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

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 27, 1997

OR

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

Commission file number 0-19621

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

MINNESOTA (State or other jurisdiction of incorporation or organization)	41-1454591 (I.R.S. Employer Identification No.)
7400 Excelsior Blvd. Minneapolis, Minnesota 55426-4517 (Address of principal executive offices)	

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

YES _X_ NO ___

As of November 7, 1997, the number of shares outstanding of the registrant's no par value common stock was 1,136,744 shares.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

INDEX

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

(Unaudited)

<TABLE>
<CAPTION>

<S>	September 27, 1997 <C>	December 28, 1996 <C>
ASSETS		
Current Assets		
Cash and cash equivalents	$ 102,000	$ 280,000
Accounts receivable, net of allowance of $36,000 in 1997 and $84,000 in 1996	998,000	1,127,000
Inventories	460,000	444,000
Other current assets	142,000	246,000
Income taxes receivable	29,000	400,000
Total current assets	$ 1,731,000	$ 2,497,000
Property and Equipment, at cost		
Land	$ 2,103,000	$ 2,103,000
Buildings and improvements	3,926,000	3,798,000
Equipment	5,551,000	5,604,000
	$ 11,580,000	$ 11,505,000
Less accumulated depreciation	4,771,000	4,086,000
Net property and equipment	$ 6,809,000	$ 7,419,000
Other Assets	$ 104,000	$ 76,000
Total assets	$ 8,644,000	$ 9,992,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Line of credit	$ 1,091,000	$ 1,390,000
Current maturities of long-term obligations	131,000	227,000
Accounts payable	922,000	1,391,000
Accrued expenses	741,000	1,160,000
Total current liabilities	$ 2,885,000	$ 4,168,000
Minority Interest in Subsidiary	85,000	-
Long-Term Obligations, less current maturities	1,635,000	1,711,000
Total liabilities	$ 4,605,000	$ 5,879,000
Shareholders' Equity		
Common stock, no par value; authorized 10,000,000 shares; issued and outstanding 1,137,000 shares as of September 27, 1997 and 1,137,000 shares as of December 28, 1996	$ 10,350,000	$ 10,350,000
Accumulated deficit	(6,311,000)	(6,237,000)
Total shareholders' equity	$ 4,039,000	$ 4,113,000
Total liabilities and shareholders' equity	$ 8,644,000	$ 9,992,000

</TABLE>

See Notes to Consolidated Financial Statements.

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

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	Three Months Ended		Nine Months Ended	
	September 27, 1997	September 28, 1996	September 27, 1997	September 28, 1996
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Revenues				
Recycling revenues	$ 1,411,000	$ 1,834,000	$ 4,881,000	$ 5,000,000
Encore revenues	1,047,000	1,666,000	3,013,000	3,851,000
Byproduct revenues	331,000	701,000	1,134,000	1,682,000
Total revenues	$ 2,789,000	$ 4,201,000	$ 9,028,000	$ 10,533,000
Cost of Revenues	1,716,000	2,772,000	5,077,000	8,314,000
Gross profit	$ 1,073,000	$ 1,429,000	$ 3,951,000	$ 2,219,000
Selling, General and Administrative Expenses	1,175,000	2,130,000	3,842,000	6,385,000
Operating income (loss)	$ (102,000)	$ (701,000)	$ 109,000	$ (4,166,000)
Other Income (Expense)				
Other income	(1,000)	21,000	118,000	92,000
Interest income	4,000	2,000	8,000	34,000
Interest expense	(82,000)	(67,000)	(255,000)	(203,000)
Income (loss) before provision for income taxes and minority interest	$ (181,000)	$ (745,000)	$ (20,000)	$ (4,243,000)
Provision for (Benefit of) Income Taxes	(2,000)	--	(31,000)	--
Income (loss) before minority interest	$ (179,000)	$ (745,000)	$ 11,000	$ (4,243,000)
Minority Interest in Net Income of Subsidiary	31,000	--	85,000	--
Net income (loss)	$ (210,000)	$ (745,000)	$ (74,000)	$ (4,243,000)
Net Earnings (Loss) per Common and Common Equivalent Share	$ (0.18)	$ (0.66)	$ (0.07)	$ (3.84)
Weighted Average Number of Common and Common Equivalent Shares	1,137,000	1,137,000	1,137,000	1,106,000

</TABLE>

See Notes to Consolidated Financial Statements.

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

<TABLE>
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	Nine Months Ended	
	September 27, 1997	September 28, 1996

<S>	<C>	<C>
Cash Flows from Operating Activities		
Net income (loss)	$ (74,000)	$(4,243,000)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	814,000	1,148,000
Minority interest in subsidiary	85,000	--
Common stock issued for services	--	30,000
(Gain) loss on sale of equipment	(66,000)	(76,000)
Deferred income taxes	--	29,000
Change in assets and liabilities, net of effects from acquisition of Universal Appliance Company, Inc. and Universal Appliance Recycling, Inc. in 1996:		
(Increase) decrease in:		
Receivables	129,000	41,000
Inventories	(16,000)	(327,000)
Other current assets	56,000	41,000
Income taxes receivable	371,000	106,000
(Increase) decrease in:		
Accounts payable	(469,000)	(270,000)
Accrued expenses	(419,000)	(424,000)
Income taxes payable	--	(28,000)
Net cash provided by (used in) operating activities	$ 411,000	$(3,973,000)
Cash Flows from Investing Activities		
Purchase of equipment	$ (204,000)	$(1,226,000)
Cash acquired for acquisition of Universal Appliance Company, Inc. and Universal Appliance Recycling, Inc.	--	26,000
Payments for noncompete agreements	--	(110,000)
Proceeds from disposal of equipment	86,000	272,000
Net cash used in investing activities	$ (118,000)	$(1,038,000)
Cash Flows from Financing Activities		
Payments on line of credit	$ (299,000)	$ -
Increase (decrease) in note payable to bank	--	1,169,000
Payments on long-term obligations	(172,000)	(1,332,000)
Proceeds from placement of common stock	--	700,000
Proceeds and tax benefit from stock options	--	54,000
Net cash provided by (used in) financing activities	$ (471,000)	$ 591,000
Effect of foreign currency exchange rate changes on cash and cash equivalents	$ -	$ 21,000
Increase (decrease) in cash and cash equivalents	$ (178,000)	$(4,399,000)
Cash and Cash Equivalents		
Beginning	280,000	4,605,000
Ending	$ 102,000	$ 206,000

</TABLE>

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

<TABLE>
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	Nine Months Ended	
	September 27, 1997	September 28, 1996
<S>	<C>	<C>
Supplemental Disclosures of Cash Flow Information		
Cash payments (receipts) for:		
Interest	$ 255,000	$ 202,000
Income taxes net of refunds	$(400,000)	$(103,000)
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Acquisition of Universal Appliance Company, Inc. and Universal Appliance Recycling, Inc.		
Working capital acquired, including cash and cash equivalents of $26,000	$ --	$ 118,000
Fair value of other assets acquired, principally		

property and equipment and a noncompete agreement	--	176,000
Value assigned to goodwill	--	302,000
Long-term debt assumed	--	(207,000)
Total consideration, 84,000 shares of common stock	$ --	$ 389,000

</TABLE>

See Notes to Consolidated Financial Statements.

Appliance Recycling Centers of America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Financial Statements
In the opinion of management of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal, recurring accruals) necessary to present fairly the financial position of the Company and its subsidiaries as of September 27, 1997, and the results of operations for the three-month and nine-month periods and its cash flows for the nine-month periods ended September 27, 1997 and September 28, 1996. The results of operations for any interim period are not necessarily indicative of the results for the year. These interim consolidated financial statements should be read in conjunction with the Company's annual financial statements and related notes in the Company's Annual Report on Form 10-K for the year ended December 28, 1996.

2. Accrued Expenses

Accrued expenses were as follows:

	September 27, 1997	December 28, 1996
Compensation	$ 153,000	$ 218,000
Lease contingencies and closing costs	195,000	466,000
Other	393,000	476,000
	$ 741,000	$ 1,160,000

3. Issued But Not Yet Adopted Accounting Standard

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

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

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

RESULTS OF OPERATIONS

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

Total revenues for the three and nine months ended September 27, 1997 were $2,789,000 and $9,028,000, respectively, compared to $4,201,000 and $10,533,000 for the same periods in the prior year.

Recycling revenues for the three and nine months ended September 27, 1997 decreased by $423,000 or 23.1% and $119,000 or 2.4%, respectively, from the same periods in the prior year. The decrease in the three month periods is due primarily to lower recycling revenues generated from the contract with Southern California Edison Company ("Edison"). The decrease in revenues between the nine month periods is due to less revenues associated with programs ended in 1996 partially offset by significant increased recycling fees generated from the Edison, Sears and Coca-Cola contracts. Recycling revenues are expected to decline in the fourth quarter of 1997 due to decreased promotional activities associated with the Edison program. Edison has filed with the California Public Utility Commission ("CPUC") for approval for a 1998 program. The Company expects to have a program with Edison in 1998, contingent on contract negotiations with Edison and CPUC approval.

Encore revenues for the three and nine months ended September 27, 1997 decreased by $619,000 or 37.2% and $838,000 or 21.8%, respectively, from the same periods in the prior year. The decrease in Encore revenues was primarily due to a lower number of retail locations. In addition, the Company had lower than expected Encore revenues in the first month of the third quarter in fiscal 1997. As of September 27, 1997, the Company operated 13 retail locations compared to 26 as of September 28, 1996. Same-store Encore sales increased by 24% for the third quarter (a sales comparison of 12 stores that were open the entire third quarter in 1997 and 1996). The Company expects retail sales for the remainder of 1997 to be lower when compared to 1996 due to fewer stores but expects a growth in retail sales per store when compared to 1996. The Company believes the improvement in same-store sales is a result of the growing awareness and acceptance of Encore stores and increased supply of product generated from a contract with Whirlpool

Corporation, Inc. ("Whirlpool"), the nation's largest manufacturer of major household appliances. The contracts with Whirlpool allow the Company to purchase damaged appliances, recondition suitable units and sell them through the Company's Encore retail stores. The Company expects these contracts to provide its retail stores with a significant new supply of high quality appliances. The Company expects Encore revenues to increase over the next twelve months. Revenues, however, will be impacted by seasonality (revenues in the second and third quarters are generally higher than in the first and fourth quarters) and the speed and acceptance of the roll out of the Whirlpool contracts.

Byproduct revenues for the three and nine months ended September 27, 1997 decreased by $370,000 or 52.8% and $548,000 or 32.6%, respectively, from the same periods in the prior year. The decrease was primarily due to lower sales of reclaimed chlorofluorocarbons ("CFCs") and scrap metals due to fewer appliances recycled. The Company expects byproduct revenues for the remainder of 1997 to continue to decrease because of lower CFC sales and numbers of appliances recycled.

Gross profit as a percentage of total revenues for the three and nine months ended September 27, 1997 increased to 38.5% and 43.8%, respectively, from 34.0% and 21.1%, respectively, for the three and nine months ended September 28, 1996. The increase was primarily due to an increase in recycling volumes from Edison and significantly lower operating expenses as a result of the restructuring the Company underwent in the fourth quarter of 1996. Gross profit as a percentage of total revenues for future periods can be affected favorably or unfavorably by numerous factors, including the volume of appliances recycled from the Edison contract, the speed at which appliance sales increase and the price and volume of byproduct revenues.

Selling, general and administrative expenses for the three and nine months ended September 27, 1997 decreased by $955,000 or 44.8% and $2,543,000 or 39.8%, respectively, from the same periods in 1996. Selling expenses for the three and nine months ended September 27, 1997 decreased by $500,000 or 58.3% and $1,058,000 or 49.3%, respectively, from the same periods in 1996. The decrease in selling expenses was primarily due to a decrease in costs associated with operating fewer retail stores than in the same periods in the prior year. General and administrative expenses for the three and nine months ended September 27, 1997 decreased by $455,000 or 35.7% and $1,485,000 or 35.0%, respectively, from the same periods of 1996. The decrease in general and administrative expenses was primarily due to operating fewer locations in 1997 compared to 1996 and a decrease in personnel costs.

Interest expense was $82,000 for the three months and $255,000 for the nine months ended September 27, 1997 compared to $67,000 and $203,000 for the same periods in 1996. The increase in interest expense was due to a higher average borrowed amount on the line of

credit in the three and nine months ended September 27, 1997 than in the same periods in 1996.

The Company recorded a benefit of income taxes of $31,000 for the nine months ended September 27, 1997 due to the liquidation of its Canadian subsidiary. The Company also has available net operating loss carryforwards which total approximately $4,500,000 and expire in 2011. At September 27, 1997, the Company had a valuation allowance recorded against its net deferred tax assets of approximately $2,800,000, due to uncertainty of realization. Realization of deferred tax assets is dependent upon the generation of sufficient future taxable income during the period that deductible temporary differences and carryforwards are expected to become available to reduce taxable income.

ARCA California, Inc., a subsidiary of the Company, is owned 80% by the Company and 20% by a minority shareholder. Accordingly, a minority interest was recorded for the three and nine months ended September 27, 1997, of $31,000 and $85,000, respectively. Previously, the subsidiary had not recognized net income. As part of the settlement described below, the Company will acquire 100% ownership.

The Company recorded a net loss of $210,000 for the three months and $74,000 for the nine months ended September 27, 1997 compared to a net loss of $745,000 and $4,243,000 in the same periods of 1996. The decrease in the net loss was primarily due to increased recycling volumes from the Edison contract and significantly lower operating and selling, general and administrative expenses as a result of the Encore restructuring in the fourth quarter of 1996.

LIQUIDITY AND CAPITAL RESOURCES

At September 27, 1997, the Company had a working capital deficit of $1,154,000 compared to a working capital deficit of $1,671,000 at December 28, 1996. Cash and cash equivalents decreased to $102,000 at September 27, 1997 from $280,000 at December 28, 1996. Net cash provided by operating activities was $411,000 for the nine months ended September 27, 1997 compared to net cash used in operating activities of $3,973,000 in the same period of 1996. The increase in cash provided by operating activities was primarily due to significantly improved operating results in 1997 compared to 1996 and a net loss of $74,000 as of September 27, 1997 versus a net loss of $4,243,000 in the same period in the prior year.

The Company's capital expenditures for the nine months ended September 27, 1997 and September 28, 1996 were approximately $204,000 and $1,226,000, respectively. The 1997 capital expenditures were primarily related to building improvements. The 1996 capital expenditures were primarily related to leasehold improvements to the Company's recycling centers and retail stores.

As of September 27, 1997, the Company had a $2.0 million line of credit with a lender. The loan rate as of September 27, 1997 was 13-1/2%. The line of credit is secured by receivables, inventory, equipment, real estate and other assets of the Company, is subject to borrowing base limitations and a portion is guaranteed by the President of the Company. The loan also requires that the Company meet certain financial covenants, provides payment penalties for noncompliance, limits the amount of other debt the Company can incur, limits the amount of spending on fixed assets and limits payments of dividends. At September 27, 1997, the Company had borrowings of $1,091,000 under this line and had an additional $416,000 available. Due to the legal proceedings commenced against the Company on August 6, 1997, the Company's secured lender called its note in October 1997. The Company has reached an interim arrangement with its lender which allows the Company to borrow an amount comparable to its previous line of credit on substantially the same terms. See "Legal Proceedings."

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

Currently, the Company has four centers and 13 stores in operation. If revenues are lower than anticipated or expenses are higher than anticipated or the line of credit cannot be maintained, the Company may require additional capital to finance operations. Sources of additional financing, if needed in the future, may include further debt financing or the sale of equity or other securities. There can be no assurance that such additional sources of financing will be available or available on terms satisfactory to the Company or permitted by the Company's current lender.

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

PART II. OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

Due to the legal proceedings brought against Appliance Recycling Centers of America-California, Inc. ("ARCA California") by its minority shareholder, ARCA California filed a voluntary petition for relief seeking a reorganization of the subsidiary under Chapter 11 of the Federal Bankruptcy Act on October 9, 1997. On November 5, 1997, a cash settlement agreement between ARCA, Inc., ARCA California, its officers and directors, and the minority shareholder was reached in which all claims between the parties were settled and ARCA, Inc. acquired all of the minority shareholder's stock in ARCA California. The agreement needs approval by the United States Bankruptcy Court. ARCA California has filed a motion with the Bankruptcy Court to approve the settlement agreement with its minority shareholder and to dismiss the Chapter 11 filing. A hearing is scheduled for November 26, 1997. ARCA California accounts for all of the revenues from the Edison contract.

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

ITEM 2 - CHANGES IN SECURITIES - None

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES - None

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS - None

ITEM 5 - OTHER INFORMATION - None

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit No. 27 - Financial Data Schedule

(b) On October 21, 1997, the Company filed a Report on Form 8K to report the filing by its subsidiary, Appliance Recycling Centers of America-California, Inc. of a voluntary petition for relief seeking a reorganization of such subsidiary under Chapter 11 of the Federal Bankruptcy Act.

SIGNATURES

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

Appliance Recycling Centers of America, Inc.
Registrant

Date: November 12, 1997 /s/Edward R. Cameron

Edward R. Cameron
President

Date: November 12, 1997 /s/Kent S. McCoy

Kent S. McCoy
Vice President of Finance, Treasurer

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