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 October 2, 1999

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 12, 1999, the number of shares outstanding of the registrant's no par value common stock was 2,286,744 shares.

APPLIANCE RECYCLING CENTERS of AMERICA, INC.

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Appliance Recycling Centers of America, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS
(Unaudited)

<TABLE>
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	October 2, 1999	January 2, 1999
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ASSETS		
Current Assets		
Cash and cash equivalents	$ 155,000	$ 14,000
Accounts receivable, net of allowance of $27,000 and $18,000, respectively	1,578,000	498,000
Inventories, net of reserves of $115,000 and $40,000, respectively	1,614,000	1,979,000
Other current assets	154,000	100,000
Total current assets	$ 3,501,000	$ 2,591,000
Property and Equipment, at cost		
Land	$ 2,103,000	$ 2,103,000
Buildings and improvements	4,043,000	3,957,000
Equipment	3,490,000	3,597,000
	$ 9,636,000	$ 9,657,000
Less accumulated depreciation	3,921,000	3,876,000
Net property and equipment	$ 5,715,000	$ 5,781,000
Other Assets	$ 270,000	$ 319,000
Goodwill, net of amortization of $67,000 and $38,000, respectively	123,000	152,000
Total assets	$ 9,609,000	$ 8,843,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Line of credit	$ 1,133,000	$ 1,081,000
Current maturities of long-term obligations	101,000	79,000
Accounts payable	1,064,000	1,202,000
Accrued expenses (Note 2)	739,000	700,000
Total current liabilities	$ 3,037,000	$ 3,062,000
Long-Term Obligations, less current maturities	4,884,000	4,965,000
Total liabilities	$ 7,921,000	$ 8,027,000
Shareholders' Equity		
Common stock, no par value; authorized 10,000,000 shares; issued and outstanding 2,287,000 shares and 1,237,000 shares, respectively (Note 4 and 6)	$ 11,345,000	$ 10,857,000
Accumulated deficit	(9,657,000)	(10,041,000)
Total shareholders' equity	$ 1,688,000	$ 816,000
Total liabilities and shareholders' equity	$ 9,609,000	$ 8,843,000

</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	
	October 2, 1999	October 3, 1998	October 2, 1999	October 3, 1998
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Revenues				
Retail	$ 2,100,000	$ 2,170,000	$ 6,104,000	$ 5,638,000
Recycling (Note 3)	2,589,000	2,084,000	5,456,000	4,841,000

Total revenues	$ 4,689,000	$ 4,254,000	$ 11,560,000	$ 10,479,000
Cost of Revenues	2,429,000	2,529,000	6,632,000	6,944,000
Gross profit	$ 2,260,000	$ 1,725,000	$ 4,928,000	$ 3,535,000
Selling, General and Administrative Expenses (Note 6)	1,536,000	1,602,000	4,067,000	4,567,000
Loss on Impaired Assets (Note 5)	--	--	--	518,000
Operating income (loss)	$ 724,000	$ 123,000	$ 861,000	$ (1,550,000)
Other Income (Expense)				
Other income	8,000	8,000	117,000	277,000
Interest expense	(200,000)	(182,000)	(594,000)	(412,000)
Income (loss) before provision for income taxes	$ 532,000	$ (51,000)	$ 384,000	$ (1,685,000)
Provision for Income Taxes	--	30,000	--	30,000
Net income (loss)	$ 532,000	$ (81,000)	$ 384,000	$ (1,715,000)
Basic Earnings (Loss) per Common Share	$ 0.23	$ (0.07)	$ 0.18	$ (1.44)
Diluted Earnings (Loss) per Common Share	$ 0.22	$ (0.07)	$ 0.18	$ (1.44)
Weighted Average Number of Common Shares Outstanding	2,271,000	1,237,000	2,102,000	1,187,000

</TABLE>

See Notes to Consolidated Financial Statements.

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

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	Nine Months Ended	
	October 2, 1999	October 3, 1998
<S>	<C>	<C>
Cash Flows from Operating Activities		
Net income (loss)	$ 384,000	$(1,715,000)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	301,000	587,000
Loss on impaired assets	--	518,000
Gain on sale of equipment	(54,000)	(232,000)
Accretion of long-term debt discount	25,000	--
Change in assets and liabilities:		
(Increase) decrease in:		
Receivables	(1,080,000)	(434,000)
Inventories	365,000	(1,214,000)
Other current assets	(54,000)	5,000
Increase (decrease) in:		
Accounts payable	(138,000)	672,000
Accrued expenses	39,000	(32,000)

Net cash used in operating activities	$ (212,000)	$(1,845,000)
Cash Flows from Investing Activities		
Purchase of property and equipment	$ (161,000)	$ (270,000)
Proceeds from disposal of property and equipment	68,000	237,000
Net cash used in investing activities	$ (93,000)	$ (33,000)
Cash Flows from Financing Activities		
Increase (decrease) in line of credit	$ 52,000	$ (987,000)
Payments on long-term obligations	(81,000)	(389,000)
Proceeds from sale of common stock	475,000	200,000
Proceeds from long-term debt obligations	--	3,718,000
Proceeds ascribed to warrants issued in conjunction with long-term debt	--	307,000
Fees from financing activities	--	(288,000)
Net cash provided by financing activities	$ 446,000	$ 2,561,000
Increase in cash and cash equivalents	$ 141,000	$ 683,000
Cash and Cash Equivalents		
Beginning	14,000	13,000
Ending	$ 155,000	$ 696,000
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$ 508,000	$ 414,000
Income taxes net of refunds	--	--

</TABLE>

See Notes to Consolidated Financial Statements.

Appliance Recycling Centers of America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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 October 2, 1999, and the results of their operations for the three-month and nine-month periods ended October 2, 1999 and October 3, 1998 and their cash flows for the nine-month periods ended October 2, 1999 and October 3, 1998. 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 consolidated financial statements and related notes in the Company's Annual Report on Form 10-K for the year ended January 2, 1999.

2. Accrued Expenses

Accrued expenses were as follows:

	October 2, 1999	January 2, 1999
Compensation	$259,000	$139,000
Warranty	189,000	157,000
Other	291,000	404,000
	$739,000	$700,000

3. Revenue Classification

In prior reports, the Company had separately reported byproduct revenues which now are included in recycling revenues.

4. Sale of Common Stock

In February 1999, the Company sold in a private placement 1,030,000 shares of Common Stock at a price of $0.50 per share. The Company paid $31,500 of the proceeds and issued warrants to purchase 83,000 shares of Common Stock at $0.50 per share, subject to adjustment, to an investment banker as a placement fee. The remaining proceeds were used to repay certain indebtedness, to purchase inventory and for other general corporate purposes. The warrants were valued at $27,800 using the Black-Scholes option-pricing method and are recorded in equity.

5. Loss On Impaired Assets

During the nine months ended October 3, 1998, the Company elected to curtail its appliance shredding operation and intensify its strategic focus on appliance retailing. As a result, the Company recorded $518,000 as a loss on impaired assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) - continued

6. Settlement

In August 1999, the Company settled a lawsuit with a former employee. The settlement included a cash payment of $105,000 and the issuance of 20,000 shares of the Company's common stock valued at $12,500. The previously unaccrued portion of this settlement, ($74,000) is included in selling, general and administrative expenses for the three and nine month periods ended October 2, 1999.

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 operations 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 two sources: retail appliance sales and appliance recycling. Retail revenues are sales of appliances, warranty and service revenue and delivery fees. Recycling revenues are fees charged for the disposal of appliances and sales of scrap metal and reclaimed chlorofluorocarbons ("CFCs") generated from processed appliances. In prior reports, the Company had separately reported byproduct revenues, which now are included in recycling revenues.

Total revenues for the three and nine months ended October 2, 1999 were $4,689,000 and $11,560,000, respectively, compared to $4,254,000 and $10,479,000 for the same periods in the prior year.

Retail sales accounted for approximately 45% of revenues in the third quarter of 1999. Retail revenues for the three and nine months ended October 2, 1999 decreased by $70,000 or 3% and increased by $466,000 or 8%, respectively, from the same periods in the prior year. Third quarter same-store retail sales increased 50% (a sales comparison of 6 stores that were open the entire third quarters of 1999 and 1998). The slight decrease in retail sales for the third quarter compared to the same period in the prior year was primarily due to fewer stores being opened during the third quarter of 1999 as compared to 1998 offset by an increase in retail sales in the stores that remained open. The increase in retail sales for the nine months ended October 2, 1999 compared to the same period in the prior year was primarily due to increased advertising and an increase in inventory per location, partially offset by a decrease in sales of reconditioned appliances.

Currently, the Company has six retail locations compared to 11 retail locations at the end of last year's third quarter. The Company does not plan to expand its retail business into new geographic markets at this time but to concentrate on increasing sales in its existing markets. Currently the Company does not plan to close or consolidate any existing stores or open any new retail locations. The Company experiences seasonal fluctuations and expects retail sales to be higher in the second and third calendar quarters than in the first and fourth calendar quarters, reflecting consumer purchasing cycles.

RESULTS OF OPERATIONS - continued

Recycling revenues for the three and nine months ended October 2, 1999 increased by $505,000 or 24% and $615,000 or 13%, respectively, from the same periods in the prior year. The increase for the three and nine months ended October 2, 1999 in recycling revenues was primarily due to an increase in refrigerator recycling volumes related to the contract with Southern California Edison Company ("Edison") and an increase in sales of CFCs, partially offset for the nine month period only by a decrease in sales of scrap metal. The decrease in sales of scrap metal was primarily due to a decrease in

scrap metal prices. The increase in sales of CFCs was primarily due to a higher number of refrigerators being recycled related to the Edison contract. In April 1999, the Company signed a contract with Edison to continue its refrigerator recycling program through December 30, 1999. Unlike the previous contracts, the contract for 1999 does not provide for a minimum number of refrigerators to be recycled. However, the contract is expected to generate higher recycling volumes in 1999 compared to 1998. The timing and amount of revenues will be dependent on advertising by Edison. The Company believes the program with Edison will be continued for the year 2000.

Gross profit as a percentage of total revenues for the three and nine months ended October 2, 1999 increased to 48% and 43% from 41% and 34%, respectively. The increases were primarily due to improved purchase price and mix of inventory for retail sales, higher recycling revenues from the Edison contract without a corresponding increase in expenses and discontinuing unprofitable programs. 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 mix of retail product sold during the period and the price and volume of byproduct revenues. The Company believes that gross profit as a percentage of total revenues will decrease slightly in the fourth quarter due to anticipated lower retail sales and lower recycling revenues from the Edison contract with a corresponding decrease in expenses.

Selling, general and administrative expenses for the three and nine months ended October 2, 1999 decreased by $66,000 or 4% and $500,000 or 11%, respectively, from the same periods in 1998. Selling expenses for the three and nine months ended October 2, 1999 decreased by $17,000 or 3% and $67,000 or 5%, respectively, from the same periods in 1998. The decrease in selling expenses was primarily due to operating fewer retail stores during the first nine months of 1999 compared to 1998 offset by an increase in advertising during the first nine months of 1999 compared to 1998. General and administrative expenses for the three and nine months ended October 2, 1999 decreased by $49,000 or 4% and $433,000 or 14%, respectively, from the same periods in 1998. The decrease in general and administrative expenses was primarily due to a decrease in personnel costs as a result of an expense reduction program implemented primarily in the first quarter of 1999 which included the closing of the St. Louis, MO operation and the elimination of the V.P. of Operations and Chief Financial Officer positions offset by the lawsuit settlement in the third quarter of 1999.

The Company took a one-time charge of $518,000 during the nine months ended October 3, 1998 related to a loss on impaired assets associated with the Company's decision to curtail the appliance shredding operation of its recycling business related primarily to the Company's Minneapolis center.

Interest expense was $200,000 for the three months and $594,000 for the nine months ended October 2, 1999 compared to $182,000 and $412,000 for the same periods in 1998. The increase in interest expense was due to a higher average borrowed amount for the three and nine months ended October 2, 1999 than in the same periods in 1998.

The Company recorded no provision for income taxes for the three and nine months ended October 2, 1999 due to the use of deferred tax assets (which had been offset by a valuation allowance) to offset income taxes payable. However, no benefit provision and related asset has been recorded for the remaining net operating loss carryforwards and other net deferred tax assets due to the uncertainty of realization of the net operating loss carryforwards. Net operating loss carryforwards total approximately $8,500,000 and expire in the years 2011 through 2013. At October 2, 1999, the Company had a valuation allowance recorded against all of its net deferred tax assets of approximately $4,200,000, due to uncertainty of realization. The realization of deferred tax assets is dependent upon sufficient future taxable income during the periods when deductible temporary differences and carryforwards are expected to become available to reduce taxable income.

Net operating loss carryforwards may be subject to significant limitations under the provisions of the Internal Revenue Code, Section 382, which relate to a 50 percent change in control over a three-year period. In addition, any future changes of control may result in the expiration of a portion of the carryforwards before they can be used and are also dependent upon the Company attaining profitable operations in the future.

The Company recorded net income of $532,000 or $.22 per diluted share for the three months and $384,000 or $.18 per diluted share for the nine months ended October 2, 1999 compared to net losses of $81,000 or $.07 per diluted share and $1,715,000 or $1.44 per diluted share in the same periods of 1998. The increase in income for the three and nine month periods was due to the factors discussed above.

LIQUIDITY AND CAPITAL RESOURCES

At October 2, 1999, the Company had working capital of $464,000 compared to a working capital deficit of $471,000 at January 2, 1999. Cash and cash equivalents increased to $155,000 at October 2, 1999 from $14,000 at January 2, 1999. Net cash used in operating activities was $212,000 for the nine months ended October 2, 1999 compared to $1,845,000 in the same period of 1998. The decrease in cash used in operating activities was primarily due to the Company having net income in the current period versus a net loss in the comparable period last year (net of noncash loss on impaired assets in 1998) plus a decrease in inventories offset by an increase in accounts receivable and a decrease in accounts payable.

The Company's capital expenditures for the nine months ended October 2, 1999 and October 3, 1998 were approximately $161,000 and $270,000, respectively. The 1999 capital expenditures were related to building improvements and the purchase of computer equipment. The 1998 capital expenditures were primarily related to building improvements.

The Company has a $2.0 million line of credit with a lender. The interest rate as of October 2, 1999 was 13.25%. The amount of borrowings available under the line of credit is based on a formula using receivables and inventories. The line of credit was renewed through August 30, 2000 on the same terms as the loan in place prior to August 1999. The line of credit provides that the lender may demand payment in full of the entire outstanding balance of the loan at any time. The line of credit is secured by substantially all the Company's assets, is guaranteed by the President of the Company, and requires minimum monthly interest payments of $5,625 regardless of the outstanding principal balance. The Lender also has an inventory repurchase agreement with Whirlpool Corporation that secures the line of credit. The line 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 October 2, 1999, the Company was in compliance with such covenants and had unused borrowing capacity of $760,000.

In April 1999, the Company signed a contract with Edison to continue its refrigerator recycling program through December 30, 1999. Unlike the previous contracts, the contract for 1999 does not provide for a minimum number of refrigerators to be recycled. However, the contract is expected to generate higher recycling volumes in 1999 compared to 1998. The timing and amount of revenues will be dependent on advertising by Edison. The Company believes the program with Edison will be continued for the year 2000.

LIQUIDITY AND CAPITAL RESOURCES - continued

The Company believes, based on the anticipated revenues from the Edison contract, the anticipated sales per retail store and its anticipated increase in gross profit, that its cash balance, anticipated funds generated from operations and its current line of credit will be sufficient to finance its operations and capital expenditures through December 1999. The Company's total capital requirements for the remainder of 1999 and for 2000 will depend upon, among other things as discussed below, the recycling volumes generated from the Edison program in 1999, renewal of the Edison program for the year 2000 and the number and size of retail stores operating during the fiscal year. Currently, the Company has three centers and six 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 (common or preferred stock) 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.

YEAR 2000

Based on its assessment of the Year 2000 issue, the Company determined that it would be required to modify or replace significant portions of its software so that its computer systems would properly utilize dates beyond December 31, 1999. The Company believes that with the planned modifications to existing software and conversions to new software, the Year 2000 issue will not have a material adverse impact on the Company's operations. However, if such modifications and conversions are not made, or are not completed in a timely manner, the Year 2000 issue could have a material impact on the operations of the Company. The Company has determined it has no exposure to contingencies related to the Year 2000 issue for products it has sold.

The Company is utilizing both internal and external resources to replace and test the software for Year 2000 modifications. The Company currently estimates that it will be able to complete its Year 2000 project by December 1, 1999. The costs of the project are being funded through operating cash flows. A portion of the costs was used to purchase new software, which was capitalized. The remaining portion of the costs was expensed as incurred over the course of the project. The overall cost of the project is expected to be approximately $260,000. To date, the Company has incurred and expensed approximately $193,000 related to the assessment of, and preliminary efforts in connection with, its Year 2000 project and development of a remediation plan. The Company's cost and estimates to complete the Year 2000 project include the cost of modifications to existing software, the acquisition of new software and the estimated costs and time associated with assessing the impact on the Company of third parties' Year 2000 issue. All such estimates are based on presently available information.

YEAR 2000 - continued

The Company has initiated communications with all of its significant suppliers and large customers to determine the extent to which the Company is vulnerable to those third parties' failure to remediate their own Year 2000 issue. However, there can be no guarantee that the systems of other companies on which the Company's systems rely will be timely converted, or that a failure to convert by another company, or a conversion that is incompatible with the Company's systems, would not have material adverse effect on the Company.

At this time, the Company believes that its most likely worst case scenario is that the Company could experience delays in receipt of inventory and/or could experience a delay in payments on accounts receivable from key customers. In the event that either of these scenarios occur, management believes that it would not have a long-term material adverse effect on the Company's financial condition and results of operations.

The Company has prepared contingency plans so that the Company's critical business processes can be expected to continue to function on January 1, 2000 and beyond. These plans are intended to mitigate both internal risks as well as potential risks in the supply chain of the Company's suppliers and customers. These plans include manual operating procedures and identifying and securing alternative supplies of inventory and sources of financing.

The costs of the project and the date by which the Company plans to complete the Year 2000 modifications and contingency plans are based on management's best estimates, which were derived utilizing numerous assumptions of future events, including the continued availability of certain resources, third party modification plans and other factors. However, there can be no assurances that these estimates will be achieved and actual results could differ materially from those plans. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, and similar uncertainties.

FORWARD-LOOKING STATEMENTS

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 Edison to deliver units under its contract with the Company, the timing of such delivery, the timing of

advertising by Edison for the program and the renewal of the program with Edison for the year 2000. Additionally, forward-looking information will also be affected by the ability of individual stores to meet planned revenue levels, the speed at which individual retail stores reach profitability, the Company being able to contain overhead expenses or whether costs and expenses are realized at higher than expected levels, the continued ability to purchase product from Whirlpool at acceptable prices, the Company's ability to secure an adequate supply of used appliances for resale and the continued availability of the Company's current line of credit.

PART II. OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

In August 1999, the Company settled a lawsuit with a former employee. The settlement included a cash payment of $105,000 and the issuance of 20,000 shares of the Company's common stock.

ITEM 2 - CHANGES IN SECURITIES AND USE OF PROCEEDS

In August 1999, the Company issued 20,000 shares of restricted common stock. The holder of such shares has certain limited registration rights. See Item I above.

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) The Company did not file any reports on Form 8-K during the three months ended October 2, 1999.

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, 1999 /s/Edward R. Cameron
Edward R. Cameron
President

Date: November 12, 1999 /s/Linda Koenig
Linda Koenig
Controller

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