UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 28, 2013

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	**41-1454591**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7400 Excelsior Boulevard, Minneapolis, Minnesota	**55426-4517**
(Address of principal executive offices)	(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	**NASDAQ Capital Market**
Title of each class	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 ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	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 $2.58 per share, as of June 29, 2013 (the last business day of the registrant's most recently completed second fiscal quarter) was $12.2 million.

As of March 10, 2014, there were outstanding 5,580,927 shares of the registrant's Common Stock, without par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2014 Annual Meeting of Shareholders to be held on May 8, 2014, are incorporated by reference into Part III hereof.

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PART I

ITEM 1. BUSINESS

General

Appliance Recycling Centers of America, Inc. and Subsidiaries ("we," the "Company" or "ARCA") are in the business of selling and recycling major household appliances in North America. We sell new major household appliances in the United States though our chain of eighteen Company-owned retail stores operating under the name ApplianceSmart®. We also provide turnkey appliance recycling and replacement services for utilities and other sponsors of energy efficiency programs through our subsidiaries ARCA Recycling, Inc. and ARCA Canada Inc. In addition, we have a 50% interest in a joint venture, ARCA Advanced Processing, LLC ("AAP"), which recycles appliances generated from twelve states in the Northeast and Mid-Atlantic regions of the United States principally for General Electric Company ("GE") acting through its GE Appliances business component.

As a leading retailer and recycler of major household appliances, we generate revenues from:

1. Retail sales of appliances at our ApplianceSmart stores.
2. Fees charged for collecting and recycling appliances for utilities and other sponsors of energy efficiency programs.
3. Fees charged for recycling and replacing old appliances with new ENERGY STAR® appliances for energy efficiency programs sponsored by electric and gas utilities.
4. Selling byproduct materials, such as metals, from appliances that we recycle, including appliances processed at our joint venture, AAP, and collected through our ApplianceSmart stores.
5. Sale of carbon offsets created by the destruction of ozone-depleting refrigerants acquired through various recycling programs.

We were incorporated in Minnesota in 1983, although through our predecessors we began our appliance retail and recycling business in 1976. Our principal office is located at 7400 Excelsior Boulevard, Minneapolis, Minnesota, 55426-4517. References herein to our Company include our operating subsidiaries. (See "Exhibits.")

Industry Background

In the United States, more than 850 million major household appliances are currently in use. These appliances include:

Refrigerators	Clothes washers
Freezers	Clothes dryers
Ranges/ovens	Room air conditioners
Dishwashers	Dehumidifiers
Microwave ovens	Humidifiers

Improper disposal of old appliances threatens air, ground and water resources because many types of major appliances contain substances that can damage the environment. These harmful materials include:

1. Polychlorinated biphenyls ("PCBs"), which have toxic effects on humans and animals. Although the U.S. Environmental Protection Agency ("EPA") banned production of PCBs in 1979, it allowed manufacturers to use their remaining inventories of PCB-containing components. Consequently, some old room air conditioners and microwave ovens have capacitors that contain PCBs, which can contaminate groundwater when released.
2. Mercury, which easily enters the body through absorption, inhalation or ingestion, potentially causing neurological damage. Mercury-containing components may be found in freezers, washers and ranges.
3. Chlorofluorocarbon, hydrochlorofluorocarbon, and hydrofluorocarbon (collectively, "CFC") refrigerants, which cause long-term damage to the earth's ozone layer and may contribute to global climate change. Refrigerators, freezers, room air conditioners and dehumidifiers commonly contain CFC refrigerants.
4. CFCs having a very high ozone-depletion potential that may also be used as blowing agents in the polyurethane foam insulation of refrigerators and freezers.
5. Other materials, such as oil, that are harmful when released into the environment.

The U.S. federal government requires the recovery of CFC refrigerants upon appliance disposal and also regulates the management of hazardous materials found in appliances. Most state and local governments have also enacted laws affecting how their residents dispose of unwanted appliances. For example, many areas restrict landfills and scrap metal processors from accepting appliances

unless the units have been processed to remove environmentally harmful materials. As a result, old appliances usually cannot be discarded directly through ordinary solid waste systems.

In addition to these solid waste management and environmental issues, energy conservation is another compelling reason for proper disposal of old appliances. Refrigerators manufactured today consume about one-third as much electricity as those manufactured 30 years ago and about half as much as the typical unit manufactured before 1993. In 2011, the U.S. Department of Energy issued updated efficiency standards for refrigerators that will take effect in September 2014; refrigerators manufactured under the new standards will use one-fifth as much electricity as units manufactured in the mid-1970s.

Additionally, the use of second refrigerators has grown steadily in the past two decades, leading to an increase in household energy consumption. Every year, approximately 10 percent of households purchasing new refrigerators keep their old units, increasing the base of second units by 800,000 to 1 million units annually. More than 25 percent of all U.S. households currently have a second refrigerator, according to the U.S. Department of Energy, and those 30 million extra refrigerators are using 25 million megawatt hours of power a year.

Utilities have become important participants in dealing with energy inefficient appliances as a way of reducing peak demand on their systems and avoiding the capital and environmental costs of adding new generating capacity. To encourage the permanent removal of energy inefficient appliances from use, many electric utility companies sponsor programs through which their residential customers can retire working refrigerators, freezers and room air conditioners. Utility companies often provide assistance and incentives for consumers to discontinue use of a surplus appliance or to replace their old, inefficient appliances with newer, more efficient models. To help accomplish this, some utilities offer appliance replacement programs for some segments of their customers, through which older model kitchen and laundry appliances are recycled and new highly efficient ENERGY STAR® units are installed.

The EPA has been supportive of efforts by electric utilities and other entities that sponsor appliance recycling programs to ensure that the collected units are managed in an environmentally sound manner. In October 2006, the EPA launched the Responsible Appliance Disposal (“RAD”) Program, a voluntary partnership program designed to help protect the ozone layer and reduce emissions of greenhouse gases. Through the program, RAD partners use best practices to recover ozone-depleting chemicals and other harmful materials from old refrigerators, freezers, room air conditioners and dehumidifiers. In 2010, ApplianceSmart became the first independent retailer in the country to become a RAD partner. Because of our appliance recycling expertise, we were active participants in helping to design the RAD program and currently submit annual reports to the EPA to document the environmental benefits our utility customers that are RAD partners have achieved through their recycling programs.

Company Background

We started our business in 1976 as a used appliance retailer that reconditioned old appliances to sell in our stores. Under contracts with national and regional retailers of new appliances, such as Sears and Montgomery Ward, we collected the replaced appliance from the retailer's customer’s residence when one of their stores delivered a new appliance in the Minneapolis/St. Paul, Miami or Atlanta market. Any old appliances that we could not sell in our stores were sold to scrap metal processors.

In the late 1980s, stricter environmental regulations began to affect the disposal of unwanted appliances, and we were no longer able to take appliances that contained hazardous components to a scrap metal processor. At that time, we began to develop systems and equipment to remove the harmful materials so that metal processors would accept the appliance shells for processing. We then offered our services for disposing of appliances in an environmentally sound manner to appliance manufacturers and retailers, waste hauling companies, rental property managers, local governments and the public.

Appliance Recycling for Energy Efficiency Programs

In 1989, we began contracting with electric utility companies to provide turnkey appliance recycling services to support their energy conservation efforts. Since that time, we have provided our services to more than 300 utilities throughout North America.
We currently have contracts to recycle, or to replace and recycle, appliances for approximately 150 utilities across North America.

In the past several years, we have seen continued interest from sponsors of energy efficiency initiatives that recognize the effectiveness of recycling and replacing energy inefficient appliances. We are aggressively pursuing electric and gas utilities, public housing authorities and energy efficiency management companies going forward and expect that we will continue to submit proposals for various new appliance recycling and replacement programs accordingly. However, for a variety of reasons, we still have a limited ability to project revenues from utility programs. We cannot predict recycling volumes or if we will be successful in obtaining new contracts in 2014.

ApplianceSmart

As of March 2014, ApplianceSmart was operating eighteen stores: six in the Minneapolis/St. Paul market; one in Rochester, Minn.; one in St. Cloud, Minn.; four in the Columbus, Ohio, market; four in the Atlanta market; and two in the San Antonio, Texas, market. We are a major household appliance retailer with two main channels: new, innovative appliances, and other affordable options such as close-outs, factory overruns, discontinued models and other special-buy appliances, including out-of-carton merchandise. One example of a special-buy appliance involves manufacturer redesign, in which a current model is updated to include a few new features and is then assigned a new model number. Because the major manufacturers—primarily Whirlpool, General Electric and Electrolux—ship only the latest models to retailers, a large quantity of the older models remain in the manufacturers inventories. Special-buy appliances typically are not integrated into the manufacturers' normal distribution channels and require a different method of management, which we provide.

For many years, manufacturers relied on small appliance dealers to buy this specialty product to sell in their stores. However, today small retailers are struggling to compete with large appliance chains as the ten largest retailers of major appliances account for nearly 85 percent of the sales volume. At the same time, expansion of big-box retailers that sell appliances has created an increase in the number of special-buy units, further straining the traditional outlet system for these appliances. Because these special-buy appliances have value, manufacturers and retailers need an efficient management system to recover their worth.

Manufacturer Supply

We have entered into contracts for purchasing new appliances that we sell at our ApplianceSmart stores or provide for utility appliance replacement programs. These contracts, which have been extended through 2014, are with the following five major manufacturers:

1. Bosch
2. Electrolux
3. General Electric
4. Samsung
5. Whirlpool

There are no guarantees on the number of units any of the manufacturers will sell us; however, we believe purchases from these five manufacturers will provide an adequate supply of high-quality appliances for our ApplianceSmart stores and our appliance replacement programs.

Key components of our current agreements include:

1. We have no guarantees for the number or type of appliances that we have to purchase.
2. The agreements may be terminated by either party with 30 days' prior written notice.
3. We have agreed to indemnify certain manufacturers for certain claims, allegations or losses concerning the appliances we sell.

Regional Processing Centers

On October 21, 2009, we entered into an Appliance Sales and Recycling Agreement (the "Agreement") with General Electric Company acting through its GE Consumer & Industrial business (now referred to as GE Appliances). Under the Agreement, GE sells all of its recyclable appliances generated from twelve states in the Northeast and Mid-Atlantic regions of the United States to us, and we collect, process and recycle such recyclable appliances. The Agreement requires that we will only recycle, and will not sell for re-use or resale, the recyclable appliances purchased from GE. We established a regional processing center ("RPC") in Philadelphia, Pennsylvania, at which the recyclable appliances are processed. The term of the Agreement is for a period of six years from the first date of collection of recyclable appliances, which was March 31, 2010.

In connection with the Agreement described above, we entered into a Joint Venture Agreement with 4301 Operations, LLC, ("4301") to establish and operate an RPC. 4301 has substantial experience in the recycling of major household appliances and contributed their existing business to the joint venture. Under the Joint Venture Agreement, the parties formed a new entity known as ARCA Advanced Processing, LLC and each party has a 50% interest in AAP. If additional RPCs incorporating UNTHA Recycling Technology ("URT") and a shredder system are established, AAP has the right to establish the next two RPCs and will have a right of first refusal to establish subsequent RPCs. We contributed $2.0 million to the joint venture and 4301 contributed their equipment and existing business to the joint venture. The joint venture commenced operations on February 8, 2010.

The Agreement required us to purchase and install a URT materials recovery system, for which we are the exclusive North American distributor, to enhance the capabilities of the RPC in Philadelphia. We completed the installation of the URT materials recovery system in the third quarter of 2011. The URT materials recovery system recovers approximately 95 percent of the insulating foam in refrigerators; reduces typical landfill waste of the refrigerator by 85 percent by weight; lowers greenhouse gas and ozone-depleting substance emissions recovered from insulating foam compared with what typically happens in the industry today; and recovers high-quality plastics, aluminum, copper, steel and even pelletized foam from refrigerators that can be used to make new products.

Subsidiaries

ApplianceSmart, Inc., a Minnesota corporation, is a wholly owned subsidiary formed through a corporate reorganization in July 2011 to hold our business of selling new major household appliances through a chain of Company-owned retail stores. ARCA Canada Inc., a Canadian corporation, is a wholly owned subsidiary formed in September 2006 to provide turnkey recycling services for electric utility energy efficiency programs. ARCA Recycling, Inc., a California corporation, is a wholly owned subsidiary formed in November 1991 to provide turnkey recycling and appliance replacement services for energy efficiency programs.

ARCA Advanced Processing, LLC, a Minnesota limited liability company, is a variable interest entity that we consolidate in our financial statements. AAP was formed in October 2009 to operate a regional processing and recycling center and commenced operations on February 8, 2010.

Growth Strategy

We continue to see interest from sponsors of energy efficiency programs across the country that recognize the effectiveness of recycling energy inefficient appliances, and in some cases, replacing these inefficient appliances with new, highly efficient ENERGY STAR® models. We believe appliance replacement programs will continue to expand, and we are continuing to aggressively pursue this segment of customers in 2014. We expect that we will continue to meet with sponsors of appliance recycling and replacement programs and submit proposals highlighting our comprehensive service options.

In 2008, we entered into an agreement to become the exclusive North American distributor for UNTHA Recycling Technology, one of the world’s leading manufacturers of technologically advanced refrigerator recycling systems and recycling facilities for electrical household appliances and electronic scrap. In addition to marketing these systems to the recycling industry, we have installed a URT system in our Philadelphia RPC.

AAP is continuing to focus on refining and improving our business with GE at our Philadelphia recycling facility in order to position AAP to respond to what we believe will be strong opportunities for expansion in future years with GE and other potential partners. We completed the installation of the URT materials recovery system during the third quarter of 2011, which has allowed us to grow our revenue stream while improving our margins. Additional improvements at our Philadelphia are being evaluated in 2014 to increase labor efficiencies and further streamline operations.

Larger ApplianceSmart stores offer consumers a wider selection of appliances than smaller stores do and are more efficient for us to operate. For these reasons, we focus our retail sales operations on larger facilities when we choose to open new stores. We may consider opening new stores in markets in which we currently have operations to benefit from operational and marketing efficiencies of scale. Although we are not currently considering expansion to new markets in the United States, we would evaluate demographic, economic and financial information as well as the facility and proposed lease terms when considering any new store location.

Customers and Source of Supply

We offer reverse logistics services to manufacturers and retailers that need an efficient way to manage appliances that fall outside their normal distribution and sales channels. We also provide services for electric utility companies and other sponsors of energy efficiency initiatives that offer their customers appliance recycling and replacement programs as energy conservation measures.

Appliance Manufacturers: We work with appliance manufacturers, including Bosch, Electrolux, General Electric, Samsung and Whirlpool, to acquire the appliances we sell in our ApplianceSmart stores. We purchase new, special-buy appliances, such as discontinued models and factory overruns, and sell them at a significant discount to full retail prices. In addition, our participation in a national buying cooperative enables us to purchase the latest models of new appliances to fill out our mix of product.

Although we believe our current sources for appliances are adequate to supply our retail stores and allow us to grow our sales, we face the risk that one or more of these sources could be lost.

Utility Companies: We contract with utility companies and other sponsors of energy efficiency programs to provide a full range of appliance recycling and replacement services to help them achieve their energy savings goals. The contracts usually have terms of one to four years, with provisions for renewal at the option of the utility. Under some contracts, we manage all aspects, including advertising, of the appliance recycling or replacement program. Under other contracts, we provide only specified services, such as collection and recycling.

Our contracts with utility customers prohibit us from repairing and selling appliances or appliance parts we receive through their programs. Because the intent of these programs is to conserve electricity, we have instituted tracking and auditing procedures to assure our customers that those appliances do not return to use.

Our pricing for energy efficiency program contracts is on a per-appliance basis and depends upon several factors, including:

1. Total number of appliances expected to be processed and/or replaced.
2. Length of the contract term.
3. Specific services the utility selects us to provide.
4. Market factors, including labor rates and transportation costs.

Company Operations

We provide a full range of appliance recycling support services for energy efficiency programs in North America. We also purchase major appliances, primarily from appliance manufacturers, to sell through our ApplianceSmart stores.

Many of the appliances we receive from manufacturers are still in the factory carton and ready to sell. Other appliances need repair or cosmetic work before we deliver them to our ApplianceSmart stores. All appliances we sell are new, under factory warranty and covered by a 100-percent money-back guarantee. We also offer extended warranties, appliance delivery, factory-trained technician service and free recycling of customers' replaced appliances.

Appliances that do not meet our quality standards for sale at our ApplianceSmart stores and appliances collected through utility customers' energy conservation programs or GE must be recycled to prevent re-use. We process and recycle these units using environmentally sound systems and techniques.

In our recycling operation, our Company-trained technicians first inspect and categorize each appliance to identify the types of hazardous materials it contains. We then process the appliances to remove and manage the environmentally hazardous substances according to all federal, state and local regulations. Plastics and other recyclable components are managed by materials recyclers, and we deliver the processed appliance shells to local scrap processing facilities, where they shred and recycle the metals.

At our Philadelphia recycling center, which is operated through the joint venture ARCA Advanced Processing, we recycle appliances for GE and other customers. We process the appliances according to the procedures described above to remove environmentally damaging components and substances. In the third quarter of 2011, we began processing refrigerators and freezers with our URT system to recover the CFCs in polyurethane foam insulation that cause global warming and ozone depletion.

We are aggressively pursuing additional utility customers, but have a limited ability to project revenues from new utility programs in 2014 and thereafter. We cannot predict recycling or replacement volumes or if we will be successful in obtaining new contracts.

Principal Products and Services

We generate revenues from three sources: retail, recycling and byproduct, including carbon offsets. Retail revenues are generated through the sale of appliances at our ApplianceSmart stores. Recycling revenues are generated by charging fees for collecting and recycling appliances for utilities and other sponsors of energy efficiency programs and through the sale of new ENERGY STAR® appliances to utility companies for installation in the homes of a specific segment of their customers. Byproduct revenues are generated by selling scrap materials, such as metal and plastics, from appliances we collect and recycle, including those from our ApplianceSmart stores and those processed at AAP. Carbon offset revenues are created by the destruction of ozone-depleting refrigerants acquired through various recycling programs, from our ApplianceSmart stores and through processing of refrigerators and freezers at AAP.

The table below reflects the percentage of total revenues from each source for the past two fiscal years. See also "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

	2013	2012
Retail	53.1 %	62.4 %
Recycling	32.7	22.1
Byproduct, including carbon offsets	14.2	15.5
	100.0 %	100.0 %

During fiscal years 2013 and 2012, we operated two reportable segments: retail and recycling. The retail segment is comprised of sales generated through our ApplianceSmart stores. Our recycling segment includes all fees charged for collecting, recycling and installing appliances for utilities and other customers and includes byproduct revenue, which is generated primarily through the recycling of appliances. In 2013 and 2012, we consolidated AAP in our financial statements. Sales generated by AAP are included in byproduct revenues in our recycling segment. Financial information about our segments is included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 13 of "Notes to Consolidated Financial Statements."

Sales and Marketing

We use a variety of methods to promote awareness of our products and services. We believe that we are recognized as a leader in the recycling industry and in special-buy appliance retailing.

Our ApplianceSmart concept includes establishing large showrooms in metropolitan locations where we offer consumers a selection of hundreds of appliances at each of our stores. Our visual branding consists of ample display of product, manufacturers' signage and custom-designed ApplianceSmart materials. We advertise our stores through television, radio, print media, social media and direct mail. Through www.ApplianceSmart.com, consumers can also search our inventory and purchase appliances online.

We market our appliance recycling and replacement services to utility companies and other sponsors of energy efficiency programs by contacting prospective end users customers directly, delivering educational presentations at conferences for energy efficiency professionals, participating in utility industry trade shows, networking with key affiliates of electric power and environmental associations, and promoting our corporate website at www.ARCAInc.com. We submit sales proposals for our services to interested parties and in response to requests for bid.

Seasonality

We experience some seasonality in retail revenues, with revenues in the second and third calendar quarters being slightly higher than revenues in the first and fourth calendar quarters.

Promotional activities for programs in which the utility sponsor conducts all advertising are generally strong during the second and third calendar quarters, leading to higher customer demand for services during that time period. As a result, we experience a surge in business during the second and third calendar quarters, which generally declines through the fourth and first calendar quarters until advertising activities resume.

Competition

Our retail competition comes mainly from new-appliance and other special-buy retailers. Each ApplianceSmart store competes with local and national retail appliance chains, as well as with independently owned retailers. Many of these retailers have been in business longer than we have and may have significantly greater assets.

Many factors, including obtaining adequate resources to create and support the infrastructure required to operate large-scale appliance recycling and replacement programs, affect competition in the industry. We generally compete for contracts with several other national appliance recycling businesses, energy services management companies and new-appliance retailers. We also compete with small hauling or recycling companies based in the program's service territory. Many of these companies, including used-appliance dealers that call themselves "appliance recyclers," resell in the secondary market a percentage of the used appliances they accept for recycling. The unsalable units may not be properly processed to remove environmentally harmful materials because these companies do not have the capability to offer the full range of services we provide.

We expect our primary competition for appliance recycling and replacement contracts with existing and new customers to come from a variety of sources, including:

1. Existing recycling companies.
2. Entrepreneurs entering the appliance recycling business.
3. Management consultants.
4. Major waste hauling companies.
5. Scrap metal processors.
6. National and regional new-appliance retailers.

In addition, utility companies and other customers may choose to provide all or some of the services required to operate their appliance recycling and replacement programs internally rather than contracting with outside vendors. We have no assurance that we will be able to compete profitably in any of our chosen markets.

Government Regulation

Federal, state and local governments regulate appliance collection, recycling and sales activities. While some requirements apply nationwide, others vary by market. The many laws and regulations that affect appliance recycling include landfill disposal restrictions, hazardous waste management requirements and air quality standards. For example, the 1990 Amendments to the Clean Air Act prohibit the venting of CFC and CFC-substitute refrigerants while servicing or disposing of appliances.

Each of our recycling facilities maintains the appropriate registrations, permits and licenses for operating at its location. We register our recycling centers as hazardous waste generators with the EPA and obtain all appropriate regional and local licenses for managing hazardous wastes. Licensed hazardous waste companies transport and recycle or dispose of the hazardous materials we generate. Our collection vehicles and our transportation employees are required to comply with all U.S. Department of Transportation ("DOT") licensing requirements.

We have been recognized for our work in protecting the environment from the harmful effects of improper appliance disposal. In 2004, the EPA awarded us, along with our customer Southern California Edison Company ("SCE"), the Stratospheric Ozone Protection Award for the environmentally responsible manner in which we collect and dispose of appliances. In 2007, we were again recognized by the EPA with a Best of the Best Stratospheric Ozone Protection Award as part of an appliance recycling team responsible for "the most exceptional global contributions in the first two decades of the Montreal Protocol." We were recognized by SCE as the sole recipient of the 2010 Environmental Excellence Award for our "exemplary support and service of SCE's Appliance Recycling Program" and commitment to providing "the highest levels of performance and service to SCE and program participants while maintaining the strong values and ethics that exemplify a value-added supplier." ARCA has provided services for SCE since 1994.

In 2007, we became a founding reporter of The Climate Registry, an organization that provides information regarding the measurement and reporting of greenhouse gas emissions to various governmental and private agencies and businesses.

In 2009, our President and Chief Executive Officer, Edward R. (Jack) Cameron, was selected to represent the appliance recycling industry in the Climate Action Reserve's 23-member workgroup that was tasked with developing the U.S. Ozone-Depleting Substances Project Protocol for the Destruction of Domestic High Global Warming Potential Ozone-Depleting Substances. The Climate Action Reserve is a national offsets program working to ensure integrity, transparency and financial value in the U.S. carbon market. The protocol was issued on February 3, 2010, and provides guidance to account for, report and verify greenhouse gas emission reductions associated with destruction of high global warming potential ozone-depleting substances that would have otherwise been released to the atmosphere, including those used in both foam and refrigerant applications.

In January 2013, through the authority of the California Air Resources Board, California launched a greenhouse gas ("GHG") cap-and-trade program that will encompass 85 percent of the state's emissions and affect all businesses operating in California by 2020. The first compliance period enforcing the GHG emissions limits for capped business sectors began January 1, 2013. Entities may meet up to eight percent of their compliance obligations with freely sold or traded offset credits, such as those created through the voluntary destruction of ozone-depleting refrigerants. We have been an active participant in California's developing carbon offset market and anticipate increased involvement as the program expands.

Our retail stores obtain all business licenses, sales tax licenses and permits required for their locations. Our delivery and service vehicles comply with all DOT licensing requirements. In addition, in 2010, ApplianceSmart became the first independent retailer in the country to partner with the EPA in the Responsible Appliance Disposal ("RAD") Program. Through RAD, partners commit to employing best environmental practices to reduce emissions of ozone-depleting substances and greenhouse gases through the

proper disposal of refrigeration appliances at end of life. RAD partners report program results to the EPA annually to help quantify climate protection efforts.

Although we believe that further governmental regulation of the appliance recycling industry could have a positive effect on us, we cannot predict the direction of future legislation. Under some circumstances, for example, further regulation could materially increase our operational costs. In addition, under some circumstances we may be subject to contingent liabilities because we handle hazardous materials. We believe we are in compliance with all government regulations regarding the handling of hazardous materials, and we have environmental insurance to mitigate the impact of any potential contingent liability.

Employees

At March 1, 2014 we had 329 full-time employees and 11 part-time employees, distributed approximately as follows:

1. 33% of our employees, including management, provide customer service, appliance collection, transportation and processing services at our recycling centers.
2. 61% of our employees, including management, work in our retail stores.
3. 6% of our employees are corporate management and support staff.

We have no union or collective bargaining agreements covering any of our employees. Our employees have never caused our operations to be disrupted by a work stoppage, and we believe that our employee relations are good.

ITEM 1A. RISK FACTORS

An investment in our Common Stock involves a high degree of risk. You should carefully consider the risks described below with respect to an investment in our shares. If any of the following risks actually occur, our business, financial condition, operating results or cash provided by operations could be materially harmed. As a result, the trading price of our Common Stock could decline, and you might lose all or part of your investment. When evaluating an investment in our Common Stock, you should also refer to the other information in this report, including our consolidated financial statements and related notes.

Risks Relating to Our Business

A large percentage of our revenues is derived from retail sales.

Most of our revenues are derived from retail sales of appliances at our ApplianceSmart stores. We currently operate eighteen ApplianceSmart stores. While we believe that our future economic results will be heavily dependent on the performance of our retail stores, we are continuing to see interest in recycling and replacement programs and are pursuing opportunities with providers of energy efficiency services. In fiscal years 2013 and 2012, approximately 53% and 62%, respectively, of our revenues were from retail sales. We believe that recycling and byproduct revenues have the potential to grow faster than retail revenues as we continue to add new recycling contracts and as a result of the impact of our recycling agreement with GE.

We currently purchase product for resale from a limited number of suppliers.

We purchase the majority of our inventory for resale from five main suppliers. While we believe that our relationships with our vendors are strong, the loss of one of these suppliers could have a negative impact on the amount and mix of product that we would be able to offer for sale, which could adversely affect our revenues and profitability.

Our revenues from recycling and appliance replacement contracts are very difficult to project and the loss or modification of major recycling and appliance replacement contracts could adversely impact our profits.

Our business is dependent largely upon our ability to obtain new contracts and continue existing contracts for appliance recycling services and appliance replacement programs with utility companies and other sponsors of energy efficiency programs. Contracts with these entities generally have initial terms of one to three years, with renewal options and early termination clauses. However, some contracts are for programs that are non-recurring. Although we continue to respond to utility companies and other sponsors of energy efficiency programs requesting bids for upcoming recycling services, we are still dependent on certain customers for a large portion of our revenues. Our major utility customers accounted for approximately 23% and 9% of our total revenues for 2013 and 2012, respectively. The loss or material reduction of business from any of these major customers could adversely affect our revenues and profitability. While we believe we will continue to add new recycling and appliance replacement contracts in 2014 and beyond, we cannot assure you our existing contracts will continue, existing customers will continue to use our services at current levels or we will be successful in obtaining new recycling and replacement contracts going forward.

Our revenues from recycling contracts are subject to seasonal fluctuations and are dependent on the utilities' advertising and promotional activities for contracts in which we do not provide advertising services.

In our business with utility companies, we experience seasonal fluctuations that impact our operating results. Our recycling revenues are generally higher during the second and third calendar quarters and lower in the first and fourth calendar quarters, due largely to the promotional activity schedules over which we have no control in advertising programs managed by the utilities. Our staff communicates client-driven advertising activities internally in an effort to achieve an operational balance. We expect that we will continue to experience such seasonal fluctuations in recycling revenues.

The joint venture we formed does not have a long operating history upon which it can be evaluated.

We have formed a 50/50 joint venture, ARCA Advanced Processing, LLC, to operate the initial Regional Processing Center (RPC)under our contract with GE. AAP was formed in October 2009 and commenced operations in February 2010. AAP generated net income of $0.6 million in 2013, and incurred a net loss of $1.2 million in 2012, which included a goodwill impairment charge of $1.1 million. AAP is subject to all of the risks associated with a new business, including the potential for unanticipated expenses, difficulties and delays frequently encountered in connection with the start-up of new equipment and the competitive environment in which AAP operates. There is no assurance that AAP will be able to sustain profitable operations. Each additional RPC that may be established in the future will also be subject to the risks associated with a new venture.

AAP's financial performance is dependent on market prices for recovered materials.

AAP's revenues are driven by the market prices for various recovered materials, which include steel, copper, aluminum, other non-ferrous metals, glass, plastic, oil, and certain types of refrigerants. Market prices for such materials may vary significantly. If market prices for such materials are less than projected, AAP may be unable to achieve profitable operations.

The volume of appliances under the contract with GE is not guaranteed, although we receive all of their recyclable appliances generated from twelve states in the Northeast and Mid-Atlantic regions of the United States. The contract with GE is terminable on 60-day notice if a material breach occurs and is not cured.

The operations of AAP and the initial RPC are materially dependent on the volume of appliances from GE. However, GE has not guaranteed any specific volume of appliances under the contract. Also, the RPC needs volume in addition to the volume from GE to operate successfully. The contract with GE is for a period of six years from the first date of collection, which was March 31, 2010, of recyclable appliances from GE's Northeast and Mid-Atlantic delivery areas, but may be terminated earlier by either party if the other party is in material breach of the contract and does not cure the breach within sixty (60) days after receiving written notice from the other party.

We may need new capital to fully execute our growth strategy.

Our business involves providing comprehensive, integrated appliance recycling services and operating a chain of retail stores. This commitment will require a significant continuing investment in capital equipment and leasehold improvements and could require additional investment in real estate.

Our total capital requirements will depend on, among the other things discussed in this annual report, the number of recycling centers and the number and size of retail stores operating during 2014. Currently, we have eighteen retail stores and eleven recycling centers, including AAP, in operation. If our revenues are lower than anticipated, our expenses are higher than anticipated or our line of credit cannot be maintained, we will require additional capital to finance our operations or AAP's operation. Even if we are able to maintain our line of credit, we may need additional equity or other capital in the future. Sources of additional financing, if needed in the future, may include further debt financing or the sale of equity (including the issuance of Preferred Stock) or other securities. We cannot assure you that any additional sources of financing or new capital will be available to us, available on acceptable terms, or permitted by the terms of our current debt. In addition, if we sell additional equity to raise funds, all outstanding shares of Common Stock will be diluted.

A decline in general economic conditions has led to reduced consumer demand for our products and had an adverse effect on our liquidity and profitability.

Since sales of our merchandise are largely dependent upon discretionary spending by our retail customers, our financial performance is sensitive to changes in overall economic conditions that affect consumer spending. Consumer spending habits are affected by, among other things, prevailing economic conditions, levels of employment, salaries and wage rates, gasoline prices, consumer confidence, the housing market, and consumer perception of economic conditions. A slowdown in the United States economy

and uncertainty as to the economic outlook has reduced discretionary spending and caused a shift in consumer discretionary spending to other products in recent years. These factors may likely cause us to delay or slow our expansion plans, may result in reduced sales and could potentially result in excess inventories. This may, in turn, lead to increased merchandise markdowns and related costs associated with higher levels of inventory that could adversely affect our liquidity and profitability.

Our market share may be adversely impacted at any time by a significant number of competitors.

Competition for our retail stores comes primarily from retailers of new and special-buy appliances. Each of our locations will compete not only with local and national chains of new-appliance retailers, many of whom have been in business longer than we have and who may have significantly greater assets, but will also be required to compete with numerous independently owned retailers of used appliances.

Many factors, including existing and proposed governmental regulation, may affect competition in the appliance recycling and replacement side of our business. We generally compete with two or three companies based in the geographic area to be served, and they generally offer some of the services we provide. We expect our primary competition for contracts with existing or new customers to come from entrepreneurs entering the appliance recycling business, energy management consultants, current recycling companies, major waste hauling companies, scrap metal processors and new- and used-appliance dealers. In addition, some of our customers, such as utility companies, may operate appliance recycling and replacement programs internally rather than contracting with us or other third parties. We cannot assure you that we will be able to compete profitably in any of our chosen markets.

Changes in governmental regulations relating to our recycling business could increase our costs of operations and adversely affect our business.

Our appliance recycling centers are subject to various federal, state and local laws, regulations and licensing requirements related to providing turnkey services for energy efficiency programs. These requirements vary by market location and include, for example, laws concerning the management of hazardous materials and the 1990 Amendments to the Clean Air Act, which require us to recapture CFC refrigerants from appliances to prevent their release into the atmosphere.

Our ability to generate revenue from the sale of carbon offsets created through the voluntary destruction of ozone-depleting refrigerants could also be adversely affected by governmental regulations as the market develops. Should the federal government mandate the destruction of ozone-depleting refrigerants in the future, we would be required to destroy these substances without the benefit of generating carbon offsets, which would increase the cost of our operations.

We have registered our centers with the EPA as hazardous waste generators and have obtained required licenses from appropriate state and local authorities. We have agreements with approved and licensed hazardous waste companies for transportation and recycling or disposal of hazardous materials generated through our recycling processes. As is the case with all companies handling hazardous materials, under some circumstances we may be subject to contingent liability. We believe we are in compliance with all government regulations regarding the handling of hazardous materials, and we have environmental insurance to mitigate the impact of any potential contingent liability.

Our lender has the right to demand payment in full of the borrowings under our line of credit in the event of a default. If it were to do so, we would not be able to pursue our growth strategy and our operations would be severely limited unless and until new financing was obtained.

On January 24, 2011, we entered into a Revolving Credit, Term Loan and Security Agreement, as amended, (“Revolving Credit Agreement”) with PNC Bank, National Association (“PNC”) that provides us with a $15.0 million revolving line of credit. The Revolving Credit Agreement had a stated maturity date of January 24, 2016, if not renewed. The Revolving Credit Agreement includes a lockbox agreement and a subjective acceleration clause and, as a result, we have classified the revolving line of credit as a current liability. The Revolving Credit Agreement is collateralized by a security interest in substantially all of our assets, and PNC is also secured by an inventory repurchase agreement with Whirlpool Corporation for Whirlpool purchases only. We also issued a $750,000 letter of credit in favor of Whirlpool Corporation. The Revolving Credit Agreement requires, starting with the fiscal quarter ending March 30, 2014, and continuing at the end of each quarter thereafter, that we meet a minimum fixed charge coverage ratio of 1.1 to 1.0, measured on a trailing twelve-month basis. The Revolving Credit Agreement limits investments we can purchase, the amount of other debt and leases we can incur, the amount of loans we can issue to our affiliates and the amount we can spend on fixed assets along, with prohibiting the payment of dividends. As of December 28, 2013, we were in compliance with all the covenants of the Revolving Credit Agreement. As of December 29, 2012, we were not in compliance with all the covenants of the Revolving Credit Agreement and received a notice of default from PNC. On March 14, 2013, we received a waiver of the events of default from PNC.

We may not be able to operate successfully if we lose key personnel, are unable to hire qualified personnel or experience turnover of our management team.

We believe our operations are materially dependent upon the continued services of our present management. The loss of services of one or more members of present management, including Edward R. (Jack) Cameron, our founder, Chairman of the Board and CEO, could adversely affect our business. We maintain key person life insurance on Mr. Cameron in the amount of $1.0 million. We entered into an employment contract with Mark Eisenschenk, our Chief Operating Officer and President of ARCA Recycling, Inc., on July 22, 2013 for an initial term of three years.

Risks Relating to Our Common Stock

The trading volumes in our Common Stock are highly variable, which could adversely affect the value and liquidity of your investment in our Common Stock.

The trading volumes in our Common Stock on the NASDAQ Capital Market are highly variable. At any given time, there may be only a limited market for any shares of Common Stock that you hold or may seek to sell. Sales of substantial amounts of Common Stock into the public market at the same time could adversely affect the market price of our Common Stock.

Our principal shareholders own a large percentage of our voting stock, which will allow them to control substantially all matters requiring shareholder approval.

Currently, Edward R. (Jack) Cameron, Chairman and Chief Executive Officer, beneficially owns approximately 8.6% of our Common Stock. As of March 10, 2014, our officers and directors together beneficially hold approximately 19.4% of our Common Stock. Medallion Capital, Inc. owns approximately 8.8% of our outstanding common shares. Perkins Capital Management, Inc. owns approximately 15.3% of our outstanding common shares. Because of such ownership, our management and principal shareholders may be able to significantly affect our corporate decisions, including the election of the Board of Directors.

ITEM 2. PROPERTIES

Our executive offices are located in Minneapolis, Minnesota, in a leased facility that includes approximately 11 acres of land. The building contains approximately 126,000 square feet, consisting of 27,000 square feet of office space, 66,000 square feet of operations and processing space, and 33,000 square feet of retail space (as identified below with an opening date of June 1998). We also own and use a building in Compton, California, with 11,000 square feet of office space and 35,000 square feet of warehouse and processing space. Our building in Compton, California, serves as collateral securing the outstanding term loan.

We currently operate eighteen retail stores in the following locations:

Market	Opening Date	Retail Space (Sq. Ft.)	Additional Information
Minnesota	June 1998	33,000	
	January 2001	24,000	
	October 2001	49,000	
	February 2003	33,000	
	December 2004	30,000	*(Also has 29,000 square feet of warehouse space)*
	December 2008	31,000	
	November 2011	24,000	
	August 2012	28,000	
Ohio	June 1997	20,000	
	May 2001	32,000	
	March 2002	30,000	
	December 2007	30,000	
Georgia	November 2004	30,000	*(Also has 58,000 square feet of production/warehouse space)*
	December 2006	46,000	
	December 2008	33,000	
	November 2009	28,000	
Texas	October 2005	37,000	*(Includes production/recycling space)*
	September 2008	30,000	

We lease all of our retail store facilities. We generally attempt to negotiate lease terms of five to ten years that include options to renew for our retail stores.

We operate eleven processing and recycling centers. One is located in the facility that we own in California. Nine are leased facilities operated by us in Dartmouth, Nova Scotia; Oakville, Ontario; St. Louis Park, Minnesota; San Antonio, Texas; Springfield, Illinois; Commerce City, Colorado; Kent, Washington; Morrisville, North Carolina; and Louisville, Kentucky. Our recycling centers typically range in size from 6,000 to 42,000 square feet. We are also operating a processing and recycling center located in Philadelphia, Pennsylvania, through a joint venture agreement. The joint venture, ARCA Advanced Processing, LLC, leases a 97,000-square-foot facility.

We currently believe that all of the facilities we occupy are adequate for our future needs.

ITEM 3. LEGAL PROCEEDINGS

In December 2012, we ceased operations at our Conyers, Georgia, facility and abandoned the leased property. The landlord subsequently made a claim of approximately $500,000 against us based upon lease termination negotiations that had been progressing between the parties but ended. The landlord filed a claim for breach of settlement in the Superior Court of Fulton County, Georgia. The case settled in January 2014 and the Company agreed to keep the terms confidential.

In February 2012, various individuals commenced a class action lawsuit against Whirlpool Corporation ("Whirlpool") and various distributors of Whirlpool products, including Sears, The Home Depot, Lowe's and us, alleging certain appliances sold by Whirlpool through its distribution chain, which includes us, were improperly designated with the ENERGY STAR® qualification rating established by the U.S. Department of Energy and the Environmental Protection Agency. The claims against us include breach of warranty claims, as well as various state consumer protection claims. The amount of the claim is, as yet, undetermined. Whirlpool has offered to fully indemnify and defend its distributors in this lawsuit, including us, and has engaged legal counsel to defend itself and the distributors. We are monitoring Whirlpool's defense of the claims and believe the possibility of a material loss is remote.

In 2007, we entered into an agreement with AMTIM Capital, Inc. ("AMTIM") to act as our representative to market our recycling services in Canada under an arrangement that pays AMTIM for revenues generated by recycling services in Canada as set forth

in the agreement between the parties. A dispute has arisen between AMTIM and us with respect to the calculation of amounts due to AMTIM pursuant to the agreement. AMTIM claims a discrepancy in the calculation of fees due to AMTIM by us of more than $600,000 as of mid-2010. We commenced an action in the U.S. District Court for a determination of the parties' rights under the agreement. AMTIM started its own action in Ontario, Canada, against us for amounts it claims are due pursuant to the agreement. We moved the Canadian court for a stay of that action pending the U.S. action. AMTIM requested the U.S. District Court to stay the U.S. action pending resolution of the Canadian court action. AMTIM's motion was denied by the U.S. District Court and as a result, we obtained a default judgment against AMTIM approving the manner in which we have historically calculated fees due to AMTIM. Shortly thereafter, the Canadian court dismissed our motion to stay the Canadian action. We thereafter sought dismissal of the Canadian action for lack of jurisdiction of the Canadian courts. That motion was denied by the Canadian court. We appealed that denial and the Canadian appellate court upheld the denial indicating that the Company's position may support a dismissal ruling on other grounds. We moved for dismissal on such other grounds and the Canadian lower court denied that motion. The Company, thereafter, appealed that decision to the Ontario appellate court. The appellate court denied the Company's appeal, allowing the case to go forward to trial. The Company is currently evaluating its options to request review of the appellate court decision by the Supreme Court of Canada. Although the outcome is uncertain, we believe the possibility of a material loss is remote.

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

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR OUR COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market for Common Stock

Our Common Stock trades under the symbol "ARCI" on the NASDAQ Capital Market. The following table sets forth for the periods indicated the high and low prices for our Common Stock, as reported by the NASDAQ Capital Market. These quotations reflect the daily close prices.

	High	Low
2013		
First Quarter	$ 1.60	$ 1.20
Second Quarter	2.63	1.35
Third Quarter	3.04	2.30
Fourth Quarter	3.63	2.86
2012		
First Quarter	$ 6.25	$ 4.34
Second Quarter	4.69	3.80
Third Quarter	4.39	3.20
Fourth Quarter	3.34	1.15

On March 10, 2014, the last reported sale price of our Common Stock on the NASDAQ Capital Market was $2.95 per share. As of March 10, 2014, there were approximately 1,600 beneficial holders of our Common Stock.

We have not paid dividends on our Common Stock and do not presently plan to pay dividends on our Common Stock for the foreseeable future. Our credit agreement prohibits payment of dividends.

Information concerning securities authorized for issuance under equity compensation plans is included in Part III, Item 12 of this report.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial information set forth below has been derived from our consolidated financial statements and should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” for the fiscal years of 2013 and 2012 and “Item 8. Financial Statements and Supplementary Data.” All data are in thousands except per common share data.

Fiscal Years	2013	2012	2011 [(a)]	2010 [(a)]	2009 [(a)]
Statements of Operations:					
Total revenues	$ 129,061	$ 114,235	$ 126,669	$ 108,162	$ 101,269
Gross profit	$ 33,874	$ 29,320	$ 36,735	$ 32,899	$ 28,377
Operating income (loss)	$ 4,579	$ (3,222)	$ 7,244	$ 3,069	$ (2,161)
Net income (loss) attributable to controlling interest	$ 3,318	$ (3,852)	$ 4,461	$ 2,009	$ (3,338)
Basic income (loss) per common share	$ 0.60	$ (0.69)	$ 0.81	$ 0.38	$ (0.73)
Diluted income (loss) per common share	$ 0.58	$ (0.69)	$ 0.77	$ 0.37	$ (0.73)
Basic weighted average number of common shares outstanding	5,562	5,551	5,497	5,267	4,578
Diluted weighted average number of common shares outstanding	5,742	5,551	5,821	5,491	4,578
Balance Sheet:					
Working capital	$ 10,629	$ 7,631	$ 11,445	$ 1,331	$ 3,719
Total assets	$ 44,979	$ 41,804	$ 46,809	$ 39,864	$ 31,450
Long-term liabilities	$ 6,539	$ 7,643	$ 8,979	$ 3,841	$ 4,481
Shareholders’ equity	$ 15,051	$ 11,638	$ 15,180	$ 10,208	$ 5,643
Total equity	$ 16,962	$ 13,234	$ 17,380	$ 12,147	$ 5,643

[(a)] The financial information for fiscal years 2011, 2010 and 2009 has been derived from our audited consolidated financial statements, which are not contained in this filing.

Selected Quarterly Financial Data

The following table sets forth certain unaudited quarterly financial data for the eight quarters ended December 28, 2013. In our opinion, the unaudited information set forth below has been prepared on the same basis as the audited information and includes all adjustments necessary to present fairly the information set forth herein. The operating results for any quarter are not indicative of results for any future period. All data is in thousands except per common share data.

	Fiscal 2013			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total revenues	$ 30,424	$ 32,273	$ 33,538	$ 32,826
Gross profit	$ 7,910	$ 8,495	$ 9,093	$ 8,376
Operating income	$ 425	$ 1,200	$ 1,802	$ 1,152
Net income	$ 129	$ 726	$ 1,262	$ 1,516
Net income attributable to controlling interest	$ 184	$ 768	$ 1,134	$ 1,232
Basic income per common share	$ 0.03	$ 0.14	$ 0.20	$ 0.22
Diluted income per common share	$ 0.03	$ 0.13	$ 0.20	$ 0.21
Basic weighted average number of common shares outstanding	5,556	5,556	5,564	5,571
Diluted weighted average number of common shares outstanding	5,678	5,709	5,777	5,832

	Fiscal 2012			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total revenues	$ 29,444	$ 29,543	$ 28,728	$ 26,520
Gross profit	$ 7,944	$ 7,937	$ 7,094	$ 6,345
Operating income (loss)	$ 84	$ (193)	$ (734)	$ (2,379)
Net loss	$ (77)	$ (551)	$ (1,159)	$ (2,669)
Net income attributable to controlling interest	$ (66)	$ (641)	$ (1,082)	$ (2,063)
Basic loss per common share	$ (0.01)	$ (0.12)	$ (0.19)	$ (0.37)
Diluted loss per common share	$ (0.01)	$ (0.12)	$ (0.19)	$ (0.37)
Basic weighted average number of common shares outstanding	5,537	5,555	5,556	5,556
Diluted weighted average number of common shares outstanding	5,537	5,555	5,556	5,556

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with "Item 6. Selected Financial Data" and "Item 8. Financial Statements and Supplementary Data." Certain information contained in the discussion and analysis set forth below and elsewhere in this annual report, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risk and uncertainties. In evaluating such statements, you should specifically consider the various factors identified in this annual report that could cause results to differ materially from those expressed in such forward-looking statements, including matters set forth in "Item 1A. Risk Factors."

Overview

We operate two reportable segments: recycling and retail. Our recycling segment includes all income generated from collecting, recycling and installing appliances for utilities and other customers and includes a significant portion of our byproduct revenue, which is primarily generated through the recycling of appliances. Our recycling segment also includes all income generated from our agreement with General Electric ("GE") acting through its GE Appliances business component. GE sells its recyclable appliances in certain regions of the United States to us and we collect, process and recycle the appliances. These appliances include

units manufactured by GE as well as by other manufacturers. The agreement requires that we will only recycle, and will not sell for re-use or resale, the recyclable appliances purchased from GE. We have established Regional Processing Centers ("RPCs") in Philadelphia and Louisville to support our agreement with GE. The RPC in Philadelphia is operated by ARCA Advanced Processing, LLC ("AAP") through a joint venture agreement between ARCA and 4301 Operations, LLC ("4301"). Our retail segment is comprised of income generated from the sale of appliances through ApplianceSmart® stores and includes a small portion of our byproduct revenues from collected appliances.

Our business components are uniquely positioned in the industry to work together to provide a full array of appliance-related services. ApplianceSmart operates eighteen company-owned stores, sells new appliances directly to consumers and provides affordable ENERGY STAR® options for energy efficiency appliance replacement programs. Our eleven RPCs process appliances at end of life to remove environmentally damaging substances and produce byproducts for sale in North America. AAP employs advanced technology to refine traditional appliance recycling techniques to achieve optimal revenue-generating and environmental benefits. We are also the exclusive North American distributor for UNTHA Recycling Technology ("URT"), one of the world's leading manufacturers of technologically advanced refrigerator recycling systems and recycling facilities for electrical household appliances and electronic scrap.

We believe the GE contract and AAP model are the future of appliance recycling and expect to open similar centers throughout the United States. We cannot predict when these centers may open or if the appropriate volumes can be obtained to support the AAP model at future locations.

Revenues and earnings in our recycling segment are impacted by seasonal variances, with the second and third quarters generally having higher levels of revenues and earnings. This seasonality is due primarily to our utility customers supporting more marketing and advertising during the spring and summer months. Our customers tend to promote the recycling programs more aggressively during the warmer months because they believe more people want to clean up their garages and basements during that time of the year. However, the addition of the GE agreement and some customers shifting to marketing their appliance recycling programs year-round has helped to mitigate some seasonality.

Our recycling segment typically operates three types of programs:

1. Fees charged for collecting and recycling appliances for utilities and other sponsors of energy efficiency programs.
2. Fees charged for recycling and replacing old appliances with new ENERGY STAR® appliances for energy efficiency programs sponsored by utilities.
3. Income generated through the processing of recyclable appliances purchased at our RPCs by selling the raw material separated during the recycling process.

Over the last twelve months, recycling-only programs continue to report declining revenues and volumes, while we have experienced growing revenues and volumes from our appliance replacement programs. We believe factors impacting this shift include a declining number of pre-1993 refrigerators eligible for recycling programs and a greater emphasis by utilities on promoting ENERGY STAR® appliances.

Our retail segment is similar to many other retailers in that it is seasonal in nature. Historically, the fourth quarter is our weakest quarter in terms of both revenues and earnings. We believe this is primarily because the fourth quarter includes several holidays during which consumers tend to focus less on purchasing major household appliances.

We derive revenues from the sale of carbon offsets created by the destruction of ozone-depleting CFCs captured at our ARCA and AAP regional processing centers. We expect to create carbon offsets and derive revenues in the future through California's market, but cannot predict the amount or frequency of carbon offset sales. Carbon offset sales are dependent on market conditions, including demand and acceptable market prices.

We monitor specific economic factors such as retail trends, consumer confidence, manufacturing by the major appliance companies, sales of existing homes and mortgage interest rates as key indicators of industry demand, particularly in our retail segment. Competition in the home appliance industry is intense in the four retail markets we serve. This includes competition not only from independent retailers, but also from such major retailers as Sears, Best Buy, The Home Depot and Lowe's. We also closely monitor the metals and various other scrap markets because of the type of components recovered in our recycling process. This includes monitoring the *American Metal Market* and the regions throughout the U.S. where we have our recycling centers.

Reporting Period. We report on a 52- or 53-week fiscal year. Our 2013 fiscal year ("2013") ended on December 28, 2013, and included 52 weeks. Our 2012 fiscal year ("2012") ended on December 29, 2012, and included 52 weeks.

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Results of Operations

The following table sets forth our consolidated financial data as a percentage of total revenues for fiscal years 2013 and 2012:

	2013	2012
Revenues:		
Retail	53.1 %	62.4 %
Recycling	32.7	22.1
Byproduct	14.2	15.5
Total revenues	100.0	100.0
Cost of revenues	73.8	74.3
Gross profit	26.2	25.7
Selling, general and administrative expenses	22.7	27.5
Impairment charge	—	0.9
Operating income (loss)	3.5	(2.7)
Other income (expense):		
Interest expense, net	(0.9)	(1.0)
Other income (expense), net	(0.1)	—
Income (loss) before income taxes and noncontrolling interest	2.5	(3.7)
Provision for (benefit of) income taxes	(0.3)	0.1
Net income (loss)	2.8	(3.8)
Net loss (income) attributable to noncontrolling interest	(0.2)	0.5
Net income (loss) attributable to controlling interest	2.6 %	(3.3)%

The following table sets forth the key results of operations by segment for fiscal years 2013 and 2012 (dollars in millions):

	2013	2012	% Change
Revenues:			
Retail	$ 69.7	$ 72.3	(3.7)%
Recycling	59.4	41.9	41.9 %
Total revenues	$ 129.1	$ 114.2	13.0 %
Operating income (loss):			
Retail	$ (1.1)	$ (2.7)	59.8 %
Recycling	6.3	(0.2)	2,701.7 %
Unallocated corporate costs	(0.6)	(0.3)	(86.6)%
Total operating income (loss)	$ 4.6	$ (3.2)	243.8 %

Our total revenues of $129.1 million for 2013 increased $14.9 million, or 13%, from $114.2 million in 2012. The change in revenues was attributed primarily to the following factors:

Recycling Segment.

- Appliance replacement program revenues increased by $18.3 million compared with the prior year.
- Recycling-only program revenues declined $1.4 million compared with the prior year.
- Byproduct revenues included $0.6 million in carbon offset sales compared with $0.2 million in the prior year.
- AAP revenues, excluding carbon offsets increased by $0.2 million compared with the prior year.

Retail Segment.

- Same-store sales declined by $0.2 million compared with the prior year.
- The full-year impact of one new store only operating for the last five months of 2012 was $1.6 million.
- The impact of closing three stores that operated during 2012 but not 2013 was $4.0 million. We closed two stores during the fourth quarter of 2012 and one store during the second quarter of 2013.

Recycling segment revenues accounted for 46% of total revenues in 2013 compared with 37% in 2012. Recycling segment revenues and retail segment revenues each include a portion of byproduct revenues. In both 2013 and 2012, the recycling segment accounted for approximately 94% of byproduct revenues. The increase in replacement program revenues impacted the overall mix of revenues between the recycling and retail segments in 2013 compared with 2012. Future revenues and related earnings from appliance replacement programs are uncertain and may fluctuate significantly from year to year. Factors impacting future appliance replacement program revenues and earnings include the type and scope of energy efficiency programs approved by regulatory agencies, competitive bidding, contract changes, non-renewals and early cancellations.

Our operating income of $4.6 million for 2013 increased $7.8 million, or 244%, compared with an operating loss of $(3.2) million in 2012. The change in operating income (loss) was attributed to several factors, including:

Recycling Segment.

- The impact of higher appliance replacement volumes and better pricing for recyclable appliances by AAP resulted in a $4.1 million improvement in gross profit during 2013.
- A goodwill impairment charge of $1.1 million was recorded in 2012 and not in 2013.
- Operating expenses in 2013 declined by $0.9 million compared with 2012.
- Carbon offset revenues in 2013 increased by $0.4 million compared with 2012.

Retail Segment.

- Operating expenses declined by $1.5 million compared with 2012.
- Gross profit increased by $0.1 million compared with 2012.

Unallocated corporate costs increased by $0.3 million compared with 2012. In 2013, we modified the estimate used to allocate certain corporate costs, and as a result, approximately $0.6 million of corporate services were not allocated to the retail and recycling segments during fiscal year 2013. The impact of the change in estimate to the retail and recycling segments during 2013 was $0.4 million and $0.2 million, respectively.

Revenues. Revenues for the fiscal years of 2013 and 2012 were as follows (dollars in millions):

	2013	2012	% Change
Retail	$ 68.6	$ 71.2	(3.8)%
Recycling	42.2	25.3	66.9 %
Byproduct	18.3	17.7	3.4 %
	$ 129.1	$ 114.2	13.0 %

Retail Revenues. Our retail revenues of $68.6 million for 2013 decreased $2.7 million, or 3.8%, from $71.2 million in 2012. The decrease in revenues was due primarily to the impact of closing three stores that were operating in 2012 and was partially offset by the impact of a new store that was not operating for the entire year of 2012. The store closures represented a $4.0 million revenue decline and new store sales represented a $1.6 million revenue increase in 2013 compared with 2012. Same-store appliance revenues from ApplianceSmart stores operating during the entire fiscal years of 2013 and 2012 declined 0.2% compared with 2012. Our same-store revenues include contract sales, which increased by $2.8 million and typically generate smaller profit margins. We continue to evaluate strategies for addressing our underperforming stores, from right-sizing showroom space to closure.

The table below illustrates our retail revenues by quarter for fiscal years 2013 and 2012 (dollars in millions):

	2013	2012	% Change
Quarter 1	$ 18.1	$ 19.7	(8.6)%
Quarter 2	17.8	19.0	(6.1)%
Quarter 3	17.0	17.3	(1.6)%
Quarter 4	15.7	15.2	3.0 %
	$ 68.6	$ 71.2	(3.8)%

Our stores carry a wide range of innovative and affordable appliances such as close-outs, factory overruns, discontinued models and other special-buy appliances, including out-of-carton merchandise. All of these appliances are new.

We continue to purchase the majority of our appliances from Whirlpool, GE, Electrolux and Samsung. We have no minimum purchase requirements with any of these manufacturers. We believe purchases from these manufacturers will provide an adequate supply of high-quality appliances for our retail stores; however, there is a risk that one or more of these sources could be curtailed or lost.

Recycling Revenues. Our recycling revenues of $42.2 million for 2013 increased $16.9 million, or 66.9%, from $25.3 million in 2012. Recycling revenues are comprised of two components: (1) appliance recycling revenues generated by collecting and recycling appliances for utilities and other sponsors of energy efficiency programs and (2) appliance replacement revenues generated by recycling and replacing old appliances with new energy efficient models for programs sponsored by utility companies. Appliance recycling revenues decreased 10% to $12.2 million in 2013 compared with $13.6 million in 2012, due primarily to lower volumes and price compression within certain contracts. The number of units driving our appliance recycling revenues declined 5% and the average revenue per unit declined by $5 compared with 2012. Appliance replacement revenues increased 157% to $30.0 million in 2013 compared with $11.7 million in 2012, due primarily to higher volumes and the mix of appliance replacements. Future appliance recycling and appliance replacement revenues are uncertain and may fluctuate significantly from period to period. We aggressively pursue new appliance recycling and replacement contracts along with renewing our current contracts throughout North America but cannot predict if we will be successful in signing new contracts or renewing existing contracts.

The table below illustrates our recycling revenues by quarter for fiscal years 2013 and 2012 (dollars in millions):

	2013	2012	% Change
Quarter 1	$ 8.3	$ 5.3	57.6 %
Quarter 2	10.3	6.2	66.8 %
Quarter 3	11.8	7.0	68.3 %
Quarter 4	11.8	6.8	72.4 %
	$ 42.2	$ 25.3	66.9 %

Byproduct Revenues. Our byproduct revenues of $18.3 million for 2013 increased $0.6 million or 3.4% from $17.7 million in 2012. The increase in byproduct revenues was primarily the result of the following factors:

- Revenues related to carbon offset sales increased $0.4 million to $0.6 million in 2013 compared with 2012.
- Byproduct revenues include all revenues generated by AAP. AAP revenues, excluding $0.4 million in carbon offset sales mentioned above, increased $0.2 million in 2013 to $11.4 million compared with 2012. The increase was due primarily to an 8% increase in recyclable appliances that was partially offset by a 5% decline in average steel scrap prices per gross ton.

We cannot predict byproduct material prices and results can vary significantly from period to period. We expect to generate higher carbon offset revenues in 2014 than 2013, but cannot predict the amount or frequency of carbon offset sales. Carbon offset sales are dependent on market conditions, including demand and acceptable market prices.

The table below illustrates our byproduct revenues by quarter for fiscal years 2013 and 2012 (dollars in millions):

	2013	2012	% Change
Quarter 1	$ 4.1	$ 4.4	(8.1)%
Quarter 2	4.2	4.4	(5.0)%
Quarter 3	4.7	4.4	6.3 %
Quarter 4	5.3	4.5	20.1 %
	$ 18.3	$ 17.7	3.4 %

Total Gross Profit. During the first quarter of 2013, we reclassified certain revenues, cost of revenues and sales, general and administrative expenses due to further industry analysis and conformed the 2012 presentation. The reclassification is related primarily to facility costs and certain other costs not directly related to the production of recycled materials within the recycling segment. Our gross profit of $33.9 million in 2013 increased $4.6 million, or 15.5%, compared with $29.3 million in 2012. Gross profit as a percentage of total revenues increased to 26.2% in 2013 compared with 25.7% in 2012.

Our gross profit for future periods can be affected favorably or unfavorably by numerous factors, including:

1. The mix of retail products we sell.
2. The prices at which we purchase product from the major appliance manufacturers who supply product to us.
3. The prices at which we can purchase recyclable appliances for processing at our RPCs.
4. The volume of appliances we receive through our recycling contracts.
5. The volume and price of byproduct materials.
6. The volume and price of carbon offset sales created by the destruction of ozone-depleting refrigerants.

Retail Segment Gross Profit. Gross profit increased to $18.6 million in 2013 compared with $18.5 million in 2012. Gross profit as a percentage of related revenues increased to 26.7% in 2013 compared with 25.5% in 2012. The year-over-year increase was due primarily to a shift in sales mix and reversing a noncash inventory charge. In 2013, our product sales consisted of 67% new (in-the-box) product compared with 71% new (in-the-box) product in 2012. New (in-the-box) product typically has lower profit margins than special buy (out-of-the-box) product. In 2012, we recorded a $0.6 million noncash inventory charge related to aged inventory. In 2013, we reversed $0.5 million of the noncash inventory charge recorded in 2012 due to selling the aged inventory.

Recycling Segment Gross Profit. Gross profit increased to $15.3 million in 2013 compared with $10.8 million in 2012. Gross profit as a percentage of related revenues was 25.7% in 2013 compared with 25.9% in 2012. The increase in gross profit was driven primarily by the following factors:

- Increase in appliance replacement volumes, which partially offset a decline in appliance recycling volumes and price compression; the net impact was a gross profit increase of $3.7 million.
- Increase in carbon offset revenues of $0.4 million.
- Increase in AAP gross profit of $0.4 million due primarily to lower acquisition costs of recyclable appliances and improved labor efficiency.

Selling, General and Administrative Expenses. Our selling, general and administrative ("SG&A") expenses of $29.3 million for 2013 decreased $2.2 million or 6.9% compared with $31.5 million in 2012. Our SG&A expenses as a percentage of total revenues decreased to 22.7% in 2013 compared with 27.5% in 2012.

Selling expenses decreased $1.7 million to $17.2 million in 2013 compared with $18.9 million in 2012. The decrease in selling expenses was due primarily to the closing of three ApplianceSmart stores that were operating in 2012. We closed two stores during the fourth quarter of 2012 and one store during the second quarter of 2013. Store occupancy expenses and store operating expenses declined by $0.7 million and $1.0 million, respectively.

General and administrative expenses decreased $0.5 million to $12.1 million in 2013 compared with $12.6 million in 2012. The decrease in general and administrative expenses was due primarily to lower corporate expenses. During 2013, we completed several restructuring activities, including the elimination of 19 employee positions. The position eliminations generated an annualized savings of $0.8 million. This was partially offset by accruing employee bonuses in 2013 and hiring a Chief Operating Officer and President of ARCA Recycling, Inc. in July 2013.

Impairment Charge. We recorded a $1.1 million impairment charge in the fourth quarter of 2012. AAP concluded, as a result of its goodwill impairment test, that a full impairment of its goodwill was appropriate in accordance with Financial Accounting Standards Board Accounting Standards Codification No. 350-20.

Provision for (Benefit of) Income Taxes. For 2013, we recorded a benefit from income taxes of $(0.3) million. As of December 29, 2012, we recorded a full valuation allowance against the majority of our U.S. deferred tax assets due to the uncertainty of their realization. During the fourth quarter of 2013, we concluded, based on the assessment of all available evidence, including previous three-year cumulative income and estimates of future profitability, that it was more-likely-than-not that we would be able to realize the majority of our deferred tax assets in the future and recorded a $1.2 million noncash reversal of our deferred tax asset valuation allowance. We maintained a valuation allowance of $0.6 million against our state net operating loss carryforward, foreign tax credits and capital loss carryforward deferred tax assets. During fiscal year 2013, we also utilized $0.4 million in net operating loss deferred tax assets that were offset by a full valuation allowance due to the uncertainty of future realization as of December 29, 2012. In fiscal year 2013, we recorded a $1.3 million tax provision related to taxable income primarily from our U.S. operations, which partially offset the $1.6 million reduction in our deferred tax asset valuation allowance.

For 2012, we recorded a provision for income taxes of $0.1 million. The tax provision recorded in 2012 was primarily related to the tax effect of the cumulative undistributed earnings from our Canadian subsidiary as it was determined that our investment in Canada is no longer permanent in duration. In 2012, we recognized a net deferred tax liability of $0.1 million consisting of a

deferred liability of $1.0 million for undistributed earnings and a deferred tax asset of $0.9 million for foreign tax credits related to the undistributed earnings. In 2012, we recorded a valuation allowance of $1.2 million primarily against the NOLs generated during 2012 as it was determined at the time to be more-likely-than-not that we would not recognize the benefit of the net loss incurred in 2012.

Noncontrolling Interest. Noncontrolling interest represents 4301's share of AAP's net (income) loss. Under the AAP joint venture agreement, ARCA and 4301 each have a 50% interest in AAP. AAP reported a net income of $0.6 million for 2013, that included an increase in carbon offset revenues of $0.4 million, of which $0.3 million represented the income attributable to noncontrolling interest. AAP reported a net loss of $1.2 million, that included a goodwill impairment charge of $1.1 million for 2012, of which $0.6 million represented the loss attributable to noncontrolling interest.

Liquidity and Capital Resources

Summary. Cash and cash equivalents as of December 28, 2013, were $1.9 million compared with $3.2 million as of December 29, 2012. Net working capital, the excess of current assets over current liabilities, increased to $10.6 million as of December 28, 2013 compared with $7.6 million as of December 29, 2012. The increase was primarily the result of higher receivables due to the increase in appliance replacement volumes. The increase in receivables was partially offset by lower appliance inventories and other current assets along with an increase in payables.

The following table summarizes our cash flows for the fiscal years ended December 28, 2013 and December 29, 2012 (in millions):

	2013	2012
Total cash and cash equivalents provided by (used in):		
Operating activities	$ 1.8	$ 0.5
Investing activities	(1.0)	(0.8)
Financing activities	(1.8)	(1.0)
Effect of exchange rates on cash and cash equivalents	(0.2)	0.1
Decrease in cash and cash equivalents	$ (1.2)	$ (1.2)

Operating Activities. Our net cash provided by operating activities was $1.8 million in 2013 compared with $0.5 million in 2012. The increase in net cash provided by operating activities for the year ended December 28, 2013, was related primarily to our net income, offset by cash used by accounts receivables.

Investing Activities. Our net cash used in investing activities was $1.0 million in 2013 compared with $0.8 million in 2012. Net cash used in investing activities for the year ended December 28, 2013, was related primarily to the purchase of property and equipment and establishing a restricted cash reserve for our bankcard processor. Net cash used in investing activities for the year ended December 29, 2012, was related entirely to the purchase of property and equipment.

Financing Activities. Our net cash used in financing activities was $1.8 million in 2013 compared with cash used in financing activities of $1.0 million in 2012. Net cash used in financing activities for the years ended December 28, 2013, and December 29, 2012, was related primarily to payments on our long-term borrowings and revolving line of credit.

Sources of Liquidity. Our principal sources of liquidity are cash from operations and borrowings under our revolving line of credit. Our principal liquidity requirements consist of long-term debt obligations, capital expenditures and working capital. Our total capital requirements for the next twelve months will depend upon, among other things, the number and size of ApplianceSmart stores operating during the period, the volumes generated from recycling and appliance replacement contracts during the period and our needs related to AAP. Currently, we have eighteen ApplianceSmart stores and eleven recycling centers, including AAP, in operation.

We believe, based on the anticipated revenues from our recycling and appliance replacement contracts, the anticipated sales per retail store, and our anticipated gross profit, that our cash balance, anticipated funds generated from operations and our revolving line of credit will be sufficient to finance our operations, long-term debt obligations and capital expenditures through at least the next twelve months. We may also need additional capital to finance our operations if our revenues are lower than anticipated, our expenses are higher than anticipated or we pursue new opportunities. Sources of additional financing, if needed in the future, may include further debt financing or the sale of equity (Common or Preferred Stock) or other financing opportunities. There can be no assurance that such additional sources of financing will be available on terms satisfactory to us or permitted by our Credit Agreement.

Outstanding Indebtedness. On January 24, 2011, we entered into a Revolving Credit, Term Loan and Security Agreement, as amended, ("Revolving Credit Agreement") with PNC Bank, National Association ("PNC") that provides us with a $15.0 million revolving line of credit. See below for further discussion regarding the Term Loan entered into with PNC. The Revolving Credit Agreement has a stated maturity date of January 24, 2016, if not renewed. The Revolving Credit Agreement includes a lockbox agreement and a subjective acceleration clause and, as a result, we have classified the revolving line of credit as a current liability. The Revolving Credit Agreement is collateralized by a security interest in substantially all of our assets, and PNC is also secured by an inventory repurchase agreement with Whirlpool Corporation for Whirlpool purchases only. We also issued a $750,000 letter of credit in favor of Whirlpool Corporation. The Revolving Credit Agreement requires, starting with the fiscal quarter ending March 30, 2014, and continuing at the end of each quarter thereafter, that we meet a minimum fixed charge coverage ratio of 1.1 to 1.0, measured on a trailing twelve-month basis. The Revolving Credit Agreement limits investments we can purchase, the amount of other debt and leases we can incur, the amount of loans we can issue to our affiliates and the amount we can spend on fixed assets, along with prohibiting the payment of dividends. As of December 28, 2013, we were in compliance with all the covenants of the Revolving Credit Agreement. As of December 29, 2012, we were not in compliance with all the covenants of the Revolving Credit Agreement and received a notice of default from PNC. On March 14, 2013, we received a waiver of the events of default from PNC.

The interest rate on the revolving line of credit isPNC Base Rate plus 1.75%, or 1-, 2- or 3-month PNC LIBOR Rate plus 2.75%. The PNC Base Rate shall mean, for any day, a fluctuating per annum rate of interest equal to the highest of (i) the interest rate per annum announced from time to time by PNC at its prime rate, (ii) the Federal Funds Open Rate plus 0.5%, and (iii) the one-month LIBOR rate plus 1%. As of December 28, 2013, and December 29, 2012, the weighted average interest rate was4.27% and 3.07%, respectively, which included both PNC LIBOR Rate and PNC Base Rate loans, and the outstanding balance under the Revolving Credit Agreement was $9.7 million and $10.6 million, respectively. The amount of revolving borrowings under the Revolving Credit Agreement is based on a formula using accounts receivable and inventories. We may not have access to the full $15.0 million revolving line of credit due to the formula using accounts receivable and inventories, the amount of the letter of credit issued in favor of Whirlpool Corporation and the amount of outstanding loans between PNC and our AAP joint venture. As of December 28, 2013, and December 29, 2012, our available borrowing capacity under the Revolving Credit Agreement was $4.0 million and $2.5 million, respectively.

On March 14, 2013, we executed the third amendment to the Revolving Credit Agreement that extended the agreement from January 24, 2014, until January 24, 2016, waived our prior "events of default," reset our financial covenants and increased our interest rate, among other things. The material amended terms under the Revolving Credit Agreement are as follows:

- We must meet monthly minimum EBITDA requirements set forth in the amendment through 2013. We reported EBITDA as defined by the Revolving Credit Agreement of $4,507,000 for fiscal year 2013 compared with the minimum covenant of $1,005,000.
- The affiliate loan balance must be reduced by$40,000 per month in 2013 and the affiliate loan balance will be capped at$300,000 on January 25, 2014, and thereafter. See below for further details under the fourth amendment to the Revolving Credit Agreement.
- Starting on December 28, 2013, we must meet a minimum fixed charge coverage ratio of1.1 to 1.0 for the nine months then ended and on a trailing twelve-month basis beginning with the period ending March 30, 2014, and each quarter thereafter. For the nine months ended December 28, 2013, we reported a fixed charge coverage ratio of 4.7 to 1.0.
- The interest rate spread on our Revolving Loan and Term Loan increased100 basis points for both PNC Base Rate loans and 1-, 2- or 3-month PNC LIBOR Rate loans. We were not eligible to borrow under 1-, 2- or 3-month PNC LIBOR Rate loans until certain interest rate reduction conditions were met as set forth in the amendment, which included meeting all financial covenants during 2013. If these interest rate reduction conditions are met, we will also be able to remove the 100 basis point increase for both PNC Base Rate loans and 1-, 2- or 3-month PNC LIBOR Rate loans. We met the interest rate reduction conditions on January 31, 2014.
- A prepayment penalty will be assessed at3% during the first year of the third amendment to our Revolving Credit Agreement,2% during the second year and1% during the third year.

On September 27, 2013, we executed the fourth amendment to the Revolving Credit Agreement. The material amended terms under the Revolving Credit Agreement are as follows:

- The affiliate loan balance will be held at$469,100 until January 24, 2014, and starting in January 2014 and each month thereafter the affiliate loan balance must be reduced by $14,100 per month until December 31, 2014. The affiliate loan balance will be capped at $300,000 on December 31, 2014, and thereafter.

- We were eligible to borrow under 1-, 2- or 3-month PNC LIBOR Rate loans on November 1, 2013, if ARCA and AAP received at least $300,000 in cash related to selling carbon offsets. On October 9, 2013, the combination of ARCA and AAP received $516,000 in cash related to selling carbon offsets.

On January 24, 2011, we entered into a $2.55 million term loan ("Term Loan") with PNC Bank to finance the mortgage on our California facility. The Term Loan is payable as follows, subject to acceleration upon the occurrence of an event of default or termination of the Revolving Credit Agreement: 119 consecutive monthly principal payments of $21,250 plus interest commencing on February 1, 2011, and continuing on the first day of each month thereafter followed by a 120th payment of all unpaid principal, interest and fees on February 1, 2021. If the Revolving Credit Agreement is not renewed a balloon payment of $1,253,750 in principal plus interest and additional fees will be due on January 24, 2016. The Term Loan is collateralized with our California facility located in Compton, California. The Term Loan interest rate is PNC Base Rate plus 2.25%, or 1-, 2- or 3-month PNC LIBOR Rate plus 3.25%. As of December 28, 2013, the weighted average interest rate was 4.75%, which included both PNC LIBOR Rate and PNC Base Rate loans. As of December 29, 2012, the interest rate was 5.50%, which included only PNC Base Rate Loans.

On March 10, 2011, ARCA Advanced Processing, LLC entered into three separate commercial term loans ("Term Loans") with Susquehanna Bank, pursuant to the guidelines of the U.S. Small Business Administration 7(a) Loan Program. The total amount of the Term Loans is $4.75 million, split into three separate loans for $2.10 million, $1.40 million and $1.25 million. The Term Loans mature in ten years and bear an interest rate of Prime plus 2.75%. As of both December 28, 2013, and December 29, 2012, the interest rate was 6.00%. The total monthly interest and principal payments are $54,000 and began on July 1, 2011. Borrowings under the Term Loans are secured by substantially all of the assets of AAP along with liens on the business assets and certain personal assets of the owners of 4301 Operations, LLC. We are a guarantor of the Term Loans along with 4301 Operations, LLC and its owners.

The following table summarizes our borrowings as of December 28, 2013, and December 29, 2012 (in millions):

	December 28, 2013	December 29, 2012
Line of credit	$ 9.7	$ 10.6
PNC term loan	1.8	2.0
Susquehanna bank term loans [1]	3.8	4.2
Other financing obligations and loans [1]	0.7	0.9
Capital leases and other financing obligations	0.2	0.2
	16.2	17.9
Less: current portion of debt	10.8	11.5
	$ 5.4	$ 6.4

[1] Represents notes from consolidating AAP.

Off Balance Sheet Arrangements and Contractual Obligations

Other than operating leases, we do not have any off balance sheet financing. A summary of our operating lease obligations by fiscal year is included in the "Contractual Obligations" table below. Additional information regarding our operating leases is available in "Item 2. Properties" and "Note 9. Commitments and Contingencies" of the Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data."

The following table represents our contractual obligations (excluding interest), including AAP, as ofDecember 28, 2013 (in millions):

Contractual Obligations	Total	Less Than One Year	1-2 Years	3-5 Years	More Than Five Years
PNC line of credit	$ 9.7	$ 9.7	$ —	$ —	$ —
PNC term loan	1.8	0.3	0.5	1.0	—
Long-term debt obligations	4.2	0.5	1.0	1.1	1.6
Capital lease and other financing obligations	0.5	0.3	0.2	—	—
Operating lease obligations [(1)]	17.2	5.0	6.5	4.3	1.4
Total	$ 33.4	$ 15.8	$ 8.2	$ 6.4	$ 3.0

[(1)] Operating leases do not include payments to landlords covering real estate taxes and common area maintenance.

Application of Critical Accounting Policies

Our discussion of the financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States. The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of any contingent assets and liabilities at the date of the financial statements. Management regularly reviews its estimates and assumptions, which are based on historical factors and other factors that are believed to be relevant under the circumstances. Actual results may differ from these estimates under different assumptions, estimates or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and potentially result in materially different results under different assumptions and conditions. See Note 2 of “Notes to Consolidated Financial Statements” for additional disclosure of the application of these and other accounting policies.

Trade Receivables. We carry trade receivables at the original invoice amount less an estimate made for doubtful accounts based on a monthly review of all outstanding amounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer’s financial condition, credit history and current economic conditions. We write off trade receivables when we deem them uncollectible. We record recoveries of trade receivables previously written off when we receive them. We consider a trade receivable to be past due if any portion of the receivable balance is outstanding for more than ninety days. We do not charge interest on past due receivables.

Inventories. Our inventories, consisting principally of appliances, are stated at the lower of cost, determined on a specific identification basis, or market. We provide estimated provisions for the obsolescence of our appliance inventories, including adjustments to market, based on various factors, including the age of such inventory and our management’s assessment of the need for such provisions. We look at historical inventory agings and margin analysis in determining our provision estimate. Historically, our actual experience has not differed significantly from our estimates.

Goodwill. We test goodwill annually for impairment. Additionally, goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more-likely-than-not reduce the fair value of an entity below its carrying value. In assessing the recoverability of goodwill, market values and projections regarding estimated future cash flows and other factors are used to determine the fair value of the respective assets. If these estimates or related projections change in the future, we may be required to record impairment charges for these assets. We allocate goodwill to our two reporting segments, retail and recycling. We compare the fair value of each reporting segment to its carrying amount on an annual basis to determine if there is potential goodwill impairment. If the fair value of a reporting segment is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than the carrying value of its goodwill. To determine the fair value of our reporting segments, we generally use a present value technique (discounted cash flow) corroborated by market multiples when available and as appropriate. The factor most sensitive to change with respect to the discounted cash flow analyses is the estimated future cash flows of each reporting segment, which is, in turn, sensitive to the estimates of future revenue growth and margins for these businesses. If actual revenue growth and/or margins are lower than expectations, the impairment test results could differ. Fair values for goodwill are determined based on discounted cash flows, market multiples or appraised values as appropriate.

Product Warranty. We provide a warranty for the replacement or repair of certain defective appliances. Our standard warranty policy requires us to repair or replace certain defective units at no cost to our customers. We estimate the costs that may be incurred under our warranty and record an accrual in the amount of such costs at the time we recognize product revenue. Factors that affect our warranty accrual for covered units include the number of units sold, historical and anticipated rates of warranty claims on these units, and the cost of such claims. We periodically assess the adequacy of our recorded warranty accrual and adjust the amounts as necessary. Historically, our actual experience has not differed significantly from our estimates.

Income Taxes. We account for income taxes under the liability method. Deferred tax liabilities are recognized for temporary differences that will result in taxable amounts in future years. Deferred tax assets are recognized for deductible temporary differences and tax operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and record a valuation allowance to reduce our deferred tax assets to the amounts we believe to be realizable. We regularly evaluate both positive and negative evidence related to either recording or retaining a valuation allowance against our deferred tax assets.

Share-Based Compensation. We recognize compensation expense on a straight-line basis over the vesting period for all share-based awards granted. We use the Black-Scholes option pricing model to determine the fair value of awards at the grant date. We calculate the expected volatility for stock options and awards using historical volatility. We estimate a 0%-5% forfeiture rate for stock options issued to employees and Board of Directors members, but will continue to review these estimates in future periods. The risk-free rates for the expected terms of the stock options are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life represents the period that the stock option awards are expected to be outstanding. The expected dividend yield is zero as we have not paid or declared any cash dividends on our Common Stock.

Revenue Recognition. We recognize revenue from appliance sales in the period the consumer purchases and pays for the appliance, net of an allowance for estimated returns. We recognize revenue from appliance recycling when we collect and process a unit. We recognize revenue generated from appliance replacement programs when we deliver the new appliance and collect and process the old appliance. The delivery, collection and processing activities under our replacement programs typically occur within one business day and are required to complete the earnings process; there are no other performance obligations. We recognize byproduct revenue upon shipment. We recognize revenue on extended warranties with retained service obligations on a straight-line basis over the period of the warranty. On extended warranty arrangements that we sell but others service for a fixed portion of the warranty sales price, we recognize revenue for the net amount retained at the time of sale of the extended warranty to the consumer. As a result of our recycling processes, we are able to produce carbon offsets from the destruction of certain types of ozone-depleting refrigerants. We record revenue from the sale of carbon offsets in the period when all of the following requirements have been met: (i) there is persuasive evidence of an arrangement, (ii) the sales price is fixed or determinable, (iii) title, ownership and risk of loss associated with the credits have been transferred to the customer, and (iv) collectability is reasonably assured. These requirements are met upon collection of cash due to the uncertainty around collectability and the involvement of various third parties and partner. We include shipping and handling charges to customers in revenue, which are recognized in the period the consumer purchases and pays for delivery. The application of our revenue recognition policy does not involve significant uncertainties and is not subject to accounting estimates or assumptions having significant sensitivity to change.

Forward-Looking Statements

Statements contained in this annual report regarding our future operations, performance and results, and anticipated liquidity are forward-looking and, therefore, are subject to certain risks and uncertainties, including, but not limited to, those discussed herein. Any forward-looking information regarding our operations will be affected primarily by individual retail store profitability, the volume of appliance sales, the strength of energy conservation recycling and replacement programs, recyclable appliances available under our GE contract and general economic conditions affecting consumer demand for appliances. Any forward-looking information will also be affected by our continued ability to purchase product from our suppliers at acceptable prices, the ability of individual retail stores to meet planned revenue levels, the number of retail stores, costs and expenses being realized at higher-than-expected levels, our ability to secure an adequate supply of special-buy appliances for resale, the ability to secure appliance recycling and replacement contracts with sponsors of energy efficiency programs, the ability of customers to supply units under their recycling contracts with us, the performance of our consolidated variable interest entity and the continued availability of our current line of credit.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk and Impact of Inflation

Interest Rate Risk. We do not believe there is any significant risk related to interest rate fluctuations on our long-term fixed-rate debt. There is interest rate risk on the revolving line of credit, PNC term loan and Susquehanna term loans, since our interest rate floats with prime and LIBOR. The outstanding balance on our floating rate debt as of December 28, 2013, was approximately $15.2 million. Based on average floating rate borrowings of $16.0 million, a hypothetical 100 basis point change in the applicable interest rate would have caused our interest expense to change by approximately $0.2 million for the fiscal year ended December 28, 2013.

Foreign Currency Exchange Rate Risk. We currently generate revenues in Canada. The reporting currency for our consolidated financial statements is U.S. dollars. It is not possible to determine the exact impact of foreign currency exchange rate changes; however, the effect on reported revenue and net earnings can be estimated. We estimate that the overall strength of the U.S. dollar against the Canadian dollar had an immaterial impact on the revenues and net income for the fiscal year ended December 28, 2013. We do not currently hedge foreign currency fluctuations and do not intend to do so for the foreseeable future.

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

Also, we believe continued uncertainty in the housing market could continue to adversely affect buying habits of our retail segment customers in 2014.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Selected Quarterly Financial Data is presented in Part II, Item 6 of this Annual Report on Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders, Audit Committee and Board of Directors
Appliance Recycling Centers of America, Inc. and Subsidiaries
Minneapolis, Minnesota

We have audited the accompanying consolidated balance sheets of Appliance Recycling Centers of America, Inc. and Subsidiaries (the Company) as of December 28, 2013 and December 29, 2012, and the related consolidated statements of comprehensive income (loss), shareholders' equity and cash flows for the fiscal years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Appliance Recycling Centers of America, Inc. and Subsidiaries as of December 28, 2013 and December 29, 2012, and the results of their operations and their cash flows for the fiscal years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, MN
March 14, 2014

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APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousand)

	December 28, 2013	December 29, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,948	$ 3,174
Accounts receivable, net of allowance of $27 and $8, respectively	12,278	6,256
Inventories, net of reserves of $175 and $682, respectively	16,654	17,274
Income taxes receivable	82	522
Other current assets	622	1,332
Deferred income tax assets	523	—
Total current assets	32,107	28,558
Property and equipment, net	11,424	12,248
Restricted cash	500	—
Other assets	927	973
Deferred income tax assets	21	25
Total assets (a)	$ 44,979	$ 41,804
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,880	$ 4,957
Accrued expenses	4,806	4,310
Line of credit	9,661	10,559
Current maturities of long-term obligations	1,131	955
Deferred income tax liabilities	—	146
Total current liabilities	21,478	20,927
Long-term obligations, less current maturities	5,447	6,357
Deferred gain, net of current portion	—	365
Deferred income tax liabilities	1,092	921
Total liabilities (a)	28,017	28,570
Commitments and contingencies	—	—
Shareholders' equity:		
Common Stock, no par value; 10,000 shares authorized; issued and outstanding: 5,571 shares and 5,556 shares, respectively	20,846	20,577
Accumulated deficit	(5,331)	(8,649)
Accumulated other comprehensive loss	(464)	(290)
Total shareholders' equity	15,051	11,638
Noncontrolling interest	1,911	1,596
	16,962	13,234
Total liabilities and shareholders' equity	$ 44,979	$ 41,804

(a) Assets of ARCA Advanced Processing, LLC (AAP), the consolidated variable interest entity (VIE), that can only be used to settle obligations of AAP were $9,949 and $10,045 as of December 28, 2013, and December 29, 2012, respectively. Liabilities of AAP for which creditors do not have recourse to the general credit of Appliance Recycling Centers of America, Inc. were $1,874 and $1,948 as of December 28, 2013, and December 29, 2012, respectively.

See Notes to Consolidated Financial Statements.

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APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In Thousands, Except Per Share Amounts)

	For the fiscal years ended	
	December 28, 2013	December 29, 2012
Revenues:		
Retail	$ 68,556	$ 71,234
Recycling	42,185	25,280
Byproduct	18,320	17,721
Total revenues	129,061	114,235
Cost of revenues	95,187	84,915
Gross profit	33,874	29,320
Selling, general and administrative expenses	29,295	31,460
Impairment charge	—	1,082
Operating income (loss)	4,579	(3,222)
Other expense:		
Interest expense, net	(1,194)	(1,139)
Other expense, net	(90)	(12)
Income (loss) before income taxes and noncontrolling interest	3,295	(4,373)
Provision for (benefit of) income taxes	(338)	83
Net income (loss)	3,633	(4,456)
Net (income) loss attributable to noncontrolling interest	(315)	604
Net income (loss) attributable to controlling interest	$ 3,318	$ (3,852)
Income (loss) per common share:		
Basic	$ 0.60	$ (0.69)
Diluted	$ 0.58	$ (0.69)
Weighted average common shares outstanding:		
Basic	5,562	5,551
Diluted	5,742	5,551
Net income (loss)	$ 3,633	$ (4,456)
Other comprehensive income (loss), net of tax:		
Effect of foreign currency translation adjustments	(174)	71
Total other comprehensive income (loss), net of tax	(174)	71
Comprehensive income (loss)	3,459	(4,385)
Comprehensive (income) loss attributable to noncontrolling interest	(315)	604
Comprehensive income (loss) attributable to controlling interest	$ 3,144	$ (3,781)

See Notes to Consolidated Financial Statements.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In Thousands)

	Common Stock		Accumulated Other Comprehensive	Accumulated	Noncontrolling	
	Shares	Amount	Income (Loss)	Deficit	Interest	Total
Balance at December 31, 2011	5,527	$ 20,338	$ (361)	$ (4,797)	$ 2,200	$ 17,380
Net loss	—	—	—	(3,852)	(604)	(4,456)
Other comprehensive income, net of tax	—	—	71	—	—	71
Issuance of Common Stock	29	86	—	—	—	86
Share-based compensation	—	153	—	—	—	153
Balance at December 29, 2012	5,556	20,577	(290)	(8,649)	1,596	13,234
Net income	—	—	—	3,318	315	3,633
Other comprehensive loss, net of tax	—	—	(174)	—	—	(174)
Issuance of Common Stock	15	36	—	—	—	36
Share-based compensation	—	233	—	—	—	233
Balance at December 28, 2013	5,571	$ 20,846	$ (464)	$ (5,331)	$ 1,911	$ 16,962

See Notes to Consolidated Financial Statements.

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APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	For the fiscal years ended	
	December 28, 2013	December 29, 2012
Operating activities		
Net income (loss)	$ 3,633	$ (4,456)
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	1,369	1,221
Impairment charge	—	1,082
Share-based compensation	233	153
Amortization of deferred financing costs	131	197
Amortization of deferred gain	(488)	(488)
Reversal of deferred income tax valuation allowance	(1,200)	—
Deferred income taxes	703	367
Other	83	38
Changes in assets and liabilities:		
Accounts receivable	(6,018)	1,178
Inventories	620	1,182
Income taxes receivable	440	(130)
Other current assets	711	(304)
Other assets	(34)	20
Accounts payable and accrued expenses	1,557	491
Net cash flows provided by operating activities	1,740	551
Investing activities		
Purchases of property and equipment	(501)	(818)
Increase in restricted cash	(500)	—
Proceeds from sale of property and equipment	10	—
Net cash flows used in investing activities	(991)	(818)
Financing activities		
Net payments under line of credit	(898)	(126)
Payments on debt obligations	(1,032)	(990)
Proceeds from issuance of debt obligations	220	—
Payment of deferred financing costs	(129)	—
Proceeds from issuance of Common Stock	36	86
Net cash flows used in financing activities	(1,803)	(1,030)
Effect of changes in exchange rate on cash and cash equivalents	(172)	70
Decrease in cash and cash equivalents	(1,226)	(1,227)
Cash and cash equivalents at beginning of year	3,174	4,401
Cash and cash equivalents at end of year	$ 1,948	$ 3,174

See Notes to Consolidated Financial Statements.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	For the fiscal years ended	
	December 28, 2013	December 29, 2012
Supplemental disclosures of cash flow information		
Cash payments for interest	$ 966	$ 935
Cash refunds for income taxes	$ (274)	$ (154)
Non-cash investing and financing activities		
Equipment acquired under financing obligations and capital leases	$ 78	$ 159
Repayment of debt from trade-in of equipment	$ —	$ 87

See Notes to Consolidated Financial Statements.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands Except Per Share Amounts)

1. Nature of Business and Basis of Presentation

Nature of business: Appliance Recycling Centers of America, Inc. and subsidiaries ("we," the "Company" or "ARCA") are in the business of providing turnkey appliance recycling and replacement services for electric utilities and other sponsors of energy efficiency programs. We also sell new major household appliances through a chain of Company-owned stores under the name ApplianceSmart®. In addition, we have a 50% interest in a joint venture operating under the name ARCA Advanced Processing, LLC ("AAP"), which recycles appliances from twelve states in the Northeast and Mid-Atlantic regions of the United States for General Electric Company ("GE") acting through its GE Appliances business component. These appliances include units manufactured by GE as well as by other manufacturers.

Principles of consolidation: The consolidated financial statements include the accounts of Appliance Recycling Centers of America, Inc. and our subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

ApplianceSmart, Inc., a Minnesota corporation, is a wholly owned subsidiary that was formed through a corporate reorganization in July 2011 to hold our business of selling new major household appliances through a chain of Company-owned retail stores. ARCA Canada Inc., a Canadian corporation, is a wholly owned subsidiary that was formed in September 2006 to provide turnkey recycling services for electric utility energy efficiency programs. ARCA Recycling, Inc., a California corporation, is a wholly owned subsidiary that was formed in November 1991 to provide turnkey recycling services for electric utility efficiency programs. The operating results of our wholly owned subsidiaries are consolidated in our financial statements.

AAP is a joint venture that was formed in October 2009 between ARCA and 4301 Operations, LLC ("4301") to support ARCA's agreement, as amended, with GE acting through its GE Appliances business component. Both ARCA and 4301 have a 50% interest in AAP. GE sells its recyclable appliances to ARCA, which collects, processes and recycles the appliances. The agreement requires that ARCA will only recycle, and will not sell for re-use or resale, the recyclable appliances purchased from GE. AAP established a regional processing center in Philadelphia, Pennsylvania, at which the recyclable appliances are processed. The term of the agreement is for six years from the first date of appliance collection, which was March 31, 2010. AAP commenced operations in February 2010 and has the exclusive rights to service the GE agreement as a subcontractor for ARCA. The financial position and results of operations of AAP are consolidated in our financial statements based on our conclusion that AAP is a variable interest entity due to our contribution in excess of 50% of the total equity, subordinated debt and other forms of financial support. We have a controlling financial interest in AAP, through our contractual agreement with GE which is material to AAP and we have provided substantially all of the financial support to fund the operations of AAP since its inception.

Reclassifications: The consolidated statements of comprehensive income (loss) include the reclassification of prior year revenues, cost of revenues and sales, general and administrative expenses related to AAP to conform with the current year presentation. The reclassification is related primarily to facilities costs and certain other costs not directly related to the production of recycled materials from cost of revenues to sales, general and administrative expenses.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to estimates and assumptions include the valuation allowances for accounts receivable, inventories and deferred tax assets, accrued expenses, and the assumptions we use to value share-based compensation. Actual results could differ from those estimates.

Fair value of financial instruments: The following methods and assumptions are used to estimate the fair value of each class of financial instrument:

Cash and cash equivalents, accounts receivable and accounts payable: Due to their nature and short-term maturities, the carrying amounts approximate fair value.

Short- and long-term debt: The fair value of short- and long-term debt approximates carrying value and has been estimated based on discounted cash flows using interest rates being offered for similar debt having the same or similar remaining maturities and collateral requirements.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands Except Per Share Amounts)

No separate comparison of fair values versus carrying values is presented for the aforementioned financial instruments since their fair values are not significantly different than their balance sheet carrying amounts. In addition, the aggregate fair values of the financial instruments would not represent the underlying value of our Company.

Fiscal year: We report on a 52- or 53-week fiscal year. Our 2013 fiscal year ("2013") ended on December 28, 2013, and included 52 weeks. Our 2012 fiscal year ("2012") ended on December 29, 2012, and included 52 weeks.

2. Significant Accounting Policies

Cash and cash equivalents: We consider all highly liquid investments purchased with original maturity dates of three months or less to be cash equivalents. We maintain our cash in bank deposit and money-market accounts, which, at times, exceed federally insured limits. We have determined that the fair value of the money-market accounts fall within Level 1 of the fair value hierarchy. We have not experienced any losses in such accounts.

Trade receivables: We carry unsecured trade receivables at the original invoice amount less an estimate made for doubtful accounts based on a monthly review of all outstanding amounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. We write off trade receivables when we deem them uncollectible. We record recoveries of trade receivables previously written off when we receive them. We consider a trade receivable to be past due if any portion of the receivable balance is outstanding for more than ninety days. We do not charge interest on past due receivables. Our management considers the allowance for doubtful accounts of $27 and $8 to be adequate to cover any exposure to loss as of December 28, 2013, and December 29, 2012, respectively.

Inventories: Inventories, consisting principally of appliances, are stated at the lower of cost, determined on a specific identification basis, or market and consist of the following as of December 28, 2013, and December 29, 2012:

	December 28, 2013	December 29, 2012
Appliances held for resale	$ 16,449	$ 17,768
Processed metals to be sold from recycled appliances	380	188
Less provision for inventory obsolescence	(175)	(682)
	$ 16,654	$ 17,274

We provide estimated provisions for the obsolescence of our appliance inventories, including adjustments to market, based on various factors, including the age of such inventory and our management's assessment of the need for such provisions. We look at historical inventory agings and margin analysis in determining our provision estimate. A revised cost basis is used once a provision for obsolescence is recorded.

Property and equipment: Property and equipment are stated at cost. We compute depreciation using straight-line method over a range of estimated useful lives from 3 to 30 years. AAP computed depreciation on its URT materials recovery system using a modified-units-of-production method for the fiscal year ended December 29, 2012. On December 30, 2012, AAP changed to the straight-line deprecation method over 15 years on its URT materials recovery system, which increased annual depreciation expense by approximately $250.

We amortize leasehold improvements on a straight-line basis over the shorter of their estimated useful lives or the underlying lease term. Repair and maintenance costs are charged to operations as incurred.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands Except Per Share Amounts)

Property and equipment consists of the following as of December 28, 2013, and December 29, 2012:

	Useful Life (Years)	December 28, 2013	December 29, 2012
Land	—	$ 1,140	$ 1,140
Buildings and improvements	18-30	3,273	3,429
Equipment (including computer software)	3-15	20,561	20,158
Projects under construction	—	63	63
		25,037	24,790
Less accumulated depreciation and amortization		(13,613)	(12,542)
		$ 11,424	$ 12,248

Depreciation and amortization expense: Depreciation and amortization expense related to buildings and equipment from our recycling centers is presented in cost of revenues, and depreciation and amortization expense related to buildings and equipment from our ApplianceSmart stores and corporate assets, such as furniture and computers, is presented in selling, general and administrative expenses in the consolidated statements of comprehensive income (loss). Depreciation and amortization expense was $1,289 and $1,141 for fiscal years 2013 and 2012, respectively. Depreciation and amortization included in cost of revenues was $817 and $585 for fiscal years 2013 and 2012, respectively.

Software development costs: We capitalize software developed for internal use and are amortizing such costs over their estimated useful lives of three years. Costs capitalized were $99 and $135 for fiscal years 2013 and 2012, respectively. Amortization expense on software development costs was $145 and $150 for fiscal years 2013 and 2012, respectively. Estimated future amortization expense is as follows:

Fiscal year 2014	$ 111
Fiscal year 2015	50
Fiscal year 2016	13
	$ 174

Impairment of long-lived assets: We evaluate long-lived assets such as property and equipment for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. We assess impairment based on the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, we recognize an impairment loss at that time. We measure an impairment loss by comparing the amount by which the carrying value exceeds the fair value (estimated discounted future cash flows or appraisal of assets) of the long-lived assets. We recognized no impairment charges during fiscal years 2013 and 2012 related to long-lived assets.

Restricted cash: Restricted cash consisted of a reserve required by our bankcard processor to cover chargebacks, adjustments, fees and other charges that may be due from us. As of December 28, 2013, we had restricted cash of $500.

Goodwill: We test goodwill annually for impairment. Additionally, goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more-likely-than-not reduce the fair value of an entity below its carrying value. In assessing the recoverability of goodwill, market values and projections regarding estimated future cash flows and other factors are used to determine the fair value of the respective assets. If these estimates or related projections change in the future, we may be required to record impairment charges for these assets. We allocate goodwill to our two reporting segments, retail and recycling. We compare the fair value of each reporting segment to its carrying amount on an annual basis to determine if there is potential goodwill impairment. If the fair value of a reporting segment is less than its carrying value, an impairment loss is recorded to the extent that the fair value of the goodwill within the reporting unit is less than the carrying value of its goodwill. To determine the fair value of our reporting segments, we generally use a present value technique (discounted cash flow) corroborated by market multiples when available and as appropriate. The factor most sensitive to change with respect to the discounted cash flow analyses is the estimated future cash flows of each reporting segment, which is, in turn, sensitive to the estimates of future revenue growth and margins for these businesses. If actual revenue growth and/or margins are lower than expectations, the impairment test results could differ. Fair value for goodwill is determined based on discounted cash flows, market multiples or appraised values as

appropriate. During the fourth quarter of 2012, AAP determined that indicators of impairment existed that made it more-likely-than-not that the carrying value of the reporting entity exceeded its fair value. The future cash flows generated by AAP were significantly below the original investment model due to a higher level of debt service, delays and uncertainty in monetizing CFCs and declining average *American Metal Market* ("*AMM*") metal prices. As a result of the goodwill impairment test, AAP recorded a $1,082 impairment charge during the fourth quarter of 2012. As of December 28, 2013 and December 29, 2012, we had goodwill of $38 allocated to our recycling segment which is presented as a component of other assets on the consolidated balance sheets.

Accounting for leases: We conduct the majority of our retail and recycling operations from leased facilities. The majority of our leases require payment of real estate taxes, insurance and common area maintenance in addition to rent. The terms of our lease agreements typically range from five to ten years. Most of the leases contain renewal and escalation clauses, and certain store leases require contingent rents based on factors such as revenue. For leases that contain predetermined fixed escalations of the minimum rent, we recognize the related rent expense on a straight-line basis from the date we take possession of the property to the end of the initial lease term. We record any difference between straight-line rent amounts and amounts payable under the leases as part of accrued rent in accrued expenses. Cash or lease incentives (tenant allowances) received upon entering into certain store leases are recognized on a straight-line basis as a reduction to rent from the date we take possession of the property through the end of the initial lease term.

Product warranty: We provide a warranty for the replacement or repair of certain defective appliances. Our standard warranty policy requires us to repair or replace certain defective units at no cost to our customers. We estimate the costs that may be incurred under our warranty and record an accrual in the amount of such costs at the time we recognize product revenue. Factors that affect our warranty accrual for covered units include the number of units sold, historical and anticipated rates of warranty claims on these units, and the cost of such claims. We periodically assess the adequacy of our recorded warranty accrual and adjust the amounts as necessary.

Changes in our warranty accrual, presented as a component of accrued expenses on the consolidated balance sheets, for the fiscal years ended December 28, 2013, and December 29, 2012, are as follows:

	For the fiscal years ended	
	December 28, 2013	December 29, 2012
Beginning Balance	$ 47	$ 71
Standard accrual based on units sold	40	43
Actual costs incurred	(16)	(16)
Periodic accrual adjustments	(37)	(51)
Ending Balance	$ 34	$ 47

Income taxes: We account for income taxes under the liability method. Deferred tax liabilities are recognized for temporary differences that will result in taxable amounts in future years. Deferred tax assets are recognized for deductible temporary differences and tax operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and record a valuation allowance to reduce our deferred tax assets to the amounts we believe to be realizable. We regularly evaluate both positive and negative evidence related to either recording or retaining a valuation allowance against our deferred tax assets.

Share-based compensation: We recognize share-based compensation expense on a straight-line basis over the vesting period for all share-based awards granted. We use the Black-Scholes option pricing model to determine the fair value of awards at the grant date. We calculate the expected volatility for stock options and awards using historical volatility. We estimate a 0%-5% forfeiture rate for stock options issued to employees and Board of Directors members, but will continue to review these estimates in future periods. The risk-free rates for the expected terms of the stock options are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life represents the period that the stock option awards are expected to be outstanding. The expected dividend yield is zero as we have not paid or declared any cash dividends on our Common Stock. Based on these valuations, we recognized share-based compensation expense of $233 and $153 for fiscal years 2013 and 2012, respectively.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands Except Per Share Amounts)

Based on the value of options outstanding as of December 28, 2013, estimated future share-based compensation expense is as follows:

Fiscal year 2014	$	159
Fiscal year 2015		97
Fiscal year 2016		19
	$	275

The estimate above does not include any expense for additional options that may be granted and vest during 2014, 2015 and 2016.

Comprehensive income (loss): Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income (loss) but are excluded from net income (loss) as these amounts are recorded directly as an adjustment to shareholders' equity. Our other comprehensive income (loss) is comprised of foreign currency translation adjustments.

Revenue recognition: We recognize revenue from appliance sales in the period the consumer purchases and pays for the appliance, net of an allowance for estimated returns. We recognize revenue from appliance recycling when we collect and process a unit. We recognize revenue generated from appliance replacement programs when we deliver the new appliance and collect and process the old appliance. The delivery, collection and processing activities under our replacement programs typically occur within one business day and are required to complete the earnings process; there are no other performance obligations. We recognize byproduct revenue upon shipment. We recognize revenue on extended warranties with retained service obligations on a straight-line basis over the period of the warranty. On extended warranty arrangements that we sell but others service for a fixed portion of the warranty sales price, we recognize revenue for the net amount retained at the time of sale of the extended warranty to the consumer. As a result of our recycling processes, we are able to produce carbon offsets from the destruction of certain types of ozone-depleting refrigerants. We record revenue from the sale of carbon offsets in the period when all of the following requirements have been met: (i) there is persuasive evidence of an arrangement, (ii) the sales price is fixed or determinable, (iii) title, ownership and risk of loss associated with the credits have been transferred to the customer, and (iv) collectability is reasonably assured. These requirements are met upon collection of cash due to the uncertainty around collectability and the involvement of various third parties and partners. We include shipping and handling charges to customers in revenue, which are recognized in the period the consumer purchases and pays for delivery.

Retail segment cost of revenues: Costs of revenues in our retail segment are comprised primarily of the following:

- Purchase of appliance inventories, including freight to and from our distribution centers;
- Shipping, receiving and distribution of appliance inventories to our retail stores, including employee compensation and benefits;
- Delivery and service of appliances, including employee compensation and benefits, after the appliances are sold to the consumer;
- Early payment discounts and allowances offered by appliance manufacturers; and
- Inventory markdowns and shortages.

Recycling segment cost of revenues: Costs of revenues in our recycling segment are comprised primarily of the following:

- Transportation costs, including employee compensation and benefits, related to collecting appliances for recycling and delivering appliances under our replacement programs;
- Purchase of appliance inventories, including freight to our recycling center warehouses, early payment discounts, and warehousing costs for appliances used in our replacement programs;
- Cost of recyclable appliances purchased under our GE contract; and
- Processing costs, including employee compensation and benefits, related to recycling and processing appliances.

Selling, general and administrative expenses: Selling, general and administrative expenses are comprised primarily of the following:

- Employee compensation and benefits related to management, corporate services, and retail sales;
- Outside and outsourced corporate service fees;
- Occupancy costs related to our retail stores and corporate office;
- Advertising costs;

- Bank charges and costs associated with credit and debit card interchange fees; and
- Other administrative costs, such as supplies, travel and lodging.

Advertising expense: Our policy is to expense advertising costs as incurred. Advertising expense was $2,092 and $2,238 for fiscal years 2013 and 2012, respectively.

Taxes collected from customers: We account for taxes collected from customers on a net basis.

Basic and diluted income (loss) per common share: Basic income (loss) per common share is computed based on the weighted average number of common shares outstanding. Diluted income (loss) per common share is computed based on the weighted average number of common shares outstanding adjusted by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued. Potentially dilutive shares of Common Stock include unexercised stock options and warrants. Basic per share amounts are computed, generally, by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted per share amounts assume the conversion, exercise or issuance of all potential Common Stock instruments unless their effect is anti-dilutive, thereby reducing the loss or increasing the income per common share. In calculating diluted weighted average shares and per share amounts, we included stock options with exercise prices below average market prices, for the respective fiscal years in which they were dilutive, using the Treasury stock method. We calculated the number of additional shares by assuming the outstanding stock options were exercised and that the proceeds from such exercises were used to acquire Common Stock at the average market price during the year. For fiscal year 2013, we excluded 452 options and warrants from the diluted weighted average share outstanding calculation as the effect of these options and warrants is anti-dilutive. For fiscal year 2012, we excluded 795 options and warrants from the diluted weighted average share outstanding calculation as the effect of these options and warrants is anti-dilutive due to the net loss incurred.

A reconciliation of the denominator in the basic and diluted income or loss per share is as follows:

	For the fiscal year ended	
	December 28, 2013	December 29, 2012
Numerator:		
Net income (loss) attributable to controlling interest	$ 3,318	$ (3,852)
Denominator:		
Weighted average common shares outstanding - basic	5,562	5,551
Employee stock options	7	—
Stock warrants	173	—
Weighted average common shares outstanding - diluted	5,742	5,551
Income (loss) per common share:		
Basic	$ 0.60	$ (0.69)
Diluted	$ 0.58	$ (0.69)

3. Sale-Leaseback Transaction

On September 25, 2009, we completed the sale-leaseback of our St. Louis Park, Minnesota, building. The building is a 126,458-square-foot facility that includes our corporate offices, a processing and recycling center, and an ApplianceSmart retail store. Pursuant to the agreement entered into on August 11, 2009, we sold the St. Louis Park building for $4,627, net of fees, and leased the building back over an initial lease term of five years. The sale of the building provided the Company with $2,032 in cash after repayment of the $2,595 mortgage. The sale-leaseback transaction resulted in an adjustment of $2,191 to the net book value related to the land and building, and we recorded a deferred gain of $2,436. Under the terms of the lease agreement, we are classifying the lease as an operating lease and amortizing the gain on a straight-line basis over five years. For both fiscal years 2013 and 2012, we amortized $488 of the deferred gain. The deferred gain amortization is netted against rent expense as a component of selling, general and administrative expenses in the consolidated statements of comprehensive income (loss).

4. Variable Interest Entity

The financial position and results of operations of AAP are consolidated in our financial statements based on our conclusion that AAP is a variable interest entity due to our contribution in excess of 50% of the total equity, subordinated debt and other forms of financial support. We have a controlling financial interest in AAP through our contractual agreement with GE, which is material to AAP, and we have provided substantially all of the financial support to fund the operations of AAP since its inception. The financial position and results of operations for AAP are reported in our recycling segment.

The following table summarizes the assets and liabilities of AAP as ofDecember 28, 2013, and December 29, 2012:

	December 28, 2013	December 29, 2012
Assets		
Current assets	$ 1,099	$ 787
Property and equipment, net	8,713	9,109
Other assets	137	149
Total assets	$ 9,949	$ 10,045
Liabilities		
Accounts payable	$ 861	$ 826
Accrued expenses	202	204
Current maturities of long-term debt obligations	797	635
Long-term debt obligations, net of current maturities	3,796	4,437
Other liabilities (a)	469	749
Total liabilities	$ 6,125	$ 6,851

(a) Other liabilities represent outstanding loans from ARCA and are eliminated in consolidation.

The following table summarizes the operating results of AAP for fiscal years2013 and 2012:

	For the fiscal years ended	
	December 28, 2013	December 29, 2012
Revenues	$ 11,833	$ 11,163
Gross profit	2,766	1,948
Operating income (loss) (b)	956	(847)

(b) The operating loss reported in fiscal year2012 includes a $1,082 goodwill impairment charge.

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5. Other Assets

Other assets as of December 28, 2013, and December 29, 2012, consist of the following:

	December 28, 2013	December 29, 2012
Deposits	$ 411	$ 376
Recycling contract, net	179	259
Deferred financing costs, net	278	279
Patent costs	21	21
Goodwill	38	38
	$ 927	$ 973

For both fiscal years 2013 and 2012, we recorded amortization expense of $80 related to our recycling contract. For fiscal years 2013 and 2012, we recorded non-cash interest expense of $131 and $197, respectively, related to deferred financing costs.

Estimated future amortization expense over the remaining life of our recycling contract is as follows:

Fiscal year 2014	$ 80
Fiscal year 2015	80
Fiscal year 2016	19

6. Accrued Expenses

Accrued expenses as of December 28, 2013, and December 29, 2012, consist of the following:

	December 28, 2013	December 29, 2012
Compensation and benefits	$ 1,317	$ 963
Accrued rebate and incentive checks	461	563
Accrued rent	1,121	1,383
Warranty expense	34	47
Accrued payables	437	307
Current portion of deferred gain on sale-leaseback of building	365	487
Deferred revenue	346	157
Other	725	403
	$ 4,806	$ 4,310

7. Line of Credit

On January 24, 2011, we entered into a Revolving Credit, Term Loan and Security Agreement, as amended, (“Revolving Credit Agreement”) with PNC Bank, National Association (“PNC”) that provides us with a $15,000 revolving line of credit. See Note 8 for further discussion regarding the Term Loan entered into with PNC. The Revolving Credit Agreement has a stated maturity date of January 24, 2016, if not renewed. The Revolving Credit Agreement includes a lockbox agreement and a subjective acceleration clause and, as a result, we have classified the revolving line of credit as a current liability. The Revolving Credit Agreement is collateralized by a security interest in substantially all of our assets, and PNC is also secured by an inventory repurchase agreement with Whirlpool Corporation for Whirlpool purchases only. We also issued a $750 letter of credit in favor of Whirlpool Corporation. The Revolving Credit Agreement requires, starting with the fiscal quarter ending March 30, 2014, and continuing at the end of each quarter thereafter, that we meet a minimum fixed charge coverage ratio of 1.1 to 1.0, measured on a trailing twelve-month basis. The Revolving Credit Agreement limits investments we can purchase, the amount of other debt and leases we can incur, the amount of loans we can issue to our affiliates and the amount we can spend on fixed assets, along with prohibiting the payment of dividends. As of December 28, 2013, we were in compliance with all the covenants of the Revolving

Credit Agreement. As of December 29, 2012, we were not in compliance with all the covenants of the Revolving Credit Agreement and received a notice of default from PNC. On March 14, 2013, we received a waiver of the events of default from PNC.

The interest rate on the revolving line of credit is PNC Base Rate plus 1.75%, or 1-, 2- or 3-month PNC LIBOR Rate plus 2.75%. The PNC Base Rate shall mean, for any day, a fluctuating per annum rate of interest equal to the highest of (i) the interest rate per annum announced from time to time by PNC at its prime rate, (ii) the Federal Funds Open Rate plus 0.5%, and (iii) the one-month LIBOR rate plus 1%. As of December 28, 2013, and December 29, 2012, the weighted average interest rate was 4.27% and 3.07%, respectively, which included both PNC LIBOR Rate and PNC Base Rate loans, and the outstanding balance under the Revolving Credit Agreement was $9,661 and $10,559, respectively. The amount of revolving borrowings under the Revolving Credit Agreement is based on a formula using accounts receivable and inventories. We may not have access to the full $15,000 revolving line of credit due to the formula using accounts receivable and inventories, the amount of the letter of credit issued in favor of Whirlpool Corporation and the amount of outstanding loans between PNC and our AAP joint venture. As of December 28, 2013, and December 29, 2012, our available borrowing capacity under the Revolving Credit Agreement was $3,966 and $2,531, respectively.

On March 14, 2013, we executed the third amendment to the Revolving Credit Agreement that extended the agreement from January 24, 2014, until January 24, 2016, waived our prior “events of default,” reset our financial covenants and increased our interest rate, among other things. The material amended terms under the Revolving Credit Agreement are as follows:

- We were required to monthly minimum EBITDA thresholds set forth in the amendment through 2013.
- The affiliate loan balance must be reduced by $40 per month in 2013 and the affiliate loan balance will be capped at $300 on January 25, 2014, and thereafter.
- Starting on December 28, 2013, we must meet a minimum fixed charge coverage ratio of 1.1 to 1.0 for the nine months then ended and on a trailing twelve-month basis beginning with the period ending March 30, 2014, and each quarter thereafter.
- The interest rate spread on our Revolving Loan and Term Loan increased 100 basis points for both PNC Base Rate loans and 1-, 2- or 3-month PNC LIBOR Rate loans. We were not eligible to borrow under 1-, 2- or 3-month PNC LIBOR Rate loans until certain interest rate reduction conditions were met as set forth in the amendment, which included meeting all financial covenants during 2013. If these interest rate reduction conditions are met, we will also be able to remove the 100 basis point increase for both PNC Base Rate loans and 1-, 2- or 3-month PNC LIBOR Rate loans. We met the interest rate reduction conditions on January 31, 2014.
- A prepayment penalty will be assessed at 3% during the first year of the third amendment to our Revolving Credit Agreement, 2% during the second year and 1% during the third year.

On September 27, 2013, we executed the fourth amendment to the Revolving Credit Agreement. The material amended terms under the Revolving Credit Agreement are as follows:

- The affiliate loan balance will be held at $469.1 until January 24, 2014, and starting in January 2014 and each month thereafter the affiliate loan balance must be reduced by $14.1 per month until December 31, 2014. The affiliate loan balance will be capped at $300 on December 31, 2014, and thereafter.
- We were eligible to borrow under 1-, 2- or 3-month PNC LIBOR Rate loans on November 1, 2013, if ARCA and AAP received at least $300 in cash related to selling carbon offsets. On October 9, 2013, the combination of ARCA and AAP received $516 in cash related to selling carbon offsets.

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8. Borrowings

Long-term debt, capital lease and other financing obligations as of December 28, 2013, and December 29, 2012, consist of the following:

	December 28, 2013	December 29, 2012
PNC term loan	1,785	2,040
Susquehanna term loans	3,783	4,154
2.75% note, due in monthly installments of $3, including interest, due October 2024, collateralized by equipment	381	411
10.00% note, due in monthly installments of $10, including interest, due December 2014	147	280
Capital leases and other financing obligations	482	427
	6,578	7,312
Less current maturities	1,131	955
	$ 5,447	$ 6,357

On January 24, 2011, we entered into a $2,550 term loan ("Term Loan") with PNC Bank to finance the mortgage on our California facility. The Term Loan is payable as follows, subject to acceleration upon the occurrence of an event of default or termination of the Revolving Credit Agreement: 119 consecutive monthly principal payments of $21 plus interest commencing on February 1, 2011, and continuing on the first day of each month thereafter followed by a 120th payment of all unpaid principal, interest and fees on February 1, 2021. If the Revolving Credit Agreement is not renewed a balloon payment of $1,254 in principal plus interest and additional fees will be due on January 24, 2016. The Term Loan is collateralized with our California facility located in Compton, California. The Term Loan interest rate is PNC Base Rate plus 2.25%, or 1-, 2- or 3-month PNC LIBOR Rate plus 3.25%. As of December 28, 2013, the weighted average interest rate was 4.75%, which included both PNC LIBOR Rate and PNC Base Rate loans. As of December 29, 2012, the interest rate was 5.50%, which included only PNC Base Rate Loans.

On March 10, 2011, ARCA Advanced Processing, LLC entered into three separate commercial term loans ("Term Loans") with Susquehanna Bank, pursuant to the guidelines of the U.S. Small Business Administration 7(a) Loan Program. The total amount of the Term Loans is $4,750, split into three separate loans for $2,100, $1,400 and $1,250. The Term Loans mature in ten years and bear an interest rate of Prime plus 2.75%. As of both December 28, 2013, and December 29, 2012, the interest rate was 6.00%. The total monthly interest and principal payments are $54 and began on July 1, 2011. Borrowings under the Term Loans are secured by substantially all of the assets of AAP along with liens on the business assets and certain personal assets of the owners of 4301 Operations, LLC. We are a guarantor of the Term Loans along with 4301 Operations, LLC and its owners.

The future annual maturities of borrowings are as follows:

	ARCA	AAP	Total
Fiscal year 2014	$ 334	$ 797	$ 1,131
Fiscal year 2015	324	536	860
Fiscal year 2016	286	545	831
Fiscal year 2017	269	562	831
Fiscal year 2018	262	580	842
Thereafter	510	1,573	2,083
	$ 1,985	$ 4,593	$ 6,578

Capital leases and other financing obligations: We acquire certain equipment under capital leases and other financing obligations. The cost of equipment was approximately $2,020 and $1,969 as of December 28, 2013, and December 29, 2012, respectively. Accumulated amortization as of December 28, 2013, and December 29, 2012, was approximately $1,630 and $1,574, respectively. Depreciation and amortization expense for equipment under capital leases and other financing obligations is included in cost of revenues and selling, general and administrative expenses.

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The following schedule by fiscal year is the approximate remaining minimum payments required under the capital leases and other financing obligations, together with the present value as of December 28, 2013:

	ARCA	AAP	Total
Fiscal year 2014	$ 91	$ 196	$ 287
Fiscal year 2015	75	51	126
Fiscal year 2016	32	30	62
Fiscal year 2017	15	15	30
Fiscal year 2018	6	—	6
Total minimum lease and other financing obligation payments	219	292	511
Less amount representing interest	19	10	29
Present value of minimum payments	200	282	482
Less current portion	79	190	269
Capital lease and other financing obligations, net of current portion	$ 121	$ 92	$ 213

9. Commitments and Contingencies

Operating leases: We lease the majority of our retail stores and recycling centers under noncancelable operating leases. The leases typically require the payment of taxes, maintenance, utilities and insurance.

Minimum future rental commitments under noncancelable operating leases as of December 28, 2013, are as follows:

	ARCA	AAP	Total
Fiscal year 2014	$ 4,725	$ 253	$ 4,978
Fiscal year 2015	3,471	255	3,726
Fiscal year 2016	2,543	267	2,810
Fiscal year 2017	2,214	268	2,482
Fiscal year 2018	1,527	269	1,796
Thereafter	846	544	1,390
	$ 15,326	$ 1,856	$ 17,182

Rent expense for fiscal years 2013 and 2012 was $4,838 and $5,313, respectively. We have an agreement to receive future sublease payments of $443 through March 2016.

Contracts: We have entered into material contracts with three appliance manufacturers. Under the agreements there are no minimum purchase commitments; however, we have agreed to indemnify the manufacturers for certain claims, allegations or losses with respect to appliances we sell.

Litigation: We are party from time to time to ordinary course disputes that we do not believe to be material or have merit. We intend to vigorously defend ourselves against these ordinary course disputes.

10. Income Taxes

For fiscal year 2013, we recorded an income tax benefit of $338. As of December 29, 2012, we recorded a full valuation allowance against the majority of our U.S. deferred tax assets due to the uncertainty of their realization. During the fourth quarter of 2013, we concluded, based on the assessment of all available evidence, including previous three-year cumulative income and estimates of future profitability, that it was more-likely-than-not that we would be able to realize the majority of our deferred tax assets in the future and as a result recorded a $1,200 non-cash reversal of our deferred tax asset valuation allowance. As of December 28, 2013, we maintained a valuation allowance of $613 against our state net operating loss carryforwards, foreign tax credits and capital loss carryforward deferred tax assets. During fiscal year 2013, we also utilized $372 in net operating loss deferred tax

assets that were reduced by a full valuation allowance due to the uncertainty of future realization as of December 29, 2012. In fiscal year 2013, we recorded $1,234 tax provision related to taxable income primarily from our U.S. operations, which partially offset the $1,572 reduction in our deferred tax asset valuation allowance.

For fiscal year 2012, we recorded a provision for income taxes of $83. The provision recorded in fiscal year 2012 was related primarily to the tax effect of the cumulative undistributed earnings from our Canadian subsidiary as it was determined that our investment is no longer permanent in duration. In fiscal year 2012, we recognized a net deferred tax liability of $114, consisting of a deferred tax liability of $994 for undistributed earnings and a deferred tax assets of $880 for foreign tax credits related to the undistributed earnings. In fiscal year 2012, we recorded a valuation allowance of $1,154 primarily against the NOLs generated during the year as it was determined at the time to be more-likely-than-not that we will not recognize the benefit of the net loss incurred in 2012.

The provision for (benefit of) income taxes for fiscal years 2013 and 2012 consisted of the following:

	For the fiscal years ended	
	December 28, 2013	December 29, 2012
Current tax expense:		
Federal	$ 123	$ (248)
State	107	26
Foreign	(71)	(62)
Current tax expense	$ 159	$ (284)
Deferred tax expense — domestic	(499)	365
Deferred tax expense — foreign	2	2
Provision for (benefit of) income taxes	$ (338)	$ 83

A reconciliation of our provision for (benefit of) income taxes with the federal statutory tax rate for fiscal years 2013 and 2012 is shown below:

	For the fiscal years ended	
	December 28, 2013	December 29, 2012
Income tax expense at statutory rate	$ 1,120	$ (1,487)
Portion attributable to noncontrolling interest at statutory rate	(107)	205
State tax expense, net of federal tax effect	188	(130)
Permanent differences	61	194
Change in valuation allowance	(372)	1,154
Recognition of tax effect for the cumulative undistributed earnings from Canada	(54)	114
Reversal of deferred tax asset valuation allowance	(1,200)	—
Adjustment of deferred tax assets	(1)	58
Foreign income tax payable true-up	(4)	(57)
Other	31	32
	$ (338)	$ 83

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Income before provision for (benefit of) income taxes and noncontrolling interest was derived from the following sources for fiscal years 2013 and 2012 as shown below:

	For the fiscal years ended	
	December 28, 2013	December 29, 2012
United States	$ 3,532	$ (4,356)
Canada	(237)	(17)
	$ 3,295	$ (4,373)

The components of net deferred tax assets (liabilities) as of December 28, 2013, and December 29, 2012, are as follows:

	December 28, 2013	December 29, 2012
Deferred tax assets:		
Net operating loss carryforwards	$ 317	$ 689
Federal and state tax credits	199	464
Reserves	210	414
Accrued expenses	257	254
Share-based compensation	307	286
Deferred gain	142	331
Property and equipment	21	25
Total deferred tax assets	1,453	2,463
Deferred tax liabilities:		
Prepaid expenses	(148)	(146)
Property and equipment	(29)	(50)
Investments	(1,211)	(1,124)
Total deferred tax liabilities	(1,388)	(1,320)
Valuation allowance	(613)	(2,185)
Net deferred tax liabilities	$ (548)	$ (1,042)

The deferred tax amounts have been classified in the accompanying consolidated balance sheets as follows:

	December 28, 2013	December 29, 2012
Current assets	$ 523	$ —
Non-current assets	21	25
Current liabilities	—	(146)
Non-current liabilities	(1,092)	(921)
	$ (548)	$ (1,042)

Future utilization of net operating loss (“NOL”) and tax credit carryforwards is subject to certain limitations under provisions of Section 382 of the Internal Revenue Code. This section relates to a 50 percent change in control over a three-year period. We believe that the issuance of Common Stock during 1999 resulted in an “ownership change” under Section 382. Accordingly, our ability to utilize NOL and tax credit carryforwards generated prior to February 1999 is limited to approximately $56 per year.

As of December 28, 2013, we had $278 of federal NOL carryforwards not subject to IRC section 382 limitations that begin expiring in 2018 and a foreign tax credit carryforward of $256. We also had state NOL carryforwards of $4,638. The state NOL carryforwards

are available to offset future taxable income or reduce taxes payable through 2029. These state loss carryforwards began expiring in 2011.

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more-likely-than-not sustain the position. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% percent likelihood of being realized upon ultimate settlement with the relevant tax authority. As of December 28, 2013, and December 29, 2012, we did not have any material uncertain tax positions.

It is our practice to recognize interest related to income tax matters as a component of interest expense and penalties as a component of selling, general and administrative expense. As of December 28, 2013, and December 29, 2012, we had an immaterial amount of accrued interest and penalties.

We are subject to income taxes in the U.S. federal jurisdiction, foreign jurisdictions and various state jurisdictions. Tax regulations from each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, we are no longer subject to U.S. federal, foreign, state or local income tax examinations by tax authorities for the years before 2010. We are not currently under examination by any taxing jurisdiction.

We had no significant unrecognized tax benefits as of December 28, 2013, that would reasonably be expected to affect our effective tax rate during the next twelve months.

11. Shareholders' Equity

Common Stock: During fiscal year 2013, 15 stock options were exercised that resulted in cash proceeds of $36 and had an intrinsic value of $7. During fiscal year 2012, 29 stock options were exercised that resulted in cash proceeds of $86 and had an intrinsic value of $71.

Stock options: The 2011 Stock Compensation Plan (the "2011 Plan") authorizes the granting of awards in any of the following forms: (i) stock options, (ii) stock appreciation rights, and (iii) other share-based awards, including but not limited to, restricted stock, restricted stock units or performance shares, and expires on the earlier of May 12, 2021, or the date that all shares reserved under the 2011 Plan are issued or no longer available. The 2011 Plan provides for the issuance of up to 700 shares of Common Stock pursuant to awards granted under the 2011 Plan. Options granted to employees typically vest over two years, while grants to non-employee directors vest in six months. As of December 28, 2013, 367 options were outstanding under the 2011 Plan. Our 2006 Stock Option Plan (the "2006 Plan") expired on June 30, 2011, but the options outstanding under the 2006 Plan continue to be exercisable in accordance with their terms. As of December 28, 2013, 391 options were outstanding to employees and non-employee directors under the 2006 Plan. Our Restated 1997 Stock Option Plan (the "1997 Plan") has expired, but the options outstanding under the expired 1997 Plan continue to be exercisable in accordance with their terms. As of December 28, 2013, options to purchase an aggregate of 8 shares were outstanding under the 1997 Plan. We issue new Common Stock when stock options are exercised.

On May 9, 2013, we granted 30 stock options from our 2011 Plan to non-employee directors with an exercise price of $1.89 per share, a vesting period of six months and a weighted average fair value of $1.66 per share. Also on May 9, 2013, we granted 185 stock options from our 2011 Plan to management with an exercise price of $1.89 per share and a weighted average fair value of $1.47 per share. The stock options granted to management have both time and performance vesting, of which 135 stock options vest equally over two years and 50 stock options vest based on the achievement of performance targets. For performance-based options, the Company evaluates the likelihood of the targets being met and records the expense over the probable vesting period.

On July 22, 2013, we granted 100 stock options from our 2011 Plan to management with an exercise price of $2.65 per share and a weighted average fair value of $2.06 per share. The stock options granted to management have both time and performance vesting, of which 50 stock options vest equally over three years and 50 stock options vest based on the achievement of performance targets. For performance-based options, the Company evaluates the likelihood of the targets being met and records the expense over the probable vesting period.

On May 10, 2012, we granted 30 stock options from our 2011 Plan to non-employee directors with an exercise price of $4.05 per share, a vesting period of six months and a weighted average fair value of $3.57 per share. On August 2, 2012, we granted 8 stock

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options from our 2011 plan to non-employee directors with an exercise price of $4.01 per share, a vesting period of six months and a weighted average fair value of $3.52 per share.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for fiscal years 2013 and 2012:

	For the fiscal years ended	
	December 28, 2013	December 29, 2012
Expected dividend yield	—	—
Expected stock price volatility	90.50%	95.46%
Risk-free interest rate	1.47%	1.80%
Expected life of options (years)	7.29	10.00

Additional information relating to all outstanding options is as follows (in thousands, except per share data):

	Options Outstanding	Weighted Average Exercise Price
Balance at December 31, 2011	588	$ 3.99
Granted	38	4.04
Exercised	(29)	3.03
Cancelled/expired	(59)	5.25
Forfeited	(5)	4.25
Balance at December 29, 2012	533	3.88
Granted	315	2.13
Exercised	(15)	2.38
Cancelled/expired	(67)	3.11
Balance at December 28, 2013	766	$ 3.26

The weighted average fair value per option of options granted during fiscal years 2013 and 2012 was $1.68 and $3.56, respectively.

The following table summarizes information about stock options outstanding as of December 28, 2013 (in thousands, except per share data):

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
$5.05 to $6.41	157	1.61	$ 5.41	
$3.55 to $4.69	183	5.82	4.02	
$2.22 to $2.80	176	4.96	2.49	
$1.87 to $1.89	250	6.53	1.89	
	766	4.99	3.26	$ 326

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The following table summarizes information about stock options exercisable as of December 28, 2013 (in thousands, except per share data):

Range of Exercise Prices	Options Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value
$5.05 to $6.41	157	$ 5.41	
$3.55 to $4.69	183	4.02	
$2.22 to $2.80	76	2.28	
$1.87 to $1.89	115	1.88	
	531	3.72	$ 164

The aggregate intrinsic value in the preceding tables represents the total pre-tax intrinsic value, based on our closing stock price of $2.90 on December 27, 2013, which theoretically could have been received by the option holders had all option holders exercised their options as of that date. As of December 28, 2013, there were 191 in-the-money options exercisable.

Warrants: On October 21, 2009, we issued a warrant to GE to purchase 248 shares of Common Stock at a price of $0.75 per share. The fair market value of the warrant issued was $479 and is exercisable in full at any time during a term of ten years. The fair value per share of Common Stock underlying the warrant issued to GE was $1.93 based on our closing stock price of $1.97. The exercise price may be reduced and the number of shares of Common Stock that may be purchased under the warrant may be increased if the Company issues or sells additional shares of Common Stock at a price lower than the then-current warrant exercise price or the then-current market price of the Common Stock. The shares underlying the warrant include legal restrictions regarding the transfer or sale of the shares. As a result of our private placement offering in April 2010, the number of shares of Common Stock underlying the warrant increased to 254 shares and the exercise price decreased to $0.73 per share as defined in the agreement. There was no accounting charge as a result of the change in warrant shares or exercise price due to the treatment of the warrant as permanent equity. On May 13, 2010, we issued warrants to non-employees to purchase 24 shares of Common Stock at a price of $3.55 per share, with a vesting period of two years and a fair value of $3.03 per share.

Preferred Stock: Our amended Articles of Incorporation authorize two million shares of Preferred Stock that may be issued from time to time in one or more series having such rights, powers, preferences and designations as the Board of Directors may determine. To date no such preferred shares have been issued.

12. Major Customers and Suppliers

For the fiscal year ended December 28, 2013, one customer represented 11% of our total revenues. For the fiscal year ended December 29, 2012, no single customer represented 10% or more of our total revenues. As of December 28, 2013, and December 29, 2012, two customers and four customers, respectively, each represented more than 10% of our total trade receivables, for a total of 42% and 54%, respectively, of our total trade receivables.

During the two fiscal years ended December 28, 2013, and December 29, 2012, we purchased a vast majority of appliances for resale from three suppliers. We have and are continuing to secure other vendors from which to purchase appliances. However, the curtailment or loss of one of these suppliers or any appliance supplier could adversely affect our operations.

13. Segment Information

We operate within targeted markets through two reportable segments: retail and recycling. The retail segment is comprised of income generated through our ApplianceSmart stores, which includes appliance sales and byproduct revenues from collected appliances. The recycling segment includes all fees charged and costs incurred for collecting, recycling and installing appliances for utilities and other customers. The recycling segment also includes byproduct revenue, which is primarily generated through the recycling of appliances and includes all revenues from AAP. The nature of products, services and customers for both segments varies significantly. As such, the segments are managed separately. Our Chief Executive Officer has been identified as the Chief Operating Decision Maker (“CODM”). The CODM evaluates performance and allocates resources based on sales and income

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from operations of each segment. Income from operations represents revenues less cost of revenues and operating expenses, including certain allocated selling, general and administrative costs. There are no inter-segment sales or transfers.
On December 30, 2012, we modified the estimate used to allocate certain selling, general and administrative costs and, as a result, approximately $569 of corporate services were not allocated to the retail and recycling segments during fiscal year 2013. The impact of the change in estimate to the retail and recycling segments during fiscal year 2013 was $142 and $427, respectively.

The increase in recycling segment revenues and assets for the fiscal year ended December 28, 2013, presented in the table below was the result of an increase in revenues and accounts receivable, respectively, related to appliance replacement programs.

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The following tables present our segment information for fiscal years2013 and 2012:

	For the fiscal years ended	
	December 28, 2013	December 29, 2012
Revenues:		
Retail	$ 69,642	$ 72,360
Recycling	59,419	41,875
Total revenues	$ 129,061	$ 114,235
Operating income (loss):		
Retail	$ (1,064)	$ (2,645)
Recycling	6,270	(241)
Unallocated corporate costs	(627)	(336)
Total operating income (loss)	$ 4,579	$ (3,222)
Assets:		
Retail	$ 17,682	$ 18,476
Recycling	23,290	18,658
Corporate assets not allocable	4,007	4,670
Total assets	$ 44,979	$ 41,804
Cash capital expenditures:		
Retail	$ 11	$ 228
Recycling	354	332
Corporate	136	258
Total cash capital expenditures	$ 501	$ 818
Depreciation and amortization expense:		
Retail	$ 191	$ 226
Recycling	815	609
Corporate	363	386
Total depreciation and amortization expense	$ 1,369	$ 1,221
Interest expense:		
Retail	$ 494	$ 377
Recycling	423	468
Corporate	280	298
Total interest expense	$ 1,197	$ 1,143

14. Benefit Contribution Plan

We have a defined contribution salary deferral plan covering substantially all employees under Section 401(k) of the Internal Revenue Code. We contribute an amount equal to 10 cents for each dollar contributed by each employee up to a maximum of5% of each employee's compensation. AAP also has a 401(k) plan which includes a safe harbor matching contribution of 4% of the

employee's contribution. We recognized expense for contributions to the plans of $58 and $51 for fiscal years 2013 and 2012, respectively.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act), as of December 28, 2013. Based on that evaluation, our Chief Executive Officer concluded that, as of December 28, 2013, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our Chief Executive Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 1992. Management concluded that our internal control over financial reporting was effective as of December 28, 2013.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the fourth quarter of the fiscal year endedDecember 28, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding directors and executive officers of the Company is set forth under the headings "Nominees" and "Information Concerning Officers and Key Employees Who Are Not Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement for our 2014 Annual Meeting of Shareholders to be held May 8, 2014 and is incorporated herein by reference.

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., 7400 Excelsior Boulevard, Minneapolis, MN 55426. 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.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation is set forth under the heading "Executive Compensation" in our Proxy Statement for our 2014 Annual Meeting of Shareholders to be held May 8, 2014, and is incorporated herein by reference.

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

Information regarding security ownership of certain beneficial owners and management is set forth under the heading "Common Stock Ownership" in our Proxy Statement for our 2014 Annual Meeting of Shareholders to be held May 8, 2014, and is incorporated herein by reference.

The following table gives aggregate information under our equity compensation plans as ofDecember 28, 2013:

	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options and Warrants	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Available for Future Issuance Under Equity Compensation Plans, Excluding Securities Reflected in Column (a)
Equity compensation plans approved by shareholders	766,300	$ 3.26	332,500
Equity compensation plans not approved by shareholders	23,500	$ 3.55	—
Total	789,800	$ 3.27	332,500

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

Information regarding director independence and certain relationships and related transactions is set forth under the headings "Director Independence" and "Review, Approval or Ratification of Transactions with Related Persons" in our Proxy Statement for our 2014 Annual Meeting of Shareholders to be held May 8, 2014, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding principal accounting fees and services is set forth under the heading “Independent Registered Public Accounting Firm” in our Proxy Statement for our 2014 Annual Meeting of Shareholders to be held May 8, 2014, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements, Financial Statement Schedules and Exhibits

1 *Financial Statements*

See Index to Financial Statements under Item 8 of this report.

2 *Financial Statement Schedules*

None.

3 *Exhibits*

See Index to Exhibits on page 60 of this report.

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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.

March 14, 2014

APPLIANCE RECYCLING CENTERS OF AMERICA, INC. (Registrant)

By /s/ Edward R. Cameron
Edward R. Cameron
Chairman, President and 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.

Signature	Title	Date
Principal Executive Officer		
/s/ Edward R. Cameron Edward R. Cameron	Chairman of the Board, President and Chief Executive Officer	March 14, 2014
Principal Financial and Accounting Officer		
/s/ Jeffrey A. Cammerrer Jeffrey A. Cammerrer	Chief Financial Officer	March 14, 2014
Directors		
/s/ Stanley Goldberg Stanley Goldberg	Director	March 14, 2014
/s/ Steve Lowenthal Steve Lowenthal	Director	March 14, 2014
/s/ Randy Pearce Randy Pearce	Director	March 14, 2014
/s/ Dean R. Pickerell Dean R. Pickerell	Director	March 14, 2014

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].
10.4*	Employment agreement dated July 22, 2013, between Mark Eisenschenk and the Company [filed as Exhibit No. 10.2 the the Company's Form 10-Q for the quarter ended September 28, 2013 (File No. 0-19621) and incorporated herein by reference].
10.5	Lease Agreement for Leaseback of St. Louis Park Building [filed as Exhibit No. 10.37 to the Company's Form 10-Q for the quarter ended October 3, 2009 (File No. 0-19621) and incorporated herein by reference].
10.6‡	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].
10.7‡	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].
10.8	Warrant to Purchase Common Stock of the Company for the Purchase of 248,189 shares of Common Stock in favor of General Electric Company, dated October 21, 2009 [filed as Exhibit No. 10.39 to the Company's Form 10-K for the year ended January 2, 2010 (File No. 0-19621) and incorporated herein by reference].
10.9	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].
10.10	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].
10.11	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].
10.12	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].
10.13	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].
10.14	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].

10.15	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].
10.16+	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.
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 December 28, 2013, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of 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.

Exhibit 10.16

JOINT VENTURE AGREEMENT

This Joint Venture Agreement is made and entered into this 20th day of October, 2009 by and between 4301 Operations, LLC, a Delaware limited liability company ("4301"), and Appliance Recycling Centers of America, Inc., a Minnesota corporation ("ARCA"). ARCA and 4301 are sometimes each referred to as a "Party" or jointly as the "Parties."

RECITALS

1. ARCA is a Corporation duly incorporated under the laws of the state of Minnesota and has substantial experience in the collection, sale and disposal of household appliances throughout the United States. Its representative, Edward (Jack) Cameron, has all legal faculties and authority to execute this Agreement and all those agreements and documents that may derive herefrom.

2. 4301 is a limited liability company duly organized under the laws of the State of Delaware and has substantial experience in the collection and shredding of household appliances in and around Philadelphia, Pennsylvania. Its representative, Brian Conners, has all legal faculties and authority to execute this Agreement and all those agreements and documents that may derive herefrom.

3. The Parties have agreed in principal to enter into this Agreement with the primary purpose of engaging in the collection, storage, disposal of certain materials, shredding and sale of the scrap of used appliances. The appliances will be collected by General Electric ("GE") or its subcontractors under GE's contract with Home Depot. AAP (as defined below) may also, as approved by its Management Committee, enter into arrangements with other parties (either directly or indirectly through ARCA) to engage in the business activities described above. GE contracts to have new appliances delivered to and old appliances removed from Home Depot's customers' homes. In connection with the GE contracts, the Parties intend for AAP to take possession of the old appliances removed by GE, remove polyurethane foam and other components thereof as deemed necessary to be in compliance with all applicable federal, state and local laws, shred the appliances and sell the scrap. GE has a national contract with Home Depot throughout the country, but plans to divide the country into certain regions for purposes of performance of its contract with Home Depot. It is the desire of ARCA and 4301 through this joint venture arrangement to establish a recycling facility in each of the regions designated by GE. ARCA will enter into direct contracts with GE to perform the recycling services in each region, and ARCA will assign its rights as provided herein under each GE contract to the joint venture entity to be formed by ARCA and 4301 under the name "ARCA Advanced Processing, LLC," a Minnesota limited liability company ("AAP"). The contract relationship between GE and ARCA, to be assigned to AAP, and the operations contemplated to be conducted through AAP, are collectively referred to as the "Business" or the "Joint Venture."

4. Upon successful negotiation and execution thereof, ARCA will assign its initial recycling and disposal GE contract for the initial region to AAP, and AAP will have the right to require ARCA's assignment to AAP of the initial three (3) ARCA contracts with GE (plus any other GE contracts agreed to by the Parties) that require a hammermill shredding system and sealed chamber European style "Fridge Plant" (collectively, the "Venture's Purpose"). Negotiation for additional services to be provided at new regional recycling centers will initially be conducted by ARCA. Negotiations will occur on an as available basis. ARCA will keep 4301 informed of the progress of all negotiations, and will seek the input of 4301 as ARCA negotiates the terms of any agreements within the scope of this Agreement for the Venture's Purpose.

5. ARCA will assign to AAP its rights under the original GE contract for the first recycling center and for the next two (2) additional recycling centers. After the initial three (3) recycling centers have been established, the Parties agree that, in connection with any additional contracts or any contracts between ARCA (or its affiliates) and other third parties relating to the Venture's Purpose, AAP will have a thirty (30) day right of first refusal to have such agreement(s) assigned by ARCA to AAP. If AAP exercises such right of first refusal, AAP will establish additional

recycling centers to perform the services required thereunder. A decision to accept or reject the additional recycling center(s) to be within the scope of this Joint Venture shall be made with the consent of both Parties, provided that ARCA will not assess any extra charge for such assignment and will not reject on behalf of AAP the right of first refusal in order to service the new recycling center itself or through its other Affiliates or independent third parties. If 4301 casts a negative vote causing AAP to reject its right of first refusal for the additional recycling center(s), ARCA shall be free to exercise any independent rights with respect to the proposed recycling center(s). If additional recycling centers are offered by GE to ARCA and ARCA is not interested in such additional recycling center(s), ARCA will recommend 4301 to GE for such opportunity. ARCA will also negotiate a purchase agreement on behalf of AAP for the acquisition by AAP of URT equipment and associated technology to remove the blowing agent out of the polyurethane foam to be removed from the recycled appliances. 4301 will provide its expertise in shredding appliances and will assign to AAP the shredding system equipment that has already been ordered by 4301. If the shredding system has not been delivered prior to the trigger event described in the first sentence of Section 2.1 below, such shredding equipment will be contributed to AAP upon delivery.

6. 4301's existing shredding business, currently conducted in and about the Philadelphia, Pennsylvania area, will be assigned to AAP along with a real estate lease deposit, rights in and to a lease for the facility to be occupied by AAP, equipment deposits and other equipment at values agreed upon between the Parties as part of 4301's initial capital contribution. Certain lines of business, described in Section 1 below, will be excluded from such transfer.

7. It is the intention of the Parties hereto to state their agreements in order to reflect their current understandings about the intent of the Business. For that purpose, they agree as follows:

ARTICLE 1 SCOPE OF BUSINESS

ARCA is willing to assign its interests in and to its initial GE appliance recycling and disposal contract and to enter into a business relationship with 4301 through AAP or through any other company that the Parties incorporate or organize in the future (hereinafter collectively referred to as the "Companies"). The intention is that AAP will be the parent company, and that AAP will either qualify to do business in each state in which an AAP recycling center is established, or form a new company in each such state to perform the recycling required by the applicable regional contract (or other third party contract). 4301 agrees that all of the appliance recycling and shredding business activities that it or any affiliate has conducted in the past shall hereinafter be conducted through AAP and the Companies during the term the Parties continue to be engaged in the Joint Venture. All recycling and shredding of appliance business activities which have been conducted in the past through Safe Disposal Systems, Inc. are hereby assigned to AAP for the term of this Agreement. Notwithstanding the foregoing, 4301 may continue to engage in the refrigerant reclamation business, which shall be (i) excluded from the assignment described above, and (ii) exempt from any non-competition or other restrictions described in this Agreement.

ARTICLE 2 PARTICIPATION IN AAP AND OTHER COMPANIES TO DEVELOP THE BUSINESS

2.1 ARCA shall own a 50% interest in AAP, and 4301 shall own a 50% interest in AAP. Within thirty (30) working days after the later of the execution of this Agreement, the formation of AAP, or the execution of the initial GE contract by ARCA and the assignment of such contract to AAP, 4301 shall transfer and convey $2,000,000.00 (which contribution shall include as a credit against such contribution payments made by 4301 for the building lease deposit, equipment deposit, agreed value of equipment transferred by 4301 (which shall be transferred free of all liens and encumbrances except for liens on equipment held by Commerce Bank, M&T Bank and Case Credit for which 4301 shall remain responsible and shall indemnify and hold AAP and ARCA harmless therefrom), and Safe Disposal Systems' and/or 4301's existing shredder business conducted in and about the Philadelphia, Pennsylvania area (which existing shredder business shall have an assigned value of $1.00 to AAP) to AAP in exchange for a 50% equity interest. In exchange for a 50% interest in AAP, ARCA shall contribute to AAP, within thirty (30) working days after the later of the execution of this Agreement, the formation of AAP or the execution of the GE contract by ARCA, (i) the sum of $2,000,000.00 along with an assignment of its rights to the GE contract for the initial regional recycling center and two (2) additional regional recycling centers when and if obtained by ARCA (which GE contract shall have an assigned

value of $1.00 to AAP), and (ii) the grant of the right of first refusal for additional recycling agreements secured by ARCA or its affiliates. Any additional contributions by either Party shall be treated as a loan or as an additional capital contribution, as agreed by both Parties.

The Parties hereto agree that any proposed sale or transfer of their respective equity in AAP and/or other Companies to a third party shall be subject to (i) the other Party's right of first refusal to purchase such equity upon the same terms and conditions as offered by the third-party purchaser, and (ii) the other Party's right to tag-along in such sale of equity pro-rata. In connection with any sale or transfer of equity, the selling Party shall give written notice to the Representatives of the other Party of its intention to sell part or all of its units, describing the price and the conditions of the sale and confirmation that such proposed sale is a bona fide offer with the proposed transferor's independent confirmation as to its ability to pay the proposed price. The other Party shall have the right to acquire the units if it meets the price and other conditions as stated by the selling Party, and it notifies the selling Party of its acceptance of such offer within the ten (10) days after the receipt of the notice of sale. In the event that the other Party does not exercise its right of first refusal to acquire the units of the selling Party, then the selling Party shall be free to sell their ownership interest to the third party on the same terms and conditions as provided in the notice to the other Party, subject to the tag-along rights described above. Notwithstanding the foregoing right of first refusal and tag-along rights, the Parties hereto may transfer their equity in AAP or in the Companies to an Affiliate. As used in this Agreement, ***"Affiliate"*** of any particular entity means any other person or entity controlling, controlled by or under common control with such particular entity, where "control" means the possession, directly or indirectly, of the power to direct the management and policies of an individual or entity whether through the ownership of voting securities, by contract or otherwise.

2.2 Term. The Joint Venture commenced effective on the later of the date of this Agreement or the date of the execution of the GE contract by ARCA, and shall continue on an indefinite basis unless terminated as provided pursuant to Article 9 hereof.

2.3 Purpose. The purpose for which the Joint Venture is organized is to enter into and perform services under contract(s) with GE for the collection, recycling and disposal of household appliances and components thereof, along with recycling and reclaiming metals through SDS' existing business. If the Parties agree to expand the purpose of this Venture to include other purposes and projects which may, or may not be related to the Business, then the Parties shall jointly acknowledge such intentions in writing.

It is expressly understood that this Joint Venture is formed for the reasons described herein and for no other purpose, and that the Parties are not contemplating or making any permanent joint venture or permanent partnership agreement for any other purpose. Nothing in this Agreement shall be construed as a limitation of the powers or rights of any Party to carry on its business for its sole benefit. Except as specifically stated herein, this Agreement shall not be construed to grant to either Party any power to act as general agent for or to create any obligations on behalf of the other Party.

It is the intention of the Parties that the GE contracts to be executed by ARCA shall be satisfactory and acceptable to each Party. If, within ninety (90) days of execution of this Agreement, ARCA has not (a) negotiated a contract with GE acceptable to both Parties and (b) legally assigned such contract to AAP, then this Agreement shall terminate and the Parties shall not be bound by any contribution requirements described in Section 2.1 above.

2.4 Cooperation. The Parties each agree to cooperate with each other in furtherance of their common purpose. However, it is understood that ARCA will be the primary contact for dealing with GE. Each Party also agrees to use its best efforts in connection with its responsibilities in this Joint Venture including doing all things reasonable and necessary to preserve good relationships with GE. However, neither Party shall enter into separate contractual or other arrangements with GE without disclosure to and consent of the other.

2.5 Services. Both of the Parties acknowledge they will cooperate in carrying out the purposes of the Joint Venture, but neither of them shall be required to devote any fixed amount of time thereto. Each of the Parties may engage in any other businesses or activities except that each of the Parties covenants, warrants and represents that it shall not own, control or engage in, directly or indirectly, any business which specifically competes with AAP or the

Companies for the Venture's Purpose. Breach of any of the representation, warranties and covenants contained herein shall subject the Party in breach to a claim by the other for legal and equitable relief, including, but not limited to attorneys' fees and costs.

ARTICLE 3 REPRESENTATIONS AND WARRANTIES

3.1 Formation. Each Party represents and warrants to the other that it is a corporation or limited liability company in good standing in the state in which it was organized and in all states where it has a business presence.

3.2 Authority. Each Party represents and warrants to the other that resolutions have been duly adopted by each of its respective Board of Directors/Board of Managers which authorize each of the respective Parties to enter into this Joint Venture Agreement and said resolutions have duly appointed and designated an individual to act as Representative and alternate Representative on behalf of each Party in dealing with the other.

ARTICLE 4 FISCAL MATTERS

4.1 Contributions. The contributions of each Party shall be as described in Section 2.1 above. Additional contributions shall be due from each of the Parties as determined by mutual consent of the Parties. Any such additional contributions shall be consistent with the Parties' respective ownership percentages in the Joint Venture, unless the Parties agree that one Party shall make a larger contribution and shall, in return, receive a greater share of equity of the Joint Venture.

4.2 Equipment. In the event either Party desires to purchase on behalf of the Joint Venture a capital asset, the written consent of the other Party is required; however, nothing herein shall prevent any Party from acquiring, as its own, any equipment that is thereafter made available, in whole or in part, to the Joint Venture. AAP or the Companies shall own any equipment acquired by the Joint Venture and each of the Parties shall have joint responsibility regarding the payment therefore consistent with their respective ownership percentages. For purposes herein, equipment shall be defined as any asset which must be capitalized, not expensed, on the financial statements of AAP or the Companies in accordance with generally accepted accounting principles and ARCA's current significant accounting policies. Any third party debt associated with the purchase of any equipment shall be guaranteed jointly by each of the Parties where required. Thereafter, each of the Parties shall share in the depreciation, depletion, gains or loss of the Joint Venture with respect to such equipment consistent with their respective ownership percentages.

It is anticipated that each of the Parties shall furnish to the Joint Venture the major equipment, facilities and other resources as listed on Exhibit B, which shall be modified from time to time by both of the Parties as additional contributions for such acquisitions are determined to be necessary by the Representatives of each Party.

Equipment required in connection with the performance of the contract(s) and owned by either ARCA or 4301 and made available for use by the Joint Venture, shall be rented to the Joint Venture at agreed rates. Such equipment shall be in first-class working condition when received by AAP or the Companies. Appropriate rental agreements shall be prepared and executed.

4.3 Loans or Cash Contributions. No Party shall be required to make any loan or capital contribution to the Joint Venture. Any loan or cash contribution may not be made without the written consent of the other Party. In the event any Party loans any funds to the Joint Venture, said loan shall be evidenced by a Promissory Note which shall contain such terms as are approved by both Parties. Unless otherwise agreed by the Parties, the Promissory Note shall bear interest at the prime rate of interest plus three (3) percentage points as reported, from time to time, by the Wall Street Journal (Money Rates section).

4.4 Voluntary Contributions. In the event any Party makes a voluntary contribution of capital to the Joint Venture, provided written consent is obtained by the other Party, such Party shall not receive an increase in its share of net profits or losses or reduction of its liability with respect to the Joint Venture; but such voluntary contribution, upon dissolution, shall be distributed to such contributing Party plus interest at the prime rate plus three (3) percentage

points as reported, from time to time, by the Wall Street Journal (Money Rates section) prior to distribution of any accumulated but unpaid profits.

ARTICLE 5 BOOKS AND RECORDS

5.1 Books. AAP will maintain all accounting records related to the Joint Venture. Monthly, no later than two (2) weeks after month end, operating results in the form of a profit and loss report, balance sheet and cash flow statement along with various other accounting reports will be made available to both Parties upon request. A monthly meeting in the form of an onsite meeting at AAP's headquarters (or, if the physical presence of both sides is not possible, a conference call) will be held to discuss the operating results and financial condition of the Joint Venture. It is in the interest of the Joint Venture to allow the Parties to utilize the equity method of accounting in accordance with generally accepted accounting principles.

5.2 Financial Arrangements. The Parties agree to establish a checking account in the name of AAP or each of the Companies, as the case may be. From time to time, the Parties may agree to establish additional accounts in the name of AAP. Each of the Parties agrees to contribute its net profit from its portion of the Joint Venture undertakings involving the Joint Venture, into the Joint Venture checking account. All advances and/or remittances from GE, and all other income arising from operations of the Joint Venture, shall be deposited in said general account and all payments and disbursements shall be made from said general account; provided that the Joint Venture may establish other bank accounts with such other banks as the Parties may determine to be necessary and proper for the efficient operation and management of AAP's activities and such other accounts shall be established with and maintained by funds transferred from time to time from the general account. All bank accounts established by the Joint Venture shall require the signatures of one (1) Representative of each party on all checks or other withdrawals in excess of $25,000; provided, however, that checks or wire transfers to suppliers approved by the Parties may be executed or approved by the General Manager. All persons authorized to draw against the funds of the Joint Venture shall be bonded in such company or companies and in such amounts as the Parties shall determine.

Upon request, copies of all checks, along with the check register and bank statements, will be provided to each Party at the end of the following month. Each Party will be provided with access to such account for on-line review purposes only.

5.3 Fiscal Year. The fiscal year of the Joint Venture shall end as of the calendar year, based upon a 52-53 week year, unless a different fiscal year is selected by agreement of the Parties and allowed pursuant to the Internal Revenue Code of 1986 as amended.

5.4 Financial Information. Each party to this Agree-ment agrees to, upon demand and at all reasonable times, to provide the other party with any and all financial records and/or information relative or pertinent to the Joint Venture or the promotion, sale, or other provision of services relating to the Business or other projects subsequently undertaken by the Parties under the scope of this Agreement, whether or not the information is received or provided by one Party from or to the Joint Venture but not the other or between each Party. AAP shall annually have independently prepared audited financial statements of AAP and the Companies which shall be prepared in accordance with generally accepted accounting principles applied on a consistent basis.

ARTICLE 6 RESTRICTIONS ON PARTIES

6.1 As to Note or Obligation. No Party shall make or endorse any note, or procure money upon the written promise of the Joint Venture or discount any notes or obligations of, except to the extent that the other Party shall agree. However, nothing herein contained is intended to limit or abridge the right of a designated Representative of each Party who is properly authorized to sign checks, notes, make withdrawals or other evidence of debt in the regular course of the Business.

6.2 Restrictions. No Party, without the consent of the other, shall:

A. borrow money in the Joint Venture name for Joint Venture purposes or utilize collateral owned by the Joint Venture as security for such loans;

B. assign, transfer, pledge, compromise, or release any of the claims or debts due the Joint Venture except on payment in full;

C. make, execute or deliver:

i. any assignment for the benefit of creditors; and

ii. any bond, confession of judgment, guaranty, indemnity bond or surety bond;

D. assign, pledge, transfer or hypothecate, any asset or any interest of either of the Parties in the Joint Venture (including any interest in monies belonging to or which may accrue to the Joint Venture);

E. invest in, or make expenditures for fixed assets which shall be capitalized, or any other asset;

F. sell any asset of the Joint Venture;

G. make any distribution to itself of profits or cash available without consent of the other Party;

H. borrow money on behalf of any other Party, or to use the credit of any other Party for any purpose;

I. act as a general agent for any other Party, or to bid for or undertake any other contracts for or on behalf of any other Party;

J. assign or cause to be terminated the contracts with GE assigned to the Joint Venture; or

K. do any act detrimental to the best interest of the Joint Venture or which would make it impossible to carry on the Joint Venture.

ARTICLE 7 PROFITS AND LOSSES

7.1 Division of Net Profit. Except as otherwise provided herein, ARCA shall be entitled to fifty percent (50%) of the net profits earned by the Joint Venture, and 4301 shall be entitled to fifty percent (50%) of the net profits earned by the Joint Venture. Distributions from the Joint Venture account shall be made upon the signature of an authorized Representative of each Party, and at times agreed to by the Parties. AAP will make commercially reasonable efforts as permitted by law or AAP's lender(s) to distribute to the Parties cash distributions based upon each Party's ownership interest in AAP that would be sufficient to cover the Parties' income tax liabilities resulting from its ownership of equity in AAP. Such distributions shall be made to the Parties based upon their ownership interest in AAP but computed utilizing the highest combined federal and state income tax rate(s) that may be applicable to either of the Parties or their respective members, as applicable. If there is a disparity in income tax distributions to the Parties, the Party not receiving its equal share shall receive the difference from the next operating or liquidity distributions to the Parties until cumulative income tax distributions to the Parties are equal.

7.2 Losses. Losses, if any, shall be apportioned between the Parties consistent with their ownership percentages.

ARTICLE 8 MANAGEMENT OF THE JOINT VENTURE

8.1 Management. The Joint Venture shall be managed by Brian Conners who shall be the designated "General Manager." Except as otherwise limited by Article 6, Brian Conners shall be entitled to exercise control, management, and operation with respect to decisions affecting the Joint Venture. Each of the Parties shall designate one representative (each a "Representative") and one alternate representative ("Alternate Representative") with full power to act on behalf of such Party on the Management Committee (as described in Section 8.2 below). In the absence of Brian Conners, the Parties shall jointly designate an individual to replace Conners as the "General Manager" for the Business.

8.2 Management Committee. In order to facilitate handling of matters and questions in connection with performance of the contract for the Project, there is hereby appointed a Management Committee consisting of two persons, one of whom shall be a representative of ARCA, and one of whom shall be a representative of 4301. Each of the parties appoints the following Representative (and Alternate) to the Management Committee to act on behalf of the respective parties in relation to any matters or things in connection with, or arising out of the Joint Venture, and to act for and bind the respective parties appointing such representative in any and all matters involving performance of the Business, including but not limited to those of a contractual nature with GE or other third parties:

		Title
ARCA Representatives:	Edward (Jack) Cameron	CEO & President
Alternate:	Peter Hausback	CFO
4301 Representatives:	Brian Conners	President
Alternate:	James Ford	Principal

Either party may at any time change its representatives by filing with the other party a notice and duly executed appointment of a new representative and/or alternate, but until the appointment and filing of notice, the actions of the representatives and alternate hereby appointed shall be conclusively binding on such party. Any change to the Representatives or Alternates set forth above, shall be subject to the approval of the other party, and such approval shall not be unreasonably withheld.

The Representatives listed above shall meet from time to time as required to act on necessary matters pertaining to the Business. The Representatives of either party shall have the power to call such meetings when considered necessary, or when required by the General Manager. The parties shall endeavor to reach unanimous decisions on all matters. In the event that unanimity is not reached, however, the members of the Management Committee shall vote on such issues or decisions, with the vote to be weighted in accordance with the Parties' percentages of interest in the Joint Venture as set forth above.

No Representative shall be liable to the parties of the Joint Venture by reason of his or her acts in such Representative capacity except in the case of gross negligence or actual fraudulent or dishonest conduct.

8.3 Payroll. With the exception of Brian Conners who shall be paid by AAP as provided herein, all salaried personnel furnished by either Party shall remain employees of such party and shall be billed to the Joint Venture at cost.

8.4 Accounting. The Parties shall mutually agree on an independent certified public accountant or public accountant for the Joint Venture. The accounting and other administrative records shall be maintained in the offices of AAP.

8.5 Insurance and Bonds.

A. The Joint Venture shall obtain Public Liability, Workers' Compensation, as well as any other

insurance that may be required or advisable, that will protect, defend, and indemnify the Joint Venture, ARCA and 4301 from insurable accidents, losses or claims which may arise in the course of performance of the Business. Fidelity coverage shall be obtained by the Joint Venture for loss caused by any person in the employ of the Joint Venture, ARCA or 4301. The cost of such insurance attributable to the Joint Venture shall be an expense of the Joint Venture.

B. Each party shall bear the financial and legal obligations assumed as guarantor or indemnitor in connection with any performance bonds or other bonds which may be given or executed in connection with the Business as required by any surety.

ARTICLE 9 DISSOLUTION OF JOINT VENTURE

9.1 Dissolution - Voluntary. The Joint Venture shall be dissolved upon ninety (90) days written notice from AAP to the Parties upon any of the following events:

A. the cessation of business by the Joint Venture pursuant to the mutual agreement of each Party; or

B. the Parties agree that the Business of the Joint Venture can only be carried on at a loss.

Nothing shall prevent the Parties from mutually agreeing to shorten or lengthen the notice period set forth above.

Notwithstanding the foregoing, the Parties agree to take such measures as are required to wind down the Business and separate the assets of the Joint Venture.

9.2 Dissolution - Involuntary or by Operation of Law. The Joint Venture shall be dissolved, by operation of law, upon any of the following events:

A. the bankruptcy or insolvency of either Party. “Bankruptcy or insolvency” shall be deemed to occur when a Party files a petition in bankruptcy, makes an assignment for the benefit of creditors, voluntarily takes any advantage of any federal or state bankruptcy or insolvency law, is adjudicated a bankrupt or insolvent, or, if a proceeding is instituted against a Party proposing as adjudication as a bankrupt or an insolvent and there is no objection within sixty (60) days of the filing unless the proceedings were discharged or denied prior thereto; when a Party has been guilty of such conduct as tends to affect prejudicially the carrying on the business of the Joint Venture, as determined by arbitration;

B. a Party willfully or persistently commits a breach of this Joint Venture Agreement or otherwise so conducts itself in matters relating to the Business of the Joint Venture that it is not reasonably practicable to carry on the business of the Joint Venture, as determined by arbitration; or

C. order of a court of appropriate jurisdiction or by an award of an arbitration, as the case may be.

In the event of an involuntary termination or termination by operation of law, the Joint Venture shall terminate as soon as practicable, but not later than sixty (60) days after the basis for termination is finally determined by the event itself, or by any arbitration award.

9.3 Books and Records. Unless otherwise agreed upon by the Parties, and subject to the terms of this Agreement, upon termination or expiration of the GE contract or in the event of any dissolution of the Joint Venture, all final original records for the Business as well as all other books and records of the Joint Venture shall be retained by the Joint Venture, and the affairs of the Joint Venture shall be liquidated and wound up in accordance with the provisions of this Article. such books and records shall be retained by the Joint Venture, or any other agreed upon representative of the Parties, for inspection and use for a period of seventy-two (72) months following the termination of the Joint Venture.

The Joint Venture shall produce on at least a monthly basis financial statements consistent with Article 5 of this Agreement relating to the Business to be submitted to each of the Parties not later than twenty (20) days after the end of each calendar month. A final profit and loss statement, including a statement of final profit distribution, must be submitted to each of the Parties no later than ninety (90) days after termination of the Joint Venture.

9.4 Winding Up. In the event of winding up the af-fairs of the Joint Venture, the Parties shall continue to share profits and losses according to their respective interest in the Joint Venture as of the date of dissolution until the Joint Venture is completely wound up. The Parties shall proceed with reasonable promptness and in good faith to sell any personal property owned by the Joint Venture. A winding up shall be in accordance with the following provisions.

A. 4301 shall have a right of first refusal to purchase at the then fair market value any equipment that 4301 contributed to AAP and to assume and obtain a release of AAP and ARCA of the lease for the premises located at 4301 North Delaware;

B. ARCA shall receive all rights to the GE contracts (through a re-assignment or a cancellation of its assignment to AAP);

C. a full and general account shall be taken;

D. all accounts receivable of the Joint Venture shall be collected by the Joint Venture, and the net proceeds thereof shall be deposited in the depository account;

E. the Joint Venture shall pay or provide for all debts and liabilities to creditors of the Joint Venture, in the order of priority as is provided by law;

F. if any Party deems it reason-ably necessary, a reserve shall be set up for any contingent or unforeseen liabilities, or obligations of the Joint Venture arising out of or in connection with the Business of the Joint Venture. Such reserves shall be paid over to an escrow agent agreeable to the Parties to be held for the purpose of disbursing such reserve and payment of any such contingency;

G. any amounts owed to a Party for loans and accrued interest to the Parties, or voluntary contributions to capital shall be paid; and

H. any remaining proceeds from the sale or collection of assets shall be divided between the Parties as to their respective ownership interest in the Joint Venture.

9.5 Owner Disputes. In the event of a dispute relating to the fair market value of assets of the Joint Venture upon termination of the Business, the Joint Venture shall submit such dispute to binding arbitration as hereinafter provided.

ARTICLE 10 OBLIGATIONS OF THE PARTIES

10.1 The Management Committee shall make all material decisions regarding the following matters:

A. Drafting the operations manual;

B. Designing the operations;

C. Hiring and terminating Management, Operations, Technical and Production personnel;

D. Directing the training of the personnel (technical, sales, and operations);

E. Hiring and terminating the auditors that shall audit the books and the accounting of the

Companies;

F. Establishing agreements with vendors for the Business;

G. Locating and leasing physical facilities to carry out the Business activities;

H. Establishing and keeping good relations with suppliers, personnel and authorities;

I. Designing and controlling operations;

J. Promoting the development of sales and general activities of the Companies; and

K. Drafting the annual budget.

For all those responsibilities, Brian Conners and Jack Cameron may request assistance form the other Representatives and such other Representatives shall provide such assistance as reasonably requested.

Any affiliated company designated by Jack Cameron may perform the management lead activities for which Jack Cameron is responsible.

Brian Conners will receive an annual salary of Two Hundred Thousand and No/100ths Dollars ($200,000.00) from AAP, as a management fee for leading the management of AAP. In addition, the Joint Venture shall provide such benefits to Brian Conners, including health insurance, life insurance, disability insurance, paid vacation days, use of an AAP-owned vehicle, and an expense account, all as shall be further detailed in a separate employment agreement agreeable to the Parties. Such employment agreement shall also include a covenant not to compete agreeable to the Parties and Brian Conners. In the event that new Companies are set up to carry on the Business, both Parties shall review and adjust the annual salary Brian Conners is entitled to receive. Brian Conners may receive the foregoing amount personally or through one of his affiliated companies, as he chooses; and for that purpose, a service agreement may be executed either by Brian Conners or his company and AAP. Except as otherwise provided herein or as may be agreed upon by the Parties, neither Brian Conners nor any other principal of ARCA or 4301 shall receive any other compensation from AAP or the Companies.

10.2 ARCA shall (1) provide all technical assistance needed as requested by AAP for all activities related to the pick up, storage, material removal and related services required for the recycling of household appliances relating to the GE contracts and any other contracts assigned to AAP; (2) Provide logistics support and assistance; (3) Acquire on behalf of AAP equipment necessary to remove the blowing agent out of any polyurethane foam; (4) Negotiate and execute contracts with GE for the sources of appliances to be recycled through AAP, and assign such contracts to AAP or an Affiliate of AAP; (5) Refer, as ARCA deems appropriate in its sole and absolute discretion, its clients to AAP who want to do business in any regional area serviced by AAP and/or the Companies; and (6) offer to AAP, pursuant to the right of first refusal described above, the assignment of any new recycling contracts with GE or other third parties with respect to the Venture's Purpose.

10.3 4301 shall (1) provide all technical assistance needed as requested by AAP for all activities related to the pick up, storage, shredding, and related services required for the recycling of household appliances relating to the GE contracts and any other contracts assigned to AAP; (2) Provide logistics support and assistance; (3) Acquire on behalf of AAP equipment necessary to shred recycled household appliances; (4) Refer, as 4301 deems appropriate in its sole and absolute discretion, its clients to AAP who want to do business in any regional area serviced by AAP and/or the Companies.

4301 will cause SDS to assign to AAP, and AAP will assume, a lease for a facility that serves as a recycling center in the Philadelphia, Pennsylvania area. AAP will enter into such leases for such other regional recycling areas in each region where GE develops a defined area for its Home Depot customer contracts (which GE contract shall be assigned to AAP by ARCA). AAP will have the right to the assignment of the GE contract for the initial three (3) recycling

centers. ARCA shall have the sole and exclusive rights to acquire additional GE contracts for other regions or territories created by GE, subject to AAP's right of first refusal described above.

It is anticipated that AAP will require approximately $3.8 million to purchase the machine necessary to remove the blowing agent out of the polyurethane foam, with approximately $1.8 million required by AAP to acquire a new shredder. It is also contemplated that AAP will require an additional approximately $1.6 Million for initial start up working capital. The source of these funds will be the capital contributions of the Parties (described in Section 2.1) plus additional money which AAP anticipates borrowing from a third party lender upon such terms and conditions as approved by ARCA and 4301. As additional recycling centers are opened in additional regions, additional capital contributions may be required from each of the Parties on an equivalent basis to acquire such additional machines and equipment as necessary for the additional recycle centers. Each additional capital contribution is subject to the mutual consent of the Parties.

ARTICLE 11 CORPORATE DISPOSITIONS APPLICABLE FOR AAP AND/OR ANY OTHER NEW COMPANY THROUGH WHICH THE PARTIES DEVELOP THE BUSINESS

11.1 The Companies shall be controlled at the highest level by their respective Board of Directors or Management meetings, which meetings shall occur as established in the corresponding Operating Agreements. In the event that either Party shall do any of the following actions without the consent of the other Party, then the non-offending Party shall have a right to sell its equity interest to the offending Party or a third party, or the non-offending Party shall have the right to purchase the equity interest of the offending Party (all at the option of the non-offending Party) in the Joint Venture without the consent of the offending Party and without being bound by the right of first refusal and tag-along requirements set forth in Section 2.1: (a) accepting one or more loans on behalf of AAP for an amount over $20,000; (b) granting, on behalf of AAP or the Companies, any kind of guarantees to guarantee such Party's obligations or the obligations of any third party; (c) proposed sale of any membership interest issued by AAP or the Companies, which sale is not conducted in accordance with Section 2.1 above; (d) sale of any assets of AAP or the Companies outside the ordinary course of business for an amount in excess of $20,000; (e) granting of powers of attorney to individuals to conduct any of the actions described in (a) through (d) above; and (f) approving any "Related Party Transactions", whereby one Party or its Affiliates benefit financially from an agreement or arrangement with AAP or the Companies.

ARTICLE 12 ARCA'S RIGHT TO PURCHASE 4301's MEMBERSHIP INTEREST AND 4301's OBLIGATION TO SEll ITS INTEREST TO ARCA; PUT/CALL; VALUATION; AND POST CLOSING ADJUSTMENT

12.1 ARCA shall have the right to purchase and 4301 shall sell 4301's interest in AAP and all the Companies, whenever Brian Conners ceases voluntarily to continue providing his management leadership to AAP and the Companies by himself or by the person or company named by him to do so who is acceptable to ARCA, or if 4301 or Brian Conners materially breaches this Agreement or is removed by the Management Committee for "cause" (as such term is defined in Mr. Conners' employment agreement to be negotiated and agreed upon by the Parties and Mr. Conners).

12.2 After the third recycling center has been successfully opened by AAP, either Party, upon ninety (90) days notice to the other Party, shall have the right to purchase the other Party's interest in AAP and each of the Companies.

12.3 The price payable by either Party for its interest in AAP and each of the companies shall be the "Fair Market Value" of such interest determined in accordance with the following, which shall apply to each Party's interests in AAP and each of the Companies:

For purpose of this Section 12, the term "Fair Market Value" for a purchase of a Party's interest shall mean what a comparable seller of a comparable business would accept in a transaction between non-affiliated parties ("Comparable Transactions"). In any determination of Comparable Transactions, appropriate consideration shall be given to the

applicable creditworthiness of purchaser, brokerage commissions savings, if any, which would be payable by a seller in similar transactions, and other generally applicable conditions of sale for such Comparable Transactions. The intent is that a buyer will obtain the same pricing and other economic benefits that a seller would otherwise give in Comparable Transactions, taking into account the economic payments and concessions that a seller may make and receive in the subject transaction. Should the purchasing Party wish to retain the other Party's representatives as employees or in positions of management, then such arrangements shall be subject to negotiation and agreement between the Parties.

A. Upon a Party ("Buyer")'s delivery of a notice to purchase, which, if applicable, shall include written notice to the other Party ("Seller") to determine Fair Market Value ("Buyer's Notice to Request Valuation"), Seller shall determine the Fair Market Value by using its good faith judgment. Seller shall provide written notice of such amount ("Seller's Notice of Initial Valuation") within twenty (20) days alter receipt of Buyer's Notice to Request Valuation. Buyer shall have fifteen (15) days ("Buyer's Review Period") after receipt of Seller's Notice of Initial Valuation within which to accept such Fair Market Value or to reasonably object thereto in writing. In the event Buyer objects, Seller and Buyer shall attempt to agree upon such Fair Market Value during the ten (10) days following Buyer's Review Period ("Outside Agreement Date"), then each Party shall place in a separate sealed envelope their final proposal (together with such supporting documentation and reasoning as they consider appropriate) as to Fair Market Value and such determination shall be submitted to arbitration in accordance with the procedure described below. Failure of Buyer to so elect in writing within Buyer's Review Period shall conclusively be deemed of Buyer's approval of the Fair Market Value determined by Seller.

B. In the event that Seller fails to timely provide Buyer with Seller's Notice of Initial Valuation within such twenty (20) days, then Buyer shall have the exclusive right to provide the initial notice of valuation to Seller within five (5) days after the expiration of such twenty (20) day period, in which event Seller shall have fifteen (15) days ("Seller's Review Period") alter receipt of Buyer's notice of the Fair Market Value within which to accept such Fair Market Value. In the event Seller fails to accept in writing such value proposed by Buyer, then such proposal shall be deemed rejected, and Seller and Buyer shall attempt in good faith to agree upon such Fair Market Value using their best good faith efforts. If Seller and Buyer fail to reach agreement within fifteen (15) days following Seller's Review Period (which shall be, in such event, the "Outside Agreement Date" in lieu of the above definition of such date), then each Party shall place in a separate sealed envelope their final proposal (together with such supporting documentation and reasoning as they consider appropriate) as to the Fair Market Value and such determination shall be submitted to arbitration in accordance with the procedure described below.

C. The Parties shall meet with each other within ten (10) days after the Outside Agreement Date and exchange the sealed envelopes and then open such envelopes in each other's presence. If Seller and Buyer do not mutually agree upon the Fair Market Value within five (5) days of the exchange and opening of envelopes, then, within ten (10) days of the exchange and opening of envelopes, Seller and Buyer shall use reasonable efforts to agree upon an arbitrator. If they fail to agree upon an arbitrator within such period of time, then Seller and Buyer each shall appoint an arbitrator, both of whom shall agree upon a third (3rd) arbitrator (who, in the absence of their agreement after five (5) days, shall be appointed by the American Arbitration Association). Each such arbitrator who shall be a business valuation expert or broker who shall have been active over the ten (10) year period prior to such event in selling or valuing business interests. Neither Seller nor Buyer shall consult with such arbitrator(s) as to its opinion as to Fair Market Value prior to the appointment. The determination of the arbitrator(s) shall be limited solely to the issue of whether Seller's or Buyer's submitted Fair Market Value for the Seller's interest(s) in AAP and the Companies is the closest to the actual Fair Market Value for the Seller's interest(s) in AAP and the Companies as determined by the arbitrator(s), taking into account the requirements of this Paragraph 12.3.

D. The arbitrator(s) may hold such hearings and require such briefs as the arbitrator(s), in his, her or their sole discretion, determine(s) is(are) necessary. In addition, Seller or Buyer may submit to the arbitrator(s), with a copy to the other Party, within five (5) days alter the appointment of the arbitrator any market data and additional information that such party deems relevant to the determination of the Fair Market

Value ("FMV Data") and the other Party may submit a reply in writing within five (5) days alter receipt of such FMV Data. Seller and Buyer shall equally share the fees and costs of the single or third arbitrator. Each shall be responsible for the fees and costs of the arbitrator appointed by each Party.

E. The arbitrator shall, within thirty (30) days of his or her appointment, reach the decision as to whether the Parties shall use the Seller's or Buyer's submitted Fair Market Value, and shall notify Seller and Buyer of such determination.

F. The decision of the arbitrator shall be conclusive as to Seller and Buyer.

G. The costs of arbitration shall be equally paid by Seller and Buyer.

H. Any purchase and sale documents shall require a warranty and representation of the Buyer and Seller that neither Party is aware of any pending transactions or events which in their reasonable business judgment could affect the Fair Market Value of AAP at the time of closing.

12.4 Post Closing Adjustment. In the event of a Change of Control (defined below) with respect to AAP that occurs within the six (6) month period beginning on the date of the closing of the Seller's interest in AAP ("Effective Date") that results in a Change of Control Premium (defined below), the Fair Market Value shall be increased pursuant to the terms of this Section 12.4. For purposes of this Section, a "Change of Control" shall mean an offer is made for (i) the transfer of all or substantially all of AAP's assets in a single transaction or a series of transactions; or (ii) a merger, consolidation or other transaction with respect to AAP and/or the remaining Party whereby the remaining Party owns less than 50% of the voting power of AAP, and a closing occurs with respect to such offer during or after such six (6) month period upon such offer. For purposes of this Agreement, "Change of Control Premium" shall mean the amount by which the total consideration received by AAP and/or the Buyer, as applicable and excluding only reasonable compensation for services actually performed or to be performed, in the Change of Control transaction exceeds the Fair Market Value paid to Seller (the "Change of Control Premium"), determined pro rata as if all of the ownership interests of AAP were sold in the change of control transaction. The amount by which the amound paid to the Seller shall be increased (the "Change of Control Adjustment") shall be equal to one half (1/2) of the amount of the Change of Control Premium.

ARTICLE 13 NON COMPETE

While 4301 has an interest in AAP and/or any of the Companies, 4301 shall not compete nor develop activities which may be considered competing with AAP's or the Companies' activities. Notwithstanding the foregoing, in the event 4301 sells its interest in AAP and the Companies, any non-compete provisions hereunder shall no longer apply, except that (a) no services may be provided directly or indirectly to or contracted with GE, Home Depot, or another appliance manufacturer or retailer or their respective end-user customers contracting with either GE or Home Depot, and (b) no services may be provided to another appliance manufacturer or retailer with whom AAP is conducting business at the time of such sale of its interest.

ARTICLE 14 GOVERNANCE OF THE COMPANIES

Except as otherwise provided herein and applicable to AAP and each of the Companies, their Operating Agreement shall be standard and reflecting the laws of the place of their respective place of formation.

ARTICLE 15 COMMERCIAL NAMES TRADEMARKS

ARCA hereby grants to AAP and the Companies a royalty-free license to use the "ARCA" trademark and commercial name to conduct the Business activities under the scope of this Agreement as will be described in greater detail in a separate written license agreement.

ARTICLE 16 FULL AGREEMENT

This Agreement contains the entire agreement among the Parties with respect to the subject matter hereof, and the amendment, modification, or waiver of any provision hereof or consent hereunder will, unless otherwise provided herein, not be valid unless in writing and signed by both of the Parties. This Agreement supersedes and replaces all prior agreements and understandings between the Parties, whether oral or written, pertaining to the subject matter hereof.

ARTICLE 17 FURTHER STEPS

Each of the Parties will execute, acknowledge and deliver all further instruments necessary or appropriate for the implementation of the provisions of this Agreement.

ARTICLE 18 NOTICES

Except as otherwise expressly provided herein, all notices required or permitted to be given pursuant to this Agreement must be in writing and must be delivered by hand or sent by registered mail (return receipt requested), by nationally recognized overnight courier, or by facsimile confirmed within ten days from the date of the telex by registered mail, to each of the Parties at their addresses as shown herein below:

ARCA
Attention: Mr. Edward (Jack) Cameron
Appliance Recycling Centers of America, Inc.
Address: 7400 Excelsior Boulevard
Minneapolis, MN 55426
Telephone: (952) 930-1707
E-mail: jcameron@arcainc.com

4301
Attention: Brian Conners
Safe Disposal Systems, Inc.
Address: 4301 N. Delaware Ave.
Philadelphia, PA 19137
Telephone: (215) 332-3134
E-mail: bconners@safedisposal.com

ARTICLE 19 HEADINGS

The article headings in this Agreement are for convenience of reference only and will not control or affect the meaning or construction of any of the provisions of this Agreement.

ARTICLE 20 COUNTERPARTS

This Agreement may be executed simultaneously in one or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

ARTICLE 21 LIMITATION ON ASSIGNMENT

Except for (a) an assignment in connection with a permitted transfer of equity issued by AAP or the Companies, as provided herein or in the Operating Agreement of AAP and the Companies, (b) an assignment by a Party to an Affiliate, or (c) an assignment by a Party pursuant to a sale of all or substantially all of its assets, neither this Agreement nor any rights of any Party hereunder may be assigned by either Party without the prior written consent of the other Party.

ARTICLE 22 DISPUTE SETTLEMENT

If a dispute arises among the Parties (for the purpose of this Article 22, 4301 is one Party and ARCA one Party) with respect to this Agreement, they will attempt in the first instance to resolve such dispute through negotiation. If the dispute cannot be resolved in this manner to the satisfaction of the Parties within ten (10) days after the date a Party has notified the other Party in writing of such dispute, then the dispute will be finally settled by binding arbitration. Arbitration procedure shall take place in Hennepin County, Minnesota pursuant to the rules of the American Arbitration Association. Judgment upon any award rendered may be entered in any court having jurisdiction over the award or

any of the Parties to this Agreement, or application may be made to such court for judicial acceptance of such award and an order of enforcement, as the case may be.

In any such arbitration, there will be three arbitrators, all of whom will be fluent in English. The initiating Party will appoint one arbitrator, and the defending Party will appoint one arbitrator. The third arbitrator will be appointed by the head of the relevant arbitration association or as provided by law and will serve as chairman of the arbitration panel.

22.1 Award. The arbitration award will be final and binding on the Parties, and the Parties agree to be bound thereby and will act accordingly. All decisions of the arbitrators shall be by majority vote.

22.2 Costs. The costs of arbitration will be borne as determined by the arbitration award.

22.3 Enforceability. Any award of the arbitrators will be enforceable by the Parties in any court having jurisdiction over the Party against which the award has been rendered or having jurisdiction at the place where assets of the Party against which the award has been rendered can be located.

22.4 Continued Performance. When any dispute among the Parties occurs and when any dispute between the Parties is under arbitration, except for the matter under dispute, they will continue to exercise their remaining respective rights and fulfill their remaining respective obligations under this Agreement.

22.5 Deadlock and Dispute Resolution. In the event of a deadlock, or in the event of any other dispute arising under the terms of this Agreement (except a dispute in which AAP and/or the Companies or a Party seeks injunctive relief hereunder), AAP, the Companies and Parties agree to submit the disputed issue to binding arbitration as provided herein pursuant to AAA rules governing the disputed issue. In the event of a deadlock, the Parties agree to each pay their own attorneys' fees. In the event of any other non-deadlock dispute (except a dispute in which a Party seeks injunctive relief as provided hereunder, which shall be governed as provided below), the non-prevailing Party shall pay all attorney fees, costs and disbursements of the prevailing Party, as well as the arbitrators' fees. If a Party seeks injunctive relief, as provided hereunder, the state and federal District Courts of the State of Minnesota shall have exclusive jurisdiction of all such litigation and the Parties hereby consent to the exclusive jurisdiction of such courts for any such proceedings. In all such litigation, the non-prevailing Party shall pay all attorneys' fees, costs and disbursements of the prevailing Party, together with any other damages or relief awarded by the Court.

ARTICLE 23 SEVERABILITY

If at any time any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect, the validity, legality or enforceability of the remaining provisions of this Agreement will not in any way be affected or impaired thereby. The Parties agree to replace any invalid, illegal or unenforceable provision of this Agreement by valid, legal and enforceable provisions which achieve, to the extent possible, the economic and other purposes of the invalid, illegal or unenforceable provision.

ARTICLE 24 GOVERNING LAW

This Agreement will be deemed to be a contract made under the laws of the State of Minnesota and will for all purposes be governed by and construed in accordance with the laws of Minnesota.

ARTICLE 25 MISCELLANEOUS

25.1 Confidentiality. Each Party warrants and represents it will keep confidential all known financial and business information disclosed by customers of either Party, including marketing programs, advertising programs, name and location of accounts (collectively called "trade secrets), obtained from or disclosed by the other Party or developed in the course of the pursuit of the Business of the Joint Venture until this Joint Venture Agreement is terminated and for five (5) years thereafter. Notwithstanding termination of this Agreement, any breach of the warranty

of confidentiality occurring prior to or after termination shall be considered a material breach of this Section 25.1 by the offending Party and the aggrieved Party may seek all available damages at law or in equity, plus all reasonable attorneys fees and costs incurred in such effort. Further, the Parties agree to be bound by any agreement of confidentiality either has with third parties as the same relates to the Joint Venture.

25.2 Indemnity. Each Party agrees to indem-nify and hold the other(s) harmless to the extent that any other Party pays more than its respective share of any permissible debt, liability, or obligation of the Joint Venture incurred in accordance with the terms and conditions of this Agreement. Additionally, each party agrees to indemnify and hold harmless the Joint Venture and the other Party for all amounts paid by or by the other Party on any debt, liability or obligation claimed against the Joint Venture or the other Party where said debt, liability, or obligation was not incurred in accordance with the terms and conditions of this Agreement. This indemnification includes all costs, expenses and obligations of the other Party or the Joint Venture, or both, as the case may be, including attorneys' fees and costs paid or incurred, with regard to any debt, obligation, or liability asserted against any other Party, as the case may be, and the attorneys' fees incurred in enforcing this indemnification against any other Party.

25.3 Waiver. No waiver of any provisions of this Agreement shall be valid unless in writing and signed by the person or party against who charged.

25.4 Publicity. All public statements and releases including the issuance of photographs, renderings, and the like to all media for the duration of this Joint Venture are subject to the prior approval of the Management Committee. In subsequent presentations not made by the Joint Venture, and in any brochures or other releases of the parties hereto, the materials depicting or relating to the Business shall be identified as work of the Joint Venture.

25.5 Offers to Employees. Each Party agrees that upon entering into this Agreement, and for a period of not less than eighteen (18) months following the termination of the Joint Venture, each Party will refrain from making unsolicited offers of employment to senior members of any staff provided by the other Party, without the consent of the other Party.

ARTICLE 26 EXPENSES

The Parties hereto agree that all fees and expenses generated for the drafting of this Agreement, the formation of AAP, as well as contractual negotiations with GE or other agreements to be entered into by the Parties or to be entered into by AAP and the Companies, as required to conduct the Business shall be paid by AAP or the other Companies, when applicable. In the event of the dissolution of AAP, the fees and costs (including but not limited to attorneys' and accountants' fees) associated with all efforts in the dissolution and wrap up of AAP and/or the Companies shall be paid by AAP unless one of the Parties in in default of its obligations hereunder. In such event, the Party in default shall be responsible for such fees and costs associated with the liquidation and dissolution of AAP and/or the Companies which shall be allocated to and paid by the defaulting Party.

This Agreement is executed by the Parties this 20 th day of October, 2009.

ARCA:		**4301:**	
APPLIANCE RECYCLING CENTERS OF AMERICA, INC.		**4301 OPERATIONS, LLC**	
By:	/s/ Edward R. Cameron	By:	/s/ Brian Conners
	Its: President		Its: President

AMENDMENT TO JOINT VENTURE AGREEMENT

THIS AMENDMENT TO JOINT VENTURE AGREEMENT is made and entered into this 3 rd day of June, 2010, by and between 4301 Operations, LLC, a Delaware limited liability company ("4301"), and Appliance Recycling Centers of America, Inc., a Minnesota corporation ("ARCA") (ARCA and 4301 are individually referred to as a "Party" and collectively referred to as the "Parties").

WHEREAS, the Parties entered into a Joint Venture Agreement dated October 20, 2009 ("JVA") relating to that certain joint venture operation to be conducted under a business entity formed under Minnesota law known as ARCA Advanced Processing, LLC (the "Company") which has been formed to operate a collection, storage, disposal of certain materials, shredding and sale of the scrap of used appliances business; and

WHEREAS, the Parties contemplated through the JVA that ARCA would successfully negotiate and enter into an agreement with General Electric or an affiliate or subsidiary thereof ("GE") to purchase used appliances from GE and to collect the same from various collection centers in a geographical area as defined in that certain Appliance Sales and Recycling Agreement dated October 21, 2009 ("GE Agreement"); and

WHEREAS, the JVA contemplated that ARCA, as part of its capital contribution to the Company, would assign and contribute its rights under the GE Agreement to the Company; and

WHEREAS, after the JVA was executed, the Parties determined that GE would not consent to the rights of ARCA under the GE Agreement to be assigned to the Company, and GE has required ARCA to retain any and all rights under the GE Agreement as a party to such contract; and

WHEREAS, the Parties desire to amend the JVA so as to provide for a subcontract relationship between the Company and ARCA such that the Company would be considered an "Affiliate" of ARCA for purposes of the GE Agreement and for the Company to serve as ARCA's subcontractor to fulfill all obligations and duties required of ARCA under the GE Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED as follows:

1. The JVA is hereby amended so that to the extent ARCA had agreed to assign its rights under the GE Agreement to the Company for the Business (as that term is defined in the JVA), the JVA shall hereinafter be modified so that ARCA will subcontract with the Company for its initial recycling and disposal center for the initial region and for the next two additional recycling centers which may be obtained by ARCA under similar contracts with GE. To the extent additional recycling centers become available to ARCA from GE, the Company's right of first refusal for such additional locations as granted under the JVA, and if exercised by the Company pursuant to the JVA, shall also be subcontracted to the Company by ARCA. Where applicable under the JVA, ARCA shall subcontract with the Company with respect to the obligations previously agreed to be assigned by ARCA to the Company.

2. ARCA hereby subcontracts with the Company to engage the Company to perform the services and to complete the obligations of ARCA under the GE Agreement. The Company agrees to indemnify and hold ARCA harmless with respect to any and all obligations of ARCA under the GE Agreement to the extent the Company fails to perform or inappropriately performs such obligations as required by GE under the GE Agreement.

3. ARCA agrees to work with GE to obtain GE's consent to the subcontract relationship and to cause GE to approve the Company as an "Affiliate" of ARCA for purposes of the subcontract relationship.

THIS AMENDMENT is executed by the Parties on this 3 rd day of June, 2010.

ARCA:		**4301:**	
APPLIANCE RECYCLING CENTERS OF AMERICA, INC.		**4301 OPERATIONS, LLC**	
By:	/s/ Edward R. Cameron	By:	/s/ Brian Conners
	Its: President		Its: President

SECOND AMENDMENT TO JOINT VENTURE AGREEMENT

THIS SECOND AMENDMENT TO JOINT VENTURE AGREEMENT is made and entered into this 15 th day of February, 2011, by and between 4301 Operations, LLC, a Delaware limited liability company ("4301"), and Appliance Recycling Centers of America, Inc., a Minnesota corporation ("ARCA") (ARCA and 4301 are individually referred to as a "Party" and collectively referred to as the "Parties").

WHEREAS, the Parties entered into a Joint Venture Agreement dated October 20, 2009 ("JVA") relating to that certain joint venture operation to be conducted under a business entity formed under Minnesota law known as ARCA Advanced Processing, LLC (the "Company") which has been formed to operate a collection, storage, disposal of certain materials, shredding and sale of the scrap of used appliances business; and

WHEREAS, the Parties amended the JVA by entering into an Amendment to Joint Venture Agreement dated October 20, 2009, whereby the Parties provided for a subcontract relationship between the Company and ARCA such that the Company would be considered an "affiliate" of ARCA for purposes of the GE Agreement and for the Company to serve as ARCA's subcontractor to fulfill all obligations and duties required of ARCA under the GE Agreement; and

WHEREAS, the Parties desire to further amend the JVA by entering into this Second Amendment to address and confirm the capital contributions made to date by ARCA and 4301 as required under the JVA; and

WHEREAS, 4301 and ARCA agreed in Section 2.1 of the JVA that each would contribute $2,000,000 in cash or in-kind assets to the Company, which assets have been contributed but accounted for in different ways under the Company's books and records.

NOW, THEREFORE, IT IS HEREBY AGREED as follows:

1. The JVA is hereby amended to reflect the fact that ARCA has contributed $2,000,000 in capital through cash contributions along with an assignment of its rights in and to the GE Contract and has granted a right of first refusal for additional recycling agreements secured by ARCA or its affiliates. 4301 has contributed lease deposits, equipment deposits, agreed value of equipment subject to liens as set forth in the JVA, along with Safe Disposal Systems' and/or 4301's existing shredder business. Although the capital contribution records of the Company reflect unequal contributions due to generally accepted accounting principles and recognition of carryover basis of assets contributed by members of an LLC, 4301's contribution of intangible assets, including existing customers, an on-going business and related know-how, is to be reflected by the Parties to the JVA that 4301's contributions shall be treated as having been fully made and satisfied consistent with Section 2.1 of the JVA.

2. Consistent with the terms of the Company's Operating Agreement and Member Control Agreement, as well as the JVA, the profits and losses of the Company shall be shared on a 50/50 basis in recognition of equal capital contributions having been made prior to the date hereof. Both parties acknowledge and agree that any future capital contributions, requirements or capital calls shall be shared equally between ARCA and 4301, except as may otherwise be agreed upon by the Parties.

THIS SECOND AMENDMENT is executed by the Parties on this 15th day of February, 2011.

ARCA:	**4301:**
APPLIANCE RECYCLING CENTERS OF AMERICA, INC.	**4301 OPERATIONS, LLC**
By: /s/ Edward R. Cameron	By: /s/ Brian Conners
Its: President	Its: President

Exhibit 21.1

Subsidiaries of Appliance Recycling Centers of America, Inc.

Name	Jurisdiction of Incorporation
ApplianceSmart, Inc.	Minnesota
ARCA Recycling, Inc	California
ARCA Canada Inc	Ontario, Canada
ARCA Advanced Processing, LLC	Minnesota

ARCA Advanced Processing, LLC is a joint venture between the Company and 4301 Operations, LLC. The Company owns a 50% interest in the entity.

All other subsidiaries are 100% owned by the Company.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File No. 333-163804, 333-176591, 333-126236) of Appliance Recycling Centers of America, Inc. of our report dated March 14, 2014, relating to the consolidated financial statements of Appliance Recycling Centers of America, Inc. and Subsidiaries, which appears on page 30 of this annual report on Form 10-K for the year ended December 28, 2013.

/s/ BAKER TILLY VIRCHOW KRAUSE, LLP

Minneapolis, Minnesota
March 14, 2014

Exhibit 31.1

CERTIFICATIONS:

I, Edward R. Cameron, certify that:

1. I have reviewed this Annual Report on Form 10-K of Appliance Recycling Centers of America, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2014

/s/ Edward R. Cameron

Edward R. Cameron

President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS:

I, Jeffrey A. Cammerrer, certify that:

1. I have reviewed this Annual Report on Form 10-K of Appliance Recycling Centers of America, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of and for the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2014

/s/ Jeffrey A. Cammerrer

Jeffrey A. Cammerrer
Chief Financial Officer

Exhibit 32.1

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

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), the undersigned Chief Executive Officer of Appliance Recycling Centers of America, Inc. (the "Company") hereby certifies that the Annual Report on Form 10-K of the Company for the fiscal year ended December 28, 2013 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 14, 2014

/s/ Edward R. Cameron

Edward R. Cameron
President and Chief Executive Officer

* A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

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

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), the undersigned Chief Financial Officer of Appliance Recycling Centers of America, Inc. (the "Company") hereby certifies that the Annual Report on Form 10-K of the Company for the fiscal year ended December 28, 2013 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 14, 2014

/s/ Jeffrey A. Cammerrer
Jeffrey A. Cammerrer
Chief Financial Officer

* A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.