

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 28, 1997

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-19621

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

MINNESOTA
(State or other jurisdiction of
incorporation or organization)
7400 Excelsior Blvd.
Minneapolis, Minnesota 55426-4517
(Address of principal executive
offices)

41-1454591
(I.R.S. Employer
Identification No.)

(612) 930-9000
(Registrant's telephone number, including area code)

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, and (2) has been subject to such filing requirements for the past 90 days.

YES NO

As of August 7, 1997, the number of shares outstanding of the registrant's no par value common stock was 1,319,325 shares.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

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Appliance Recycling Centers of America, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(Unaudited)

<TABLE>
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June 28, December 28,
1997 1996

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ASSETS
Current Assets

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Cash and cash equivalents	\$ 307,000	\$ 280,000
Accounts receivable, net of allowance of \$35,000 in 1997 and \$84,000 in 1996	984,000	1,127,000
Inventories	387,000	444,000
Other current assets	100,000	246,000
Income taxes receivable	29,000	400,000
Total current assets	\$ 1,807,000	\$ 2,497,000
Property and Equipment, at cost		
Land	\$ 2,103,000	\$ 2,103,000
Buildings and improvements	3,901,000	3,798,000
Equipment	5,519,000	5,604,000
	\$ 11,523,000	\$ 11,505,000
Less accumulated depreciation	4,532,000	4,086,000
Net property and equipment	\$ 6,991,000	\$ 7,419,000
Other Assets	\$ 108,000	\$ 76,000
Total assets	\$ 8,906,000	\$ 9,992,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Line of credit	\$ 1,091,000	\$ 1,390,000
Current maturities of long-term obligations	161,000	227,000
Accounts payable	792,000	1,391,000
Accrued expenses	898,000	1,160,000
Total current liabilities	\$ 2,942,000	\$ 4,168,000
Minority Interest in Subsidiary	53,000	-
Long-Term Obligations, less current maturities	1,662,000	1,711,000
Total liabilities	\$ 4,657,000	\$ 5,879,000
Shareholders' Equity		
Common stock, no par value; authorized 10,000,000 shares; issued and outstanding 1,137,000 shares as of June 28, 1997 and 1,137,000 shares as of December 28, 1996	\$ 10,350,000	\$ 10,350,000
Accumulated deficit	(6,101,000)	(6,237,000)
Total shareholders' equity	\$ 4,249,000	\$ 4,113,000
Total liabilities and shareholders' equity	\$ 8,906,000	\$ 9,992,000

</TABLE>

See Notes to Consolidated Financial Statements.

Appliance Recycling Centers of America, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

<TABLE>
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	Three Months Ended		Six Months Ended	
	June 28, 1997	June 29, 1996	June 28, 1997	June 29, 1996
Revenues				
Recycling revenues	\$ 1,655,000	\$ 1,399,000	\$ 3,470,000	\$ 3,166,000
Encore revenues	1,029,000	1,351,000	1,967,000	2,185,000
Byproduct revenues	312,000	523,000	802,000	982,000
Total revenues	\$ 2,996,000	\$ 3,273,000	\$ 6,239,000	\$ 6,333,000
Cost of Revenues	1,676,000	2,692,000	3,361,000	5,542,000
Gross profit	\$ 1,320,000	\$ 581,000	\$ 2,878,000	\$ 791,000
Selling, General and Administrative Expenses	1,219,000	2,209,000	2,667,000	4,256,000
Operating income (loss)	\$ 101,000	\$(1,628,000)	\$ 211,000	\$(3,465,000)
Other Income (Expense)				
Other income	61,000	84,000	119,000	70,000
Interest income	3,000	4,000	4,000	32,000

Interest expense	(81,000)	(66,000)	(174,000)	(135,000)

Income (loss) before provision for income taxes and minority interest	\$ 84,000	\$ (1,606,000)	\$ 160,000	\$ (3,498,000)
Provision for (Benefit of) Income Taxes	(29,000)	--	(29,000)	--

Income (loss) before minority interest	\$ 113,000	\$ (1,606,000)	\$ 189,000	\$ (3,498,000)
Minority Interest in Net Income of Subsidiary	40,000	--	53,000	--

Net income (loss)	\$ 73,000	\$ (1,606,000)	\$ 136,000	\$ (3,498,000)
=====				
Net Earnings (Loss) per Common and Common Equivalent Share (3.21)	\$ 0.06	\$ (1.46)	\$ 0.12	\$
=====				
Weighted Average Number of Common and Common Equivalent Shares	1,137,000	1,101,000	1,137,000	1,091,000
=====				

</TABLE>

See Notes to Consolidated Financial Statements.

Appliance Recycling Centers of America, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

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	Six Months Ended	
	June 28, 1997	June 29, 1996
	<C>	<C>

<S> Cash Flows from Operating Activities		
Net income (loss)	\$ 136,000	\$ (3,498,000)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	569,000	764,000
Minority interest in subsidiary	53,000	-
Common stock issued for services	-	30,000
(Gain) loss on sale of equipment	(60,000)	(48,000)
Change in assets and liabilities, net of effects from acquisition of Universal Appliance Company, Inc. and Universal Appliance Recycling, Inc. in 1996:		
(Increase) decrease in:		
Receivables	144,000	251,000
Inventories	57,000	(505,000)
Other current assets	98,000	11,000
Income taxes receivable	370,000	40,000
(Increase) decrease in:		
Accounts payable	(599,000)	(37,000)
Accrued expenses	(262,000)	(237,000)
Income taxes payable	-	(23,000)

Net cash provided by (used in) operating activities	\$ 506,000	\$ (3,252,000)

Cash Flows from Investing Activities		
Purchase of equipment	\$ (143,000)	\$ (1,147,000)
Cash acquired for acquisition of Universal Appliance Company, Inc. and Universal Appliance Recycling, Inc.	-	26,000
Payments for noncompete agreements	-	(110,000)
Proceeds from disposal of equipment	78,000	153,000

Net cash used in investing activities	\$ (65,000)	\$ (1,078,000)

Cash Flows from Financing Activities		
Payments on line of credit	\$ (299,000)	-
Increase (decrease) in note payable to bank	-	250,000
Payments on long-term obligations	(115,000)	(1,024,000)
Proceeds from placement of common stock	-	700,000
Proceeds and tax benefit from stock options	-	54,000

Net cash used in financing activities	\$ (414,000)	\$ (20,000)

Effect of foreign currency exchange rate changes on cash and cash equivalents	\$ -	\$ (1,000)

Increase (decrease) in cash and cash equivalents	\$ 27,000	\$(4,351,000)
Cash and Cash Equivalents		
Beginning	280,000	4,605,000
Ending	\$ 307,000	\$ 254,000

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Appliance Recycling Centers of America, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS - continued
(Unaudited)

<TABLE>
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	Six Months Ended	
	June 28, 1997	June 29, 1996
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Supplemental Disclosures of Cash Flow Information		
Cash payments (receipts) for:		
Interest	\$ 174,000	\$ 136,000
Income taxes net of refunds	\$(398,000)	\$ (9,000)
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Acquisition of Universal Appliance Company, Inc. and Universal Appliance Recycling, Inc.		
Working capital acquired, including cash and cash equivalents of \$26,000	\$ -	\$ 118,000
Fair value of other assets acquired, principally property and equipment and a noncompete agreement	-	176,000
Value assigned to goodwill	-	302,000
Long-term debt assumed	-	(207,000)
Total consideration, 84,000 shares of common stock	\$ -	\$ 389,000

</TABLE>

See Notes to Consolidated Financial Statements.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Financial Statements
In the opinion of management of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal, recurring accruals) necessary to present fairly the financial position of the Company and its subsidiaries as of June 28, 1997, and the results of operations for the three-month and six-month periods and its cash flows for the six-month periods ended June 28, 1997 and June 29, 1996. The results of operations for any interim period are not necessarily indicative of the results for the year. These interim consolidated financial statements should be read in conjunction with the Company's annual financial statements and related notes in the Company's Annual Report on Form 10-K for the year ended December 28, 1996.

2. Accrued Expenses
Accrued expenses were as follows:

	June 28, 1997	December 28, 1996
Compensation	\$ 236,000	\$ 218,000
Lease contingencies and closing costs	232,000	466,000
Other	430,000	476,000
	\$ 898,000	\$ 1,160,000

PART I: ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis provides information that management

believes is relevant to an assessment and understanding of the Company's level of operation and financial condition. This discussion should be read with the consolidated financial statements appearing in Item 1.

RESULTS OF OPERATIONS

The Company generates revenues from three sources: recycling revenues, Encore(R) revenues and byproduct revenues. Recycling revenues are fees charged for the disposal of appliances. Encore revenues are retail and wholesale sales of appliances, extended warranty sales and delivery fees. Byproduct revenues are sales of materials generated from processed appliances.

Total revenues for the three and six months ended June 28, 1997 were \$2,996,000 and \$6,239,000, respectively, compared to \$3,273,000 and \$6,333,000 for the same periods in the prior year. Recycling revenues for the three and six months ended June 28, 1997 increased by \$256,000 or 18% and \$304,000 or 10%, respectively, from the same periods in the prior year. The increase in recycling revenues was primarily due to the increase in refrigerator recycling volume related to the contract with Southern California Edison Company ("Edison"). The contract is expected to generate a minimum of \$3.5 million in revenues in 1997. The timing and amount of revenues will be dependent on the amount and frequency of advertising sponsored by Edison. The contract with Edison ends December 31, 1997. At this time, the Company does not know if the contract will be extended into 1998.

Encore revenues for the three and six months ended June 28, 1997 decreased by \$322,000 or 24% and \$218,000 or 10%, respectively, from the same periods in the prior year. The decrease in Encore revenues was primarily due to a lower number of retail locations. As of June 29, 1996, the Company operated 30 retail locations. As of June 28, 1997, the Company operated 14 retail locations and does not plan to open any new stores in 1997. Same-store Encore sales increased by 18% for the second quarter (a sales comparison of 11 stores that were open the entire second quarter in 1997 and 1996). The Company expects retail sales for the remainder of 1997 to be lower when compared to 1996 due to fewer stores but expects a growth in retail sales per store when compared to 1996. The Company believes the improvement in same-store sales is a result of the growing awareness and market acceptance of Encore stores.

Byproduct revenues for the three and six months ended June 28, 1997 decreased by \$211,000 or 40% and \$180,000 or 18%, respectively, from the same periods in the prior year. The decrease was primarily due to lower sales of reclaimed chlorofluorocarbons ("CFCs") and scrap metals due to fewer appliances recycled. The Company expects byproduct revenues for the last six months of 1997 to be lower than the first six months of 1997 because of lower CFC sales.

RESULTS OF OPERATIONS - continued

Gross profit as a percentage of total revenues for the three and six months ended June 28, 1997 increased to 44.0% and 46.1%, respectively, from 17.7% and 12.5%, respectively, for the three and six months ended June 29, 1996. The increase was primarily due to an increase in recycling volumes from Edison, significantly lower operating expenses as a result of the restructuring the Company underwent in the fourth quarter of 1996, increased efficiencies in the four centers currently operating and an increase in same-store sales. Gross profit as a percentage of total revenues for future periods can be affected favorably or unfavorably by numerous factors, including the volume of appliances recycled from the Edison contract, the speed at which appliance sales increase and the price and volume of byproduct revenues.

Selling, general and administrative expenses for the three and six months ended June 28, 1997 decreased by \$990,000 or 44.8% and \$1,589,000 or 37.3%, respectively, from the same periods in 1996. Selling expenses for the three and six months ended June 28, 1997 decreased by \$386,000 or 52.4% and \$559,000 or 53.2%, respectively, from the same periods in 1996. The decrease in selling expenses was primarily due to a decrease in costs associated with operating fewer retail stores than in the same periods in the prior year. The Company closed 18 under-performing stores during 1996. General and administrative expenses for the three and six months ended June 28, 1997 decreased by \$604,000 or 41.0% and \$1,030,000 or 34.7%, respectively, from the same periods of 1996. The decrease in general and administrative expenses was primarily due to operating fewer locations in 1997 compared to 1996 and a decrease in personnel costs.

Interest expense was \$81,000 for the three months and \$174,000 for the six months ended June 28, 1997 compared to \$66,000 and \$135,000 for the same periods in 1996. The increase in interest expense was due to a higher average borrowed amount in the three and six months ended June 28, 1997 than in the same periods in 1996.

The Company recorded a benefit of income taxes of \$29,000 for the six months ended June 28, 1997 due to the liquidation of its Canadian subsidiary. The Company also has available net operating loss carryforwards which total approximately \$4,400,000 and expire in 2011. At June 28, 1997, the Company had a valuation allowance recorded against its net deferred tax assets of approximately \$2,800,000, due to uncertainty of realization. Realization of deferred tax assets is dependent upon the generation of sufficient future taxable income during the period that deductible temporary differences and carryforwards are expected to become available to reduce taxable income.

ARCA California, Inc., a subsidiary of the Company, is owned 80% by the Company and 20% by a minority shareholder. Accordingly, a minority interest was recorded for the three and six months ended June 28, 1997, of \$40,000 and \$53,000, respectively.

RESULTS OF OPERATIONS - continued

The Company recorded net income of \$73,000 for the three months and \$136,000 for the six months ended June 28, 1997 compared to a net loss of \$1,606,000 and \$3,498,000 in the same periods of 1996. The increase in income was primarily due to increased recycling volumes from the Edison contract, significantly lower operating and selling, general and administrative expenses as a result of the Encore restructuring in the fourth quarter of 1996, increased efficiencies in the four centers currently operating and an increase in same-store sales.

LIQUIDITY AND CAPITAL RESOURCES

At June 28, 1997, the Company had a working capital deficit of \$1,135,000 compared to a working capital deficit of \$1,671,000 at December 28, 1996. Cash and cash equivalents increased to \$307,000 at June 28, 1997 from \$280,000 at December 28, 1996. Net cash provided by operating activities was \$506,000 for the six months ended June 28, 1997 compared to net cash used in operating activities of \$3,252,000 in the same period of 1996. The increase in cash provided by operating activities was primarily due to net income of \$136,000 as of June 28, 1997 versus a loss of \$3,498,000 in the same period in the prior year.

The Company's capital expenditures for the six months ended June 28, 1997 and June 29, 1996 were approximately \$143,000 and \$1,147,000, respectively. The 1997 capital expenditures were primarily related to building improvements. The 1996 capital expenditures were primarily related to leasehold improvements to the Company's recycling centers and retail stores.

As of June 28, 1997, the Company had a \$2.0 million line of credit with a lender. The loan rate as of June 28, 1997 was 13-1/2%. The line of credit is secured by receivables, inventory, equipment, real estate and other assets of the Company, is subject to borrowing base limitations and a portion is guaranteed by the President of the Company. The loan also requires that the Company meet certain financial covenants, provides payment penalties for noncompliance, limits the amount of other debt the Company can incur, limits the amount of spending on fixed assets and limits payments of dividends. At June 28, 1997, the Company had borrowings of \$1,091,000 under this line and had an additional \$462,000 available. Legal proceedings commenced against the Company on August 6, 1997 constitute a default under this loan. See "Legal Proceedings."

The Company believes, based on the anticipated revenues from the Edison contract, the anticipated growth in sales per retail store and the anticipated improvement in gross profit, that its current cash balance, funds generated from operations and current line of credit will be sufficient to finance its operations and capital expenditures through June 1998. The Company's total capital requirements will depend, among other things as discussed below, on the number of recycling centers operating and the number and size of retail stores operating during the fiscal year.

LIQUIDITY AND CAPITAL RESOURCES - continued

Currently, the Company has four centers and 14 stores in operation. If revenues are lower than anticipated or expenses are higher than anticipated or the line of credit cannot be maintained, the Company may require additional capital to finance operations. Sources of additional financing, if needed in the future, may include further debt financing or the sale of equity or other securities. There can be no assurance that such additional sources of financing will be available or available on terms satisfactory to the Company or permitted by the Company's current lender.

Statements regarding the Company's future operations, performance and

results, and anticipated liquidity discussed herein are forward-looking and therefore are subject to certain risks and uncertainties, including those discussed herein. In addition, any forward-looking information regarding the operations of the Company will be affected by the ability of individual stores to meet planned revenue levels, the speed at which individual Encore stores reach profitability, costs and expenses being realized at higher than expected levels, the Company's ability to secure an adequate supply of used appliances for resale, the continued availability of the Company's current line of credit, the renewal of the contract with Edison in 1998 and the ability of Edison to deliver units under its contracts with the Company and the timing of such delivery.

ISSUED BUT NOT YET ADOPTED ACCOUNTING STANDARD

The FASB has issued Statement No. 128, Earnings per Share, which supersedes APB Opinion No. 15. Statement No. 128 requires the presentation of earnings per share by all entities that have common stock or potential common stock, such as options, warrants and convertible securities, outstanding that trade in a public market. Those entities that have only common stock outstanding are required to present basic earnings per-share amounts. All other entities are required to present basic and diluted per-share amounts. Diluted per-share amounts assume the conversion, exercise or issuance of all potential common stock instruments unless the effect is to reduce a loss or increase the income per common share from continuing operations. All entities required to present per-share amounts must initially apply Statement No. 128 for annual and interim periods ending after December 15, 1997. Earlier application is not permitted. The adoption of Statement No. 128 would have had no effect on reported earnings per share.

PART II. OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

On August 6, 1997, the Company, its subsidiary, Appliance Recycling Centers of America - California, Inc. ("ARCA-CAL"), and its officers, directors and controlling shareholders were sued in California State Court, County of Los Angeles, by the minority (20%) shareholder of ARCA-CAL. The complaint alleges breach of a shareholders agreement between the Company and the plaintiffs, breaches of fiduciary duty, seeks damages in the amount of \$2 million, and seeks preliminary and permanent injunctive relief prohibiting ARCA-CAL from transferring funds to the Company during the pendency of this action. ARCA-CAL accounts for all receivables from the Company's contract with Edison. (See, "Management's Discussion and Analysis of Financial Condition and Results of Operations.") Temporary injunctive relief restricting transfer of certain funds to the Company was awarded by the Court on August 8, 1997. The Company does not believe that such temporary injunction will have a material adverse effect on its daily operations. A motion to consider permanent injunctive relief is scheduled for August 25, 1997. The granting of a permanent injunction prohibiting the Company from receiving any funds from the Edison contract would have a material adverse effect on the Company. The Company believes that the claims are without merit; however, there can be no assurance at this time whether the Court will grant a permanent injunction prohibiting the transfer of any or all revenues from such contract.

In addition, the Company is involved in certain legal proceedings arising from the cancellation of leases in connection with the closing of certain facilities. The Company has established a reserve for lease settlements and closing costs. (See Note 2 to the Consolidated Financial Statements.)

ITEM 2 - CHANGES IN SECURITIES - None

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES - None

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On April 24, 1997 the Annual Meeting of Shareholders of Appliance Recycling Centers of America, Inc. was held to obtain the approval of shareholders of record as of March 7, 1997 in connection with the four matters indicated below. Following is a brief description of each matter voted on at the meeting and the number of votes cast for, against or withheld, as well as the number of abstentions and broker nonvotes, as to each matter:

Matter	Vote	
	For	Withhold Authority
-----	---	-----
1. Election of Directors:		
Edward R. Cameron	1,064,668	21,973

George B. Bonniwell	1,062,772	23,869
Duane S. Carlson	1,067,185	19,456
Harry W. Spell	1,066,922	19,719

2. Approval of an Amendment to the Articles of Incorporation to increase the number of authorized shares of common stock to ten million.

Vote			
For	Against	Abstain	Not Voted
1,058,096	22,942	5,603	0

3. Ratification and approval of the Company's 1997 Stock Option Plan.

Vote			
For	Against	Abstain	Not Voted
704,687	52,519	4,003	325,432

4. Ratification of McGladrey & Pullen, LLP as independent public accountants for 1997.

Vote			
For	Against	Abstain	Not Voted
1,076,878	6,597	3,166	0

ITEM 5 - OTHER INFORMATION - None

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibit No. 27 - Financial Data Schedule
- (b) The Company did not file any reports on Form 8-K during the three months ended June 28, 1997.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Appliance Recycling Centers of America, Inc.
Registrant

Date: August 8, 1997

/s/Edward R. Cameron

Edward R. Cameron
President

Date: August 8, 1997

/s/Kent S. McCoy

Kent S. McCoy
Vice President of Finance, Treasurer

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