July 3, 2021. The weighted average lease term for operating leases is 3.0 years and the weighted average discount rate is 8%.

Note 11: Accrued Liabilities

Accrued liabilities as of July 3, 2021 and January 2, 2021 consist of the following:

	July 3, 2021	January 2, 2021
Compensation and benefits	\$ 669	\$ 604
Contract liability	201	292
Accrued incentive and rebate checks	1,144	1,220
Accrued transportation costs*	745	662
Accrued guarantees	767	767
Accrued purchase orders	—	177
Accrued taxes	498	299
Accrued litigation settlement	680	—
Other	369	867
Total accrued expenses	<u>\$ 5,073</u>	<u>\$ 4,888</u>

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

Contract liabilities rollforward

The following table summarizes the contract liability activity for the 13 weeks ended July 3, 2021:

Beginning balance, January 2, 2021	\$	292
Accrued		165
Settled		(256)
Ending balance, July 3, 2021	\$	<u>201</u>

Note 12: Accrued Liability – California Sales Tax

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

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

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

As of July 3, 2021, and January 2, 2021, our accrued liability for California sales tax was \$,895 and \$5,769, respectively.

Note 13: Income Taxes

Our overall effective tax rate was 4.7% for the 26 weeks ended July 3, 2021, and we recorded a tax provision expense of \$203 against a pre-provision loss of \$4,274. Our overall effective tax rate was 6.9% for the 26 weeks ended June 27, 2020, and we had a tax benefit of \$349 against a pre-provision loss of \$5,074. 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 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.

Note 14: Short Term Debt

Short term debt and other financing obligations as of July 3, 2021 and January 2, 2021, consist of the following:

	July 3, 2021	January 2, 2021
AFCO Finance	\$ —	\$ 144
Payroll protection program	—	1,872
Vendor advance payments	85	1,026
Total short term debt	<u>\$ 85</u>	<u>\$ 3,042</u>

AFCO Finance

We enter into a financing agreement with AFCO Credit Corporation ("AFCO") purchased through Marsh Insurance on an annual basis to fund the annual premiums on insurance policies due June 1 of each year. These policies relate to workers' compensation and various liability policies including, but not limited to, General, Auto, Umbrella, Property, and Directors' and Officers' insurance. The total amount of the premiums financed 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.

The outstanding principal due AFCO at July 3, 2021 and January 2, 2021 was \$nil and \$144, respectively.

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 \$,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 PPP Loan was forgiven during the first quarter of fiscal 2021.

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 2020 amounted to \$1,168. As of July 3, 2021, \$1,083 was settled, leaving a balance of \$85.

Note 15: Commitments and Contingencies

Litigation

SEC Complaint

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

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

The Defendants strongly dispute and deny the allegations and intend to vigorously defend against the claims.

Skybridge

On December 29, 2016, the Company served a Minnesota state court complaint for breach of contract on Skybridge Americas, Inc. ("SA"), the Company's primary call center vendor throughout 2015 and most of 2016. The Company seeks damages in the millions of dollars as a result of alleged overcharging by SA and lost client contracts. On January 25, 2017, SA served a counterclaim for unpaid invoices in the amount of approximately \$460 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 on February 1, 2021, the District Court assessed damages against the Company in the amount of \$715, plus interest, fees, and costs. The Company filed a motion for a new trial and is waiting for the District Court to rule.

AMTIM Capital

AMTIM Capital, Inc. ("AMTIM") acts as the Company's representative to market our recycling services in Canada under an arrangement that pays AMTIM for revenues generated by recycling services in Canada as set forth in the agreement between the parties. A dispute has arisen between AMTIM and the Company with respect to the calculation of amounts due to AMTIM pursuant to the agreement. In a lawsuit filed in the province of Ontario, AMTIM claims a discrepancy in the calculation of fees due to AMTIM by the Company of approximately \$2,000. Although the outcome of this claim is uncertain, the Company believes that no further amounts are due under the terms of the agreement and that we will continue to defend our position relative to this lawsuit. Trial is currently scheduled for Fall 2021.

GeoTraq

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

Under the terms of the Settlement Agreement, we, on our own behalf and on behalf of GeoTraq and Mr. Isaac, agreed to tender to Mr. Sullivan an aggregate of \$,950 (the "GeoTraq Settlement Consideration") in the following manner: (i) \$250, which was tendered in cash on or about the date of the Settlement Agreement and (ii) up to 10 quarterly installments of not less than \$170 that commenced on June 1, 2021, and shall continue not less frequently than every three months thereafter (the "GeoTraq Installments"). We may tender the GeoTraq Installments in cash or in the equivalent value of shares of our common stock (the value of the shares to be determined by a formula set forth in the Settlement Agreement), in either case at our discretion. We may also prepay one or more GeoTraq Installments in full or in part at any time or from time to time either in cash or in shares of our common stock (a "GeoTraq Prepayment"). If we elect to prepay one or more GeoTraq Installments with shares of our common stock, Mr. Sullivan reserves the right not to consent to a tender thereof in excess of 50% of the value of that specific GeoTraq Prepayment; however, Mr. Sullivan is restricted in the reasons for which he can refuse to provide his written consent. The number of shares of our common stock to be issued upon any GeoTraq Prepayment is determined by a different formula than the one to be utilized for a GeoTraq Installment. As of July 3, 2021, the Company owed \$1,530.

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

The parties to the Settlement Agreement released and forever discharged one another from any and all known and unknown claims that were asserted or could have been asserted arising out of the GeoTraq Litigation Matters.

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 fair value was calculated based on the undiscounted lease payments, a discount rate equivalent to current interest rates associated with the leased real estate and a remote probability weighting of 1%.

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 July 3, 2021

Note 16: Shareholders' Equity

Common Stock: Our Articles of Incorporation authorize 200,000,000 shares of common stock that may be issued from time to time having such rights, powers, preferences and designations as the Board of Directors may determine. During the 26 weeks ended June 27, 2020, 74,530 shares of common stock were granted and issued in lieu of professional services at a fair value of \$345. There were no similar transactions for the 26 weeks ended July 3, 2021.

As of July 3, 2021, and January 2, 2021, there were 2,407,410, and 1,829,982 shares, respectively, of common stock issued and outstanding.

Equity Offering

On January 29, 2021, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain institutional investors (the "Purchasers") for the sale by the Company in a registered direct offering (the "Offering") of 571,428 shares of the Company's common stock, par value \$0.001 per share (the "Common Stock"), at a purchase price per share of Common Stock of \$10.50. The Offering closed on February 2, 2021 with gross proceeds to the Company of approximately \$6,000, before deducting placement agent fees and other offering expenses. The Company is utilizing the net proceeds for general working capital.

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

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

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

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

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

Stock options: The 2016 Plan, which replaces the 2011 Plan, authorizes the granting of awards in any of the following forms: (i) incentive stock options, (ii) nonqualified stock options, (iii) restricted stock awards, and (iv) restricted stock units, and expires on the earlier of October 28, 2026, or the date that all shares reserved under the 2016 Plan are issued or no longer available. The 2016 Plan provides for the issuance of up to 800,000 shares of common stock pursuant to awards granted under the 2016 Plan. The vesting period is determined by the Board of Directors at the time of the stock option grant. As of July 3, 2021, and January 2, 2021, 101,000 and 78,000 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 July 3, 2021, and January 2, 2021, 30,500 and 35,900 options, respectively, were outstanding under the 2011 Plan. No additional awards will be granted under the 2011 Plan.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. 38,000 options were granted during the 26 weeks ended July 3, 2021.

Additional information relating to all outstanding options is as follows:

	Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life
Outstanding at December 28, 2019	44,400	\$ 13.31	\$ —	3.0
Granted	74,000	3.84		
Cancelled/expired	(4,500)	9.45		
Outstanding at January 2, 2021	113,900	\$ 11.97	\$ 78	7.0
Granted	38,000	8.16		
Exercised	(6,000)	4.32		
Cancelled/expired/forfeited	(14,400)	11.38		
Balance at July 3, 2021	<u>131,500</u>	\$ 10.65	\$ 274	5.2

We recognized \$71 and \$41 share-based compensation expense related to option grants for the 13 weeks ended July 3, 2021 and June 27, 2020, respectively. We recognized \$180 and \$72 share-based compensation expense related to option grants for the 26 weeks ended July 3, 2021 and June 27, 2020, respectively.

As of July 3, 2021 the Company has \$86 of unrecognized share-based compensation expense (net of estimated forfeitures) associated with stock option awards which the company expects to recognize as share-based compensation expense through January 2022.

Warrants:

As of July 3, 2021, and January 2, 2021, there were 33,363 warrants outstanding to purchase 33,363 shares of common stock at a price of \$3.40 per share which 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 loss per share is computed using the weighted average number of common shares outstanding and if dilutive, potential common shares outstanding during the period. Potential common shares consist of the additional common shares issuable in respect of restricted share awards, stock options and convertible preferred stock.

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

	For the Thirteen Weeks Ended		For the Twenty Six Weeks Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
Net loss	\$ (4,979)	\$ (2,442)	\$ (4,477)	\$ (4,725)
<i>Basic</i>				
Basic loss per share	\$ (2.07)	\$ (1.22)	\$ (1.94)	\$ (2.41)
Weighted average common shares outstanding	2,405,410	1,993,578	2,312,024	1,961,210
<i>Diluted</i>				
Diluted loss per share	\$ (2.07)	\$ (1.22)	\$ (1.94)	\$ (2.41)
Weighted average common shares outstanding	2,405,410	1,993,578	2,312,024	1,961,210

Potentially dilutive securities totaling 78,000 and 111,763 were excluded from the calculation of diluted net loss per share for the 26 weeks ended July 3, 2021 and June 27, 2020, respectively, 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 July 3, 2021, one customer represented 14% of our total revenues. For the 26 weeks ended July 3, 2021, one customer represented a combined 17% of our total revenue. For the 13 weeks ended June 27, 2020, two customers represented a combined 37% of our total revenues. For the 26 weeks ended June 27, 2020, three customers represented a combined 34% of our total revenue.

As of July 3, 2021, one customer represented 16% of our total trade receivables. As of January 2, 2021, three customers represented more than 10% of our total trade receivables, for a total of 37% of our total trade receivables.

During the 13 weeks and 26 weeks ended July 3, 2021 and June 27, 2020 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 \$6 and \$3 for the 13 weeks ended July 3, 2021 and June 27, 2020, respectively, and \$6 and \$12 for the 26 weeks ended July 3, 2021 and June 27, 2020, respectively.

Note 20: Segment Information

We operate within targeted markets through three reportable segments for continuing operations: biotechnology, recycling, and technology. The biotechnology segment commenced operations in September 2019 and is focused on development of new and innovative solutions for ending the opioid epidemic ranging from digital technologies to educational advocacy. The recycling segment includes all fees charged and costs incurred for collecting, recycling and installing appliances for utilities and other customers. The recycling segment also includes byproduct revenue, which is primarily generated through the recycling of appliances. The technology segment designs wireless modules to connect devices to the Mobile Internet of Things ("IoT") which contain location-based service ("LBS") capabilities and can interface to external sensors to allow them to communicate both sensor status and position information. The nature of products, services and customers for each segment varies significantly. As such, the segments are managed separately. Our Chief Executive Officer has been identified as the Chief Operating Decision Maker ("CODM"). The CODM evaluates performance and allocates resources based on sales and income from operations of each segment. Operating loss represents revenues less cost of revenues and operating expenses, including certain allocated selling, general and administrative costs. There are no intersegment sales or transfers.

The following tables present our segment information for the 13 weeks ended July 3, 2021 and June 27, 2020 and the 26 weeks ended July 3, 2021 and June 27, 2020:

	Thirteen Weeks Ended		Twenty Six Weeks Ended	
	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
Revenues				
Biotechnology	\$ —	\$ —	\$ —	\$ —
Recycling	8,606	4,007	17,278	12,457
Technology	—	—	—	—
Total Revenues	<u>\$ 8,606</u>	<u>\$ 4,007</u>	<u>\$ 17,278</u>	<u>\$ 12,457</u>
Gross profit				
Biotechnology	\$ —	\$ —	\$ —	\$ —
Recycling	1,743	1,045	3,164	2,519
Technology	—	—	—	—
Total Gross profit	<u>\$ 1,743</u>	<u>\$ 1,045</u>	<u>\$ 3,164</u>	<u>\$ 2,519</u>
Operating loss				
Biotechnology	\$ (808)	\$ (464)	\$ (1,050)	\$ (807)
Recycling	(1,099)	(846)	(2,027)	(2,775)
Technology	(945)	(1,008)	(1,884)	(2,135)
Total Operating loss	<u>\$ (2,852)</u>	<u>\$ (2,318)</u>	<u>\$ (4,961)</u>	<u>\$ (5,717)</u>
Depreciation and amortization				
Biotechnology	\$ —	\$ —	\$ —	\$ —
Recycling	110	91	218	171
Technology	935	936	1,872	1,873
Total Depreciation and amortization	<u>\$ 1,045</u>	<u>\$ 1,027</u>	<u>\$ 2,090</u>	<u>\$ 2,044</u>
Interest expense, net				
Biotechnology	\$ —	\$ —	\$ —	\$ —
Recycling	125	54	198	167
Technology	—	—	—	—
Total Interest expense, net	<u>\$ 125</u>	<u>\$ 54</u>	<u>\$ 198</u>	<u>\$ 167</u>
Net loss before benefit from income taxes				
Biotechnology	\$ (808)	\$ (464)	\$ (1,050)	\$ (807)
Recycling	(2,992)	(841)	(1,353)	(2,072)
Technology	(974)	(1,075)	(1,871)	(2,195)
Total Net loss before benefit from income taxes	<u>\$ (4,774)</u>	<u>\$ (2,380)</u>	<u>\$ (4,274)</u>	<u>\$ (5,074)</u>

	As of July 3, 2021	As of January 2, 2021
Assets		
Biotechnology	\$ —	\$ —
Recycling	15,687	10,614
Technology	11,769	13,737
Total Assets	<u>\$ 27,456</u>	<u>\$ 24,351</u>
Intangible assets		
Biotechnology	\$ —	\$ —
Recycling	391	470
Technology	11,652	13,519
Total Intangible assets	<u>\$ 12,043</u>	<u>\$ 13,989</u>

Note 21: Related Parties

Shared Services

Tony Isaac, the Company's Chief Executive Officer, is the father of Jon Isaac, President and Chief Executive Officer of Live Ventures Incorporated ("Live Ventures") and managing member of ICG, 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 of the Company, are Board of Directors member, Chief Financial Officer, and Board of Directors member, respectively, of Live Ventures. The Company also shares certain executive, accounting and legal services with Live Ventures. The total services shared were \$69 and \$69 for the 13 weeks ended July 3, 2021 and June 27, 2020, respectively, and \$133 and \$125 for the 26 weeks ended July 3, 2021 and June 27, 2020, respectively. Customer Connexx rents approximately 9,900 square feet of office space from Live Ventures in Las Vegas, Nevada. The total rent and common area expense were \$55 and \$46 for the 13 weeks ended July 3, 2021 and June 27, 2020, respectively, and \$106 and \$90 for the 26 weeks ended July 3, 2021 and June 27, 2020, respectively.

ApplianceSmart Note

On December 30, 2017, Purchaser entered into the Agreement and 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 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"). ApplianceSmart is seeking to confirm a plan of reorganization under which it would pay the Company \$25 in full satisfaction of the Company's claim on the guaranty. The Company would release its junior security interest in ApplianceSmart's assets. Based on its evaluation of the alternative possible remedies and its reasonable business judgment, the Company is willing to accept this proposal if the plan is confirmed by the Bankruptcy Court.

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

Related Party ICG Group Note

On August 28, 2019, ARCA Recycling entered into and delivered to ICG a secured revolving line of credit promissory note, whereby ICG agreed to provide the ARCA Recycling with a \$2,500 revolving credit facility (the "ICG Note"). The ICG Note originally matured on August 28, 2020. On August 25, 2020, the ICG Note was amended to extend the maturity date to December 31, 2020. On March 30, 2021, ARCA Recycling entered into a Second Amendment and Waiver (the "Second Amendment") to the ICG Note to further extend the maturity date to August 18, 2021 and waive certain defaults under the ICG Note. The ICG Note bears interest at 8.75% per annum and provides for the payment of interest, monthly in arrears. ARCA Recycling will pay a loan fee of 2.0% on each borrowing made under the ICG Note. In connection with entering into the ICG Note, the Borrower also entered into a security agreement in favor of the Lender, pursuant to which ARCA Recycling granted a security interest in all of its assets to the Lender. The obligations of ARCA Recycling under the ICG Note are guaranteed by the Company. The foregoing transaction did not include the issuance of any shares of the Company's common stock, warrants, or other derivative securities. ICG is a record and beneficial owner of approximately 16% of the outstanding common stock of the Company. Jon Isaac is the manager and sole member of ICG, and the son of Tony Isaac, the Chief Executive Officer of JanOne and ARCA Recycling.

Note 22. Sale of ARCA and Connexx

On February 19, 2021, the Company, together with its subsidiaries (a) ARCA Recycling, Inc., a California corporation ("ARCA"), and (b) Customer Connexx LLC, a Nevada limited liability company ("Connexx"), entered into an Asset Purchase Agreement (the "Purchase Agreement") with (i) ARCA Affiliated Holdings Corporation, a Delaware corporation, (ii) ARCA Services Inc., a Delaware corporation, and (iii) Connexx Services Inc, a Delaware corporation (collectively, the "Buyers"), pursuant to which the Buyers agreed to acquire substantially all of the assets, and assume certain liabilities, of ARCA and Connexx (the "Disposition Transaction"). The principal of

the Buyers is Virland A. Johnson, our Chief Financial Officer. The Disposition Transaction was previously expected to be consummated on or before August 18, 2021 (the "Outside Date"). On August 12, 2021, the parties entered into an Amendment No. One to Asset Purchase Agreement (the "Recycling Sale Amendment") to extend the Outside Date to September 30, 2021. In the event the Disposition Transaction is not closed by such date, the Purchase Agreement may be terminated and, in accordance with its terms, the Buyers may be required to pay to us a "break fee" of \$250. The Purchase Agreement and the Disposition Transaction were unanimously approved by our Board of Directors at a meeting during the portion of which the Purchase Agreement and Disposition Transaction were considered and voted on Mr. Johnson was not present.

The purchase price that the Buyers have agreed to pay to us in the Disposition Transaction is \$25,000, subject to certain adjustments, including a potential increase in the purchase price due to an earnout, the assumption of certain debt of ARCA, Connexx, or us, and potential indemnification claims (collectively, the "Initial Aggregate Consideration"). At closing, \$7,500 of the Aggregate Consideration will be paid in immediately available funds, and \$17,500 of the Initial Aggregate Consideration will be paid pursuant to the terms of the Buyers' promissory note in our favor (the "Note"), which Note will bear interest at the rate of 6% per annum on the unpaid balance thereof. The Buyers' payment obligations under the Note will be subordinated to the Buyers' obligations to their Disposition Transaction lender(s), with the terms of such subordination to be determined upon Buyers' identification of their lender(s). The parties have made customary representations, warranties, covenants, and indemnities in connection with the Disposition Transaction.

Commencing on February 19, 2021, (i) the Buyers will seek financing for the balance of the Initial Aggregate Consideration and (ii) the parties will prepare and negotiate the terms and conditions of certain ancillary documentation, including, without limitation, disclosure schedules, bills of sale, assignment and assumption agreements, the Note, and any related subordination documentation with Buyers' Disposition Transaction lender(s).

The Purchase Agreement contains certain representations and warranties that the parties made to each other as of the date of the Purchase Agreement or such other date as specifically referenced therein. The representations and warranties were made solely for purposes of the Purchase Agreement and (i) are subject to limitations agreed by the parties in negotiating the terms and conditions thereof, (ii) may not be accurate or complete as of any specified date, (iii) will be qualified by the underlying disclosure schedules, (iv) may be subject to a contractual standard of materiality different from those generally applicable to investors, and (v) may have been used for the purpose of allocating risk among the parties thereto, rather than for establishing any matters as facts. Information concerning the subject matter of the representations and warranties may change after February 19, 2021, which subsequent information may or may not be fully reflected in JanOne's public disclosures. For the foregoing reasons, the representations and warranties contained in the Purchase Agreement should not be relied upon as statements of factual information.

The foregoing descriptions of the Purchase Agreement, as amended, and the Disposition Transaction do not purport to be complete and are qualified in their entirety by reference to the Purchase Agreement, a copy of which is filed with the Current Report on Form 8-K as filed on February 25, 2021 as Exhibit 10.1, and the Amendment, a copy of which is filed as Exhibit 10.4 to this Form 10-Q, and each of which is incorporated herein by reference.

See Note 15 for additional information.

Note 23. Subsequent event

SEC Complaint

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

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

The Defendants strongly dispute and deny the allegations and intend to vigorously defend against the claims.

Amendment to Terms of Sale of Recycling Business

As previously disclosed, on February 19, 2021, the Company together with its subsidiaries (a) ARCA Recycling, Inc., a California corporation ("ARCA"), and (b) Customer Connexx LLC, a Nevada limited liability company ("Connexx"), entered into an Asset Purchase Agreement (the "Recycling Sale Purchase Agreement") with (i) ARCA Affiliated Holdings Corporation, a Delaware corporation, (ii) ARCA

Services Inc., a Delaware corporation, and (iii) Connexx Services Inc, a Delaware corporation (collectively, the "Buyers"), pursuant to which the Buyers agreed to acquire substantially all of the assets, and assume certain liabilities, of ARCA and Connexx (the "Disposition Transaction"). The principal of the Buyers is Virland A. Johnson, our Chief Financial Officer. The Disposition Transaction was previously expected to be consummated on or before August 18, 2021 (the "Outside Date"). On August 12, 2021, the parties entered into an Amendment No. One to Asset Purchase Agreement (the "Recycling Sale Amendment") to extend the Outside Date to September 30, 2021. Except as amended by the Recycling Sale Amendment, the terms and conditions of the Recycling Sale Purchase Agreement remain unchanged.

The foregoing description of the Recycling Sale Amendment is not complete and is qualified in its entirety by reference to the full text of the Amendment, a copy of which is filed as Exhibit 10.4 to this 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 and Part II, Item 1A of this Form 10-Q. Some of the factors that we believe could affect our results include:

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

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

Overview

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., Customer Connexx LLC, and ARCA Canada Inc., JanOne is 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 its 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 LBS directly from global Mobile IoT networks.

We operate three reportable segments:

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

① Recycling: Our recycling segment is a turnkey appliance recycling program. We receive fees charged for recycling, replacement and additional services for utility energy efficiency programs and have established 18 Regional Processing Centers (“RPCs”) for this segment throughout the United States and Canada.

② Technology: GeoTraq is engaged in the process of developing technology to enable low cost, location-based products and services.

For the Thirteen Weeks Ended July 3, 2021 and June 27, 2020

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 July 3, 2021		13 Weeks Ended June 27, 2020	
Statement of Operations Data:				
Revenue	\$ 8,606	100.0 %	\$ 4,007	100.0 %
Cost of revenue		%		%
	6,863	79.7	2,962	73.9
Gross profit	1,743	20.3 %	1,045	26.1 %
Selling, general and administrative expense	4,595	53.4 %	3,363	83.9 %
Operating loss	(2,852)	-33.1 %	(2,318)	-57.8 %
Interest expense, net	(125)	-1.5 %	(54)	-1.3 %
Gain on settlement of vendor advance payments	131	1.5 %	—	0.0 %
Loss on litigation settlement	(1,950)	-22.7 %	—	0.0 %
Other income (expense)	22	0.3 %	(8)	-0.2 %
Net loss before income taxes	(4,774)	-55.5 %	(2,380)	-59.4 %
Benefit of income taxes	(205)	-2.4 %	(62)	-1.5 %
Net loss	<u>\$ (4,979)</u>	<u>-57.9 %</u>	<u>\$ (2,442)</u>	<u>-60.9 %</u>

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

	13 Weeks Ended July 3, 2021		13 Weeks Ended June 27, 2020	
	Net Revenue	Percent of Total	Net Revenue	Percent of Total
Revenue				
Recycling and Byproducts	\$ 4,888	56.8 %	\$ 2,355	58.8 %
Replacement Appliances	3,718	43.2 %	1,652	41.2 %
Total Revenue	<u>\$ 8,606</u>	<u>100.0 %</u>	<u>\$ 4,007</u>	<u>100.0 %</u>

	13 Weeks Ended July 3, 2021		13 Weeks Ended June 27, 2020	
	Gross Profit	Gross Profit %	Gross Profit	Gross Profit %
Gross Profit				
Recycling and Byproducts	\$ 519	10.6 %	\$ 47	2.0 %
Replacement Appliances	1,224	32.9 %	998	60.4 %
Total Gross Profit	<u>\$ 1,743</u>	<u>20.3 %</u>	<u>\$ 1,045</u>	<u>26.1 %</u>

Revenue

Revenue increased \$4,599 or 115% for the 13 weeks ended July 3, 2021, as compared to the 13 weeks ended June 27, 2020. Replacement Appliance revenue increased \$2,066 or 125% due to higher volumes from customers. Recycling and Byproducts revenue also increased \$2,533 or 108% due to higher volumes from customers and an increase in commodity prices. The Company experienced lower volumes during 2020 due to COVID-19 closures.

Cost of Revenue

Cost of revenue increased \$3,901 or 132% for the 13 weeks ended July 3, 2021, as compared to the 13 weeks ended June 27, 2020, proportionately with the increase in revenue described above.

Selling, General and Administrative Expense

Selling, general and administrative expense increased \$1,232 or 37%, for the 13 weeks ended July 3, 2021, as compared to the 13 weeks ended June 27, 2020, due to increased corporate activity and stock-based compensation.

Interest Expense, net

Interest expense, net increased \$71 for the 13 weeks ended July 3, 2021, as compared to the 13 weeks ended June 27, 2020 primarily due to the increase in related party debt and notes payable.

Gain on Settlement of Vendor Advance Payments

During the second quarter of fiscal 2021, a portion of the vendor advance payments were settled which resulted in a gain of \$131. There were no similar transactions during the second quarter of fiscal 2020.

Loss on litigation settlement

During the second quarter of fiscal 2021, the Company recorded a loss on litigation settlement of \$1,950 related to litigation with a former employee. There were no similar transactions during the second quarter of fiscal 2020.

Segment Performance

We report our business in the following segments: Biotechnology, Recycling, and Technology. We identified these segments based on a combination of business type, customers serviced and how we divide management responsibility. Our revenues and profits are driven through our recycling centers, e-commerce, individual sales reps and our internet services for our recycling and technology segment. We expect revenues and profits for our biotechnology segment to be driven by the development of pharmaceuticals that treat the root cause of pain but are non-opioid painkillers. We include Corporate expenses within the Recycling segment.

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

	13 Weeks Ended July 3, 2021				13 Weeks Ended June 27, 2020			
	Biotechnology	Recycling	Technology	Total	Biotechnology	Recycling	Technology	Total
Revenue	\$ —	\$ 8,606	\$ —	\$ 8,606	\$ —	\$ 4,007	\$ —	\$ 4,007
Cost of revenue	—	6,863	—	6,863	—	2,962	—	2,962
Gross profit	—	1,743	—	1,743	—	1,045	—	1,045
Selling, general and administrative expense	808	2,842	945	4,595	464	1,891	1,008	3,363
Operating loss	<u>\$ (808)</u>	<u>\$ (1,099)</u>	<u>\$ (945)</u>	<u>\$ (2,852)</u>	<u>\$ (464)</u>	<u>\$ (846)</u>	<u>\$ (1,008)</u>	<u>\$ (2,318)</u>

Biotechnology Segment

Our biotechnology segment incurred expenses of \$808 and \$464 related to employee costs and professional services related to research for the 13 weeks ended July 3, 2021 and June 27, 2020, respectively.

Recycling Segment

The recycling segment consists of ARCA Recycling, Customer Connexx, and ARCA Canada. Revenue for the 13 weeks ended July 3, 2021, increased \$4,599 or 115% as compared to the prior year period. Replacement Appliance revenue increased \$2,066 or 125% due to higher volumes from customers. Recycling and Byproducts revenue increased \$2,533 or 108% due to higher volumes from customers.

Cost of revenue for the 13 weeks ended July 3, 2021, increased \$3,901 or 132% as compared to the prior year period, proportionately with revenue as described above.

Operating loss for the 13 weeks ended July 3, 2021, increased \$253 or 30% as compared to the prior year period. This represents a increase in selling, general and administrative expense of \$951.

Technology Segment

The technology segment consists of GeoTraq. Results for the 13 weeks ended July 3, 2021 include a loss of \$945 which was a decrease of \$63 compared to the 13 weeks ended June 27, 2020 loss of \$1,008. The loss represents intangible asset amortization expense and other selling general and administrative expense for each period.

For the Twenty-Six Weeks Ended July 3, 2021 and June 27, 2020

Results of Operations

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

	26 Weeks Ended July 3, 2021		26 Weeks Ended June 27, 2020	
Statement of Operations Data:				
Revenue	\$ 17,278	100.0 %	\$ 12,457	100.0 %
Cost of revenue	14,114	81.7 %	9,938	79.8 %
Gross profit	3,164	18.3 %	2,519	20.2 %
Selling, general and administrative expense	8,125	47.0 %	8,236	66.1 %
Operating loss	(4,961)	-28.7 %	(5,717)	-45.9 %
Interest expense, net	(198)	-1.1 %	(167)	-1.3 %
Gain on Payroll Protection Program loan forgiveness	1,872	10.8 %	—	—
Gain on settlement of vendor advance payments	941	5.4 %	—	—
Loss on litigation settlement	(1,950)	-11.3 %	—	—
Other income	22	0.1 %	810	6.5 %
Net loss before income taxes	(4,274)	-24.7 %	(5,074)	-40.7 %
Income tax benefit (expense)	(203)	-1.2 %	349	2.8 %
Net loss	<u>\$ (4,477)</u>	<u>-25.9 %</u>	<u>\$ (4,725)</u>	<u>-37.9 %</u>

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

	26 Weeks Ended July 3, 2021		26 Weeks Ended June 27, 2020	
	Net Revenue	Percent of Total	Net Revenue	Percent of Total
Revenue				
Recycling and Byproducts	\$ 8,866	51.3 %	\$ 6,440	51.7 %
Replacement Appliances	8,412	48.7 %	6,017	48.3 %
Total Revenue	<u>\$ 17,278</u>	<u>100.0 %</u>	<u>\$ 12,457</u>	<u>100.0 %</u>

	26 Weeks Ended July 3, 2021		26 Weeks Ended June 27, 2020	
	Gross Profit	Gross Profit %	Gross Profit	Gross Profit %
Gross Profit				
Recycling and Byproducts	462	5.2 %	144	2.2 %
Replacement Appliances	2,702	32.1 %	2,375	39.5 %
Total Gross Profit	<u>\$ 3,164</u>	<u>18.3 %</u>	<u>\$ 2,519</u>	<u>20.2 %</u>

Revenue

Revenue increased \$4,821 or 39% for the 26 weeks ended July 3, 2021, as compared to the 26 weeks ended June 27, 2020. Replacement Appliance revenue increased \$2,395 or 40% due to higher volumes from customers. Recycling and Byproducts revenue also increased \$2,426 or 38% due to higher volumes from customers and an increase in commodity prices. The Company experienced lower volumes during 2020 due to COVID-19 closures.

Cost of Revenue

Cost of revenue increased \$4,176 or 42% for the 26 weeks ended July 3, 2021, as compared to the 26 weeks ended June 27, 2020, proportionately with the increase in revenue described above.

Selling, General and Administrative Expense

Selling, general and administrative expense remained constant for the 26 weeks ended July 3, 2021, as compared to the 26 weeks ended June 27, 2020.

Interest Expense, net

Interest expense, net increased slightly for the 26 weeks ended July 3, 2021, as compared to the 26 weeks ended June 27, 2020 primarily due to the increase in related party debt and the note payable.

Gain on Payroll Protection Program Loan Forgiveness

During the 26 weeks ended July 3, 2021, the PPP Loan was forgiven which resulted in a gain of \$1,872. There were no similar transactions during the 26 weeks ended June 27, 2020.

Gain on Settlement of Vendor Advance Payments

During the 26 weeks ended July 3, 2021, a portion of the vendor advance payments were settled which resulted in a gain of \$941. There were no similar transactions during the 26 weeks ended June 27, 2020.

Loss on litigation settlement

During the second quarter of fiscal 2021, the Company recorded a loss on litigation settlement of \$1,950 related to litigation with a former employee. There were no similar transactions during the second quarter of fiscal 2020.

Other Income

Other income of \$810 for the 26 weeks ended June 27, 2020, was primarily attributable to an increase in gains on the litigation settlement received. There were no similar transactions for the 26 weeks ended July 3, 2021.

Segment Performance

We report our business in the following segments: Biotechnology, Recycling and Technology. We identified these segments based on a combination of business type, customers serviced and how we divide management responsibility. Our revenues and profits are driven through our recycling centers, e-commerce, individual sales reps and our internet services for our recycling and technology segment. We expect revenues and profits for our biotechnology segment to be driven by the development of pharmaceuticals that treat the root cause of pain but are non-opioid painkillers. We include Corporate expenses within the Recycling segment.

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

	26 Weeks Ended July 3, 2021				26 Weeks Ended June 27, 2020			
	Biotechnology	Recycling	Technology	Total	Biotechnology	Recycling	Technology	Total
Revenue	\$ —	\$ 17,278	\$ —	\$ 17,278	\$ —	\$ 12,457	\$ —	\$ 12,457
Cost of revenue	—	14,114	—	14,114	—	9,938	—	9,938
Gross profit	—	3,164	—	3,164	—	2,519	—	2,519
Selling, general and administrative expense	1,050	5,191	1,884	8,125	807	5,294	2,135	8,236
Operating loss	<u>\$ (1,050)</u>	<u>\$ (2,027)</u>	<u>\$ (1,884)</u>	<u>\$ (4,961)</u>	<u>\$ (807)</u>	<u>\$ (2,775)</u>	<u>\$ (2,135)</u>	<u>\$ (5,717)</u>

Biotechnology Segment

Our biotechnology segment incurred expenses of \$1,050 and \$807 related to employee costs and professional services related to research for the 26 weeks ended July 3, 2021 and June 27, 2020, respectively.

Recycling Segment

The recycling segment consists of ARCA Recycling, Customer Connexx, and ARCA Canada. Revenue for the 26 weeks ended July 3, 2021, increased \$4,821 or 39% as compared to the prior year period. Replacement Appliance revenue increased \$2,395 or 40% due to higher volumes from customers. Recycling and Byproducts revenue also increased \$2,426 or 38% due to higher volumes from customers.

Cost of revenue for the 26 weeks ended July 3, 2021, increased \$4,176 or 42% as compared to the prior year period, proportionately with revenue as described above.

Operating loss for the 26 weeks ended July 3, 2021, decreased \$748 or 27% as compared to the prior year period based on the discussion above and a decrease in selling, general and administrative expense of \$103.

Technology Segment

The technology segment consists of GeoTraq. Results for the 26 weeks ended July 3, 2021 include a loss of \$1,884 which was a decrease of \$251 compared to the 26 weeks ended June 27, 2020 loss of \$2,135. The loss represents intangible asset amortization expense and other selling general and administrative expense for each period.

Liquidity and Capital Resources

Overview

As of July 3, 2021, we had total cash on hand of \$3,710. As we continue to prepare to begin late-stage clinical development with our pharmaceutical product, JAN101, and potentially pursue strategic transactions to expand and grow our business, we regularly monitor capital market conditions and may raise additional funds through borrowings or public or private sales of debt or equity securities. The amount, nature and timing of any borrowings or sales of debt or equity securities will depend on our operating performance and other circumstances; our then-current commitments and obligations; the amount, nature and timing of our capital requirements; any limitations imposed by our current credit arrangements; and overall market conditions.

In December 2019, the 2019 novel coronavirus (COVID-19) surfaced in Wuhan, China. The World Health Organization declared a global emergency on January 30, 2020, and most countries have initiated travel restrictions limiting travel to other countries and lock-downs within their borders. While various vaccines have recently been introduced into the marketplace, the impacts of variant strains of the COVID-19 virus are still unknown. The widespread health crisis has adversely affected the global economy, resulting in an economic downturn that could impact demand for our products. To date, the outbreak had a material adverse impact on our operations. For example, several customers in our appliance recycling and appliance replacement business have previously suspended our ability to pick up and or replace their customers' appliances resulting in decreased revenues for both recycling and replacement business. The future impact of the outbreak is highly uncertain and cannot be predicted and there is no assurance that the outbreak will not have another material adverse impact on the future results of the Company. The extent of the impact, if any, will depend on future developments, including actions taken to contain the coronavirus. A key task for the Company in 2021 is to begin late-stage clinical development with its pharmaceutical product, JAN101. However, the COVID-19 pandemic significantly impacted clinical trials in 2020, delaying recruitment in most non-COVID-19 clinical trials and even eliminating recruitment in some trials. While clinical sites have largely resumed conducting non-COVID-19 clinical trials, the backlog of subjects may adversely affect our ability to recruit for its trial, leading to longer and more expensive trials. In addition, the unknown effectiveness of the COVID-19 vaccines, particularly concerning variant strains of COVID-19, could lead to clinical sites terminating patient recruitment again during the course of the study.

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 PPP Loan was forgiven during the first fiscal quarter of 2021.

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 July 3, 2021, \$1,083 was settled, leaving a balance remaining of \$85.

On January 29, 2021, the Company entered into a Securities Purchase Agreement (the “Purchase Agreement”) with certain institutional investors (the “Purchasers”) for the sale by the Company in a registered direct offering (the “Offering”) of 571,428 shares of the Company’s common stock, par value \$0.001 per share (the “Common Stock”), at a purchase price per share of Common Stock of \$10.50.

On February 2, 2021, the Offering closed and the Company received gross proceeds of approximately \$6,000, before deducting placement agent fees and other offering expenses. The Company is utilizing the net proceeds for general working capital.

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

Cash Flows

During the 26 weeks ended July 3, 2021, cash used in operations was \$2,307, compared to cash provided by operations of \$1,622 during the 26 weeks ended June 27, 2020. The decrease in cash provided by operations was primarily due to results of operations, as discussed above.

Cash used in investing activities was \$1,523 and \$135 for the 26 weeks ended July 3, 2021 and the 26 weeks ended June 27, 2020, respectively, primarily related to purchases of property and equipment and intangibles.

Cash provided by financing activities was \$7,203 for the 26 weeks ended July 3, 2021 was primarily due to net proceeds of \$5,544 from an equity financing and \$1,835 in proceeds from notes payable. Cash used in financing activities was \$2,189 for the 26 weeks ended June 27, 2020. During fiscal 2020, the Company received proceeds from short term debt of \$3,469 primarily associated with the Payroll Protection Program and advances from certain customers for future services and paid \$1,000 on its related party note

Sources of Liquidity

We utilize cash on hand and factor certain accounts receivable invoices to cover normal and seasonal fluctuations in cash flows and to support our various growth initiatives. Our cash and cash equivalents are carried at cost and consist primarily of demand deposits with commercial banks. On March 26, 2018, the Company entered into a purchase and sale agreement with Prestige Capital, whereby from time to time the Company can factor certain accounts receivable to Prestige Capital up to a maximum advance and outstanding balance of \$11,000. 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.

We acknowledge that we continue to face a challenging competitive environment as we continue to focus on our overall profitability, including managing expenses. We reported a net loss of \$4,477 and \$4,725 for the 26 weeks ended July 3, 2021 and June 27, 2020, respectively. In addition, the Company has total current assets of \$9,890 and total current liabilities \$19,663 resulting in a net negative working capital of \$9,773 as of July 3, 2021.

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

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

We may require additional debt financing and/or capital to finance new acquisitions, refinance existing indebtedness, conduct our Phase 2b clinical trials, or consummate other strategic investments in our business. Any financing obtained may further dilute or otherwise impair the ownership interest of our existing stockholders.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market Risk and Impact of Inflation

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

Foreign Currency Exchange Rate Risk. We currently generate revenues in Canada. The reporting currency for our consolidated financial statements is U.S. dollars. It is not possible to determine the exact impact of foreign currency exchange rate changes; however, the effect on reported revenue and net earnings can be estimated. We estimate that the overall strength of the U.S. dollar against the Canadian

dollar had an immaterial impact on the revenues and net income for the fiscal year ended January 2, 2021. We do not currently hedge foreign currency fluctuations and do not intend to do so for the foreseeable future.

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Evaluation of Disclosure control and Procedures. We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of July 3, 2021, the period covered in this report, our disclosure controls and procedures were not effective to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting. There were no changes in the Company's internal control over financial reporting during the quarter ended July 3, 2021, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Our management assessed the effectiveness of our internal control over financial reporting as of April 3, 2021. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013 regarding Internal Control – Integrated Framework. Based on our assessment using those criteria, our management concluded that our internal control over financial reporting was not effective as of July 3, 2021.

Management noted material weaknesses in internal control when conducting their evaluation of internal control as of January 2, 2021. (1) Insufficient information technology general controls ("ITGC") and segregation of duties. It was noted that people who were negotiating a contract, were also involved in approving invoices without proper oversight. Additional controls and procedures are necessary and are being implemented to have check and balance on significant transactions and governance with those charged with governance authority. (2) Inadequate control design or lack of sufficient controls over significant accounting processes. The cutoff and reconciliation procedures were not effective with certain accrued and deferred expenses. (3) Insufficient assessment of the impact of potentially significant transactions, and (4) Insufficient processes and procedures related to proper recordkeeping of agreements and contracts. In addition, contract to invoice reconciliation was not effective with certain transportation service providers. As part of its remediation plan, processes and procedures have been implemented to help ensure accruals and invoices are reviewed for accuracy and properly recorded in the appropriate period. These material weaknesses remained outstanding as of the filing date of this quarterly report on Form 10-Q and management is currently working to remedy these outstanding material weaknesses.

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

PART II. Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item. However, in light of the SEC Complaint, the Company provides the following additional risk factor, which supplements the risk factors previously disclosed by the Company in Part I, Item 1A, Risk Factors, of the 2020 10-K.

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

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

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

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information.

Item 1.01 Entry into a Material Definitive Agreement.

Amendment to Terms of Sale of Recycling Business

As previously disclosed, on February 19, 2021, the Company together with its subsidiaries (a) ARCA Recycling, Inc., a California corporation ("ARCA"), and (b) Customer Connexx LLC, a Nevada limited liability company ("Connexx"), entered into an Asset Purchase Agreement (the "Recycling Sale Purchase Agreement") with (i) ARCA Affiliated Holdings Corporation, a Delaware corporation, (ii) ARCA Services Inc., a Delaware corporation, and (iii) Connexx Services Inc, a Delaware corporation (collectively, the "Buyers"), pursuant to which the Buyers agreed to acquire substantially all of the assets, and assume certain liabilities, of ARCA and Connexx (the "Disposition Transaction"). The principal of the Buyers is Virland A. Johnson, our Chief Financial Officer. The Disposition Transaction was previously expected to be consummated on or before August 18, 2021 (the "Outside Date"). On August 12, 2021, the parties entered into an Amendment No. One to Asset Purchase Agreement (the "Recycling Sale Amendment") to extend the Outside Date to September 30, 2021. Except as amended by the Recycling Sale Amendment, the terms and conditions of the Recycling Sale Purchase Agreement remain unchanged.

The foregoing description of the Recycling Sale Amendment is not complete and is qualified in its entirety by reference to the full text of the Amendment, a copy of which is filed as Exhibit 10.4 to this Form 10-Q and is incorporated herein by reference.

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	03/13/2018
3.2	Articles of Conversion	8-K	0-19621	3.1	03/13/2018
3.3	Articles of Conversion	8-K	0-19621	3.2	03/13/2018
3.4	Certificate of Correction	10-Q	0-19621	3.1	08/14/2018
3.5	Certificate of Change	8-K	0-19621	3.1	04/22/2019
3.6	Certificate of Correction	8-K	0-19621	3.7	06/24/2019
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	06/24/2019
3.8	Amended and Restated Certificate of Designation of the Preferences, Rights, and Limitations of the Series A-1 Convertible Preferred Stock of JanOne Inc., dated October 1, 2020	8-K	0-19621	3.8(a)	10/02/2020
3.9	Second Amended and Restated Certificate of Designation of the Preferences, Rights, and Limitations of the Series A-1 Convertible Preferred Stock of JanOne Inc., dated April 13, 2021	8-K	0-19621	3.8(b)	04/16/2021
3.10	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	09/13/2019
3.10	Bylaws of Appliance Recycling Centers of America, Inc.	8-K	0-19621	3.4	03/13/2018
3.11	First Amendment to Bylaws of Appliance Recycling Centers of America, Inc.	8-K	0-19621	3.1	12/31/2018
10.1	Addendum to Master Equipment Finance Agreement dated as of April 14, 2021 between KLC Financial, LLC and ARCA Recycling, Inc.	10-Q	0-19621	10.2	05/17/2021
10.2	*† Settlement Agreement and Mutual Release of Claims dated April 9, 2021 by and among JanOne Inc. (f/k/a Appliance Recycling Centers of America, Inc.); GeoTraq, Inc.; Antonios Isaac; and Gregg Sullivan				
10.3	* Amendment No. One to Asset Purchase Agreement among JanOne Inc., ARCA Recycling, Inc. and Customer Connexx LLC, on the one hand, and ARCA Affiliated Holdings Corporation, ARCA Services Inc., and Connexx Services Inc., on the other hand				
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	*	<u>Certification of the President and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2	*	<u>Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS	*	Inline XBRL Instance Document
101.SCH	*	Inline XBRL Taxonomy Extension Schema Document
101.CAL	*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104		Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

* Filed herewith.

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

SIGNATURES

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

JanOne Inc.
(Registrant)

Date: August 13, 2021

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

Date: August 13, 2021

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

CERTAIN IDENTIFIED INFORMATION HAS BEEN OMITTED FROM THIS DOCUMENT BECAUSE IT IS BOTH NOT MATERIAL AND WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED, AND HAD BEEN MARKED WITH “[***]” TO INDICATE WHERE OMISSIONS HAVE BEEN MADE.

**SETTLEMENT AGREEMENT
AND
MUTUAL RELEASE OF CLAIMS**

1. PARTIES

This Settlement Agreement and Mutual Release of Claims (“Agreement”) is made and entered into on the last day set forth on the signature page hereto (the “**Effective Date**”) by and among JANONE INC. (F/K/A APPLIANCE RECYCLING CENTERS OF AMERICA, INC.) (“**JanOne**”); GEOTRAQ, INC. (“**GeoTraq**”) (JanOne and GeoTraq hereinafter referred to collectively as “**Plaintiffs**”); ANTONIOS (“**TONY**”) ISAAC (“**T. Isaac**”), as indemnitee of JanOm (Plaintiffs and T. Isaac hereinafter referred to collectively as the “**JanOne Parties**”); and GREG SULLIVAN (“**Sullivan**” or “**Defendant**”), for the purpose of resolving by compromise and settlement, all claims, liabilities and disputes among the parties. In the remainder of this Agreement, Plaintiffs, T. Isaac, and Sullivan shall be referred to collectively as the “**Parties**” and any one of the Parties may be referred to as a “**Party**”.

2. RECITALS

This Agreement is entered into with reference to the following facts:

- A. On or about February 27, 2019, Plaintiffs filed a complaint against Sullivan in the District Court of Clark County, Nevada under case no. A-19-790073-B (the “**Litigation**”), which complaint was twice amended, most recently on March 10, 2020, with the filing of Plaintiffs’ Second Amended Complaint (“**Complaint**”).
- B. On or about June 21, 2019, Sullivan filed his Answer to First Amended Complaint, Counter-Claim, and Third-Party Complaint against the JanOne Parties and others which counterclaims were amended three times, most recently on January 31, 2020, with the filing of Sullivan’s Revised Second Amended Counterclaims (collectively, “**Sullivan’s Counterclaims**”).
- C. Sullivan’s Counterclaims allege eleven (11) counts: (1) Breach of Employment Contract; (2) Breach of Implied Covenant of Good Faith and Fair Dealing; (3) Fraud; (4) Negligent Misrepresentation; (5) Civil Conspiracy; (6) Conversion of Stock; (7) Indemnity and Contribution; (8) Tortious Discharge; (9) Alter Ego; (10) Judicial Determination – Unconscionable Agreements and/or Unconscionable Clauses; and (11) Judicial Determination – Conflict of Interest.
- D. Certain of Sullivan’s Counterclaims relate to, *inter alia*, representations made in advance of, and in connection with the negotiation and execution of, an Agreement and Plan of Merger entered into between and among Sullivan, JanOne, GeoTraq,

and others on or about August 18, 2017 and disposition of Sullivan's property, including intellectual property and stock, while others relate to Sullivan's prior employment with GeoTraq and his claim of wrongful termination therefrom seeking a return of stock and payment of deferred compensation.

E. Each of the Parties denies (i) all of the allegations pled against them in their entirety, whether in the Complaint, Sullivan's Counterclaims, or otherwise in the Litigation and (ii) that any amounts or relief are owing to any other Party, but, in the interest of avoiding additional time and undue expense, JanOne, on behalf of itself and the Other JanOne Parties, and Sullivan have hereby entered into this Agreement, which each of the Parties intends to be a global and comprehensive settlement agreement and mutual release of all claims asserted or unasserted, known and unknown, among the Parties, all as set forth herein.

NOW, THEREFORE, in consideration of the facts and general releases and promises contained herein, and for other good and valuable consideration, the receipt and adequacy of which are acknowledged by each Party hereto, the Parties promise and agree as follows:

3. AGREEMENTS, RELEASES AND PROMISES

F. **Settlement Amount.** JanOne shall tender to Sullivan, on behalf of itself, T. Isaac, and GeoTraq, the aggregate of One Million Nine Hundred Fifty Thousand Dollars (US\$1,950,000.00) (the "**Settlement Amount**"), as calculated hereinbelow and as allocated between JanOne and T. Isaac in their sole and absolute discretion. The Settlement Amount shall be accomplished in the following manner:

1. **Initial Payment.** On the Effective Date, JanOne shall tender to Sullivan, through his counsel, Two Hundred Fifty Thousand Dollars (US\$250,000.00) in cash (the "**Initial Payment**").

2. **Quarterly Payment.** On or before June 1, 2021, and on or before three months from and after June 1, 2021, for a total of up to ten (10) payments, JanOne shall tender to Sullivan, through his counsel, a minimum of One Hundred Seventy Thousand Dollars (US\$170,000.00), in cash or deliver shares of Equivalent Stock (the "**Quarterly Payments**"). **Equivalent Stock** is defined as shares of JanOne common stock (NASDAQ: JAN), which shares (i) shall not constitute "restricted securities" (as that term is defined in §230.144(a)(3) of the General Rules and Regulations under the Securities Act of 1933, as amended, as promulgated by the Securities and Exchange Commission) and (ii) on the Quarterly Payment Date (or the date on which the Plaintiffs elect to make a Prepayment (as defined in Paragraph 3(A)(3), below, as memorialized by a written notice thereof (each, a "**Prepayment Notice**") shall have an aggregate value of US\$170,000.00, based upon [***].

For the avoidance of doubt, Plaintiffs shall make Quarterly Payments (each, a "**Quarterly Payment Date**") on or before the following dates:

- ⌚ June 1, 2021
- ⌚ September 1, 2021

- 🕒 December 1, 2021
- 🕒 March 1, 2022
- 🕒 June 1, 2022
- 🕒 September 1, 2022
- 🕒 December 1, 2022
- 🕒 March 1, 2023
- 🕒 June 1, 2023
- 🕒 September 1, 2023

Notwithstanding anything to the contrary set forth in this Agreement, to accommodate the relevant issuance and delivery procedures and protocols for delivery of the shares of Equivalent Stock, the date for the “DWAC” of such shares into a brokerage account of Sullivan, shall be not later than 3 Standard Trading Days following the relevant Quarterly Payment Date or the date of the relevant Prepayment Notice. Whether any given Quarterly Payment is made in cash or shares of Equivalent Stock shall be at the sole and absolute discretion of Plaintiffs. The making of any given Quarterly Payment by tender of cash or delivery of shares of Equivalent Stock, respectively, shall not limit Plaintiffs’ discretion to elect to make any remaining Quarterly Payment(s) by a different means (tender of cash or delivery of shares of Equivalent Stock). However, notwithstanding such payment option, under no circumstances should this settlement be construed as a non-monetary settlement.

3. Prepayments. On or after the first Quarterly Payment Date, Plaintiffs shall have the option to accelerate and make earlier (in full or in part at any time or from time to time) any or all of the then-remaining Quarterly Payments. Any one or more of the Quarterly Payments that are so accelerated (in full or in part) (hereinafter, each, a “**Prepayment**”) may be tendered in cash or, with the written consent of Sullivan as to up to [***] of the shares of Prepayment Stock (as defined below), which consent may only be withheld, delayed, denied, or conditioned in accordance with the provisions of footnote 4, by delivery of shares of Equivalent Stock (such shares, the “**Prepayment Stock**”). Notwithstanding anything to the contrary contained herein, and for clarity, Sullivan’s consent rights in respect of the delivery of shares of Prepayment Stock shall only apply to up to [***] of such shares and Sullivan does not have any consent rights in respect of the “other” [***] of such shares. If JanOne elects to make a Prepayment by delivery of Prepayment Stock, it shall provide Sullivan with a Prepayment Notice in the manner set forth in Paragraph 3(N), below. Sullivan shall have [***] days from receipt of the Prepayment Notice to consent or decline the request for Prepayment by the delivery of Prepayment Stock. Any Prepayment that is to be made in cash shall be tendered within three Trading Days of the date of the Prepayment Notice. If such Prepayment in cash has not been so tendered, the Prepayment Notice shall be void *ab initio* and shall be of no further effect. Any Prepayment that is to be made by delivery of shares of Prepayment Stock shall be based upon the same calculation modality as set forth in Paragraph 3(A)(2), above; however, rather than utilizing a Quarterly Payment Date in such [***], the date of the Prepayment Notice shall be utilized in lieu thereof and [***]. If [***], then the value of the shares of Prepayment Stock to

be delivered shall instead be based upon [***]. In any event, the date for the “DWAC” of such shares of Prepayment Stock into a brokerage account of Sullivan, shall be not later than [***] following the date of the relevant Prepayment Notice. If such shares of Prepayment Stock shall not have been delivered by DWAC by the end of such third Standard Trading Day, the Prepayment Notice shall be void *ab initio* and shall be of no further effect.

4. Tax Consequences. The Parties acknowledge that Sullivan’s, or his assignee(s) receipt of the Settlement Amount may be considered taxable income in whole or in part and/or capital gains or losses in whole or in part and, in each case, shall be subject to disclosure to the appropriate taxing authorities by JanOne and/or GeoTraq. Sullivan, and or his assignee(s), agree to pay any federal or state taxes that are required by law to be paid by Sullivan with respect to the receipt of the Settlement Amount.

5. Adequacy of Consideration. The Parties agree that the covenants and promises made in this Agreement are in consideration of the payment and other promises made in this Agreement, which the Parties acknowledge to be sufficient, just, and adequate consideration for the covenants, obligations, and promises in this Agreement. The Parties agree that the payment of the Settlement Amount shall constitute the entire amount of payments provided to Sullivan under this Agreement and that Sullivan is not entitled to and will not seek any further compensation, monetary or otherwise, for any other claimed damages, costs, or attorneys’ fees in connection with the matters encompassed in this Agreement.

6. Specific Assumption of Equivalent Stock or Prepayment Stock Risk Sullivan acknowledges and understands that (i) [***] of JanOne’s common stock has been highly volatile and may continue to be highly volatile and (ii) the value of the shares of Equivalent Stock or Prepayment Stock that may be delivered to Sullivan under this Agreement will fluctuate between the date(s) of calculation of the number of shares thereof, as delivered to Sullivan, and the date(s) of Sullivan’s sales thereof.

G. Irrevocable Transfer Instruction Letter. Not later than the Effective Date, JanOne shall execute and deliver to its transfer agent an irrevocable instruction letter (the “**Irrevocable Transfer Agent Instruction Letter**”) in the form attached hereto as Exhibit “B.” The Irrevocable Transfer Agent Instruction Letter shall provide, in pertinent part, instructions for the transfer agent to deliver the shares of Equivalent Stock or Prepayment Stock to Sullivan for each Quarterly Payment upon (i) JanOne’s direction to the transfer agent to deliver the shares of Equivalent Stock to Sullivan for a Quarterly Payment or shares of Prepayment Stock to Sullivan for a Prepayment or (ii) Sullivan’s direction to the transfer agent to deliver the shares of Equivalent Stock to Sullivan if JanOne had failed to deliver to Sullivan a Quarterly Payment (in cash or shares of Equivalent Stock) on or before the Quarterly Payment Date. Further, during the period that commences on the Effective Date and terminates on JanOne’s tender of the entire Settlement Amount to Sullivan, JanOne shall not terminate its transfer agent (EO By Equiniti) unless, prior to the effective date of such transfer, JanOne and the successor transfer agent

have executed and delivered to Sullivan a letter substantially in the form of the Irrevocable Transfer Agent Instruction Letter.

H. Assistance in Deposit of Shares. JanOne agrees to cooperate in good faith with Sullivan and/or his attorneys, representatives, agents, executors, heirs, assignees, or nominees, in obtaining any usual and customary regulatory letters, such as legal opinions and the like, to facilitate the deposit of the shares of Equivalent Stock and Prepayment Stock, if any, comprising any given Quarterly Payment or Prepayment, respectively, into the brokerage accounts of Sullivan and/or his representatives, agents, executors, heirs, assignees, or nominees at a broker-dealer in the United States, which broker-dealer is a member of The Depository Trust Company.

I. Payment of [*].** Upon the Execution Date, at the specific request and direction of Sullivan, Plaintiffs shall tender to [***] (collectively, “[***]”), Sullivan’s former counsel, the amount of [***] in full and final satisfaction of the [***] from the Initial Payment, which is included in the total Settlement Amount. Prior to the tender of any of the Quarterly Payments or Prepayments to be made hereunder, Sullivan shall obtain the release of the attorneys’ fees lien claimed by [***], in the approximate amount of [***] (the “[***]”). Plaintiffs and Third-Party Defendants agree to cooperate in good faith with Sullivan and his attorneys to address and obtain the release of the [***].

J. Release of Fee Award. Plaintiffs expressly release and forever discharge Sullivan and his attorneys, representatives, insurers, assignees, agents, executors, administrators, heirs, and all persons acting by, through, or in any way on behalf of Sullivan, of and from any liability for the award of attorney’s fees in the amount of [***] ordered in the Litigation against Sullivan by order of the Court dated August 6, 2020. The Parties acknowledge that Plaintiffs’ release of their right to collect this amount as ordered by the Court (although subject to appeal or reconsideration by Sullivan) is a portion of the consideration received by Sullivan in connection with this compromise and settlement.

K. Release of Restrictive Covenants. Plaintiffs expressly release Sullivan from any and all restrictive covenants to which he is or may be subject under Sections 7(a), (b), (c), (d), and, as relevant, Sections 7(f) and (g) of the Employment Agreement entered into between Sullivan and GeoTraq on or about August 18, 2017, and Section 5.07 of the Merger Agreement, including, without limitation, any non-competition provisions. Nothing in this Paragraph shall affect the ownership or license of any intellectual property transferred or assigned by, between, or among the Parties.

L. In Respect of Shares of JanOne Capital Stock. Sullivan expressly agrees that:

7. Delivery of Series A Stock Certificate. Within three Standard Trading Days of the Effective Date, he shall deliver to JanOne any and all certificates, endorsed in blank, that are registered in his name and formerly represented shares of JanOne Series A Convertible Preferred Stock (the “**Superseded Series A Stock**”).

8. Superseded Series A Convertible Preferred Stock. The JanOne Series A Convertible Preferred Stock has been superseded by the JanOne Series A-1 Convertible Preferred Stock (the “**Series A-1 Stock**”).

9. Delivery of Stock Power and Release of Claims to Convertible Preferred Stock. Within three Standard Trading Days of Sullivan’s receipt of the entire Settlement Amount, he shall deliver to JanOne a Stock Power, Stock Assignment, or equivalent form, in any such case endorsed in blank, with his signature medallion guaranteed, in respect of the shares of Series A-1 Convertible Preferred Stock that are registered in his name as of the Effective Date (the “**Stock Power**”) and, in connection therewith, will be deemed to have released any and all claims to any and all shares of the Superseded Series A Stock and any and all then-outstanding Series A-1 Stock and any shares of capital stock underlying such shares and any rights to any other shares of capital stock of the Company or GeoTraq.

10. Series A-1 Stock Conversion Rights. Notwithstanding any language to the contrary in any Certificate of Designation of the Preferences, Rights, and Limitations of the Series A-1 Convertible Preferred Stock of the Company, as amended or as amended and restated, Sullivan expressly agrees that, in connection with the transactions contemplated by, and by the express and implied terms of, this Agreement, from and after the Effective Date through and including the date on which he has delivered the Stock Power to JanOne, he shall be deemed (i) to have provided to JanOne his proxy to vote the shares of the Series A-1 Stock and the underlying shares, whether in the context of an annual meeting of stockholders or a special meeting of stockholders or in the context of a written consent of stockholders, which deemed proxy shall be irrevocable and coupled with an interest, and (ii) to have released to JanOne the sole and exclusive right to exercise any and all conversion rights in respect of the shares of the Series A-1 Stock. In connection with the Litigation, the shares of the Series A-1 Stock and any shares into which they might have been converted are deemed to have been the subject of a “lock-up.” In connection with the terms of this Agreement, any shares of Equivalent Stock and any shares of Prepayment Stock are the subject of a “DWAC leak-out” in accordance with the delivery provisions set forth above. To the extent JanOne breaches any material term of this Agreement, following notice and an opportunity to cure, the proxy and sole and exclusive right to exercise conversion rights in respect to the Series A-1 Stock contemplated in this Paragraph (G)(4) shall be deemed revoked as to any shares of Series A-1 Stock then issued and outstanding, as well as JanOne’s proxy rights in respect of any shares of common stock into which shares of Series A-1 Stock may have been converted for delivery to Sullivan or to his designated broker-dealer.

M. Release of [*]**. Sullivan expressly agrees to forego any further action with respect to the “[***]” made by Sullivan to the [***] (the “[***]”) on or about October 1, 2019 under [***] (the “[***]”), including, but not limited to, initiating further contact with the [***] either directly or through his attorneys, representatives, agents, or third parties. Sullivan further agrees to withdraw the [***] in writing, to the extent permitted by law, by sending a notice of withdrawal the [***] to the [***] in the form

attached hereto as Exhibit "D" and, to the extent permitted by law, agrees to refrain from submitting any new or amended complaint, grievance, tip, referral, or other action to the [***] or any other governmental or regulatory body or self-regulatory organization, which new or amended complaint, grievance, tip, referral, or other action relates in any way to the subject matter of the Complaint, Sullivan's Counterclaims, the Third-Party's Counterclaims, this Agreement, or the matters set forth in the [***].

N. **Mutual Release of Known and Unknown Claims.** The Parties, and their officers, directors and attorneys (past and present) do hereby release and forever discharge one another and each of their respective affiliates, subsidiaries, parent entities, equity holders, employees, officers, directors, partners, attorneys, predecessors, successors, representatives, insurers, assignees, agents, executors, administrators, heirs, devisees, legatees, and all persons acting by, through, or in any way on behalf of one another (the "**Released Parties**"), of and from any and all claims, debts, defenses, liabilities, costs, attorneys' fees, actions, suits at law or equity, demands, contracts, expenses, damages, whether general, specific, punitive, exemplary, contractual or extra-contractual, and causes of action of any kind or nature that any of the Parties may now have or claim to have against the Released Parties, including, without limitation, all claims or causes of action that in any way, directly or indirectly, or in any other way arises from or are connected with or that could have been asserted in connection with the Complaint and Sullivan's Counterclaims and any claims, causes of action, damages, promises or demands that could have been asserted in the Complaint and Sullivan's Counterclaims and the Parties further covenant and agree that this Agreement may be pleaded or asserted by or on behalf of the Released Parties as a defense and complete bar to any action or claim that may be brought against or involving the Released Parties by anyone acting or purporting to act on behalf of any of the Parties with respect to any of the matters within the scope of this Agreement, excepting only the obligations of the Parties under this Agreement. This full and final release shall cover and shall include and does cover and does include any and all known damages or future damages not now known to any of the Parties hereto, but that may later develop or be discovered, including the effects and consequences thereof, and including all causes of action therefor that arise out of the same facts as were alleged or could have been alleged in the Complaint and Sullivan's Counterclaims.

In addition, and not by way of limitation, to the broad and general release set forth above, Sullivan specifically acknowledges and agrees that, by executing this Agreement, Sullivan is releasing any claims against JanOne and GeoTraq for any disability discrimination in violation of the Americans with Disabilities Act of 1990 (ADA) (42 U.S.C. §§ 12101); any violation of Title VII of the Civil Rights Act of 1964 (42 U.S.C. §§ 2000e, et seq.); any claims under 42 U.S.C. § 1981; any violation of the Equal Pay Act of 1963 (29 U.S.C. § 2006(d)); any claims under the Employee Retirement Income Security Act of 1974 (ERISA); any claims under the Age Discrimination in Employment Act of 1967 (ADEA) (29 U.S.C. §§ 621, et seq.); the Older Workers Benefit Protection Act (OWBPA); the Family and Medical Leave Act (FMLA) (29 U.S.C. §§ 2601, et seq.); the Worker Adjustment

Retraining and Notification Act of 1988 (29 U.S.C. §§ 2101, et seq.); Nevada Revised Statutes §§ 613.310 to 613.430 (Employment Discrimination, Harassment and Retaliation); Nevada Revised Statutes §§ 608.005 to 608.195 (Payment and Collection of Wages and Penalties); Nevada Revised Statutes §§ 608.250 to 608.290 (Minimum Wage); Nevada Revised Statutes §§ 616A to 616D (Nevada Industrial Insurance Act); Nevada Revised Statutes §§ 617.010, et seq. (Nevada Occupational Diseases Act); Nevada Revised Statutes §§ 618.005 to 618.936 (Nevada Occupational Safety and Health Act); Nevada Revised Statutes §§ 629.101, et seq. (Nevada Genetic Information and Testing Law); Nevada Labor Relations Laws; future causes of action under the federal False Claims Act (31 U.S.C. §§ 3729 – 3733); and/or any state false claims acts relating in any manner to information learned while employed with GeoTraq or affiliated with JanOne; the Sarbanes-Oxley Act of 2002; any claims under any state law, statute or ordinance, including state equal opportunities for employment laws and fair employment and housing laws; any claims arising under the Fair Labor Standards Act (29 U.S.C. §§ 201, et seq.) and any similar state statute, any wage, hour, tip, or bonus claims arising under any federal, state; or local law; any claim for retaliation; and any claims growing out of any legal restriction on JanOne and/or GeoTraq's right to terminate or constructively terminate their respective employees, including, but not limited to, contract, tort, public policy, or wrongful discharge, which arises from any and all events occurring on or before the Effective Date. All such claims (including related attorneys' fees and costs) are forever barred by this Agreement. To the extent applicable law may prohibit a waiver of claims under a particular statute, Sullivan acknowledges that he has waived any claim under each such statute, as identified herein.

O. Waiver of Unknown Claims and Affirmative Disclosure that Parties Have Identified All Pending Claims. The Parties understand that there may hereafter be a discovery of claims or facts in addition to those currently known or believed to be true, accrued or unaccrued; nevertheless, and for the purpose of implementing a full and complete release and discharge, and except as expressly limited herein, the Parties expressly acknowledge that this Agreement is intended to include and does include in effect, without limitation, all claims that the Parties do not know or suspect to exist in favor at the time the Parties sign this Agreement and that this Agreement expressly contemplates the extinguishment of all such known or unknown claims against all known and unknown tortfeasors, people, companies or any other legal entity.

EACH OF THE PARTIES ACKNOWLEDGES AND AGREES THAT THE RELEASE AND DISCHARGE SET FORTH IN THIS AGREEMENT IS A GENERAL RELEASE AND DISCHARGE AS TO IT AND ALL OTHER RELEASED PARTIES. EACH OF THE PARTIES FURTHER EXPRESSLY WAIVES AND ASSUMES THE RISK THAT ANY AND ALL CLAIMS FOR DAMAGES THAT EXIST AS OF THE EFFECTIVE DATE BUT OF WHICH IT DOES NOT KNOW OR THAT IT DOES NOT SUSPECT EXIST, WHETHER THROUGH IGNORANCE, OVERSIGHT, ERROR, NEGLIGENCE, OR OTHERWISE, AND THAT, IF KNOWN, WOULD

MATERIALLY AFFECT A PARTY'S DECISION TO ENTER INTO THIS AGREEMENT, ARE BEING RELEASED AND WAIVED BY THIS AGREEMENT.

P. Attorneys' Fees and Costs. It is expressly understood by the Parties that each Party shall bear its own costs, expenses, and attorney's fees in connection with the Litigation and this Agreement. Further, the Parties waive and release any claims they otherwise have or may have had to such costs, expenses and/or attorneys' fees in any way arising from or relating to the Litigation and this Agreement.

Q. Compromise and Full Settlement. This Agreement is made as a compromise and full settlement of the Litigation, resulting from arms-length negotiations. For these and other reasons, the Parties agree that this Agreement: (a) shall not be presumptively construed against any Party, even if a court determines that the Agreement or any provision hereof was drafted by one Party; (b) shall not be admissible in any proceeding as evidence of, and shall not under any circumstances be considered an admission of the truth or legal sufficiency of, any or all of the arguments, allegations, claims and/or other matters asserted in the Litigation; and (c) is entered into with prejudice. The Parties further agree that, by executing this Agreement, none of the Parties admits any liability or fault. This Agreement and compliance with this Agreement shall not be construed or deemed as an admission by any of the Parties of any fault, liability, or concession whatsoever.

R. Dismissal of Claims. Upon execution of this Agreement and payment of the Initial Payment, all Parties shall dismiss all pending claims in the Litigation with prejudice with each Party to bear its own attorneys' fees and costs.

S. Notice of Breach of Agreement. Each of the Parties covenants and agrees to provide via *Certified Mail, Return Receipt to Sender, postage prepaid* written notice with the right to cure (a "**Notice**") of any alleged breach of this Agreement (a "**Breach**") to the offending Party prior to initiating a civil action against that Party. The Party that received Notice of the alleged Breach shall have thirty (30) days to investigate and cure any alleged Breach without incurring civil liability. The Notice shall be provided to the applicable Party at the following respective addresses:

Gregg Sullivan
c/o Sylvester & Polednak, Ltd.
Attn: Jeff Sylvester
1731 Village Center Cir. #120
Las Vegas, NV 89134

JanOne, GeoTraq, and/or T. Isaac
c/o Holland & Hart
Attn: Steve Peek/Jessica Whelan
9555 Hillwood Dr., Floor 2
Las Vegas, NV 89134

T. Right To Cure Breach of Agreement. After proper Notice has been given, if good faith efforts are not made to cure the alleged Breach within thirty (30) days, only then may the Party that provided the Notice bring a civil action for the alleged Breach. Conversely, if within thirty (30) days of proper Notice of the alleged Breach, good faith efforts are made to cure the alleged Breach or the Breach is reasonably cured, the Party that provided the Notice is precluded from filing a civil action in respect of the alleged breach against the Party that received the Notice. If a civil action is properly brought in accordance with this Agreement, the prevailing Party in such civil action, including all appeals, shall receive all of its damages, costs, expenses, and reasonable attorneys' fees, as well as any such other relief, to which the Party may be entitled by law.

U. Governing Law, Jurisdiction, and Venue. This Agreement is entered into in the State of Nevada. The laws of the State of Nevada (without giving effect to choice of law or conflict of law principles) shall govern the validity, construction, performance, and effect of this Agreement. Any dispute arising out of or relating to this Agreement shall be adjudicated in a court of competent jurisdiction located in Clark County, Nevada, which shall be the exclusive jurisdiction for any such dispute. Each of the Parties knowingly and voluntarily accepts personal jurisdiction and venue within Clark County, Nevada and waives any right to object to jurisdiction or venue within Clark County, Nevada on any ground, including grounds of convenience of this forum.

V. Jury Waiver. EXCEPTING HEREFROM SOLELY ANY CLAIMS FOR FRAUD IN THE INDUCEMENT IN RESPECT OF THE EXECUTION AND DELIVERY OF THIS AGREEMENT, EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY CONTROVERSY THAT MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUE AND, THEREFORE, **EACH PARTY IRREVOCABLY AM) UNCONDITIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LEGAL ACTION ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.** EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (A) NO REPRESENTATIVE OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT SEEK TO ENFORCE THE FOREGOING WAIVER IN THE EVENT OF A LEGAL ACTION; (B) SUCH PARTY HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER; (C) SUCH PARTY MAKES THIS WAIVER VOLUNTARILY; AND (D) SUCH PARTY HAS HAD THE OPPORTUNITY TO REVIEW THIS AGREEMENT, INCLUDING THIS EXPRESS WAIVER OF THE RIGHT TO A TRIAL. BY JURY.

W. Severability. If any provision of this Agreement is held to be illegal, invalid, or unenforceable, (i) such provisions shall be fully severable, (ii) the Agreement shall be construed and enforced as if such illegal, invalid, or unenforceable provision had never comprised a part of this Agreement, and (iii) the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by such

illegal, invalid, or unenforceable provision or by its severance from this Agreement. Furthermore, in lieu of such illegal, invalid, or unenforceable provision, there shall be added automatically as part of this Agreement a provision as similar in terms to such illegal, invalid, or unenforceable provision as may be possible and be legal, valid, and enforceable.

X. Confidentiality. In the absence of prior written consent of the other Parties hereto, none of the Parties, nor any of their respective agents or representatives, may disclose to any third party the terms of this Agreement or the information any Party provides to another Party pursuant to this Agreement. This Paragraph shall not prohibit the Parties from disclosing the fact of settlement or the existence of this Agreement, but not the contents thereof, to any third party, or from disclosing the existence of this Agreement or the terms hereof to such Party's accounting or financial personnel for accounting or tax purposes, or as is required to comply with any applicable statutes or regulations of any governmental agency or self-regulatory organization, or from complying with lawful subpoenas or other process to provide testimony, information and/or documents in connection with any civil, criminal, or administrative proceeding.

Y. Non-Disparagement. Each Party agrees that it will not, at any time now or in the future, make any verbal or written statement, including over the Internet (anonymously or otherwise), to a third party, which statement is reasonably likely to be harmful to, or to be injurious to the goodwill, good name, reputation or business standing of another Party or other Parties, or of another Party or other Parties' affiliates, subsidiaries, officers, directors, members, managers, partners, executives, employees or agents. Nothing in this Paragraph shall prohibit the Parties from providing truthful testimony if called upon to provide the same under oath in a court, regulatory, administrative, or other proceeding in which sworn testimony is sought.

Z. Non-Cooperation. Each Party agrees that it will not cooperate with, aid, assist, or encourage in any way, any other person, including, without limitation, current and former investors, actual, prospective, or putative stockholders, current and former employees of any entity owned, controlled, or in which any Party now, or has ever had, any interest or in which any Party ever served as a director or executive officer, to pursue any legal claims, charges, or lawsuits against any of the other Parties related to the subject matter of this Litigation_ Notwithstanding the above, a Party may cooperate in the pursuit of legal claims, charges, or lawsuits described in this Paragraph only if it is compelled to testify under oath pursuant to a lawfully issued subpoena or other similar legal process, written notice of which that Party shall provide to the Party against which it is cooperating within five (5) days of the cooperating Party's receipt or three (3) days prior to the cooperating Party giving any such testimony, whichever occurs first. Each Party agrees that its cooperation under the circumstances set forth herein shall be in a manner no more extensive than reasonably required.

AA. Counsel. The Parties acknowledge that this Agreement and the separate Settlement Agreement and Mutual Release of Claims with the Other Parties of approximately even date herewith (the “Other Agreement”) were each executed and delivered voluntarily by each of the Parties, without any duress or undue influence on the part of, or on behalf of any of them. The Parties further acknowledge that they have or had the opportunity for representation in the negotiations for, and in the preparation and performance of, this Agreement by counsel of their choice and that they have read this Agreement, and have had an opportunity to have it fully explained to them by their counsel; and that in any case they are fully aware of the contents of this Agreement and its legal affect. Consistent with such acknowledgements, and without objection, each of the Parties has assumed the risks attendant to settling the matters referenced this Agreement and in the Other Agreement in the manner and for the type and amount of consideration set forth herein and therein.

BB. Entire Agreement. This Agreement constitutes a single, integrated, written contract: expressing the entire understanding and agreement among the Parties in respect of the contents hereof, and the terms of the Agreement are contractual and not merely recitals. Further, this Agreement supersedes any previous negotiations, agreements, and understandings among the Parties in respect of the contents hereof. Each Party acknowledges that it has not relied on any oral or written representations by any other Party or Parties to induce it to sign and deliver this Agreement, other than the terms of this Agreement. Further, the Parties agree that no modifications of this Agreement can be made except in writing signed by each of the Parties or by an authorized representative of each of the Parties.

CC. Representative Capacity. The individuals whose signatures are affixed to this Agreement in a representative capacity represent- and warrant that they are authorized to execute the Agreement on behalf of and to bind the entity on whose behalf the signature is affixed.

DD. Counterparts. This Agreement may be executed in counterpart facsimile signatures and all such counterparts shall constitute a single form of this Agreement. Copies and facsimile copies of signature pages shall be deemed to be originals for any and all purposes.

[Signatures on following page]

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed as of the last day set forth below.

DATED: 4/9/2021

JANONE INC.

By: /s/ Tony Isaac

Its: President and CEO

DATED: 4/9/2021

GEOTRAQ, INC.

By: /s/ Tony Isaac_____

Its:

DATED: 4/8/2021

/s/ Gregg Sullivan
GREGG SULLIVAN

DATED: 4/9/2021

/s/ Antonios Isaac
ANTONIOS ("TONY") ISAAC

SOLELY IN RESPECT OF PARAGRAPH 31 EACH OF THE "PARTIES" TO THIS "SETTLEMENT AGREEMENT AND MUTUAL RELEASE OF CLAIMS" AND EACH OF THE UNDERSIGNED HEREBY AGREES THAT EACH OF THE UNDERSIGNED IS INCLUDED IN THE DEFINITION OF "RELEASED PARTIES" HEREIN.

DATED: 4/8/2021

ISAAC ORGANIZATION, LLC

By: /s/ Jon Isaac

Its:

DATED: 4/8/2021

THE ISAAC FAMILY TRUST

By: /s/ Jon Isaac

Its:

AMENDMENT NO. ONE TO ASSET PURCHASE AGREEMENT

Amendment No. One to Asset Purchase Agreement (this “**Amendment**”), dated as of August 12, 2021 (the “**Effective Date**”), is entered into among ARCA Recycling, Inc., a California corporation (“**ARCA**”), Customer Connexx LLC, a Nevada limited liability company (“**Connexx**”, and with ARCA, the “**Sellers**”), JanOne Inc., a Nevada corporation (“**Parent**”), and ARCA Affiliated Holdings Corporation, a Delaware corporation (“**Affiliated**”), ARCA Services Inc., a Delaware corporation (“**ARCA Services**”), and Connexx Services Inc, a Delaware corporation (“**Connexx Services**”, and with Affiliated and ARCA Services, the “**Buyers**”). The Persons referred to in the previous sentence are sometimes referred to as the “**Parties**”, and each of such Persons, a “**Party**”).

WHEREAS, the Parties entered into an Asset Purchase Agreement dated as of February 19, 2021 (the “**Existing Agreement**”); and

WHEREAS, the Parties desire to amend the Existing Agreement on the terms and subject to the conditions set forth in this Agreement; and

WHEREAS, pursuant to Section 9.09 of the Existing Agreement, this Amendment must be contained in a written agreement signed by each Party.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Definitions. Capitalized terms used and not defined in this Amendment have the respective meanings assigned to them in the Existing Agreement.

2. Amendments to the Existing Agreement. As of the Effective Date, the Existing Agreement is hereby amended or modified as follows:

a. The definition of “Outside Date” appearing in Article One of the Existing Agreement is hereby deleted in its entirety and replaced with the following:

“Outside Date” means September 30, 2021.

b. Section 3.01 of the Existing Agreement is deleted in its entirety and replaced with the following:

Closing. Subject to the terms and conditions of this Agreement, the consummation of the transactions contemplated by this Agreement (the “Closing”) shall occur on September 30, 2021. The Closing and all required deliveries will occur remotely by exchange of documents and signatures (or their electronic counterparts) and the date upon which the Closing occurs shall be the

“Closing Date”. The Closing shall be effective at 12:01 a.m. Central Daylight Time, on September 30, 2021.

3. Date of Effectiveness; Limited Effect. This Amendment will be effective as of the Effective Date. Except as expressly provided in this Amendment, all of the terms and provisions of the Existing Agreement are and will remain in full force and effect and are hereby ratified and confirmed by the Parties. Without limiting the generality of the foregoing, the amendments contained herein will not be construed as an amendment to or waiver of any other provision of the Existing Agreement or of any other Transaction Document or as a waiver of or consent to any further or future action on the part of either Party that would require the waiver or consent of the other Party. On and after the Effective Date, each reference in the Existing Agreement to “this Agreement,” “the Agreement,” “hereunder,” “hereof,” “herein,” or words of like import, and each reference to the Existing Agreement in any other agreements, documents, or instruments executed and delivered pursuant to, or in connection with, the Transaction Documents will mean and be a reference to the Existing Agreement as amended by this Amendment.

4. Representations and Warranties. Each Party hereby represents and warrants to the other Party that:

c. It has the full right, power, and authority to enter into this Amendment and to perform its obligations hereunder and under the Existing Agreement as amended by this Amendment.

d. The execution of this Amendment by the individual whose signature is set forth at the end of this Amendment on behalf of such Party, and the delivery of this Amendment by such Party, have been duly authorized by all necessary action on the part of such Party.

e. This Amendment has been executed and delivered by such Party and (assuming due authorization, execution, and delivery by the other Party hereto) constitutes the legal, valid, and binding obligation of such Party, enforceable against such Party in accordance with its terms, except as may be limited by any applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws and equitable principles related to or affecting creditors’ rights generally or the effect of general principles of equity.

5. Miscellaneous.

f. This Amendment is governed by and construed in accordance with, the laws of the State of Nevada, without regard to the conflict of laws provisions of such State.

g. This Amendment shall inure to the benefit of and be binding upon each of the Parties and each of their respective successors and permitted assigns.

h. The headings in this Amendment are for reference only and do not affect the interpretation of this Amendment.

i. This Amendment may be executed in counterparts, each of which is deemed an original, but all of which constitute one and the same agreement. Delivery of an executed counterpart of this Amendment electronically or by facsimile shall be effective as delivery of an original executed counterpart of this Amendment.

j. This Amendment constitutes the sole and entire agreement between the Parties with respect to the subject matter contained herein, and supersedes all prior and contemporaneous understandings, agreements, representations, and warranties, both written and oral, with respect to such subject matter.

Signatures on following page.

IN WITNESS WHEREOF, the Parties have executed this Amendment as of the Effective Date.

Affiliated:

ARCA Affiliated Holdings Corporation, a Delaware corporation

By /s/ Virland Johnson

Name: Virland Johnson

Title: Chief Executive Officer

ARCA Services:

ARCA Services Inc., a Delaware corporation

By /s/ Virland Johnson

Name: Virland Johnson

Title: Chief Executive Officer

Connexx Services:

Connexx Services Inc., a Delaware corporation

By /s/ Virland Johnson

Name: Virland Johnson

Title: Chief Executive Officer

Parent:

JanOne Inc., a Nevada corporation

By /s/ Tony Isaac

Name: Tony Isaac

Title: CEO

ARCA:

ARCA Recycling, Inc., a California corporation

By /s/ Tony Isaac

Name: Tony Isaac

Title: CEO

Connexx:

Customer Connexx LLC, a Nevada limited liability company

By /s/ Tony Isaac

Name: Tony Isaac

Title: CEO

CERTIFICATIONS:

I, Tony Isaac, certify that:

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

Date: August 13, 2021

/s/ Tony Isaac
Tony Isaac
Chief Executive Officer

CERTIFICATIONS:

I, Virland A. Johnson, certify that:

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

Date: August 13, 2021

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

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

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), the undersigned Chief Executive Officer of JanOne Inc. (the “Company”) hereby certifies that the Quarterly Report on Form 10-Q of the Company for the period ended July 3, 2021 (the “Report”) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2021

/s/ Tony Isaac

Tony Isaac

Chief Executive Officer

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

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), the undersigned Chief Financial Officer of JanOne Inc. (the “Company”) hereby certifies that the Quarterly Report on Form 10-Q of the Company for the period ended July 3, 2021 (the “Report”) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2021

/s/ Virland A. Johnson

Virland A. Johnson
Chief Financial Officer
