

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

**Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended January 2, 2016**

or

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File No. 000-19621**

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

175 Jackson Avenue North Suite 102, Minneapolis, Minnesota
(Address of principal executive offices)

41-1454591

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

55343-4565
(Zip Code)

Registrant's telephone number, including area code: **952-930-9000**

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

Common Stock, without par value

Title of each class

NASDAQ Capital Market

Name of each exchange on which registered

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 and posted on its Website, if any, every Interactive Data File required to be submitted and posted 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 and post such file). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price of \$1.89 per share, as of July 4, 2015 (the last business day of the registrant's most recently completed second fiscal quarter) was \$10.3 million.

As of March 29, 2016, there were outstanding 5,900,818 shares of the registrant's Common Stock, without par value.

EXPLANATORY NOTE

This Amendment No. 1 amends the Annual Report on Form 10-K for the fiscal year ended January 2, 2016, filed by Appliance Recycling Centers of America, Inc. (the "Company") with the Securities and Exchange Commission ("SEC") on April 4, 2016 (the "Original Filing"). The Company is filing this Amendment No. 1 to include the information required by Part III of Form 10-K. The information required by Items 10-14 of Part III is no longer being incorporated by reference to the Proxy Statement as the Proxy Statement is not expected to be filed with the SEC within 120 days of January 2, 2016. The Company is also filing this Amendment No. 1 to remove the date on the cover page for the 2016 Annual Meeting of Shareholders and to include Exhibit 10.12+ which was listed but not previously filed. Except as described above, this Amendment No. 1 does not amend any other information set forth in the Original Filing, and the Company has not updated disclosures included therein to reflect any subsequent events.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth certain information regarding our directors and officers:

<u>Name</u>	<u>Position with Company</u>	<u>Age</u>
Richard D. Butler	Director	67
Brian T. Conners	Director	50
Dennis (De) Gao	Director	35
Tony Isaac	Director, Interim Chief Executive Officer	61
Edward R. Cameron	President ARCA Recycling, Inc.	75
Bradley S. Bremer	President ApplianceSmart, Inc.	47
Rachel L. Holmes	Executive Vice President ARCA Recycling, Inc.	52
Jeffery P. Ostapeic	Chief Financial Officer	47

Richard D. Butler, Jr. has been a director of the Company since May 2015. Mr. Butler is the owner of Solution Provider Services, an advisory firm which provides real estate, corporate and financial advisory services, since 1999, and is the co-Founder, Managing Director and major shareholder of Ref-Razzer Company, a whistle manufacturing and vending company, since 2005. Prior to this, Mr. Butler was the Co-Founder and Executive Vice President of Aspen Healthcare, Inc., from 1996 to 1999. From 1993 to 1996, Mr. Butler was a Managing Director at Landmark Financial and from 1989 to 1993 he was a Partner at Cal Ventures Real Estate Investment Group. Prior to this, Mr. Butler has also served as the President and Chief Executive Officer of Mt. Whitney Savings Bank, Chief Executive Officer of First Federal Mortgage Bank, Chief Executive Officer of Trafalgar Mortgage, and Executive Officer and Member of the President's Advisory Committee at State Savings & Loan Association (peak assets \$14 billion) and American Savings & Loan Association (NYSE: FCA; peak assets \$34 billion). Mr. Butler has served on the board of directors of LiveDeal, Inc. (NASDAQ: LIVE), a company providing specialized online marketing solutions to small-to-medium sized local business that boost customer awareness and merchant visibility, since August 2006 (including YP.com from 2006 to 2007). Mr. Butler has been a director of Dataram Corporation (NASDAQ: DRAM), an independent memory manufacturer, which develops, manufactures, and markets large capacity memory products primarily used in servers and workstations worldwide, since November 2014. Mr. Butler attended Bowling Green University in Ohio, San Joaquin Delta College in California, and Southern Oregon State College.

Mr. Butler brings to the Board extensive experience in financial management and executive roles, which enable him to provide important expertise in financial, operating and strategic matters that impact our Company.

Brian T. Conners has been a director of the Company since May 2015. Mr. Conners has been the President and Chief Operating Officer of ARCA Advanced Processing, LLC ("AAP"), a joint venture between the Company and 4301 Operations, LLC, that recycles appliances generated from twelve states in the Northeast and Mid-Atlantic regions of the United States since 2007. Prior to AAP, Mr. Conners founded Safe Disposal Systems, Inc. ("Safe Disposal"), in 1992. The company was formed in response to the newly enacted Clean Air Act amendments to provide appliance recycling services to retailers and used appliance dealers. Mr. Conners was instrumental in creating the first Ozone Depleting Substance Carbon Offset Credits in the United States along with Environmental Credit Corporation and USA Refrigerants on the Chicago Climate Exchange. Mr. Conners has a Bachelor of Science degree in Manufacturing Engineering from Boston University.

Mr. Conners has extensive knowledge in recycling machinery, refrigerant reclamation and processing techniques.

Dennis (De) Gao has been a director of the Company since May 2015. Mr. Gao co-founded and, from July 2010 to March 2013, served as the CFO at Oxstones Capital Management, a privately held company and a social and philanthropic enterprise, serving as an idea exchange for the global community. Prior to establishing Oxstones Capital Management, from June 2008 until July 2010, Mr. Gao was a product owner at The Procter & Gamble Company for its consolidation system and was responsible for the Procter & Gamble's financial report consolidation process. From May 2007 to May 2008, Mr. Gao was a financial analyst at the Internal Revenue Service's CFO division. Mr. Gao has served as a director of LiveDeal, Inc. (NASDAQ: LIVE) and as a member of the Audit Committee of LiveDeal, Inc. since January 2012. Mr. Gao has a dual major Bachelor of

Science degree in Computer Science and Economics from University of Maryland, and an M.B.A. specializing in finance and accounting from Georgetown University's McDonough School of Business.

Mr. Gao has significant finance, accounting and operational experience and brings substantial finance and accounting expertise to the Board.

Tony Isaac has been a director of the Company since May 2015 and has served as Interim Chief Executive Officer of the Company since February 2016. Mr. Isaac has served as Financial Planning and Strategist/Economist of LiveDeal, Inc. (NASDAQ: LIVE), a company providing specialized online marketing solutions to small-to-medium sized local business that boost customer awareness and merchant visibility, since July 2012. He is the Chairman and Co-Founder of Isaac Organization, a privately held investment company. Mr. Isaac has invested in various companies, both private and public from 1980 to present. Mr. Isaac's specialty is negotiation and problem-solving of complex real estate and business transactions. Mr. Isaac has served as a director of LiveDeal, Inc. since December 2011. Mr. Isaac graduated from Ottawa University in 1981, where he majored in Commerce and Business Administration and Economics.

Mr. Isaac brings to the Board significant investment and financial expertise and public board experience.

Edward R. Cameron is the founder and has been an executive officer of the Company since its inception in 1976. He has served as President of ARCA Recycling, Inc. since February 2016 and leads the recycling segment activities of the Company. Previously, he served as President and CEO of the Company from 1989 until August 2014 and from May 2015 until February 2016. He also served as a director and Chairman of the Board of the Company from 1989 until February 2016 and prior to 1989 was a director of a predecessor of the Company. Prior to founding the Company, Mr. Cameron served as a district product manager and an account manager for Burroughs Corporation (a predecessor of Unisys Corporation) and served in executive positions for several small businesses. Mr. Cameron has a Bachelor of Science degree in business administration from Montana State University. In his more than 35 years with the Company, Mr. Cameron brings extensive knowledge of all aspects of the Company, its businesses, industry, markets and day-to-day operations, and the issues, opportunities and challenges facing the Company.

Bradley S. Bremer is President of ApplianceSmart, Inc., a subsidiary of the Company, a position he has held since February 2012. He served as Vice President of Retail Operations from 2007 until his appointment as President of ApplianceSmart. Mr. Bremer is responsible for directing all aspects of the Company's retail division, including the management of sales, advertising and operations for the Company's ApplianceSmart stores. He also oversees the selection of ApplianceSmart locations, planning for new stores, development of new markets, and implementation of retail programs and services. From 2000 to 2007, Mr. Bremer held the position of Retail Operations Manager for the Company. Mr. Bremer is a graduate of the University of Minnesota.

Rachel L. Holmes is the Executive Vice President of ARCA Recycling, Inc. a position she was appointed to in January 2016. She previously held the position of Vice President of Client Services since July 2015, Vice President of Business Development since April 2008, and Chief of Staff since April 2012. Ms. Holmes focuses on business development, including strategic planning to obtain new clients for the Company's appliance recycling and replacement services, and management of client accounts. She directs the Company's environmental and regulatory research; participation in industry and government initiatives; and marketing and communications. She was employed by the Company from 1991 to 1999 in various corporate planning, marketing and advertising capacities. From 1999 until rejoining the Company in 2003, she was an independent marketing consultant for the Company. Ms. Holmes earned a B.A. from the University of Minnesota.

Jeffery P. Ostapeic is the Company's Chief Financial Officer, a position he has held since December 2014. Mr. Ostapeic is responsible for the Company's financial and accounting compliance, compiles and analyzes the Company's financial statements, budgets and manages all of the Company's day-to-day accounting operations, including treasury, taxes, billing, collections and accounts payable. Mr. Ostapeic served most recently as an audit partner with Grant Thornton LLP, an international accounting firm, from 2011 to 2014. He previously served with McGladrey & Pullen LLP from 2007 to 2011 and Ernst & Young LLP from 1990 to 2007, also international public accounting firms. He is a CPA and holds a B.A. in Administrative and Commercial Studies - Finance and Economics from the University of Western Ontario.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership on Form 3 and changes in ownership on Form 4 or Form 5 with the SEC. Such officers, directors and 10% shareholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of copies of such forms received by it, or written representations from certain reporting persons, the Company believes that, during the fiscal year ended January 2, 2016, its officers, directors and 10% shareholders timely complied with all Section 16(a) filing requirements, except as follows: Mr. Goa, Mr. Isaac and Mr. Butler filed late Form 3s on September 21, 2015, reporting their election to the Board of Directors and related grants of stock options on May 18, 2015.

Code of Ethics

Our Audit Committee has adopted a code of ethics applicable to our directors and officers (including our Chief Executive Officer and Chief Financial Officer) and other of our senior executives and employees in accordance with applicable rules and regulations of the SEC and The NASDAQ Stock Market. A copy of the code of ethics may be obtained upon request, without charge, by addressing a request to Investor Relations, ARCA, Inc., 175 Jackson Avenue North, Suite 102, Minneapolis, MN 55343. The code of ethics is also posted on our website at www.ArcaInc.com under "Investor Relations — Corporate Governance."

We intend to satisfy the disclosure requirement under Item 10 of Form 8-K regarding the amendment to, or waiver from, a provision of the code of ethics by posting such information on our website at the address and location specified above and, to the extent required by the listing standards of the NASDAQ Capital Market, by filing a Current Report on Form 8-K with the SEC disclosing such information.

Audit Committee

The Audit Committee of the Board of Directors is comprised entirely of non-employee directors. In fiscal 2015, the members of the Audit Committee were Mr. Isaac (Chairman), Mr. Gao and Mr. Butler, each of whom was also an "independent" director as defined under NASDAQ rules. Mr. Isaac resigned from the Audit Committee upon his appointment as Interim CEO on February 29, 2016, and Mr. Butler was named Chairman of the committee. The Audit Committee is responsible for selecting and approving the Company's independent auditors, for relations with the independent auditors, for review of internal auditing functions (whether formal or informal) and internal controls, and for review of financial reporting policies to assure full disclosure of financial condition. The Audit Committee operates under a written charter adopted by the Board of Directors, which is posted on the Company's website at www.ArcaInc.com under the caption "Investor Relations - Corporate Governance." The Board has determined that Mr. Butler is an "audit committee financial expert" as defined in SEC rules.

As disclosed in Item 9B Other Information of the Original Filing of this Form 10-K, the Audit Committee of the Company is currently comprised of only two independent directors and therefore does not satisfy the NASDAQ Rule 5605(c)(2), which currently requires that a NASDAQ-listed company have a minimum of three independent directors. The Board intends to appoint at least one additional director who is considered to be an "independent director" in accordance with the criteria set forth in NASDAQ Listing Rule 5605(a)(2).

Compensation and Benefits Committee

The Compensation Committee of the Board of Directors is comprised entirely of non-employee directors. In fiscal 2015, the members of the Compensation Committee were Mr. Isaac, Mr. Gao and Mr. Butler (Chairman), each of whom was also an "independent" director as defined under NASDAQ rules. Mr. Isaac resigned from the Compensation Committee upon his appointment as Interim CEO on February 29, 2016. The Compensation Committee is responsible for review and approval of officer salaries and other compensation and benefits programs and determination of officer bonuses. Annual compensation for the Company's executive officers, other than the CEO, is recommended by the CEO and approved by the Compensation Committee. The annual compensation for the CEO is recommended by the Compensation Committee and formally approved by the full Board of Directors. The Compensation Committee may approve grants of equity awards under the Company's stock compensation plans.

In the performance of its duties, the Compensation Committee may select independent compensation consultants to advise the committee when appropriate. In addition, the Compensation Committee may delegate authority to subcommittees where appropriate. The Compensation Committee may separately meet with management if deemed necessary and appropriate. The Compensation Committee operates under a written charter adopted by the Board of Directors in March 2011, which is posted on the Company's website at www.ArcaInc.com under the caption "Investor Relations - Corporate Governance."

Governance Committee

The Nominating and Corporate Governance Committee (the "Governance Committee") is comprised entirely of non-employee directors. In fiscal 2015, the members of the Governance Committee were Mr. Isaac, Mr. Gao (Chairman) and Mr. Butler, each of whom was also an "independent" director as defined under NASDAQ rules. Mr. Isaac resigned from the Governance Committee upon his appointment as Interim CEO on February 29, 2016. The primary purpose of the Governance Committee is

to ensure an appropriate and effective role for the Board of Directors in the governance of the Company. The principal recurring duties and responsibilities of the Governance Committee include (i) making recommendations to the Board regarding the size and composition of the Board, (ii) identifying and recommending to the Board of Directors candidates for election as directors, (iii) reviewing the Board's committee structure, composition and membership and recommending to the Board candidates for appointment as members of the Board's standing committees, (iv) reviewing and recommending to the Board corporate governance policies and procedures, (v) reviewing the Company's Code of Business Ethics and Conduct and compliance therewith, and (vi) ensuring that emergency succession planning occurs for the positions of Chief Executive Officer, other key management positions, the Board chairperson and Board members. The Governance Committee operates under a written charter adopted by the Board of Directors in March 2011, which is posted on the Company's website at www.ARCAInc.com under the caption "Investor Relations - Corporate Governance."

The Governance Committee will consider director candidates recommended by shareholders. The criteria applied by the Governance Committee in the selection of director candidates is the same whether the candidate was recommended by a Board member, an executive officer, a shareholder or a third party, and accordingly, the Governance Committee has not deemed it necessary to adopt a formal policy regarding consideration of candidates recommended by shareholders. Shareholders wishing to recommend candidates for Board membership should submit the recommendations in writing to the Secretary of the Company.

The Governance Committee identifies director candidates primarily by considering recommendations made by directors, management and shareholders. The Governance Committee also has the authority to retain third parties to identify and evaluate director candidates and to approve any associated fees or expenses. Board candidates are evaluated on the basis of a number of factors, including the candidate's background, skills, judgment, diversity, experience with companies of comparable complexity and size, the interplay of the candidate's experience with the experience of other Board members, the candidate's independence or lack of independence, and the candidate's qualifications for committee membership. The Governance Committee does not assign any particular weighting or priority to any of these factors and considers each director candidate in the context of the current needs of the Board as a whole. Director candidates recommended by shareholders are evaluated in the same manner as candidates recommended by other persons.

**ITEM 11. EXECUTIVE
COMPENSATION**

The following table sets forth the cash and non-cash compensation for fiscal years ended January 2, 2016 and January 3, 2015 earned by each person who served as Chief Executive Officer during 2015, and our other two most highly compensated executive officers who held office as of January 2, 2016 ("named executive officers"):

Summary Compensation Table for Fiscal Year Ended January 2, 2016

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Award (\$)	Option Awards (\$)	All Other Compensation (\$)	Total (\$)
Edward R. Cameron (1) President of ARCA Recycling, Inc.; Former Chairman of the Board Former President and CEO	2015	300,000	--	114,000 (4)	96,000 (5)	7,028 (6)	517,028
	2014	300,000	30,000	--	80,500 (5)	7,028 (6)	417,528
Mark G. Eisenschenk (2) Former President and CEO	2015	185,000	--	--	--	3,000	188,000
	2014	185,000	11,785	--	--	7,200	203,985
Jeffery Ostapeic (3) Chief Financial Officer	2015	180,000	--	--	--	7,200	187,200
	2014	6,461	--	--	98,500 (5)	--	104,961
Bradley S. Bremer President of ApplianceSmart, Inc.	2015	169,950	--	--	--	--	169,950
	2014	168,617	24,750	--	34,500 (5)	--	227,867

- (1) Mr. Cameron served as President and Chief Executive Officer of the Company from 1989 through August 13, 2014, and from May 18, 2015 until February 29, 2016, when he was appointed President of ARCA Recycling, Inc. Mr. Cameron also is provided a Company-paid automobile.
- (2) Mr. Eisenschenk served as the Company's Chief Operating Officer from July 11, 2013 until August 13, 2014, and as President and Chief Executive Officer of the Company from August 13, 2014 until May 18, 2015. He also received a \$600 per month car allowance. Mr. Eisenschenk was terminated from employment with the Company on May 18, 2015. Pursuant to his employment agreement he continued to receive his salary for the duration of 2015, and is expected to continue to receive his salary until the one year anniversary of his termination.
- (3) Mr. Ostapeic was appointed Chief Financial Officer of the Company effective December 18, 2014. He is paid an annual salary of \$180,000 and provided a \$600 per month car allowance. See "Employment Agreement" below.
- (4) This amount reflects the fair value of a stock grant awarded to Mr. Cameron during fiscal 2015. The shares were fully vested upon grant. See Note 11 to the Company's consolidated financial statements.
- (5) This amount reflects the fair value of the options granted during fiscal 2015 and 2014. See Note 2 to the Company's consolidated financial statements for discussion of the assumptions made in the valuation of option grants.
- (6) These amounts reflect personal use of a Company-owned automobile of \$7,028 per year.

Employment Agreements

The Company has entered into an employment agreement with Jeffery Ostapeic, under which he is paid a base salary of \$180,000. The employment agreement also provides for, among other things, participation in stock-based benefit plans and fringe benefit programs applicable to Mr. Ostapeic.

The employment agreement provides the Employee with a severance benefit in an amount up to twelve (12) months base salary in the event the Company terminates his employment without Cause (as defined in each employment agreement). The cash severance benefit would be paid in accordance with the Company's regular payroll practices, and would continue for a period of twelve (12) months following the date of termination or until the Employee enters into an employment, consulting or other business arrangement or relationship with another employer, whichever date is earlier.

If a Change of Control (as defined in the employment agreement) occurs during the term of the employment agreement and the Employee's employment is terminated by the Company without Cause or by the Employee for Good Reason, the agreements provide for a cash severance benefit in the form of (i) a lump sum cash payment equal to one (1) times the Employee's annual base salary, payable within 60 days after the date of termination, and (ii) continuation of the Employee's base salary for a period of twelve (12) months following the date of termination or until the Employee enters into an employment, consulting or other business arrangement or relationship with another employer, whichever date is earlier. In addition, all unvested stock options to purchase capital stock of the Company held by the Employee shall immediately vest in full and shall be exercisable by the Employee for a period of 90 days after the date of termination. The agreement also provides that the Employee is entitled to receive all benefits payable to the Employee under any of the Company's pension, life insurance, medical, health, disability, deferred compensation or savings plans in which the employee was participating immediately prior to the change in control.

Outstanding Equity Awards at January 2, 2016

The following table provides a summary of equity awards outstanding for our Named Executive Officers at January 2, 2016:

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date
Edward R. Cameron	8,500 (1)	--	2.22	11/11/2016
Edward R. Cameron	35,000 (2)	--	2.30	08/16/2017
Edward R. Cameron	5,000 (3)	--	4.25	02/24/2018
Edward R. Cameron	100,000 (4)	--	1.89	05/09/2020
Edward R. Cameron	23,334 (6)	11,666 (6)	3.00	02/26/2021
Edward R. Cameron	50,000 (8)	50,000 (8)	1.14	09/01/2025
Jeffery Ostapeic	16,667 (7)	33,333 (7)	2.80	12/18/2021
Bradley S. Bremer	4,800 (1)	--	2.22	11/11/2016
Bradley S. Bremer	15,000 (5)	--	3.55	05/13/2017
Bradley S. Bremer	5,000 (3)	--	4.25	02/24/2018
Bradley S. Bremer	7,500 (4)	--	1.89	05/09/2020
Bradley S. Bremer	10,000 (6)	5,000 (6)	3.00	02/26/2021

- (1) Option granted November 11, 2009 and vested twelve months thereafter.
- (2) Option granted August 16, 2010 and vested twelve months thereafter.
- (3) Option granted February 24, 2011 and vested twelve months thereafter.
- (4) Option granted May 9, 2013 and vested on various dates in the twenty-four months thereafter.
- (5) Option granted May 13, 2010 and vested twelve months thereafter.
- (6) Option granted February 26, 2014 and will vest in three equal installments on each anniversary.
- (7) Options granted December 18, 2014 and will vest in three equal installments on each anniversary.
- (8) Options granted September 1, 2015 and 50,000 vested immediately and 50,000 will vest on the first anniversary.

Stock Option Plans

The Company uses stock options to attract and retain executives, directors, consultants and key employees. Stock options are currently outstanding under three stock option plans. The Company's 2011 Stock Compensation Plan (the "2011 Plan") was adopted by the Board of Directors in March 2011 and approved by the shareholders at the 2011 annual meeting of shareholders. Under the 2011 Plan, the Company has reserved an aggregate of 700,000 shares of its common stock for option grants. The Company's 2006 Stock Option Plan (the "2006 Plan") was adopted by the Board of Directors in March 2006 and approved by the shareholders at the 2006 annual meeting of shareholders. The 2006 Plan expired on June 30, 2011, but options granted under the 2006 Plan before it expired will continue to be exercisable in accordance with their terms. The Company's Restated 1997 Stock Option Plan (the "1997 Plan") was adopted by the Board of Directors in March 1997 and approved by the shareholders at the 1997 annual meeting of shareholders. The 1997 Plan expired in March 2007, but options outstanding under the expired 1997 Plan continue to be exercisable in accordance with their terms. As of March 23, 2016, options to purchase an aggregate of 780,050 shares were outstanding, including options for 534,500 shares under the 2011 Plan, options for 238,050 shares under the 2006 Plan and options for 7,500 shares under the 1997 Plan. The Plans are administered by the Compensation Committee or the full Board of Directors acting as the Committee.

The 2011 Plan provides that a grant of non-qualified stock options, restricted stock or restricted stock units will be made to each non-employee director on the date of each annual meeting of shareholders at which the director is elected or reelected to the Board. The Board has the authority to determine the type of award and the number of shares subject to such annual grants.

prior to each annual meeting of shareholders. The total number of non-qualified options, restricted stock awards or restricted stock units granted each year at the annual meeting of shareholders may not exceed 15,000 shares per non-employee director unless the Compensation Committee determines that all independent directors or any independent director has performed substantial services. In addition to the annual grant, the Board has the ability to grant awards to non-employee directors at times other than the annual meeting.

Under the 2011 Plan, the Board may grant stock options that either qualify as “incentive stock options” under the Internal Revenue Code of 1986, as amended, (the “Code”) or as “non-qualified stock options.” Stock options may be granted in such form and upon such terms as the Board may approve from time to time. Stock options granted under the 2011 Plan may be exercised during their respective terms as determined by the Board. The purchase price may be paid by tendering cash or, in the Board’s discretion, by tendering common stock of the Company. No stock option shall be transferable by the optionee or exercised by anyone else during the optionee’s lifetime. Eligible persons will not pay any consideration to the Company in order to receive options, but will pay the exercise price upon exercise of an option.

Stock options may be exercised after a participant’s termination of employment for a period specified by the Board at the time the option is granted. The term of any stock option granted under the 2011 Plan may not exceed ten years (or five years in the case of an incentive stock option granted to a participant who owns or is deemed to own more than 10% of the combined voting power of all classes of stock of the Company, any subsidiary or affiliate). The exercise price of any stock option granted under the 2011 Plan may not be less than the fair market value of the common stock on the date the option is granted (or, in the case of an incentive stock option granted to a participant who owns more than 10% of the combined voting power of all classes of stock of the Company, the option price shall be not less than 110% of the fair market value of the stock on the date the option is granted).

The Board may grant stock appreciation rights (“SARs”) alone as “freestanding SARs” or in connection with all or part of any stock option as “tandem SARs” either at the time of the stock option grant, or, in the case of non-qualified options, later during the term of the stock option. SARs entitle the participant to receive from the Company the same economic value that would have been derived from the exercise of an underlying stock option and the immediate sale of the shares of common stock. Such value is paid by the Company in cash or shares of common stock, in the discretion of the Board. SARs are exercisable only at such times and to the extent stated in an award agreement. The Board may grant other awards of stock or awards that are valued in whole or in part by reference to, or otherwise based on, stock, either alone or in addition to or in tandem with stock options or SARs.

Compensation of Non Employee Directors

The Company uses a combination of cash and share-based incentive compensation to attract and retain qualified candidates to serve on the Board of Directors. In setting director compensation, the Company considers the significant amount of time that directors expend fulfilling their duties to the Company as well as the skill level required by the Company of members of the Board.

Non-employee directors of the Company receive an annual fee of \$15,000 for their service as directors and an attendance fee of \$1,000 per Board meeting. The Chairperson of the Audit Committee receives an additional annual fee of \$10,000 and each other member of the Audit Committee receives an additional annual fee of \$5,000. The Chairperson of the Compensation and Benefits Committee receives an additional annual fee of \$1,500, and the Chairperson of the Nominating and Governance Committee receives an additional annual fee of \$1,000. All of the Company’s directors are reimbursed for reasonable travel expenses incurred in attending meetings.

Non-employee directors also receive stock options under the 2011 Stock Compensation Plan. Each year, on the date of the Company’s annual meeting, non-employee directors receive an option to purchase 10,000 shares of common stock. In addition, upon their initial appointment or election to the Board, non-employee directors receive a one-time grant of options to purchase 10,000 shares of common stock. Generally, such options become exercisable in full six months after the date of grant and expire ten years from the date of grant.

The table below presents cash and non-cash compensation paid to non-employee directors during the last fiscal year.

Non-Management Director Compensation for Fiscal Year Ended January 2, 2016

Name (1)	Fees Earned or Paid in Cash (\$)	Option Awards (\$)	All Other Compensation (\$)	Total (\$)
Tony Isaac (2)	19,583	16,600 (3)	--	36,183
Dennis (De) Gao	17,250	16,600 (3)	--	33,850
Richard D. Butler	17,542	16,600 (3)	--	34,142

- (1) Edward R. Cameron and Brian T. Conners have been omitted from this table since they received no additional compensation for serving as a director of the Company. Mr. Cameron's compensation is described above under "Executive Compensation."
- (2) Tony Isaac was appointed to Interim Chief Executive Officer on February 29, 2016.
- (3) These amounts reflect the fair value of the options granted during fiscal 2015. See Note 2 to the Company's consolidated financial statements for discussion of the assumptions made in the valuation of option grants. At fiscal year-end, the non-management directors held options to purchase shares of common stock as follows: Mr. Isaac, 10,000 shares; Mr. Gao, 10,000 shares; and Mr. Butler, 10,000 shares.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The following table sets forth as of April 1, 2016 the beneficial ownership of common stock by each of the Company's directors, each of the executive officers, and all directors and executive officers of the Company as a group, as well as information about beneficial owners of 5% or more of the Company's common stock. Beneficial ownership includes shares that may be acquired in the next 60 days through the exercise of options or warrants.

Beneficial Owner	Position with Company	Number of Shares Beneficially Owned (1)	Percent of Outstanding (2)
Directors and executive officers:			
Tony Isaac	Director, Interim Chief Executive Officer	10,000	*
Edward R. Cameron (3) (4)	President ARCA Recycling, Inc.	644,301	10.5 %
Jeffery Ostapeic (4)	Chief Financial Officer	16,667	*
Bradley S. Bremer (4)	President of ApplianceSmart, Inc.	57,300	*
Rachel Holmes (4)	Executive Vice-President of ARCA Recycling, Inc.	39,917	*
Richard D. Butler (4)	Director	10,000	*
Brian T. Conners (4) (5)	Director	10,000	*
Dennis (De) Gao (4)	Director	10,000	*
All directors and executive officers as a group (8 persons) (4)		798,185	12.7 %
Other 5% shareholders:			
Isaac Capital Group, LLC (6)		587,890	10.0 %
Medallion Capital, Inc. (7)		467,000	7.9 %
Abacab Capital Management (8)		439,587	7.4 %

* Indicates ownership of less than 1% of the outstanding shares

- (1) Unless otherwise noted, each person or group identified possesses sole voting and investment power with respect to such shares.
- (2) Applicable percentage of ownership is based on 5,900,818 shares of common stock outstanding as of April 1, 2016 plus, for each shareholder, all shares that such shareholder could purchase within 60 days upon the exercise of existing stock options and warrants.
- (3) Includes 302,690 shares that are pledged to secure a personal line of credit. The address for Mr. Cameron is 175 Jackson Avenue North, Suite 102, Minneapolis, Minnesota 55343.
- (4) Includes shares which could be purchased within 60 days upon the exercise of existing stock options or warrants, as follows: Mr. Isaac, 10,000 shares; Mr. Cameron, 221,834 shares; Mr. Ostapeic, 16,667 shares; Mr. Bremer, 42,300 shares; Ms. Holmes, 39,667 shares; Mr. Butler, 10,000 shares; Mr. Connors, 10,000 shares; Mr. Gao, 10,000 shares; and all directors and executive officers as a group, 360,468 shares.
- (5) Mr. Connors serves as President and Chief Operating Officer of ARCA Advanced Processing, LLC, in which the Company owns a 50% interest.
- (6) According to a Schedule 13D/A filed October 2, 2015, Isaac Capital Group, LLC (“Isaac Capital”) beneficially owned 587,890 shares of common stock. Isaac Capital has sole dispositive power as to all 587,890 shares and sole voting power as to 587,890 shares. The address for Isaac Capital is 3525 Del Mar Heights Road, Suite 765, San Diego, CA 92130.
- (7) According to a Schedule 13D/A filed May 18, 2015, Medallion Capital, Inc. (“Medallion”) beneficially owned 467,000 shares of common stock. Medallion has sole dispositive and voting power as to all 467,000 shares. The address for Medallion is 3000 West County Road 42, Suite 301, Burnsville, MN 55337-4827.
- (8) According to a Schedule 13G filed March 11, 2015, Abacab Capital Management, LLC (“Abacab”) beneficially owned 439,587 shares of common stock. Abacab has sole dispositive and voting power as to all 439,587 shares. The address for Abacab is 33 W. 38th Street, New York, NY 10018.

The following table gives aggregate information under our equity compensation plans as of January 2, 2016:

	(a)	(b)	(c)
	Number of Securities to be Issued Upon Exercise of Outstanding Options and Warrants	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Available for Future Issuance Under Equity Compensation Plans, Excluding Securities Reflected in Column (a)
Equity compensation plans approved by shareholders	780,050	\$ 2.70	53,000
Equity compensation plans not approved by shareholders	23,500	\$ 3.55	—
Total	803,550	\$ 2.72	53,000

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Review, Approval or Ratification of Transactions with Related Persons

There are no family relationships between any of the directors, director nominees, or executive officers of the Company. Mr. Gao, Mr. Isaac and Mr. Butler, three of the persons who have served as directors during the fiscal year ended January 2, 2016, were “independent” directors as defined under the rules of The NASDAQ Stock Market (“NASDAQ”) for companies included in The NASDAQ Capital Market since they joined the Board in May 2015. Mr. Isaac ceased to be “independent” on February 29, 2016, when he assumed the role of Interim Chief Executive Officer for the Company.

The Audit Committee, comprised of Mr. Gao, Mr. Isaac (Chairman until February 29, 2016) and Mr. Butler (Chairman effective February 29, 2016), is responsible for the review and approval of all transactions in which the Company was or is to be a participant and in which any executive officer, director or director nominee of the Company, or any immediate family member of any such person (“related persons”) has or will have a material interest. In addition, all, if any, transactions with related persons that come within the disclosures required by Item 404 of the SEC’s Regulation S-K must also be approved by the Audit Committee. The policies and procedures regarding the approval of all such transactions with related persons have been approved at a meeting of the Audit Committee and are evidenced in the corporate records of the Company. Mr. Isaac was independent until February 29, 2016 when he was appointed to Interim CEO for the Company, at which point in time he resigned from the Audit Committee

and Mr. Butler was appointed as Chairman of the Audit Committee. As of January 2, 2016, ARCA Advanced Processing, LLC, a consolidated subsidiary of the Company, has a promissory note payable of \$120,000 and advances payable of \$232,000 to 4301 Operations, LLC a business controlled by Mr. Connors and the noncontrolling interest holder in ARCA Advanced Processing, LLC.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Fees Paid to Auditors by the Company During Most Recent Fiscal Years

Baker Tilly Virchow Krause, LLP has served as the independent auditors for the Company since fiscal 2005. During the fiscal years ended January 2, 2016 and January 3, 2015 the Company paid fees to Baker Tilly Virchow Krause, LLP for the following professional services:

<u>Description</u>	<u>January 2, 2016</u>	<u>January 3, 2015</u>
Audit fees (1)	\$217,287	\$205,794

(1) Audit fees consist of fees for professional services rendered in connection with the audit of the Company's year-end financial statements, quarterly reviews of financial statements included in the Company's quarterly reports, services rendered relative to regulatory filings, and attendance at Audit Committee meetings. For fiscal year 2014, this amount was adjusted for actual amounts finally billed for the completion of the 2015 audit. For fiscal year 2015, this amount includes estimated billings for the completion of the 2015 audit that were rendered after year-end.

The Audit Committee of the Board of Directors has considered whether the provision of the services described above was and is compatible with maintaining the independence of Baker Tilly Virchow Krause, LLP.

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. All the fees and services for fiscal 2015 and fiscal 2014 were approved by the Audit Committee.

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.

April 15, 2016

APPLIANCE RECYCLING CENTERS OF AMERICA, INC. (Registrant)

By /s/ Tony Isaac
Tony Isaac
Interim Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>Principal Executive Officer</u> <u>/s/ Tony Isaac</u> Tony Isaac	Interim Chief Executive Officer	April 15, 2016
<u>Principal Financial and Accounting Officer</u> <u>/s/ Jeffery Ostapeic</u> Jeffery Ostapeic	Chief Financial Officer	April 15, 2016
<u>Directors</u> <u>/s/ Tony Isaac</u> Tony Isaac	Director	April 15, 2016
<u>/s/ Richard Butler</u> Richard Butler	Director	April 15, 2016
<u>/s/ Dennis Gao</u> Dennis Gao	Director	April 15, 2016
<u>/s/ Brian Conners</u> Brian Conners	Director	April 15, 2016

Index to Exhibits

Exhibit No.	Description
3.1	Restated Articles of Incorporation of Appliance Recycling Centers of America, Inc. [filed as Exhibit 3.1 to the Company's Form 10-K for the fiscal year ended January 2, 1999 (File No. 0-19621) and incorporated herein by reference].
3.2	Bylaws of Appliance Recycling Centers of America, Inc. as amended December 26, 2007 [filed as Exhibit 3.2 to the Company's Form 8-K filed on January 2, 2008 (File No. 0-19621) and incorporated herein by reference].
10.1*	Amended and Restated 1997 Stock Option Plan, effective April 25, 2002 [filed as Exhibit 28.1 to Post-Effective Amendment to the Company's Registration Statement on Form S-8 (File No. 333-28571) and incorporated herein by reference].
10.2*	2006 Stock Option Plan [filed as Exhibit 99.1 to the Company's Registration Statement on Form S-8 (File No. 333-163804) and incorporated herein by reference].
10.3*	2011 Stock Compensation Plan [filed as Exhibit 99.1 to the Company's Registration Statement on Form S-8 (File No. 333-176591) and incorporated herein by reference].
10.5*	Employment Agreement dated February 9, 2015, between Jeffery Ostapeic and the Company [filed as Exhibit No. 10.2 to the Company's Form 8-K dated February 9, 2015 (File No. 0-19621) and incorporated herein by reference].
10.5‡	Appliance Sales and Recycling Agreement dated October 21, 2009, between General Electric Company and the Company [filed as Exhibit No. 10.38 to the Company's Form 10-K for the year ended January 2, 2010 (File No. 0-19621) and incorporated herein by reference].
10.6‡	Amendment No. 3, dated July 1, 2013, to the Appliance Sales and Recycling Agreement dated October 21, 2009, between General Electric Company and the Company [filed as Exhibit No. 10.1 to the Company's Form 10-Q for the quarter ended September 28, 2013 (File No. 0-19621) and incorporated herein by reference].
10.7	Revolving Credit, Term Loan and Security Agreement dated January 24, 2011, between PNC Bank, National Association and the Company [filed as Exhibit No. 10.11 to the Company's Form 10-K for the year ended January 1, 2011 (File No. 0-19621) and incorporated herein by reference].
10.8	Amendment No. 1, dated December 30, 2011, to Revolving Credit, Term Loan and Security Agreement dated January 24, 2011, between PNC Bank, National Association and the Company [filed as Exhibit No. 10.8 to the Company's Form 10-K for the year ended December 31, 2011 (File No. 0-19621) and incorporated herein by reference].
10.9	Amendment No. 2, dated March 22, 2012, to Revolving Credit, Term Loan and Security Agreement dated January 24, 2011, between PNC Bank, National Association and the Company [filed as Exhibit No. 10.1 to the Company's Form 10-Q for the quarter ended March 31, 2012 (File No. 0-19621) and incorporated herein by reference].
10.10	Amendment No. 3, dated March 14, 2013, to Revolving Credit, Term Loan and Security Agreement dated January 24, 2011, between PNC Bank, National Association and the Company [filed as Exhibit No. 10.10 to the Company's Form 10-K for the year ended December 29, 2012 (File No. 0-19621) and incorporated herein by reference].
10.11	Amendment No. 4, dated September 27, 2013, to Revolving Credit, Term Loan and Security Agreement dated January 24, 2011, between PNC Bank, National Association and the Company [filed as Exhibit No. 10.3 to the Company's Form 10-Q for the quarter ended September 28, 2013 (File No. 0-19621) and incorporated herein by reference].
10.12+	Amendment No. 5, dated January 22, 2016, to Revolving Credit, Term Loan and Security Agreement dated January 24, 2011, between PNC Bank, National Association and the Company.
10.13	Term Loan dated January 24, 2011, between PNC Bank, National Association and ARCA Advanced Processing, LLC [filed as Exhibit No. 10.12 to the Company's Form 10-K for the year ended January 1, 2011 (File No. 0-19621) and incorporated herein by reference].

- 10.14 Term Loan facility dated March 10, 2011, between Susquehanna Bank and ARCA Advanced Processing, LLC, pursuant to the guidelines of the U.S. Small Business Administration 7(a) Loan Program, including \$2,100,000 term loan, \$1,400,000 term loan and \$1,250,000 term loan, guaranties by the Company and others, and security agreements [filed as Exhibit No. 10.13 to the Company's Form 10-Q for the quarter ended April 2, 2011 (File No. 0-19621) and incorporated herein by reference].
- 10.15 ARCA Advanced Processing, LLC Joint Venture Agreement dated October 20, 2009, between 4301 Operations, LLC and the Company, as amended by Amendment No.1 dated June 3, 2010, and Amendment No. 2 dated February 15, 2011 [filed as Exhibit No. 10.16 to the Company's Form 10-K for the year ended December 28, 2013 (File No. 0-19621) and incorporated herein by reference].
- 21.1+ Subsidiaries of Appliance Recycling Centers of America, Inc.
- 23.1+ Consent of Baker Tilly Virchow Krause, LLP, Independent Registered Public Accounting Firm.
- 31.1+ Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2+ Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1† Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2† Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101** The following materials from our Annual Report on Form 10-K for the fiscal year ended January 2, 2016, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations and Comprehensive Income, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Notes to Consolidated Financial Statements, and (vi) document and entity information.
- * Items that are management contracts or compensatory plans or arrangements required to be filed as an exhibit pursuant to Item 14(a)3 of this Form 10-K.
- + Filed herewith.
- † Furnished herewith.
- ‡ Portions of this exhibit have been omitted pursuant to a request for confidential treatment.
- ** Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filings.

**FIFTH AMENDMENT TO REVOLVING CREDIT,
TERM LOAN AND SECURITY AGREEMENT**

This Fifth Amendment to Revolving Credit, Term Loan and Security Agreement (this "Amendment") is made as of this 22nd day of January, 2016 among **APPLIANCE RECYCLING CENTERS OF AMERICA, INC.**, a Minnesota corporation ("ARCA"), **ARCA RECYCLING, INC.**, a California corporation ("ARCA Recycling"), **ARCA CANADA INC.**, an Ontario, Canada, corporation ("ARCA Canada"), **APPLIANCE SMART, INC.**, a Minnesota corporation ("ApplianceSmart," together with ARCA, ARCA Recycling and ARCA Canada, collectively, the "Borrowers" and each individually, a "Borrower"), certain financial institutions party to the Credit Agreement from time to time as lenders (collectively, the "Lenders"), and **PNC BANK, NATIONAL ASSOCIATION**, as agent and lender ("PNC," in such capacity, "Agent").

RECITALS

A. The Borrowers, Lenders and PNC are parties to that certain Revolving Credit, Term Loan and Security Agreement dated as of January 24, 2011 (as the same may have been amended, supplemented or otherwise modified from time to time prior to the date hereof, the "Credit Agreement"), pursuant to which PNC has made certain loans to, and extensions of credit for the account of, the Borrowers. The Credit Agreement and all other documents executed in connection therewith to the date hereof are collectively referred to as the "Existing Financing Agreements." All capitalized terms used not otherwise defined herein shall have the meaning ascribed thereto in the Credit Agreement, as amended hereby.

B. Certain Designated Events of Default (as defined in those certain reservation of rights letters delivered to the Borrowers by Agent on July 9, 2015 and August 27, 2015 respectively) have occurred and are continuing. In addition to the Designated Events of Default, the Borrowers have failed to comply with Section 7.5(b) of the Credit Agreement by permitting loans to the AAP Joint Venture to exceed \$300,000 as of September 30, 2015 and thereafter (the "AAP Joint Venture Event of Default," together with the Designated Events of Default, the "Existing Events of Default").

C. The Borrowers have requested, and PNC has agreed, to waive the Existing Events of Default and amend certain provisions of the Credit Agreement, in each case subject to the terms and conditions of this Amendment.

NOW THEREFORE, with the foregoing background hereinafter deemed incorporated by reference herein and made part hereof, the parties hereto, intending to be legally bound, promise and agree as follows:

1. **Waiver of Existing Events of Default.** Upon the Effective Date, Agent and Lenders hereby waive the Existing Events of Default provided however that such waiver shall in no way constitute a waiver of any other Default or Event of Default which may have occurred, nor shall this waiver obligate Agents or Lenders to provide any further waiver of any other Default or Event of Default under the Credit Agreement (whether similar or dissimilar, including any further Default or Event of Default resulting from a failure to comply with Sections 6.5(a), 7.5 or 9.7 of the Loan Agreement). This waiver shall not preclude the future exercise of any right, power, or privilege available to Agents or Lenders whether under the Credit Agreement, the Other Documents or otherwise upon the occurrence of any Event of Default after the date hereof. In connection with such waiver, the Lenders hereby agree (i) to cease charging the Default Rate and (ii) to permit the Borrowers to request Eurodollar Rate Loans in accordance with terms of the Credit Agreement.

2. Amendments to Credit Agreement.

(a) **Additional Defined Terms.** As of the Effective Date, the following defined term shall be added to Section 1.2 of the Credit Agreement in the appropriate alphabetical order:

"Applicable Margin" shall mean for Revolving Advances and the Term Loan as of the Fifth Amendment Date and through and including the date immediately prior to the first Adjustment Date (as defined below) (a) an amount equal to three and one quarter of one percent (3.25%) for Revolving Advances consisting of Domestic Rate Loans, (b) an amount equal to four and one quarter of one percent (4.25%) for Revolving Advances consisting of Eurodollar Rate Loans, (c) an amount equal to three and three quarters of one percent (3.75%) for Advances under the Term Loan consisting of Domestic Rate Loans, and (d) an amount equal to four and three quarters of one percent (4.75%) for Advances under the Term Loan consisting of Eurodollar Rate Loans.

Effective as of the first day following receipt by Agent of the quarterly financial statements of Borrowers on a Consolidated Basis and related Compliance Certificate for the fiscal quarter ending June 30, 2016 required under Section 9.7 hereof, and thereafter on the first day following receipt of the quarterly financial statements of Borrowers on a Consolidated Basis and related Compliance Certificate required under Section 9.8 for the most recently completed fiscal quarter (each day of such delivery, an "Adjustment Date"), the Applicable Margin for each type of Advance shall be adjusted, if necessary, to the applicable percent per annum set forth in the pricing table below corresponding to the Fixed Charge Coverage Ratio for the trailing four quarter period ending on the last day of the most recently completed fiscal quarter prior to the applicable Adjustment Date:

FIXED CHARGE COVERAGE RATIO	APPLICABLE MARGINS FOR DOMESTIC RATE LOANS		APPLICABLE MARGINS FOR EURODOLLAR RATE LOANS	
	Revolving Advances	Term Loan	Revolving Advances	Term Loan

Greater than 1.75 to 1.00	1.75%	2.25%	2.75%	3.25%
Less than or equal to 1.75 to 1.00 but greater than 1.50 to 1.00	2.25%	2.75%	3.25%	3.75%
Less than or equal to 1.50 to 1.00 but greater than 1.25 to 1.00	2.75%	3.25%	3.75%	4.25%
Less than or equal to 1.25 to 1.00	3.25%	3.75%	4.25%	4.75%

If Borrowers shall fail to deliver the financial statements, certificates and/or other information required under Sections 9.7 or 9.8 by the dates required pursuant to such sections, each Applicable Margin shall be conclusively presumed to equal the highest Applicable Margin specified in the pricing table set forth above until the date of delivery of such financial statements, certificates and/or other information, at which time the rate will be adjusted based upon the Fixed Charge Coverage Ratio reflected in such statements. Notwithstanding anything to the contrary contained herein, immediately and automatically upon the occurrence of any Event of Default, each Applicable Margin shall increase to and equal the highest Applicable Margin specified in the pricing table set forth above and shall continue at such highest Applicable Margin until the date (if any) on which such Event of Default shall be waived in accordance with the provisions of this Agreement, at which time the rate will be adjusted based upon the Fixed Charge Coverage Ratio reflected on the most recently delivered financial statements and Compliance Certificate delivered by Borrowers to Agent pursuant to Section 9.7 or 9.8 (as applicable). Any increase in interest rates payable by Borrowers under this Agreement and the Other Documents pursuant to the provisions of the foregoing sentence shall be in addition to and independent of any increase in such interest rates resulting from the occurrence of any Event of Default (including, if applicable, any Event of Default arising from a breach of Sections 9.7 or 9.8 hereof) and/or the effectiveness of the Default Rate provisions of Section 3.1 hereof.

If, as a result of any restatement of, or other adjustment to, the financial statements of Borrowers on a Consolidated Basis or for any other reason, Agent determines that (a) the Fixed Charge Coverage Ratio as previously calculated as of any applicable date for any applicable period was inaccurate, and (b) a proper calculation of the Fixed Charge Coverage Ratio for any such period would have resulted in different pricing for such period, then (i) if the proper calculation of the Fixed Charge Coverage Ratio would have resulted in a higher interest rate for such period, automatically and immediately without the necessity of any demand or notice by Agent or any other affirmative act of any party, the interest accrued on the applicable outstanding Advances for such period under the provisions of this Agreement and the Other Documents shall be deemed to be retroactively increased by, and Borrowers shall be obligated to immediately pay to Agent for the ratable benefit of Lenders an amount equal to the excess of the amount of interest that should have been paid for such period over the amount of interest actually paid for such period; and (ii) if the proper calculation of the Fixed Charge Coverage Ratio would have resulted in a lower interest rate for such period, then the interest accrued on the applicable outstanding Advances for such period under the provisions of this Agreement and the Other Documents shall be deemed to remain unchanged, and Agent and Lenders shall have no obligation to repay interest to the Borrowers; provided, that, if as a result of any restatement or other event or other determination by Agent a proper calculation of the Fixed Charge Coverage Ratio would have resulted in a higher interest rate for one or more periods and a lower interest rate for one or more other periods (due to the shifting of income or expenses from one period to another period or any other reason), then the amount payable by Borrowers pursuant to clause (i) above shall be based upon the excess, if any, of the amount of interest that should have been paid for all applicable periods over the amounts of interest actually paid for such periods.

“Carbon Offset” shall mean carbon offset credit income received by the Borrowers in an amount equal to at least \$1,000,000 during the first quarter of 2016.

“Fifth Amendment” shall mean the Fifth Amendment to the Revolving Credit, Term Loan and Security Agreement, dated as of the Fifth Amendment Date and entered into by and among the Borrowers, the Agent and the Lenders.

“Fifth Amendment Date” shall mean January 22, 2016.

(b) **Changes to Defined Terms.** As of the Effective Date, the following defined terms shall be amended and restated as follows:

“EBITDA” shall mean for any period the sum of (i) Earnings Before Interest and Taxes for such period, plus (ii) depreciation expenses for such period, plus (iii) amortization expenses for such period, plus (iv) any other non-cash charges, including without limitation, any stock or other equity consideration and/or compensation for such period, acceptable to Agent in its reasonable discretion, plus (v) fees and expenses incurred by the Borrowers in connection with the Fifth Amendment in an amount not to exceed \$150,000 to the extent expensed and not capitalized.

“Eurodollar Rate” shall mean for any Eurodollar Rate Loan for the then current Interest Period relating thereto, the interest rate per annum determined by Agent by dividing (the resulting quotient rounded upwards, if necessary, to the nearest 1/100th of 1% per annum) (i) the rate which appears on the Bloomberg Page BBAM1 (or on such other substitute Bloomberg page that displays rates at which US dollar deposits are offered by leading banks in the London interbank deposit market), or the rate which is quoted by another source selected by Agent which has been approved by the British Bankers’ Association as an authorized information vendor for the purpose of displaying rates at which U.S. dollar deposits are offered by leading banks in the London interbank deposit market (an “Alternate Source”), at approximately 11:00 a.m., London time, two (2) Business Days prior to the commencement of such Interest Period as the London interbank offered rate for U.S. Dollars for an amount comparable to such Eurodollar Rate Loan and having a borrowing date and a maturity comparable to such Interest Period (or if there shall at any time, for any reason, no longer exist a Bloomberg Page BBAM1 (or any substitute page) or any Alternate Source, a comparable replacement rate determined by Agent at such time (which determination shall be conclusive absent manifest error)), by (ii) a

number equal 1.00 minus the Reserve Percentage; provided, however, that if the Eurodollar Rate determined as provided above would be less than zero, such rate shall be deemed to be zero for purposes of this Agreement. The Eurodollar Rate may also be expressed by the following formula:

Average of London interbank offered rates quoted by Bloomberg or appropriate
Successor as shown on

Eurodollar Rate = Bloomberg Page BBAM1

1.00 - Reserve Percentage

The Eurodollar Rate shall be adjusted with respect to any Eurodollar Rate Loan that is outstanding on the effective date of any change in the Reserve Percentage as of such effective date. The Agent shall give prompt notice to the Borrowing Agent of the Eurodollar Rate as determined or adjusted in accordance herewith, which determination shall be conclusive absent manifest error.

“Fixed Charge Coverage Ratio” shall mean and include, with respect to any fiscal period, the ratio of (a) EBITDA, minus Unfunded Capital Expenditures made during such period, minus cash distributions (including tax distributions) and cash dividends made during such period (including any cash contributions, investments or payments made to or on behalf of AAP in excess of \$800,000), minus cash taxes paid during such period to (b) all Debt Payments made during such period.

“Revolving Interest Rate” shall mean, (a) with respect to Domestic Rate Loans, an interest rate per annum equal to the sum of the Alternate Base Rate plus the Applicable Margin, and (b) with respect to Eurodollar Rate Loans, the sum of the Eurodollar Rate plus the Applicable Margin.

“Term Loan Rate” shall mean, (a) with respect to Domestic Rate Loans, an interest rate per annum equal to the sum of the Alternate Base Rate plus the Applicable Margin, and (b) with respect to Eurodollar Rate Loans, the sum of the Eurodollar Rate plus the Applicable Margin.

(c) **Financial Covenants**. As of the Effective Date, Section 6.5(a) and (b) of the Credit Agreement are amended and restated as follows:

6.5. Financial Covenants.

(a) Fixed Charge Coverage Ratio. Commencing with the fiscal quarter ending March 31, 2016, cause to be maintained as of the end of each fiscal quarter a Fixed Charge Coverage Ratio of not less than 1.10 to 1.0, measured on a trailing twelve-month basis, provided, however, that for the fiscal quarter ending (i) March 31, 2016, the Fixed Charge Coverage Ratio shall be measured on a trailing three-month basis; (ii) June 30, 2016, the Fixed Charge Coverage Ratio shall be measured on a trailing six-month basis and (iii) September 30, 2016, the Fixed Charge Coverage Ratio shall be measured on a trailing nine-month basis; provided, further, if Borrowers have not received the Carbon Offset on or before March 31, 2016, the Fixed Charge Coverage Ratio shall not be tested for the fiscal quarter ending March 31, 2016.

(b) Minimum EBITDA. If Borrowers have not received the Carbon Offset on or before March 31, 2016, achieve, for the quarter ending March 31, 2016, minimum EBITDA of not less than (\$500,000) for the one fiscal quarter then ending.

(d) **Leases**. As of the Effective Date, Section 7.11 of the Credit Agreement is amended and restated as follows:

7.11 Leases. Enter as lessee into any lease arrangement for real or personal property (unless capitalized and permitted under Section 7.6 hereof) if after giving effect thereto, aggregate annual rental payments for all leased property would exceed \$7,000,000 in any one fiscal year in the aggregate for all Borrowers.

(e) **Loans**. As of the Effective Date, Section 7.5 of the Credit Agreement is amended and restated as follows:

7.5 Loans. Make advances, loans or extensions of credit to any Person, including any Parent, Subsidiary or Affiliate except (i) with respect to the extension of commercial trade credit in connection with the sale of Inventory in the Ordinary Course of Business, and (ii) Borrowers may make loans to the AAP Joint Venture; provided, that, for each applicable time period set forth below, the aggregate amount of such loans shall not exceed the amount set forth below opposite such time period:

Time Period	Maximum amount of loans to AAP Joint Venture
From December 31, 2015 and at all times thereafter	\$1,000,000

Agent and Lenders acknowledge and agree that the Borrowers may convert the loans owing by the AAP Joint Venture to the Borrowers to an equity investment in the AAP Joint Venture, so long as the loans owing by the AAP Joint Venture to certain of the principals of the AAP Joint Venture are also converted to an equity investment in the AAP Joint Venture.

(f) **Term; Prepayment.** Upon and as of the Effective Date, Section 13.1 of the Credit Agreement is amended and restated as follows:

13.1. **Term; Prepayment.** This Agreement, which shall inure to the benefit of and shall be binding upon the respective successors and permitted assigns of each Borrower, Agent and each Lender, shall become effective on the date hereof and shall continue in full force and effect until January 31, 2017 (the "**Term**") unless sooner terminated as herein provided. Borrowers may terminate this Agreement at any time upon ninety (90) days' prior written notice upon payment in full of the Obligations.

3. **Representations, Warranties, Covenants.** Each Borrower hereby:

(a) represents and warrants to the Agent and the Lenders that all representations and warranties set forth in the Credit Agreement and all of the other Existing Financing Agreements are true and correct in all material respects as of the date hereof (except to the extent any such representations and warranties specifically relate to a specific date, in which case such representations and warranties were true and correct in all material respects on and as of such other specific date);

(b) reaffirms all of the covenants contained in the Credit Agreement as amended hereby and covenants to abide thereby until the satisfaction in full of the Obligations and the termination of the commitments of the Lenders under the Credit Agreement;

(c) represents and warrants to the Agent and the Lenders that no Default or Event of Default (other than the Existing Events of Default) has occurred and is continuing under any of the Existing Financing Agreements;

(d) represents and warrants to the Agent and the Lenders that it has the authority and legal right to execute, deliver and carry out the terms of this Amendment, that such actions were duly authorized by all necessary corporate or company action, as applicable, and that the officers executing this Amendment on its behalf were similarly authorized and empowered, and that this Amendment does not contravene any provisions of its organizational documents or of any contract or agreement to which it is a party or by which any of its properties are bound; and

(e) represents and warrants to the Agent and the Lenders that this Amendment is valid, binding and enforceable against the Borrowers in accordance with its terms except as such enforceability may be limited by any applicable bankruptcy, insolvency, moratorium or similar laws affecting creditors' rights generally and by general principles of equity (whether enforcement is sought in equity or at law).

4. **Fees.** The Borrowers shall pay to Agent, for the benefit of Lenders, (i) a non-refundable closing fee in the amount of \$100,000 (the "**Fifth Amendment Fee**"), which fee shall be fully earned and due and payable on the Effective Date and (ii) a non-refundable success fee in the amount of \$62,750 (the "**Success Fee**"), which fee shall be fully earned on the Effective Date, and due and payable on the last day of the Term.

5. **Conditions Precedent/Effectiveness Conditions.** This Amendment shall be effective upon the date (the "**Effective Date**") when all of the following conditions precedent have been satisfied:

(a) Agent shall have received this Amendment fully executed by Borrowers and the Lenders;

(b) Agent shall have received the Fifth Amendment Fee in immediately available funds;

(c) Agent shall have received an ALTA 11-06 endorsement to the title policy related to the Mortgage;

(d) The Borrowers shall have Undrawn Availability of at least \$750,000;

(e) Agent shall have received (i) an updated Inventory appraisal and (ii) an updated appraisal for the real estate located at 1920 South Acacia Avenue, Compton, California, each of which shall be in form and substance satisfactory to Agent; and

(f) No Default or Event of Default (other than the Existing Events of Default) shall have occurred and be continuing.

6. **Further Assurances.** Each Borrower hereby agrees to take all such actions and to execute and/or deliver to Agent and Lenders all such documents, assignments, financing statements and other documents, as Agent and Lenders may reasonably require from time to time, to effectuate and implement the purposes of this Amendment.

7. **Payment of Expenses.** Borrowers shall pay or reimburse Agent for its reasonable attorneys' fees and expenses in connection with the preparation, negotiation and execution of this Amendment and the documents provided for herein or related hereto.

8. **Reaffirmation of Credit Agreement.** Except as modified by the terms hereof, all of the terms and conditions of the Credit Agreement, as amended by this Amendment, and all other of the Other Documents are hereby reaffirmed and shall continue in full force and effect as therein written.

9. **Miscellaneous.**

(a) **Third Party Rights.** No rights are intended to be created hereunder for the benefit of any third party donee, creditor, or incidental beneficiary.

(b) **Loan Document.** This Amendment is an "Other Document" as defined and described in the Credit Agreement and all of the

terms and provisions of the Credit Agreement relating to Other Documents shall apply hereto.

(c) **Headings.** The headings of any paragraph of this Amendment are for convenience only and shall not be used to interpret any provision hereof.

(d) **Governing Law.** This Amendment shall be governed by and construed in accordance with the laws of the State of Illinois.

(e) **Severability.** Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction

(f) **Counterparts.** This Amendment may be executed in any number of counterparts and by facsimile, PDF or other electronic transmissions, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(g) **Successors and Assigns.** This Amendment shall be binding upon and inure to the benefit of the parties hereto and its respective successors and assigns.

[SIGNATURES TO APPEAR ON FOLLOWING PAGES]

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

BORROWERS:

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

By: _____

Name: Edward R. Cameron

Title: President and CEO

ARCA RECYCLING, INC.

By: _____

Name: Edward R. Cameron

Title: CEO

ARCA CANADA, INC.

By: _____

Name: Edward R. Cameron

Title: President and CEO

APPLIANCESMART, INC.

By: _____

Name: Edward R. Cameron

Title: CEO

AGENT AND LENDER:

PNC BANK, NATIONAL ASSOCIATION,
as Lender and as Agent

By: _____
Timothy Canon, Vice President

200 S. Wacker Drive, Suite 600
Chicago, IL 60606

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