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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **December 26, 2018**

Appliance Recycling Centers of America, Inc.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction
of incorporation)

000-19621
(Commission
File Number)

41-1454591
(IRS Employer
Identification No.)

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

55343-4565
(Zip Code)

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

Not Applicable
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company

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

Item 1.01 Entry into a Material Definitive Agreement.

As previously disclosed by Appliance Recycling Centers of America, Inc. (the “Company”), on December 30, 2017, the Company entered into a Stock Purchase Agreement (the “Agreement”) with ApplianceSmart, Inc., then a subsidiary of the Company (“ApplianceSmart”), and ApplianceSmart Holdings LLC (the “Purchaser”), a wholly-owned subsidiary of Live Ventures Incorporated (“Live”). Pursuant to the Agreement, Purchaser purchased from the Company all of the issued and outstanding shares of capital stock of ApplianceSmart in exchange for \$6,500,000 (the “Purchase Price”). Purchaser was required to deliver the Purchase Price, and a portion of the Purchase Price was delivered, to the Seller prior to March 31, 2018. Between March 31, 2018 and April 24, 2018, the Purchaser and the Company negotiated in good faith the method of payment of the remaining outstanding balance of the Purchase Price.

As previously disclosed by the Company, on April 25, 2018, the Purchaser delivered to the Company that certain Promissory Note (the “ApplianceSmart Note”) in the original principal amount of \$3,919,494 (the “Original Principal Amount”), as such amount may be adjusted per the terms of the ApplianceSmart Note. The ApplianceSmart Note was effective as of April 1, 2018 and matures on April 1, 2021 (the “Maturity Date”). The ApplianceSmart Note bears interest at 5% per annum and provided for the payment of interest monthly in arrears. Ten percent of the outstanding principal amount was required to be repaid annually on a quarterly basis, with the accrued and unpaid principal due on the Maturity Date. ApplianceSmart agreed to guaranty repayment of the ApplianceSmart Note. The remaining \$2,580,506 of the Purchase Price was paid in cash by Purchaser to the Company. The Purchaser may reborrow funds, and pay interest on such re-borrowings, from the Company up to the Original Principal Amount. As of December 26, 2018, there was \$3,821,507 outstanding on the ApplianceSmart Note.

On December 26, 2018, the Purchaser and the Company amended and restated the ApplianceSmart Note (the “Amended and Restated ApplianceSmart Note”) to, among other things, grant the Company a security interest in the assets of the Purchaser, ApplianceSmart and ApplianceSmart Contracting Inc., a wholly-owned subsidiary of Purchaser (“ApplianceSmart Contracting”), in accordance with the terms of separate security agreements entered into between the Company and each of the Purchaser and ApplianceSmart, respectively, on December 26, 2018 and ApplianceSmart Contracting on December 28, 2018 (collectively, the “Security Agreements”) in exchange for the Company agreeing to modify the payment terms to provide that principal and interest under the Amended and Restated ApplianceSmart Note will accrue and be due and payable in full on the Maturity Date. The Amended and Restated ApplianceSmart Note and the Security Agreements were approved by a special committee of the Company’s Board of Directors composed entirely of an independent and disinterested director.

As previously disclosed, Jon Isaac, the President and Chief Executive Officer of Live, is the CEO, Manager and sole member of Isaac Capital Group, LLC, which, as of September 11, 2018, was the beneficial owner 14.8% of the outstanding capital stock of the Company. Jon Isaac is also the son of Tony Isaac, the Chief Executive Officer of the Company and former Chief Executive Officer of ApplianceSmart.

The foregoing descriptions of the Amended and Restated ApplianceSmart Note and the Security Agreements are qualified in their entirety by reference to such Amended and Restated Note and Security Agreements, copies of which are filed as Exhibits 10.1, 10.2, 10.3 and 10.4, respectively, to this Current Report on Form 8-K and are incorporated herein by reference in this Item 1.01.

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

On December 26, 2018, the Board of Directors (the “Board”) of the Company adopted an amendment (the “First Amendment to Bylaws”) to the Company’s Bylaws, effective December 26, 2018, to remove and reserve Section 3.13 thereof governing the appointment and composition of Board committees in order to rely on the applicable default provisions under Nevada law.

A copy of the First Amendment to Bylaws is filed as Exhibit 3.1 to this Current Report on Form 8-K and incorporated by reference in this Item 5.03.

Item Financial Statements and Exhibits.

9.01

(d) Exhibits:

| <u>No.</u> | <u>Description</u> |
|------------|---|
| 3.1 | <u>First Amendment to Bylaws of Appliance Recycling Centers of America, Inc.</u> |
| 10.1 | <u>Amended and Restated Promissory Note, effective April 1, 2018, issued by ApplianceSmart Holdings LLC</u> |
| 10.2 | <u>Security Agreement, dated December 26, 2018, by and between ApplianceSmart Holdings LLC and Appliance Recycling Centers of America, Inc.</u> |
| 10.3 | <u>Security Agreement, dated December 26, 2018, by and between ApplianceSmart, Inc. and Appliance Recycling Centers of America, Inc.</u> |
| 10.4 | <u>Security Agreement, dated December 28, 2018, by and between ApplianceSmart Contracting Inc. and Appliance Recycling Centers of America, Inc.</u> |

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 hereunto duly authorized.

Date: December 31, 2018

Appliance Recycling Centers of America, Inc.

/s/ Tony Isaac

Tony Isaac

Chief Executive Officer

**FIRST AMENDMENT TO
BYLAWS
OF
APPLIANCE RECYCLING CENTERS OF AMERICA, INC.**

In accordance with resolutions adopted by the Board of Directors of Appliance Recycling Centers of America, Inc. (the "Company"), the Bylaws of the Company, adopted March 12, 2018 (the "Bylaws") are hereby amended as set forth in this First Amendment to Bylaws, effective December 26, 2018.

AMENDMENT

1. Section 3.13 of the Bylaws is hereby amended and restated in its entirety as follows:

Section 3.13) [Reserved.]

2. Except as amended hereby, all terms and provisions of the Bylaws shall remain in full force and effect.

CERTIFICATION OF BYLAWS

The foregoing First Amendment to Bylaws of Appliance Recycling Centers of America, Inc., together with the Bylaws of Appliance Recycling Centers of America, Inc., are the Bylaws of the Company, and are certified to have been adopted by the Board of Directors of the Corporation effective as of the 26th day of December, 2018.

/s/ Michael J. Stein
Michael J. Stein, Secretary

AMENDED AND RESTATED SECURED PROMISSORY NOTE

This is an amendment and restatement (this "**Amended and Restated Note**") of that certain original promissory note with an original principal amount of \$3,919,494.46 with an effective date of April 1, 2018 issued by ApplianceSmart Holdings LLC to Appliance Recycling Centers of America, Inc. (the "**Original Promissory Note**").

Original Effective Date: April 1, 2018
Amended and Restated Effective Date: December 26, 2018 (the "**Effective Date**")
Maker: ApplianceSmart Holdings LLC, a Nevada limited liability company
Maker's Mailing Address (including county): 325 E. Warm Springs Road, Suite 102, Las Vegas, NV 89119 (Clark County)
Payee: Appliance Recycling Centers of America, Inc., a Nevada corporation
Place for Payment: 175 Jackson Avenue North, Suite 102, Minneapolis, MN 55343
Principal Amount at December 26, 2018: \$3,821,507.10
Maturity Date: April 1, 2021
Annual Interest Rate: 5.0% (Based on a 365-day year)

Terms of Payment:

Interest. Interest shall accrue on the unpaid principal amount from the Effective Date and shall be due and payable in full on the Maturity Date.

Principal. The principal amount shall be due and payable in full on the Maturity Date. The aggregate principal amount outstanding shall be increased or decreased, as the case may be, at any time and from time to time based on advances, credits, payments, and other amounts paid or owed, as the case may be, by and between ApplianceSmart, Inc., a Minnesota corporation and wholly-owned subsidiary of Maker ("**ApplianceSmart**"), and Payee.

Reborrowing. Upon Maker's written request, Payee will make revolving credit loans to Maker from time to time in such amounts as Maker may request, and Maker may make prepayments and reborrowings; provided, however, the aggregate principal amount of the aggregate amount owed by Maker to Payee at any time shall not exceed the principal amount. Interest on any such borrowings shall accrue at the annual interest rate and be payable in accordance with the terms hereof.

Security Interest. This Amended and Restated Promissory Note is secured by the assets of Maker and ApplianceSmart in accordance with separate security agreements (collectively, the "**Security Agreements**") by Maker and ApplianceSmart, respectively, in favor of Payee. In the case of an Event of Default (as defined in the Security Agreements), Payee shall have the rights set forth in the Security Agreements.

Prepayment. Maker may prepay all outstanding principal and interest at any time and from time to time without penalty.

Costs of Collection. If this Amended and Restated Note is given to an attorney for collection or enforcement, or if suit is brought for collection or enforcement, or if it is collected or enforced through probate, bankruptcy, or other judicial proceeding, then Maker shall pay Payee all costs of collection and enforcement, including reasonable attorney's fees and court costs, in addition to other amounts due.

(Remainder of this page intentionally left blank; signatures begin on the next page.)

Executed on this 26th day of December, 2018, the parties intending that this Amended and Restated Promissory Note be effective as of April 1, 2018.

APPLIANCESMART HOLDINGS LLC

By: Live Ventures Incorporated, its sole member

By: /s/ Jon Isaac

Name: Jon Isaac

Title: President and Chief Executive Officer

AGREEMENT AND GUARANTY

For valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and in consideration of ApplianceSmart Holdings LLC, a Nevada limited liability company ("**Holdings**"), parent of ApplianceSmart, Inc., a Minnesota corporation ("**Guarantor**"), having agreed to the terms of the outstanding amount owed by Holdings to Appliance Recycling Centers of America, Inc., a Nevada corporation ("**ARCA**"), in connection with the sale of Guarantor from ARCA to Holdings, as documented by that certain Amended and Restated Promissory Note, effective as of April 1, 2018 and amended and restated on December 26, 2018, issued by Holdings in the original principal amount at April 1, 2018 of \$3,919,494.46 and \$3,821,507.10 at December 26, 2018, for the benefit of ARCA (the "**Note**"), Guarantor does hereby unconditionally guarantee to ARCA full and prompt payment and performance of all obligations of Holdings to ARCA under the Note. Guarantor also agrees to pay in addition thereto all costs, expenses and reasonable attorney's fees at any time paid or incurred by ARCA in endeavoring to enforce this Guaranty.

Upon any default by Holdings with respect to any of the obligations herein guaranteed, the liability of the Guarantor hereunder shall be deemed to have become immediately due and payable, without demand, presentment, protest or notice of any kind, all of which are hereby waived, and without any suit or action against Holdings or the Guarantor and without further steps to be taken or further conditions to be performed by ARCA. Failure of ARCA to make any demand or otherwise to proceed against the Guarantor in respect to any default by Holdings or the Guarantor, or any delay by ARCA in doing so, shall not constitute a waiver of ARCA right to proceed in respect to any or all other defaults by the Company or the Guarantor.

Guarantor further acknowledges and agrees that until such time as the Note has been paid in full, it shall not create, incur, assume, or suffer to exist any indebtedness secured by a material amount of Guarantor's assets without the prior written consent of ARCA, which consent shall not be unreasonably withheld, conditioned, or delayed.

This Guaranty and Agreement shall be governed by and construed in accordance with the laws of the State of Nevada (without reference to the conflicts of law provisions thereof). The invalidity or unenforceability of any provision hereof shall not limit the validity or enforceability of any other provision hereof. This Guaranty and Agreement may not be amended except by an instrument in writing signed by the party to be charged.

Executed on this 26th day of December, 2018, the parties intending that the Amended and Restated Promissory Note be effective as of April 1, 2018.

APPLIANCESMART, INC.

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

SECURITY AGREEMENT

THIS SECURITY AGREEMENT is made and entered into as of December 26, 2018, by and between APPLIANCESMART HOLDINGS LLC, a Nevada limited liability company ("Debtor"), and APPLIANCE RECYCLING CENTERS OF AMERICA, INC., a Minnesota corporation ("Secured Party"), whose addresses are set forth below.

RECITALS

A. Debtor is indebted to Secured Party pursuant to the terms of that certain Amended and Restated Secured Promissory Note dated as of December 26, 2018 ("Note").

B. Debtor has agreed to grant Secured Party a security interest in certain assets to secure, among other things, Debtor's obligations under the Note.

NOW, THEREFORE, in consideration of the credit extended under the Note and for the purpose of securing Debtor's obligations to Secured Party under the Note, the parties agree as follows:

1. Grant of Security Interest: Collateral. To secure the Secured Obligations described in Section 2, the Debtor hereby grants to the Secured Party a security interest ("Security Interest") in the property described on Exhibit A attached hereto ("Collateral").

2. Secured Obligations. The following obligations are secured by this Agreement (collectively referred to as the "Secured Obligations"):

(a) All obligations of Debtor to Secured Party under the Note;

(b) Any and all sums advanced by the Secured Party in order to preserve the Collateral or to perfect its security interest in the Collateral; and

(c) Upon the occurrence and continuation of an Event of Default (as defined below), all reasonable expenses, including attorneys' fees and court costs, incurred by the Secured Party in (i) any proceeding to enforce the collection of the Secured Obligations, (ii) retaking, holding or otherwise disposing of or realizing on the Collateral, or (iii) the exercise of any of its rights under this Agreement or applicable law.

3. Debtor's Representations, Warranties and Covenants. Debtor represents, warrants and covenants that:

(a) Debtor has title to the Collateral, free of all liens and encumbrances, except the Security Interest created hereby, as the same may hereafter be amended from time to time. Debtor has full corporate power and authority to execute this Security Agreement, to perform Debtor's obligations hereunder, and to subject the Collateral to the Security Interest created hereby.

(b) Debtor will, at any time or times hereafter, execute such financing statements and other instruments and perform such other acts as the Secured Party may reasonably request in order to establish, maintain, perfect and enforce Secured Party's valid and perfected Security Interest in the Collateral and its rights under this Agreement.

(c) Except in the ordinary course of Debtor's business, Debtor will not sell, transfer, lease, hypothecate, pledge or otherwise dispose of any of its rights or interests in the Collateral without the prior written consent of the Secured Party.

(d) Debtor will keep the Collateral in good condition, ordinary wear and tear excepted, and insured against such risks and in such amounts consistent with Debtor's past practice, with Secured Party to be named loss payee on all insurance on the Collateral. From time to time Debtor shall furnish to Secured Party, upon request, appropriate evidence of the carrying of such insurance.

(e) Debtor will use the Collateral in a lawful manner consistent with this agreement and with the terms and conditions of any policy of insurance thereon.

(f) Following the occurrence of an Event of Default, the Secured Party, in the name of the Debtor, shall have the authority but shall not be obligated to take any action which the Secured Party may deem necessary or desirable in order to realize on the Collateral.

(g) Debtor will forward directly to the Secured Party any and all written material notices, agreements, or documents of any kind or nature received by Debtor on account of any of the Collateral.

4. Events of Default. The occurrence of any of the following events shall constitute an "Event of Default" under this Security Agreement:

(a) The occurrence of an event of default under the terms of any of the Secured Obligations, including, without limitation, nonpayment of any of the Secured Obligations when due, whether by acceleration or otherwise;

(b) The nonperformance of any covenant, or material breach of any representation or warranty, made by Debtor in the Note or this Agreement;

(c) Except in the ordinary course of Debtor's business, the sale, lease or other disposition of Debtor's interests or rights in the Collateral;

(d) Without the prior consent of Secured Party, the creation of any encumbrance upon the Collateral or the making of any levy, judicial seizure or attachment thereof or thereon; or

(e) The appointment of a receiver for any part of the property of Debtor, the making by Debtor of an assignment for the benefit of creditors or the initiation by or against Debtor of any proceeding under the Federal Bankruptcy Code or any state insolvency law.

5. Remedies Upon Event of Default. Upon the occurrence of an Event of Default and for so long as such Event of Default is continuing, in addition to all the rights and remedies provided under applicable law, the Secured Party may at its option and without demand and upon written notice to Debtor, declare all or any part of the unmatured Secured Obligations immediately due and payable, and the Secured Party may exercise, in addition to the rights and remedies granted hereby, all rights and remedies of a secured party under the Uniform Commercial Code or any other applicable law. The Secured Party may, at its option, dispose of the Collateral by public or private sale if Secured Party has given notice to Debtor of the intended disposition in accordance with the provisions of Section 6 hereof and the Uniform Commercial Code and other applicable law. The Debtor agrees, upon Secured Party's request, to use commercially reasonable efforts to cooperate with the Secured Party and do all things reasonably necessary to enable Secured Party to sell the Collateral in compliance with all applicable laws and regulations. Debtor shall pay to Secured Party any deficiency remaining after such application and any excess proceeds of such sale shall be paid over by Secured Party to Debtor. The bringing of an action or an entry of judgment against the Debtor shall not bar the Secured Party's right to repossess any or all of the Collateral.

6. Miscellaneous. This Agreement can be waived, modified, amended, terminated or discharged, and the Security Interest can be released, only explicitly in a writing signed by Secured Party. A waiver signed by Secured Party shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any of Secured Party's rights or remedies. All rights and remedies of Secured Party shall be cumulative and may be exercised singularly or concurrently, at Secured Party's option, and the exercise or enforcement of any one such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other. All notices to be given to Debtor shall be deemed sufficiently given if delivered or mailed by registered or certified mail, postage prepaid, or, except to the extent required by applicable law, sent by facsimile or electronic mail to Debtor at its address set forth below or at the most recent address shown on Secured Party's records. Notices sent by facsimile shall be deemed to have been given when sent, and notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient. All required notices to Debtor pertaining to any intended disposition of Collateral or other actions shall be deemed timely if given 10 days prior to the action described in the notice. Secured Party's duty of care with respect to Collateral in its possession (as imposed by law) shall be deemed fulfilled if Secured Party exercises reasonable care in physically safekeeping such Collateral. Debtor will reimburse Secured Party for all expenses (including reasonable attorneys' fees and legal expenses) incurred by Secured Party in the protection, defense, or enforcement of the Security Interest, including expenses incurred in any litigation or bankruptcy or insolvency proceedings. This Agreement shall be binding upon and inure to the benefit of Debtor and Secured Party and their respective heirs, representatives, successors and assigns and shall take effect when signed by Debtor and delivered to Secured Party. Except to the extent otherwise required by law, this Agreement shall be governed by the internal laws of Minnesota and, unless the context otherwise requires, all terms used herein which are defined in the Uniform Commercial Code, as in effect in Minnesota, shall have the meanings therein stated. If any provision or application of this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect, and this Agreement shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby. All representations and warranties contained in this Agreement shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Secured Obligations.

[Signatures on following page]

ADDRESSES:

325 E. Warm Springs Road
Suite 102
Las Vegas, NV 89119
Attention: Jon Isaac

with a copy to:

Live Ventures Incorporated
325 E. Warm Springs Road, Suite 102
Las Vegas, NV 89119
Attn: Michael J. Stein, Esq.
Email: mstein@liveventures.com

175 Jackson Avenue North
Suite 102
Minneapolis, MN 55343
Attention: Tony Isaac

DEBTOR:

APPLIANCESMART HOLDINGS LLC, a Nevada limited liability company

By: Live Ventures Incorporated, its sole member

By: /s/ Jon Isaac
Name: Jon Isaac
Title: President and CEO

SECURED PARTY:

APPLIANCE RECYCLING CENTERS OF AMERICA, INC., a Minnesota corporation

By: /s/ Tony Isaac
Name: Tony Isaac
Title: Chief Executive Officer

Exhibit A

Description of Collateral

All of the personal property and Fixtures of the Debtor, including without limitation the following, whether now owned or hereafter arising or acquired:

- (a) Accounts, including all other rights and interests (including all liens and security interests) that the Debtor may at any time have by law or agreement against any Account Debtor or other obligor obligated to make any such payment or against any of the property of such Account Debtor or other obligor;
- (b) Equipment and Fixtures, including all accessories, parts and other property at any time affixed thereto or used in connection therewith and all substitutions and replacements thereof;
- (c) Inventory, including goods that are returned, repossessed, stopped in transit or which otherwise come into the possession of the Debtor;
- (d) General Intangibles, including payment intangibles, inventions, designs, patents, patent applications, design patents, design patent applications, trademarks, trademark applications, trade names, trade secrets, goodwill, copyrights, registrations, licenses, franchises, customer lists, tax refund claims, rights to indemnification, rights under warranties, all domain names, together with all contracts, agreements, licenses and registrations relating to such domain names, and Commercial Tort Claims, if any;
- (e) Chattel Paper, Instruments and Documents;
- (f) Investment Property;
- (g) Deposit Accounts;
- (h) Letter-of-Credit rights;
- (i) Supporting Obligations;
- (j) Intellectual Property Collateral;
- (k) books, correspondence, credit files, records, invoices, manuals, service records and programs, other papers and documents, computer records, runs, software, systems, procedures, disks, tapes and other storage media relating to any of the Collateral, including any of the foregoing in the possession or control of any service, consultant, or outside vendor; and
- (l) Proceeds, including all policies, claims to payment under, and proceeds of any and all insurance policies payable to the Debtor, or on behalf of the Debtor's property, whether or not such policies are issued to or owned by the Debtor and whether or not the Bank is named as loss payee or additional insured, including any credit insurance.

SECURITY AGREEMENT

THIS SECURITY AGREEMENT is made and entered into as of December 26, 2018, by and between APPLIANCESMART, INC., a Minnesota corporation ("Debtor") and APPLIANCE RECYCLING CENTERS OF AMERICA, INC., a Minnesota corporation ("Secured Party") whose addresses are set forth below.

RECITALS

A. APPLIANCESMART HOLDINGS, LLC, a Nevada limited liability company ("Holdings"), is indebted to Secured Party pursuant to the terms of that certain Amended and Restated Secured Promissory Note dated as of December 26, 2018 issued by Holdings in favor of Secured Party ("Note"). Debtor guaranteed the repayment of Holdings' obligations under the Note pursuant to that certain Agreement and Guaranty by Debtor in favor of Secured Party dated as of December 26, 2018 (the "Guaranty"). Debtor is a wholly-owned subsidiary of Holdings.

B. Debtor has agreed to grant Secured Party a security interest in certain assets to secure, among other things, Debtor's obligations under the Guaranty.

NOW, THEREFORE, in consideration of the credit extended under the Note and for the purpose of securing Debtor's obligations to Secured Party under the Guaranty, the parties agree as follows:

1. Grant of Security Interest: Collateral. To secure the Secured Obligations described in Section 2, the Debtor hereby grants to the Secured Party a security interest ("Security Interest") in the property described on Exhibit A attached hereto ("Collateral").

2. Secured Obligations. The following obligations are secured by this Agreement (collectively referred to as the "Secured Obligations"):

(a) All obligations of Holdings under the Note and all obligations of Debtor to Secured Party under the Guaranty;

(b) Any and all sums advanced by the Secured Party in order to preserve the Collateral or to perfect its security interest in the Collateral; and

(c) Upon the occurrence and during the continuation of an Event of Default (as defined below), all reasonable expenses, including attorneys' fees and court costs, incurred by the Secured Party in (i) any proceeding to enforce the collection of the Secured Obligations, (ii) retaking, holding or otherwise disposing of or realizing on the Collateral, or (iii) the exercise of any of its rights under this Agreement or applicable law.

3. Debtor's Representations, Warranties and Covenants. Debtor represents, warrants and covenants that:

(a) Debtor has title to the Collateral, free of all liens and encumbrances, except the Security Interest created hereby, as the same may hereafter be amended from time to time. Debtor has full corporate power and authority to execute this Security Agreement, to perform Debtor's obligations hereunder and to subject the Collateral to the Security Interest created hereby.

(b) Debtor will, at any time or times hereafter, execute such financing statements and other instruments and perform such other acts as the Secured Party may reasonably request in order to establish, maintain, perfect and enforce Secured Party's valid and perfected Security Interest in the Collateral and its rights under this Agreement.

(c) Except in the ordinary course of Debtor's business, Debtor will not sell, transfer, lease, hypothecate, pledge or otherwise dispose of any of its rights or interests in the Collateral without the prior written consent of the Secured Party.

(d) Debtor will keep the Collateral in good condition, ordinary wear and tear excepted, and insured against such risks and in such amounts consistent with Debtor's past practice, with Secured Party to be named loss payee on all insurance on the Collateral. From time to time Debtor shall furnish to Secured Party, upon request, appropriate evidence of the carrying of such insurance.

(e) Debtor will use the Collateral in a lawful manner consistent with this agreement and with the terms and conditions of any policy of insurance thereon.

(f) Following the occurrence of an Event of Default, the Secured Party, in the name of the Debtor, shall have the authority but shall not be obligated to take any action which the Secured Party may deem necessary or desirable in order to realize on the Collateral.

(g) Debtor will forward directly to the Secured Party any and all written material notices, agreements or documents of any kind or nature received by Debtor on account of any of the Collateral.

4. Events of Default. The occurrence of any of the following events shall constitute an "Event of Default" under this Security Agreement:

(a) The occurrence of an event of default under the terms of any of the Secured Obligations, including, without limitation, nonpayment of any of the Secured Obligations when due, whether by acceleration or otherwise;

(b) The nonperformance of any covenant, or material breach of any representation or warranty, made by Debtor in the Note or this Agreement;

(c) Except in the ordinary course of Debtor's business, the sale, lease or other disposition of Debtor's interests or rights in the Collateral;

(d) Without the prior consent of Secured Party, the creation of any encumbrance upon the Collateral or the making of any levy, judicial seizure or attachment thereof or thereon; or

(e) The appointment of a receiver for any part of the property of Debtor, the making by Debtor of an assignment for the benefit of creditors or the initiation by or against Debtor of any proceeding under the Federal Bankruptcy Code or any state insolvency law.

5. Remedies Upon Event of Default. Upon the occurrence of an Event of Default for so long as such Event of Default is continuing, in addition to all the rights and remedies provided under applicable law, the Secured Party may at its option and without demand and upon written notice to Debtor, declare all or any part of the unmatured Secured Obligations immediately due and payable, and the Secured Party may exercise, in addition to the rights and remedies granted hereby, all rights and remedies of a secured party under the Uniform Commercial Code or any other applicable law. The Secured Party may, at its option, dispose of the Collateral by public or private sale if Secured Party has given notice to Debtor of the intended disposition in accordance with the provisions of Section 6 hereof and the Uniform Commercial Code and other applicable law. The Debtor agrees, upon Secured Party's request, to use commercially reasonable efforts to cooperate with the Secured Party and do all things reasonably necessary to enable Secured Party to sell the Collateral in compliance with all applicable laws and regulations. Debtor shall pay to Secured Party any deficiency remaining after such application and any excess proceeds of such sale shall be paid over by Secured Party to Debtor. The bringing of an action or an entry of judgment against the Debtor shall not bar the Secured Party's right to repossess any or all of the Collateral.

6. Miscellaneous. This Agreement can be waived, modified, amended, terminated or discharged, and the Security Interest can be released, only explicitly in a writing signed by Secured Party. A waiver signed by Secured Party shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any of Secured Party's rights or remedies. All rights and remedies of Secured Party shall be cumulative and may be exercised singularly or concurrently, at Secured Party's option, and the exercise or enforcement of any one such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other. All notices to be given to Debtor shall be deemed sufficiently given if delivered or mailed by registered or certified mail, postage prepaid, or, except to the extent required by applicable law, sent by facsimile or electronic mail, to Debtor at its address set forth below or at the most recent address shown on Secured Party's records. Notices sent by facsimile shall be deemed to have been given when sent, and notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient. All required notices to Debtor pertaining to any intended disposition of Collateral or other actions shall be deemed timely if given 10 days prior to the action described in the notice. Secured Party's duty of care with respect to Collateral in its possession (as imposed by law) shall be deemed fulfilled if Secured Party exercises reasonable care in physically safekeeping such Collateral. Debtor will reimburse Secured Party for all expenses (including reasonable attorneys' fees and legal expenses) incurred by Secured Party in the protection, defense, or enforcement of the Security Interest, including expenses incurred in any litigation or bankruptcy or insolvency proceedings. This Agreement shall be binding upon and inure to the benefit of Debtor and Secured Party and their respective heirs, representatives, successors and assigns and shall take effect when signed by Debtor and delivered to Secured Party. Except to the extent otherwise required by law, this Agreement shall be governed by the internal laws of Minnesota and, unless the context otherwise requires, all terms used herein which are defined in the Uniform Commercial Code, as in effect in Minnesota, shall have the meanings therein stated. If any provision or application of this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect, and this Agreement shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby. All representations and warranties contained in this Agreement shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Secured Obligations.

[Signatures on following page]

ADDRESSES:

325 E. Warm Springs Road
Suite 102
Las Vegas, NV 89119
Attention: Jon Isaac

with a copy to:

Live Ventures Incorporated
325 E. Warm Springs Road, Suite 102
Las Vegas, NV 89119
Attn: Michael J. Stein, Esq.
Email: mstein@liveventures.com

175 Jackson Avenue North
Suite 102
Minneapolis, MN 55343
Attention: Tony Isaac

DEBTOR:

APPLIANCESMART INC., a Minnesota corporation

By: /s/ Jianne Demeroutis
Name: Jianne Demeroutis
Title: President

SECURED PARTY:

APPLIANCE RECYCLING CENTERS OF AMERICA, INC., a Minnesota corporation

By: /s/ Tony Isaac
Name: Tony Isaac
Title: Chief Executive Officer

Exhibit A

Description of Collateral

All of the personal property and Fixtures of the Debtor, including without limitation the following, whether now owned or hereafter arising or acquired:

- (a) Accounts, including all other rights and interests (including all liens and security interests) that the Debtor may at any time have by law or agreement against any Account Debtor or other obligor obligated to make any such payment or against any of the property of such Account Debtor or other obligor;
- (b) Equipment and Fixtures, including all accessories, parts and other property at any time affixed thereto or used in connection therewith and all substitutions and replacements thereof;
- (c) Inventory, including goods that are returned, repossessed, stopped in transit or which otherwise come into the possession of the Debtor;
- (d) General Intangibles, including payment intangibles, inventions, designs, patents, patent applications, design patents, design patent applications, trademarks, trademark applications, trade names, trade secrets, goodwill, copyrights, registrations, licenses, franchises, customer lists, tax refund claims, rights to indemnification, rights under warranties, all domain names, together with all contracts, agreements, licenses and registrations relating to such domain names, and Commercial Tort Claims, if any;
- (e) Chattel Paper, Instruments and Documents;
- (f) Investment Property;
- (g) Deposit Accounts;
- (h) Letter-of-Credit rights;
- (i) Supporting Obligations;
- (j) Intellectual Property Collateral;
- (k) books, correspondence, credit files, records, invoices, manuals, service records and programs, other papers and documents, computer records, runs, software, systems, procedures, disks, tapes and other storage media relating to any of the Collateral, including any of the foregoing in the possession or control of any service, consultant, or outside vendor; and
- (l) Proceeds, including all policies, claims to payment under, and proceeds of any and all insurance policies payable to the Debtor, or on behalf of the Debtor's property, whether or not such policies are issued to or owned by the Debtor and whether or not the Bank is named as loss payee or additional insured, including any credit insurance.

SECURITY AGREEMENT

THIS SECURITY AGREEMENT is made and entered into as of December 28, 2018, by and between APPLIANCESMART CONTRACTING INC., a Nevada corporation ("Debtor") and APPLIANCE RECYCLING CENTERS OF AMERICA, INC., a Minnesota corporation ("Secured Party") whose addresses are set forth below.

RECITALS

A. APPLIANCESMART HOLDINGS LLC, a Nevada limited liability company ("Holdings"), is indebted to Secured Party pursuant to the terms of that certain Amended and Restated Secured Promissory Note dated as of December 26, 2018 issued by Holdings in favor of Secured Party ("Note"). Debtor guaranteed the repayment of Holdings' obligations under the Note pursuant to that certain Agreement and Guaranty by Debtor in favor of Secured Party dated as of December 28, 2018 (the "Guaranty"). Debtor is a wholly-owned subsidiary of Holdings.

B. Debtor has agreed to grant Secured Party a security interest in certain assets to secure, among other things, Debtor's obligations under the Guaranty.

NOW, THEREFORE, in consideration of the credit extended under the Note and for the purpose of securing Debtor's obligations to Secured Party under the Guaranty, the parties agree as follows:

1. Grant of Security Interest: Collateral. To secure the Secured Obligations described in Section 2, the Debtor hereby grants to the Secured Party a security interest ("Security Interest") in the property described on Exhibit A attached hereto ("Collateral").

2. Secured Obligations. The following obligations are secured by this Agreement (collectively referred to as the "Secured Obligations"):

(a) All obligations of Holdings under the Note and all obligations of Debtor to Secured Party under the Guaranty;

(b) Any and all sums advanced by the Secured Party in order to preserve the Collateral or to perfect its security interest in the Collateral; and

(c) Upon the occurrence and during the continuation of an Event of Default (as defined below), all reasonable expenses, including attorneys' fees and court costs, incurred by the Secured Party in (i) any proceeding to enforce the collection of the Secured Obligations, (ii) retaking, holding or otherwise disposing of or realizing on the Collateral, or (iii) the exercise of any of its rights under this Agreement or applicable law.

3. Debtor's Representations, Warranties and Covenants. Debtor represents, warrants and covenants that:

(a) Debtor has title to the Collateral, free of all liens and encumbrances, except the Security Interest created hereby, as the same may hereafter be amended from time to time. Debtor has full corporate power and authority to execute this Security Agreement, to perform Debtor's obligations hereunder and to subject the Collateral to the Security Interest created hereby.

(b) Debtor will, at any time or times hereafter, execute such financing statements and other instruments and perform such other acts as the Secured Party may reasonably request in order to establish, maintain, perfect and enforce Secured Party's valid and perfected Security Interest in the Collateral and its rights under this Agreement.

(c) Except in the ordinary course of Debtor's business, Debtor will not sell, transfer, lease, hypothecate, pledge or otherwise dispose of any of its rights or interests in the Collateral without the prior written consent of the Secured Party.

(d) Debtor will keep the Collateral in good condition, ordinary wear and tear excepted, and insured against such risks and in such amounts consistent with Debtor's past practice, with Secured Party to be named loss payee on all insurance on the Collateral. From time to time Debtor shall furnish to Secured Party, upon request, appropriate evidence of the carrying of such insurance.

(e) Debtor will use the Collateral in a lawful manner consistent with this agreement and with the terms and conditions of any policy of insurance thereon.

(f) Following the occurrence of an Event of Default, the Secured Party, in the name of the Debtor, shall have the authority but shall not be obligated to take any action which the Secured Party may deem necessary or desirable in order to realize on the Collateral.

(g) Debtor will forward directly to the Secured Party any and all written material notices, agreements or documents of any kind or nature received by Debtor on account of any of the Collateral.

4. Events of Default. The occurrence of any of the following events shall constitute an "Event of Default" under this Security Agreement:

(a) The occurrence of an event of default under the terms of any of the Secured Obligations, including, without limitation, nonpayment of any of the Secured Obligations when due, whether by acceleration or otherwise;

(b) The nonperformance of any covenant, or material breach of any representation or warranty, made by Debtor in the Note or this Agreement;

(c) Except in the ordinary course of Debtor's business, the sale, lease or other disposition of Debtor's interests or rights in the Collateral;

(d) Without the prior consent of Secured Party, the creation of any encumbrance upon the Collateral or the making of any levy, judicial seizure or attachment thereof or thereon; or

(e) The appointment of a receiver for any part of the property of Debtor, the making by Debtor of an assignment for the benefit of creditors or the initiation by or against Debtor of any proceeding under the Federal Bankruptcy Code or any state insolvency law.

5. Remedies Upon Event of Default. Upon the occurrence of an Event of Default for so long as such Event of Default is continuing, in addition to all the rights and remedies provided under applicable law, the Secured Party may at its option and without demand and upon written notice to Debtor, declare all or any part of the unmatured Secured Obligations immediately due and payable, and the Secured Party may exercise, in addition to the rights and remedies granted hereby, all rights and remedies of a secured party under the Uniform Commercial Code or any other applicable law. The Secured Party may, at its option, dispose of the Collateral by public or private sale if Secured Party has given notice to Debtor of the intended disposition in accordance with the provisions of Section 6 hereof and the Uniform Commercial Code and other applicable law. The Debtor agrees, upon Secured Party's request, to use commercially reasonable efforts to cooperate with the Secured Party and do all things reasonably necessary to enable Secured Party to sell the Collateral in compliance with all applicable laws and regulations. Debtor shall pay to Secured Party any deficiency remaining after such application and any excess proceeds of such sale shall be paid over by Secured Party to Debtor. The bringing of an action or an entry of judgment against the Debtor shall not bar the Secured Party's right to repossess any or all of the Collateral.

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[Signatures on following page]

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325 E. Warm Springs Road
Suite 102
Las Vegas, NV 89119
Attention: Jon Isaac

with a copy to:

Live Ventures Incorporated
325 E. Warm Springs Road, Suite 102
Las Vegas, NV 89119
Attn: Michael J. Stein, Esq.
Email: mstein@liveventures.com

175 Jackson Avenue North
Suite 102
Minneapolis, MN 55343
Attention: Tony Isaac

DEBTOR:

APPLIANCE SMART CONTRACTING INC.,
a Nevada corporation

By: /s/ Virland A. Johnson
Name: Virland A. Johnson
Title: CFO

SECURED PARTY:

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.,
a Minnesota corporation

By: /s/ Tony Isaac
Name: Tony Isaac
Title: Chief Executive Officer

Exhibit A

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- (l) Proceeds, including all policies, claims to payment under, and proceeds of any and all insurance policies payable to the Debtor, or on behalf of the Debtor's property, whether or not such policies are issued to or owned by the Debtor and whether or not the Bank is named as loss payee or additional insured, including any credit insurance.