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

FORM 10-Q

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

For the quarterly period ended April 1, 2017

or

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

Commission File No. 0-19621

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
(Exact name of registrant as specified in its charter)

Minnesota (State or other jurisdiction of incorporation or organization)	**41-1454591** (I.R.S. Employer Identification No.)
175 Jackson Avenue North Suite 102, Minneapolis, Minnesota (Address of principal executive offices)	**55343** (Zip Code)

952-930-9000
(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 (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 files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☒
Emerging growth company ☐	

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☒ No

As of March 31, 2017, there were outstanding 6,655,365 shares of the registrant's Common Stock, without par value.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	April 1, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and cash equivalents	$ 809	$ 968
Trade and other receivables, net	8,811	10,509
Inventories, net	13,182	16,291
Income Tax receivable	–	16
Prepaid expenses and other current assets	675	761
Total current assets	23,477	28,545
Property and equipment, net	8,262	10,116
Restricted cash	536	500
Deposits and other assets	676	614
Deferred taxes	1,604	2,081
Total assets	$ 34,555	$ 41,856
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	$ 5,114	$ 6,143
Accrued liabilities	8,882	8,888
Line of Credit	2,374	10,333
Accrued income taxes	763	–
Current portion of long term maturities	1,241	2,093
Total current liabilities	18,374	27,457
Long term obligations, less current maturities	2,653	2,826
Other noncurrent liabilities	338	364
Total Liabilities	21,365	30,647
Stockholders' equity:		
Common stock, no par value, 50,000 shares authorized, 6,655 shares issued and and outstanding at March 31, 2017 and December 31, 2016	22,428	22,405
Accumulated deficit	(8,820)	(11,028)
Accumulated other comprehensive loss	(561)	(574)
Total equity	13,047	10,803
Non controlling interest	143	406
Total liabilities and equity	$ 34,555	$ 41,856

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(in Thousands)

	Three Months Ended	
	April 1, 2017 (Unaudited)	April 2, 2016
Revenues	$ 23,239	$ 25,345
Cost of revenues	17,216	19,154
Gross profit	6,023	6,191
Operating expenses:		
Selling, general and administrative expenses	7,732	6,978
Operating loss	(1,709)	(787)
Other income (expense):		
Interest expense, net	(297)	(283)
Gain on sale of property and other income	5,163	–
Other income	5	120
Total other income (expense), net	4,871	(163)
Income (loss) before provision for income taxes	3,162	(950)
Total provision (benefit) for income taxes	1,217	(320)
Net income (loss) attributed to controlling interest	1,945	(630)
Net loss attributed to noncontrolling interest	(263)	(179)
Net income (loss) attributed to controlling interest	$ 2,208	$ (451)
Earnings (loss) per share:		
Basic	$ 0.33	$ (0.08)
Diluted	$ 0.32	$ (0.08)
Weighted average common shares outstanding:		
Basic	6,655	5,901
Diluted	6,822	5,901
Net income (loss)	$ 1,945	$ (630)
Other comprehensive income (loss), net of tax		
Effect of foreign currency translation adjustments	13	19
Total other comprehensive income (loss), net of tax	13	19
Comprehensive income (loss)	1,958	(611)
Comprehensive loss attributable to noncontrolling interest	263	179
Comprehensive income (loss) attributable to controlling interest	$ 2,221	$ (432)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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

	Three Months Ended	
	April 1, 2017	April 2,2016
OPERATING ACTIVITIES:		
Net income (loss)	$ 1,945	$ (630)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	302	325
Amortization of debt issuance costs	53	42
Stock based compensation expense	23	38
Gain on sale of property	(5,163)	–
Change in reserve for uncollectible accounts	(26)	–
Change in deferred income taxes	477	–
Other	(31)	–
Changes in assets and liabilities:		
Trade and other receivables	1,731	530
Prepaid expenses and other current assets	86	(153)
Inventories	3,111	1,456
Accounts payable and accrued liabilities	(1,066)	1,610
Accrued income taxes	775	(303)
Net cash provided by operating activities	2,217	2,915
INVESTING ACTIVITIES:		
Purchases of property and equipment	(70)	(137)
Proceeds from sale of property and equipment, net	6,785	–
Increase in restricted cash	(36)	–
Other	(56)	(4)
Net cash provided by (used) in investing activities	6,623	(141)
FINANCING ACTIVITIES:		
Net payments under line of credit	(7,959)	(2,256)
Proceeds from issuance of debt obligations	–	100
Payment of debt issuance costs	–	(125)
Payments on debt obligations	(1,078)	(138)
Net cash used in financing activities	(9,037)	(2,419)
Effect of changes in exchange rate on cash and cash equivalents	38	(1)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(159)	354
CASH AND CASH EQUIVALENTS, beginning of period	968	1,969
CASH AND CASH EQUIVALENTS, end of period	$ 809	$ 2,323
Supplemental cash flow disclosures:		
Interest paid	$ 213	$ 213
Income taxes paid	$ –	$ (5)
Noncash financing and investing activities:		
Debt issuance costs related to credit agreement renewal	$ –	$ 63

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

(In thousands)

1. Nature of Business and Basis of Presentation

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.

The accompanying balance sheet as of April 1, 2017 which has been derived from audited consolidated financial statements and the unaudited consolidated financial statements have been prepared by the Company in accordance with generally accepted accounting principles ("GAAP") in the United States of America for interim financial information and Article 8 of Regulation S-X promulgated by the United States Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, normal and recurring adjustments and accruals considered necessary for a fair presentation for the periods indicated have been included. Operating results for the three-month periods ended April 1, 2017 and April 2, 2016, are presented using 13-week periods, respectively. The results of operations for any interim period are not necessarily indicative of the results for the year.

In preparation of the Company's condensed consolidated financial statements, management is required to make estimates and assumptions that affect reported amounts of assets and liabilities and related revenues and expenses during the reporting periods. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

These condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and related notes thereto for the year ended December 31, 2016, included in the Company's Annual Report on Form 10-K filed with the SEC on March 31, 2017.

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. CA 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 energy 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. Both ARCA and 4301 have a 50% interest in AAP. AAP established a regional processing center in Philadelphia, Pennsylvania, at which the recyclable appliances are processed. 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 and we have provided substantial financial support to fund the operations of AAP since its inception.

2. Inventories

Inventories, consisting principally of appliances, are stated at the lower of cost, determined on a specific identification basis, or net realizable value and consist of:

	April 1, 2017	December 31, 2016
Appliances held for resale	$ 13,062	$ 16,146
Processed metals from recycled appliances held for resale	114	139
Other	6	6
	$ 13,182	$ 16,291

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 aging's and margin analysis in determining our provision estimate. A revised cost basis is used once a provision for obsolescence is recorded.

3. Earnings per Share

Basic income per common share is computed based on the weighted average number of common shares outstanding. Diluted income 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 attributable to controlling interest 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 and warrants with exercise prices below average market prices, for the respective reporting periods 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 quarter. For the three months ended April 1, 2017 and April 2, 2016, we excluded options and warrants to purchase 901 and 513 shares of common stock from the diluted weighted average shares outstanding calculation as the effect of these options were anti-dilutive.

	Three Months Ended	
	April 1, 2017	April 2, 2016
Basic		
Net income (loss) attributed to controlling interest	$ 2,208	$ (451)
Weighted average common shares outstanding	6,655	5,901
Basic earnings (loss) per share	$ 0.33	$ (0.08)
Diluted		
Net income (loss) applicable to diluted earnings (loss) per share	$ 2,208	$ (451)
Weighted average common shares outstanding	6,655	5,901
Add: Options	–	–
Add: Common Stock Warrants	167	–
Assumed diluted weighted average common shares outstanding	6,822	5,901
Diluted earnings (loss) per share	$ 0.32	$ (0.08)

4. Share-Based Compensation

We recognized share-based compensation expense (benefit) of $23 and $38 for the three months ended April 1, 2017, and April 2, 2016 respectively.

Based on the value of options outstanding as of April 1, 2017, estimated future share-based compensation expense is as follows:

Balance of fiscal year 2017	$	9
Fiscal year 2018		0
	$	9

The estimate above does not include any expense for additional options that may be granted and vest during the remainder of 2016 and 2017.

5. Product Warranty

We provide a warranty for the replacement or repair of certain defective units, which varies based on the product sold. 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, which are included in accrued liabilities.

Changes in our warranty accrual are as follows:

	Three Months Ended	
	April 1, 2017	December 31, 2016
Beginning balance	$ 26	$ 42
Standard accrual based on units sold	4	17
Actual costs incurred	(4)	(16)
Periodic accrual adjustments	(4)	(17)
Ending balance	$ 22	$ 26

6. 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 provided substantial 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 of April 1, 2017 and December 31, 2016:

	April 1, 2017	December 31, 2016
Assets		
Current assets	$ 307	$ 438
Property and equipment, net	7,120	7,322
Other assets	83	83
Total assets	$ 7,510	$ 7,843
Liabilities		
Accounts payable	$ 2,439	$ 1,388
Accrued expenses	555	523
Current maturities of long-term debt obligations	734	3,558
Long-term debt obligations, net of current maturities	3,208	435
Other liabilities	289	1,126
Total liabilities	$ 7,225	$ 7,030

(a) Other liabilities represent loans and advances between ARCA and AAP that are eliminated in consolidation.

The following table summarizes the operating results of AAP for the three months and nine months ended April 1, 2017, and April 2, 2016:

	Three Months Ended	
	April 1, 2017	April 2, 2016
Revenues	$ 485	$ 1,715
Gross profit	(117)	152
Operating loss	(475)	(274)
Net loss	(511)	(358)

7. Property and Equipment

Property and equipment as of April 1, 2017, and December 31, 2016, consist of the following:

	Useful Life (Years)	April 1, 2017	December 31, 2016
Land		$ –	$ 1,140
Buildings and improvements	18-30	2,287	3,780
Equipment (including computer software)	3-15	18,658	19,260
Projects under construction		205	204
Property and equipment		21,150	24,384
Less accumulated depreciation and amortization		(12,888)	(14,268)
Property and equipment, net		$ 8,262	$ 10,116

Depreciation and amortization expense was $302 and $325 for the 13 weeks ended April 1, 2017 and April 2, 2016, respectively.

On January 25, 2017, the Company sold its' Compton California facility for $7,103 to Terreno Acacia, LLC. The proceeds from the sale paid off the PNC term loan that was secured by the property, in the amount of $1,020, costs of sale of $325 and the difference of $5,758 was paid towards the PNC Revolver loan. The Company recorded a gain on the sale of property of $5,163. The Company rented the Compton California facility after the sale from January 26, 2017 through April 10, 2017.

8. Other Assets

Other assets as of April 1, 2017, and December 31, 2016, consist of the following:

	April 1, 2017	December 31, 2016
Deposits	$ 428	$ 453
Other	192	104
Recycling contract, net	18	19
Goodwill	38	38
	$ 676	$ 614

For the three months ended April 1, 2017 and December 31, 2016, we recorded amortization expense of $0 and $21, respectively, related to our finite intangible assets.

9. Accrued Expenses

Accrued expenses as of April 1, 2017, and December 31, 2016, consist of the following:

	April 1, 2017	December 31, 2016
Sales tax estimates, including interest	$ 4,839	$ 4,203
Compensation and benefits	1,713	2,431
Accrued incentive and rebate checks	1	358
Accrued rent	244	263
Warranty	22	26
Accrued payables	859	570
Deferred revenue	357	227
Other	847	810
	$ 8,882	$ 8,888

10. Line of Credit

We have a Revolving Credit, Term Loan and Security Agreement, as amended, ("PNC Revolver Credit Agreement") with PNC Bank, National Association ("PNC") that provides us with a $15,000 revolving line of credit. 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 April 2, 2016, that we meet some minimum earnings before interest, taxes, depreciation and amortization, and continuing at the end of each quarter thereafter, that we meet a minimum fixed charge coverage ratio of 1.1 to 1.0. 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.

The interest rate on the Revolving Credit Agreement, in our renewal agreement on January 22, 2016, is PNC Base Rate plus 1.75% to 3.25%, or 1-, 2- or 3-month PNC LIBOR Rate plus 2.75% to 4.25%, with the rate being dependent on our level of fixed charge coverage. 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 as its prime rate, (ii) the Federal Funds Open Rate plus 0.5%, and (iii) the one-month LIBOR rate plus 100 basis points (1%).

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. On April 1, 2017 and December 31, 2016, our available borrowing capacity under the Revolving Credit Agreement was $3,011 and $3.234, respectively. A total of $750 of Letters of credit was outstanding at April 1, 2017 and December 31, 2016, respectively. The weighted average interest rate for the period of January 1, 2017 through April 1, 2017 was 9.00%. We borrowed $28,249 and repaid $36,208 on the PNC Revolver during the thirteen weeks ended April 1, 2017, leaving an outstanding balance on the PNC Revolver of $2,374 and $10,333 at April 1, 2017 and December 31, 2016, respectively. As disclosed by the Company in item 2.01 of its current report on Form 8-K filed on January 31, 2017. The Company sold its Compton, California building and land for $7,103. The net proceeds from the sale, after costs of sale and payoff of the existing PNC term loan were used to reduce the outstanding balance under our PNC Revolver.

On May 1, 2017, the PNC Revolver loan and agreement was amended and extended through June 2, 2017. The amendment effective May 2, 2017 reduced the maximum amount of borrowing under the PNC Revolver to $6 million. The PNC revolver was paid in full on May 10, 2017 with funds provided by new financing with MidCap Financial. See Subsequent Events Footnote 15.

11. Borrowings

Long-term debt, capital lease and other financing obligations as of April 2, 2017, and December 31, 2016, consist of the following:

	April 1, 2017	December 31, 2016
PNC term loan	$ –	$ 1,020
Susquehanna term loans	3,242	3,242
8.00% notes	582	582
2.75% note, due in month installments of $3, including interest, due October 2024	278	287
Capital leases and other financing obligations	470	567
Debt issuance costs, net	(678)	(779)
Total debt obligations	3,894	4,919
Less current maturities	(1,241)	(2,093)
Long-term debt obligations, net of current maturities	$ 2,653	$ 2,826

On January 24, 2011, we entered into a $2,550 Term Loan ("Term Loan") with PNC Bank to refinance 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. The Revolving Credit Agreement requires a balloon payment of $1,020 in principal plus interest and additional fees will be due on January 31, 2017. 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% to 3.75%, or 1-, 2- or 3-month PNC LIBOR Rate plus 3.25% to 4.75%, with the rate being dependent on our level of fixed charge coverage. The Term Loan was paid off in full on January 25, 2017.

On March 10, 2011, AAP 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 July 2, 2016, and January 2, 2016, the interest rate was 6.00%. 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. In connection with these Term Loans, Susquehanna Bank also has a security interest in the recycling equipment assets of the Company.

On November 8, 2016, the Company entered into a securities purchase agreement with Energy Efficiency Investments, LLC, pursuant to which the company agreed to issue up to $7,732 principal amount of 3% Original Issue Discount Senior Convertible Promissory Notes of the Company and related common stock purchase warrants. The notes will be issued from time to time, up to such aggregate principal amount, at the request of the Company, subject to certain conditions, or at the option of the Investor. Interest accrues at the rate of eight percent per annum on the principal amount of the notes outstanding from time to time, and is payable at maturity or, if earlier, upon conversion of the notes. The principal amount of the notes outstanding at April 1, 2017 and December 31, 2016, was $100.

Capital leases and other financing obligations: We acquire certain equipment under capital leases and other financing obligations. The cost of the equipment was $2,601 and $2,601 as of April 1, 2017, and December 31, 2016, respectively. Accumulated amortization as of April 1, 2017, and December 31, 2016, was approximately $2,131 and 1,771, respectively. Depreciation and amortization expense is included in cost of revenues and selling, general and administrative expenses.

12. Commitments and Contingencies

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

On November 6, 2015, a complaint was filed in the Minnesota District Court for Hennepin County, Minnesota, by David Gray and Michael Boller, purporting to bring suit derivatively and on behalf of the Company against twelve current and former officers and directors of the Company. The complaint alleges that the defendants breached their fiduciary duties based on substantially similar allegations to those asserted in Mr. Feola's putative securities class action complaint, and that the defendants have been unjustly enriched as a result thereof. The complaint seeks damages, disgorgement, an award of attorneys' fees and other expenses, and an order compelling changes to the Company's corporate governance and internal procedures. This matter has been stayed by the court, pursuant to a stipulation of the parties, until the United States District Court for the Central District of California determines the legal sufficiency of Mr. Feola's complaint or other specified developments occur in that case. This matter has been submitted to our insurance carriers. Given the uncertainty of litigation and the preliminary stage of this case, we cannot reasonably estimate the possible loss or range of loss that may result from these actions. The Company maintains liability insurance policies that may reduce the Company's exposure, if any.

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 Whirlpool sold 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.

AMTIM Capital, Inc. ("AMTIM") acts 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 agreements 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. In a lawsuit filed in the province of Ontario, AMTIM claims a discrepancy in the calculation of fees due to AMTIM by us of approximately $2,000. Although the outcome of this claim is uncertain, we believe that no further amounts are due under the terms of the agreement and will continue to defend our position relative to this lawsuit.

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.

13. Income Taxes

Our overall effective tax rate was 38.5% and (24.5)% for the three months ended April 1, 2017 and April 2, 2016, respectively. The effective tax rate varies from the U.S. federal statutory rate due to state taxes, foreign taxes, share-based compensation, non-controlling interest, and certain non-deductible expenses. Deferred income taxes decreased by $477 as a result of the current provision for income taxes.

We regularly evaluate both positive and negative evidence related to retaining a valuation allowance against certain deferred tax assets. 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 be available to reduce taxable income. We have concluded based on the weight of evidence that a valuation allowance should be maintained against certain deferred tax assets that we do not expect to utilize in the near future. The Company continues to have a full valuation allowance against its Canadian operations.

14. 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 and includes byproduct revenue, which is primarily generated through the recycling of appliances. We have included the results from consolidating AAP in our recycling segment. 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 revenues and income 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.

The following tables present our segment information for periods indicated:

	Three Months Ended	
	April 1, 2017	April 2, 2016
Revenues:		
Retail	$ 15,789	$ 16,668
Recycling	7,450	8,677
Total revenues	$ 23,239	$ 25,345
Gross profit		
Retail	4,207	4,686
Recycling	1,816	1,505
Total gross profit	6,023	6,191
Operating loss:		
Retail	$ (78)	$ 63
Recycling	(1,631)	(850)
Total operating loss	$ (1,709)	$ (787)
Depreciation and amortization:		
Retail	$ 45	$ 54
Recycling	257	271
Total depreciation and amortization	$ 302	$ 325
Interest Expenses		
Retail	1	248
Recycling	296	35
Total interest expenses	297	283

	April 1, 2017	December 31, 2016
Total Assets		
Retail	$ 5,666	$ 17,559
Recycling	28,889	24,297
	$ 34,555	$ 41,856
Intangible assets		
Retail	$ –	$ –
Recycling	56	56
	$ 56	$ 56

15. Subsequent Events

MidCap Financing

On May 10, 2017, Appliance Recycling Centers of America, Inc. and its subsidiaries ("we") entered into a Credit and Security Agreement ("Credit Agreement") with MidCap Financial Trust, as a Lender and as Agent for itself and other lenders under the Credit Agreement (the "Lender"). The Credit Agreement provides us with a $12 million revolving line of credit, which may be increased to $16 million under certain terms and conditions. The Credit Agreement has a stated maturity date of May 10, 2020, if not renewed. The Credit Agreement is collateralized by a security interest in substantially all of our assets. The Lender is also secured by an inventory repurchase agreement with Whirlpool Corporation for Whirlpool purchases only. The Credit Agreement requires that we meet a minimum fixed charge coverage ratio of 1.00:1.00 for the applicable measuring period as of the end of each calendar month. The applicable measuring period is (i) the period commencing May 1, 2017 and ending on the last day of each calendar month from May 31, 2017 through April 30, 2018, and (ii) the twelve-month period ending on the last day of such calendar month thereafter. The Credit Agreement limits the amount of other debt we can incur, the amount we can spend on fixed assets, and the amount of investments we can make, along with prohibiting the payment of dividends.

The amount of revolving borrowings available under the Credit Agreement is based on a formula using receivables and inventories. We may not have access to the full $12 million revolving line of credit due to the formula using our receivables and inventories and the amount of any outstanding letters of credit issued by the Lender. As of May 10, 2017, the outstanding balance under the Credit Agreement was $2,700 and our available borrowing capacity was $3,017. The interest rate on the revolving line of credit is the one month LIBOR rate plus four and one-half percent (4.50%). As of May 10, 2017, the interest rate was .98856%.

In connection with this Credit Agreement, we paid off and terminated our existing Revolving Credit, Term Loan and Security Agreement, as amended, with PNC Bank, National Association on the same date.

Sales and Use Tax Assessment

We operate in twenty-three states in the U.S. and in various provinces in Canada. From time to time, we are subject to sales and use tax audits that could result in additional taxes, penalties and interest owed to various taxing authorities.

As previously disclosed, the California Board of Equalization ("BOE") conducted a sales and use tax examination covering the California operations of Appliance Recycling Centers of America, Inc. (the "Company") for 2011, 2012 and 2013. The Company believed it was exempt from collecting sales taxes under service agreements with utility customers that included appliance replacement programs. During the fourth quarter of 2014, the Company received communication from the BOE indicating they were not in agreement with the Company's interpretation of the law. As a result, the Company applied for and, as of February 9, 2015, received approval to participate in the California Board of Equalization's Managed Audit Program. The period covered under this program included 2011, 2012, 2013 and extended through the nine-month period ended September 30, 2014.

On April 13, 2017 the Company received the formal BOE assessment for sales tax for tax years 2011, 2012 and 2013 in the amount of $4.1 million plus applicable interest of $0.5 million related to the appliance replacement programs that we administered on behalf of our customers on which we did not assess, collect or remit sales tax. The Company will appeal this assessment and continue to engage the services of our existing retained sales tax experts throughout the appeal process. The BOE tax assessment is subject to protest and appeal, and would not need to be funded until the matter has been fully resolved through the appeal process. Resolution could take up to two years.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results.

Forward-Looking and Cautionary Statements

This quarterly report contains statements that are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Any statements contained in this quarterly report that are not purely historical or relate to our future operations, performance and results, and anticipated liquidity are forward looking. These forward-looking statements are based on information available to us on the date of this quarterly report, but are subject to risks and uncertainties, including, but not limited to, those discussed herein. Our actual results could differ materially from those discussed in this quarterly report.

The forward-looking statements contained in this quarterly report, and other written and oral forward-looking statements made by us from time to time, are subject to risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Any forward-looking information regarding our operations will be affected primarily by individual retail stores' profitability, the volume of appliance sales, the strength of energy conservation recycling programs 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, the continued availability of our current line of credit and the outcome of the pending sales and use tax examination in California. Our MD&A should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (including the information presented therein under *Risk Factors*), as well as our reports on Forms 10-Q and other publicly available information. All amounts herein are unaudited.

Overview

Appliance Recycling Centers of America, Inc. and Subsidiaries ("we," the "Company" or "ARCA") are in the business of being the bridge between utilities or manufacturers to their customers by recycling, replacing, and selling major household appliances in North America. We are committed to energy efficiency and have been a pioneer in appliance recycling programs.

We operate two reportable segments:

- Retail: Our retail segment offers the latest in innovative appliance from major manufactures. We generate income from the sale of appliances and related services through 18 ApplianceSmart® stores in four geographic areas. We have an online presence and also include a portion of our revenue from byproducts from collected appliances. We have two product lines, new and out-of-the-box that give the large manufacturers a channel to move their product without disrupting their normal distribution channels.

- Recycling: Our recycling segment is a turnkey appliance recycling program. We receive fees charged for recycling, replacement and additional services for utility energy efficiency programs and have established 17 Regional Processing Centers ("RPCs") for this segment throughout the United States and Canada. Our recycling segment also includes all income generated from our agreement with GE Appliances, a Haier Group Company ("GE"). GE sells us recyclable appliances in certain regions of the United States and we collect, process, and recycle the appliances. These appliances include units manufactured by GE and by other manufacturers. The agreement requires that we will only recycle, and will not sell for re-use or resale, the recyclable appliances. 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"). 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.

With more than 850 million major household appliances currently used in the United States and Canada, ARCA's business segments are positioned to work together to provide a full array of appliance-related services. ARCA's recycling centers maximize materials recycling while protecting natural resources from the environmentally-damaging substances found in old appliances. We believe we are the future of appliance sales and recycling to manage a full life cycle that will maximize the economic, environmental and societal benefits that recycling provides for the next generation.

For the Three Months Ended April 1, 2017 and April 2, 2016

Results of Operations

The following table sets forth certain statement of operations items and as a percentage of revenue, for the periods indicated:

	13 Weeks Ended April 1, 2017		13 Weeks Ended April 2, 2016	
Statement of Operations Data (in Thousands):				
Revenue	$ 23,239	100.0%	$ 25,345	100.0%
Cost of Revenue	17,216	74.1%	19,154	75.6%
Gross Profit	6,023	25.9%	6,191	24.4%
Selling, General and Administrative Expense	7,732	33.3%	6,978	27.5%
Operating loss	(1,709)	-7.4%	(787)	-3.1%
Interest (Expense), Net	(297)	-1.3%	(283)	-1.1%
Other Income (Expense)	5,168	22.2%	120	0.5%
Net Loss before Income taxes	3,162	13.6%	(950)	-3.7%
Provision (Benefit) for Income Taxes	1,217	5.2%	(320)	1.3%
Net Loss before Noncontrolling Interest	1,945	8.4%	(630)	-2.5%
Net Loss attributed to Noncontrolling Interest	(263)	-1.1%	(179)	-0.7%
Net Loss attributed to ARCA	$ 2,208	9.5%	$ (451)	-1.8%

The following tables set forth revenues for key product and service categories, percentages of total revenue and gross profits earned by key product and service categories and gross profit percent as compared to revenues for each key product category indicated:

	13 Weeks Ended April 2, 2017		13 Weeks Ended April 2, 2016	
(in the Thousands)	Net Revenue	Percent of Total	Net Revenue	Percent of Total
Revenue				
Retail Boxed	$ 10,581	45.5%	$ 10,415	41.1%
Retail UnBoxed	4,315	18.6%	5,244	20.7%
Retail Delivery	381	1.6%	384	1.5%
Retail Service, Parts & Accessories	250	1.1%	273	1.1%
Extended Warranties, net	205	0.9%	255	1.0%
Recycling, Byproducts, Carbon Offset	4,710	20.3%	4,774	18.8%
Replacement Appliances	2,797	12.0%	4,000	15.8%
Total Revenue	$ 23,239	100.0%	$ 25,345	100.0%

	13 Weeks Ended December 31, 2016		13 Weeks Ended January 2, 2016	
	Gross Profit	Gross Profit %	Gross Profit	Gross Profit %
Gross Profit				
Retail Boxed	$ 2,740	25.9%	$ 3,064	29.4%
Retail UnBoxed	1,498	34.7%	1,624	31.0%
Retail Delivery	(437)	-114.7%	(408)	-106.3%
Retail Service, Parts & Accessories	185	74.0%	236	86.4%
Extended Warranties, net	205	100.0%	255	100.0%
Recycling, Byproducts, Carbon Offset	1,008	21.4%	27	0.6%
Replacement Appliances	824	29.5%	1,393	34.8%
Total Gross Profit	$ 6,023	25.9%	$ 6,191	24.4%

Revenue

Revenue decreased $2,106 or 8.3% for the 13 weeks ended April 1, 2017 as compared to the 13 weeks ended April 2, 2016.

Revenue decreased in the following categories as compared to the prior year period:

Retail Unboxed $929 or 17.7%, Retail Delivery $3 or 0.8%, Retail Service, Parts and Accessories $23 or 8.4%, Extended Warranties, net $50 or 19.6%, Recycling, Byproducts, Carbon Offset $64 or 1.3%, and Replacement Appliances $1,203 or 30.1%.

The revenue decreases were partially offset by the following increases in revenue as compared to the prior year period:

Retail Boxed $166 or 1.6%.

Cost of Revenue

Cost of revenue decreased $1,938, or 10.1% for the 13 weeks ended April 1, 2017 as compared to the 13 weeks ended April 2, 2016, primarily as a result of the change in revenue discussed above as well as the changes in gross profit discussed below.

Gross Profit

Gross profit decreased $168 or 2.7%, for the 13 weeks ended April 1, 2017 as compared to the 13 weeks ended April 2, 2016.

Gross profit decreased in the following categories as compared to the prior year period:

Retail Boxed $324 or 10.6%, Retail UnBoxed $126 or 7.8%, Retail Delivery $29 or 7.1%, Retail Service, Parts and Accessories $51 or 21.6%, Extended Warranties, net $50 or 19.6% and Replacement Appliances $569 or 40.8%.

Gross profit decreases were partially offset by the following increase in gross profit as compared to the prior year period.

Recycling, Byproducts, Carbon Offset $981 or 3633.3%.

Gross profit margin as a percentage of sales were improved for Retail UnBoxed 34.7% vs. 31.0%, and Recycling, Byproducts and Carbon Offset 21.4% vs. 0.6%.

Gross profit margin as a percentage of sales declined for Retail Boxed 25.9% vs. 29.4%, Retail Delivery -114.7% vs. -106.3%, Retail Service, Parts and Accessories 74.0% vs. 86.4% and Replacement Appliances 29.5% vs. 34.8%.

Selling, General and Administrative Expense

Selling, general and administrative expense increased $754 or 10.8%, for the 13 weeks ended April 1, 2017 as compared to the 13 weeks ended April 1, 2016.

Operating Income

As a result of the factors described above, operating loss of $1,709 for the 13 weeks ended April 1, 2017, represented an increase of $922 over the comparable prior 13 week period of $787.

Interest Expense, net

Interest expense net increased $14 or 4.9%, for the 13 weeks ended April 1, 2017 as compared to the 13 weeks ended April 1, 2016 primarily due to increased rates of interest paid and additional fees on the PNC bank line of credit.

Other Income and Expense

Other income and expense increased $5,048 for the 13 weeks ended April 1, 2017 as compared to the 13 weeks ended April 2, 2016, primarily due to the gain on sale of property of $5,163.

Provision for (benefit from) Income Taxes

We recorded a provision for income taxes of $1,217 for the three months ended April 1, 2017, compared with a benefit of $(320) in the same period of 2016. The provision for income taxes for the three months ended April 1, 2017, increased over the same period of 2016 by $1,537, primarily due to an increase in earnings from the disposition of our Compton California land and building.

Net Income

The factors described above and the gain from the sale of our Compton California land and building of $5,163 led to a net income of $2,208 for the 13 weeks ended April 1, 2017, a $2,659 increase from a net loss of $451 for the 13 weeks ended April 2, 2016.

Segment Performance

We report our business in the following segments: Retail and Recycling. We identified these segments based on a combination of business type, customers serviced and how we divide management responsibility. Our revenues and profits are driven through our physical stores, our recycling centers, e-commerce, individual sales reps and our internet services.

Operating income (loss) by operating segment, is defined as income (loss) before net interest expense, other income and expense, provision for income taxes and income (loss) attributable to non-controlling interest.

	13 Weeks Ended April 1, 2017 Segments in $			13 Weeks Ended April 2, 2016 Segments - $		
(in the Thousands)	Retail	Recycling	Total	Retail	Recycling	Total
Revenue	$ 15,789	$ 7,450	$ 23,239	$ 16,668	$ 8,677	$ 25,345
Cost of Revenue	11,582	5,634	17,216	11,982	7,172	19,154
Gross Profit	4,207	1,816	6,023	4,686	1,505	6,191
Selling, General and Adminstrative Expense	4,285	3,447	7,732	4,623	2,355	6,978
Operating Income (Loss)	$ (78)	$ (1,631)	$ (1,709)	$ 63	$ (850)	$ (787)

	13 Weeks Ended April 1, 2017 Segments in %			13 Weeks Ended April 2, 2016 Segments - %		
	Retail	Recycling	Total	Retail	Recycling	Total
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Revenue	73.4%	75.6%	74.1%	71.9%	82.7%	75.6%
Gross Profit	26.6%	24.4%	25.9%	28.1%	17.3%	24.4%
Selling, General and Adminstrative Expense	27.1%	46.3%	33.3%	27.7%	27.1%	27.5%
Operating Income (Loss)	-0.5%	-21.9%	-7.4%	0.4%	-9.8%	-3.1%

Retail Segment

Segment results for Retail include Appliancesmart. Revenue for the 13 weeks ended April 1, 2017 decreased $879, or 5.3%, as compared to the prior year period, as a result of decreases in retail unboxed $929 or 17.7%, retail delivery $3 or 0.8%, retail service, parts and accessories $23 or 8.4%, extended warranties, net $50 or 19.6%; partially offset by revenue increases in retail boxed $166 of 1.6%.

Cost of revenue for the 13 weeks ended April 2, 2017 decreased $400 or 3.3%, as compared to the prior year period, as a result of cost of revenue a decrease in retail unboxed $803 or 22.2%; partially offset by increases in retail boxed of $490 or 6.7%. retail delivery $26 or 3.3%, and retail service, parts and accessories $28 or 75.7%.

Operating income for the 13 weeks ended April 2, 2017 decreased $141, as compared to the prior year period, as a result of decreased gross profit of $479; partially offset by decreased selling, general and administrative expense of $338.

Recycling Segment

Segment results for ARCA Recycling and AAP. Revenue for the 13 weeks ended April 1, 2017 decreased by $1,227, or 14.1%, as compared to the prior year period, as a result of decreases in recycling, byproducts, carbon offset revenue of $64 or 1.3%, and replacement appliance revenue $1,203 or 30.1%.

Cost of revenue for the 13 weeks ended April 1, 2017 decreased $1,538 or 21.4%, as compared to the prior year period; as a result of decreases in cost of revenue of replacement appliances $634 or 24.3% and recycling, byproducts, carbon offset $1,045 or 22.0%.

Operating income for the 13 weeks ended April 1, 2017 increased $781, as compared to the prior year period; as a result of increased selling, general and administrative expense of $1,092, partially offset by an increase in gross profit of $311.

Liquidity and Capital Resources

Overview

Based on our current operating plans, we believe that available cash balances, cash generated from our operating activities and funds available under our PNC Bank Revolver Loan - $15 million and its replacement, our new MidCap Financial Trust Revolver Loan - $12 million, both asset-based revolving credit facilities, will provide sufficient liquidity to fund our operations, our continued investments in store openings and remodeling activities for at least the next 12 months. The Company refinanced and replaced the PNC Bank Revolver loan facility with a new Revolver loan facility with MidCap Financial Trust on May 10, 2017. See subsequent events footnote 15.

As of April 1, 2017, we had total cash on hand of $809 and an additional $3,011 of available borrowing under the PNC Bank Revolver Loan. As we continue to pursue strategic transactions to expand and grow our business, we regularly monitor capital market conditions and may raise additional funds through borrowings or public or private sales of debt or equity securities. The amount, nature and timing of any borrowings or sales of debt or equity securities will depend on our operating performance and other circumstances; our then-current commitments and obligations; the amount, nature and timing of our capital requirements; any limitations imposed by our current credit arrangements; and overall market conditions.

Cash Flows

During the 13 weeks ended April 1, 2017, cash provided by operations was $2,217, compared to cash provided by operations of $2,915 during the 13 weeks ended April 2, 2016. The decrease in cash provided by operations of $698 as compared to the prior period; was primarily due to a decrease is cash provided by non-cash depreciation and amortization of $23, stock base compensation expense $15, change in reserve for uncollectible accounts $26 and other of $31; non-cash income of gain on sale of property of $5,163; partially offset by an increase in cash provided by non-cash change in deferred income taxes of $477 and amortization of debt issuance costs of $11.

Cash provided by investing activities was $6,623 and used by investing activities $141 for the 13 weeks ended April 1, 2017 and the 13 weeks ended April 2, 2016, respectively. The $6,764 increase in cash provided by investing activities, as compared to the prior period, is primarily attributable to the proceeds from the sale of property and equipment of $6,785 and a decrease in purchase of property and equipment of $67; partially offset by an increase in restricted cash of $36 and other of $52.

Cash used by financing activities was $9,037 and $2,419 for the 13 weeks ended April 2, 2017 and the 13 weeks ended April 1, 2016, respectively. The $6,618 increase in cash used, as compared to the prior period, was attributable to increased payment under the line of credit of $5,703 and debt obligations of $940; partially offset by a decrease in the proceeds from issuance of debt obligations of $100 and the decrease in payment of debt issuance costs of $125.

Sources of Liquidity

We utilize cash on hand and cash generated from operations and have funds available to us under our revolving loan facility with PNC Bank, and now MidCap Financial Trust to cover normal and seasonal fluctuations in cash flows and to support our various growth initiatives. Our cash and cash equivalents are carried at cost and consist primarily of demand deposits with commercial banks.

PNC Bank Revolver

ARCA borrowed funds for operations over the 13 week period ended April 1, 2017 under the PNC Bank Revolver loan subject to availability as described in Note 6. This loan was extended from May 1, 2017 to June 2, 2017 and was paid off in full on May 10, 2017. On April 1, 2017 and December 31, 2016 – we had $3,011 and $3,234 of additional borrowing availability on the PNC Bank Revolver, respectively. Maximum borrowing under the PNC Bank Revolver was $15 million through May 1, 2017. On May 1, 2017, the maximum amount of borrowing was reduced to $6 million. A total of approximately $750 of letters of credit were outstanding at April 1, 2017 and December 31, 2016, respectively. The weighted average interest rate for the period of December 31, 2016 through April 1, 2017 was 9.00%. We borrowed $28,249 and repaid $36,208 on the PNC Bank Revolver during the 13 weeks ended April 1, 2017; leaving an outstanding balance on the PNC Revolver of $2,374 and $10,333 at April 1, 2017 and December 31, 2016, respectively.

Future Sources of Cash; New Acquisitions, Products and Services

We may require additional debt financing and or capital to finance new acquisitions, refinance existing indebtedness or other strategic investments in our business. Other sources of financing may include stock issuances and additional loans; or other forms of financing. Any financing obtained may further dilute or otherwise impair the ownership interest of our existing stockholders.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market Risk and Impact of Inflation

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 U.S. dollar against the Canadian dollar had an immaterial impact on revenues and net income for the three months ended April 1, 2017. 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.

Item 4. 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 Acting 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), at April 1, 2017. Based on that evaluation, our Chief Executive Officer and Acting Chief Financial Officer concluded that, at April 1, 2017, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

During the first quarter of fiscal 2017, covered by this Quarterly Report on Form 10-Q, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. Other Information

Item 1. Legal Proceedings

On November 6, 2015, a complaint was filed in the Minnesota District Court for Hennepin County, Minnesota, by David Gray and Michael Boller, purporting to bring suit derivatively on behalf of the Company against twelve current and former officers and directors of the Company. The complaint alleges that the defendants breached their fiduciary duties based on substantially similar allegations to those asserted in Mr. Feola's putative securities class action complaint, and that the defendants have been unjustly enriched as a result thereof. The complaint seeks damages, disgorgement, an award of attorneys' fees and other expenses, and an order compelling changes to the Company's corporate governance and internal procedures. This matter has been stayed by the court, pursuant to a stipulation of the parties, until the United States District Court for the Central District of California determines the legal sufficiency of Mr. Feola's complaint or other specified developments occur in that case. This matter has been submitted to our insurance carriers. Given the uncertainty of litigation and the preliminary stage of this case, we cannot reasonably estimate the possible loss or range of loss that may result from these actions. The Company maintains liability insurance policies that may reduce the Company's exposure, if any.

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 Whirlpool sold 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.

AMTIM Capital, Inc. ("AMTIM") acts 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 agreements 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. In a lawsuit filed in the province of Ontario, AMTIM claims a discrepancy in the calculation of fees due to AMTIM by us of approximately $2.0 million. Although the outcome of this claim is uncertain, we believe that no further amounts are due under the terms of the agreement and that we will continue to defend our position relative to this lawsuit.

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 5. Other Information

MidCap Financing

On May 10, 2017, Appliance Recycling Centers of America, Inc. and its subsidiaries ("we") entered into a Credit and Security Agreement ("Credit Agreement") with MidCap Financial Trust, as a Lender and as Agent for itself and other lenders under the Credit Agreement (the "Lender"). The Credit Agreement provides us with a $12 million revolving line of credit, which may be increased to $16 million under certain terms and conditions. The Credit Agreement has a stated maturity date of May 10, 2020, if not renewed. The Credit Agreement is collateralized by a security interest in substantially all of our assets. The Lender is also secured by an inventory repurchase agreement with Whirlpool Corporation for Whirlpool purchases only. The Credit Agreement requires that we meet a minimum fixed charge coverage ratio of 1.00:1.00 for the applicable measuring period as of the end of each calendar month. The applicable measuring period is (i) the period commencing May 1, 2017 and ending on the last day of each calendar month from May 31, 2017 through April 30, 2018, and (ii) the twelve-month period ending on the last day of such calendar month thereafter. The Credit Agreement limits the amount of other debt we can incur, the amount we can spend on fixed assets, and the amount of investments we can make, along with prohibiting the payment of dividends.

The amount of revolving borrowings available under the Credit Agreement is based on a formula using receivables and inventories. We may not have access to the full $12 million revolving line of credit due to the formula using our receivables and inventories and the amount of any outstanding letters of credit issued by the Lender. As of May 10, 2017, the outstanding balance under the Credit Agreement was $2,700 and our available borrowing capacity was $3,017. The interest rate on the revolving line of credit is the one month LIBOR rate plus four and one-half percent (4.50%). As of May 10, 2017, the interest rate was .98856%.

In connection with this Credit Agreement, we paid off and terminated our existing Revolving Credit, Term Loan and Security Agreement, as amended, with PNC Bank, National Association on the same date.

Item 6. Exhibits

Exhibit Number	Description
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 Section 906 of the Sarbanes-Oxley Act of 2002.
32.2†	Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101**	The following materials from our Quarterly Report on Form 10-Q for the three-month period ended April 1, 2017 formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) the Consolidated Statements of Cash Flows, (iv) the Notes to Consolidated Financial Statements, and (v) document and entity information.

\+ Filed herewith.

† Furnished herewith.

** Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q 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.

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.

Appliance Recycling Centers of America, Inc.
(Registrant)

Date:	May 16, 2017	By:	/s/ Tony Isaac Tony Isaac Chief Executive Officer *(Principal Executive Officer)*
Date:	May 16, 2017	By:	/s/ Tony Isaac Tony Isaac Chief Financial Officer *(Principal Financial and Accounting Officer)*

Exhibit 31.1

CERTIFICATIONS:

I, Tony Isaac, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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. The registrant's other certifying officer and I are 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: May 16, 2017

/s/ Tony Isaac
Tony Isaac
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS:

I, Tony Isaac, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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. The registrant's other certifying officer and I are 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: May 16, 2017

/s/ Tony Isaac
Tony Isaac
Acting 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 Quarterly Report on Form 10-Q of the Company for the period ended April 1, 2017 (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: May 16, 2017

/s/ Tony Isaac
Tony Isaac
Chief Executive Officer

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 Quarterly Report on Form 10-Q of the Company for the period ended April 1, 2017 (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: May 16, 2017

/s/ Tony Isaac
Tony Isaac
Acting Chief Financial Officer