APPLIANCE RECYCLING CENTERS OF AMERICA INC /MN
Form 10-Q
July 02, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

or

o **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)

Nevada	**41-1454591**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)
175 Jackson Avenue North Suite 102, Minneapolis, Minnesota	**55343**
(Address of principal executive offices)	(Zip Code)

952-930-9000

(Registrant's telephone number, including area code)

Common Stock, $0.001 par value

Series A Preferred Stock, $0.001 par value

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. ý Yes o 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). ý Yes o 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 o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x
Emerging growth company o	

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. o

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

As of July 2, 2018, there were outstanding 6,875,365 shares of the registrant's Common Stock, with a par value of $0.001.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands)

	March 31, 2018 (unaudited)	December 30, 2017
Assets		
Cash and cash equivalents	$ 2,148	$ 3,313
Trade and other receivables, net	5,876	10,036
Due From Appliancesmart Holdings, LLC a subsidiary of Live Ventures Incorporated	2,550	6,500
Inventories, net	1,154	762
Prepaid expenses and other current assets	347	506
Total current assets	12,075	21,117
Property and equipment, net	491	538
Intangible assets, net	23,785	24,718
Deposits and other assets	508	518
Total assets	$ 36,859	$ 46,891
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	$ 2,555	$ 3,321
Accrued liabilities	4,984	6,561
Notes payable - short term	300	300
Accrued income taxes	3	3
Current portion of long term maturities	145	5,577
Total current liabilities	7,987	15,762
Deferred income taxes	4,002	4,577
Other noncurrent liabilities	129	314
Total liabilities	12,118	20,653

Stockholders' equity:		
Preferred stock, series A - par value .001 per share 2,000 authorized and 288 shares issued and outstanding at March 31, 2018 and December 30, 2017	-	-
Common stock, par value .001 per share, 50,000 shares authorized, 6,875 shares issued and outstanding at March 31, 2018 and December 30, 2017	7	7
Additional paid in capital	37,634	37,634
Accumulated deficit	(12,385)	(10,910)
Accumulated other comprehensive loss	(515)	(493)
Total stockholders' equity	24,741	26,238
Total liabilities and stockholders' equity	$ 36,859	$ 46,891

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

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APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(in Thousands)

UNAUDITED

	For the Thirteen Weeks Ended	
	March 31, 2018	**April 1, 2017**
Revenues	$8,913	$7,450
Cost of revenues	6,501	5,634
Gross profit	2,412	1,816
Operating expenses:		
Selling, general and administrative expenses	3,974	3,447
Operating loss	(1,562)	(1,631)
Other income (expense):		
Gain on the sale of property	–	5,163
Interest expense, net	(591)	(297)
Other income (expense)	103	5
Total other income (expense), net	(488)	4,871
Income (loss) from continuing operations before provision for income taxes	(2,050)	3,240
Total provision (benefit) for income taxes	(575)	1,238
Net income (loss)	(1,475)	2,002
Net income attributed to noncontrolling interest	–	263
Net income (loss) from continuing operations attributed to company	(1,475)	2,265
Net (loss) from discontinued operations, net of tax	–	(57)
Net income (loss) attributed to company	$(1,475)	$2,208
Earnings (loss) per share:		
Basic earnings (loss) per share from continued operations	$(0.21)	$0.34
Basic earnings (loss) per share - discontinued operations and loss on sale, net of tax	–	(0.02)
Basic earnings (loss) per share	$(0.21)	$0.33
Diluted earnings (loss) per share from continued operations	$(0.21)	$0.33
Diluted earnings (loss) per share - discontinued operations and loss on sale, net of tax	–	(0.02)
Diluted earnings (loss) per share	$(0.21)	$0.32
Weighted average common shares outstanding:		
Basic	6,875	6,655
Diluted	6,875	6,822

Net income (loss)	$(1,475)	$2,002
Net (loss) from discontinued operations and loss on sale, net of tax	–	(57)
Other comprehensive income (loss), net of tax		
Effect of foreign currency translation adjustments	(22)	13
Total other comprehensive income (loss), net of tax	(22)	13
Comprehensive income (loss)	(1,497)	1,958
Comprehensive income (loss) attributable to noncontrolling interest	–	263
Comprehensive income (loss) attributable to controlling interest	$(1,497)	$2,221

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

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APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

UNAUDITED

	For the thirteen weeks ended	
	March 31, 2018	**April 1, 2017**
OPERATING ACTIVITIES:		
Net income (loss) attributable to Company	$(1,475)	$2,208
Loss from discontinued operations	–	57
Less: loss attributable to noncontrolling interest	–	263
Net income (loss)	(1,475)	2,002
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	994	257
Amortization of debt issuance costs	478	53
Stock based compensation expense	–	23
Change in provision for doubtful accounts	277	(26)
Gain on sale of property	–	(5,163)
Change in deferred rent	7	(26)
Change in deferred compensation	32	–
Change in deferred income taxes	(575)	477
Other	11	(623)
Changes in assets and liabilities:		
Accounts receivable	3,624	2,556
Prepaid expenses and other current assets	159	(451)
Inventories	(389)	(2,519)
Accounts payable and accrued expenses	211	(1,040)
Accrued income taxes	–	775
Net cash provided (used) by operating activities - continuing operations	3,354	(3,705)
Net cash provided by operating activities - discontinued operations	–	5,922
Net cash provided by operating activities	3,354	2,217
INVESTING ACTIVITIES:		
Purchases of property and equipment	(14)	(67)
Proceeds from the sale of property	–	6,785
Net payments received from Live Ventures Incorporated receivable	1,427	–
Net cash provided by investing activities - continuing operations	1,413	6,718
Net cash (used) in investing activities - discontinued operations	–	(95)
Net cash provided by in investing activities	1,413	6,623

FINANCING ACTIVITIES:		
Net payments under line of credit - PNC Bank	–	(7,959)
Net payments under the line of credit - MidCap Financial Trust	(5,605)	–
Payments on debt obligations	(305)	(1,078)
Net cash used in financing activities - continuing operations	(5,910)	(9,037)
Net cash used in financing activities - discontinued operations	–	–
Net cash used in financing activities	(5,910)	(9,037)
Effect of changes in exchange rate on cash and cash equivalents	(22)	38
DECREASE IN CASH AND CASH EQUIVALENTS	(1,165)	(159)
CASH AND CASH EQUIVALENTS, beginning of period	3,313	968
CASH AND CASH EQUIVALENTS, end of period	$2,148	$809
Supplemental cash flow disclosures:		
Interest paid	$228	$213
Income taxes refunded (paid)	$–	$–
Net liabilities assumed by ApplianceSmart	$1,901	$–

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

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

(In thousands)

Note 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. Through our GeoTraq Inc. ("GeoTraq") subsidiary, a development stage company, we are engaged in the development, design and, ultimately, we expect the sale of cellular transceiver modules, also known as Cell-ID modules. GeoTraq is part of a new reporting segment for our Company – Technology. On August 15, 2017, we sold our 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. On December 30, 2017, we sold our 100% interest in Appliancesmart Inc., which is a retail business selling new household appliances through a chain of Company-owned stores under the name ApplianceSmart®.

The accompanying balance sheets as of March 31, 2018, and December 30, 2017, respectively, which have been derived from the 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 13 Week periods ended March 31, 2018 and April 1, 2017, are presented in lieu of three-month periods, respectively. The Company reports results on a 52-week fiscal basis. 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.

Reincorporation in the State of Nevada

On March 12, 2018, Appliance Recycling Centers of America, Inc. (the “Company”) changed its state of incorporation from the State of Minnesota to the State of Nevada (the “Reincorporation”) pursuant to a plan of conversion, dated March 12, 2018 (the “Plan of Conversion”). The Reincorporation was accomplished by the filing of (i) articles of conversion (the “Minnesota Articles of Conversion”) with the Secretary of State of the State of Minnesota and (ii) articles of conversion (the “Nevada Articles of Conversion”) and articles of incorporation (the “Nevada Articles of Incorporation”) with the Secretary of State of the State of Nevada. Pursuant to the Plan of Conversion, the Company also adopted new bylaws (the “Nevada Bylaws”).

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 30, 2017, included in the Company’s Annual Report on Form 10-K, as amended, initially filed with the SEC on June 12, 2018.

Note 2: Summary of Significant Accounting Policies

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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.

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

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. ARCA Canada Inc., a Canadian corporation, is a wholly owned subsidiary that was formed in September 2006 to provide turnkey recycling services for electric utility energy efficiency programs. Customer Connexx, LLC, a Nevada Corporation, is a wholly owned subsidiary that was formed in formed in October 2016 to provide call center services for electric utility programs.

On August 15, 2017, ARCA sold it's 50% interest in AAP and is no longer consolidating the results of AAP in its consolidated financial statements as of that date. AAP was a joint venture formed in October 2009 between ARCA and 4301 Operations, LLC ("4301"). ARCA and 4301 owned a 50% interest in AAP through August 15, 2017. The financial position and results of operations of AAP were consolidated in our financial statements through August 15, 2017, 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. See Note 6 – Sale and deconsolidation of variable interest entity AAP to these consolidated financial statements.

On August 18, 2017, we acquired GeoTraq. GeoTraq is a development stage company that is engaged in the development, design, and, ultimately, we expect, sale of cellular transceiver modules, also known as Cell-ID modules. GeoTraq has created a dedicated Cell-ID transceiver module that we believe can enable the design of extremely small, inexpensive products that can operate for years on a single charge, powered by standardly available batteries of diminutive size without the need of recharge. Accordingly, and utilizing Cell-ID technology exclusively, we believe that GeoTraq will provide an exclusive, low-cost solution and service life that will enable new global markets for location-based services (LBS).

On December 30, 2017, we sold our 100% interest in ApplianceSmart, Inc., a Minnesota corporation. Appliancesmart Inc. 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.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumption that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates made in connection with the accompanying consolidated financial statements include the estimated reserve for doubtful current and long-term trade and other receivables, the estimated reserve for excess and obsolete inventory, estimated fair value and forfeiture rates for stock-based compensation, fair values in connection with the analysis of goodwill, other intangibles and long-lived assets for impairment, current portion of notes payable, valuation allowance against deferred tax assets and estimated useful lives for intangible assets and property and equipment.

Financial Instruments

Financial instruments consist primarily of cash equivalents, trade and other receivables, advances to affiliates and obligations under accounts payable, accrued expenses and notes payable. The carrying amounts of cash equivalents, trade receivables and other receivables, accounts payable, accrued expenses and short-term notes payable approximate fair value because of the short maturity of these instruments. The fair value of the long-term debt is calculated based on interest rates available for debt with terms and maturities similar to the Company's existing debt arrangements, unless quoted market prices were available (Level 2 inputs). The carrying amounts of long-term debt at March 31, 2018 and December 30, 2017 approximate fair value.

Cash and Cash Equivalents

Cash and Cash equivalents consist of highly liquid investments with a maturity of three months or less at the time of purchase. Fair value of cash equivalents approximates carrying value.

Trade Receivables and Allowance for Doubtful Accounts

We carry unsecured trade receivables at the original invoice amount less an estimate made for doubtful accounts based on a monthly review of all outstanding amounts. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. We write off trade receivables when we deem them uncollectible. We record recoveries of trade receivables previously written off when we receive them. We consider a trade receivable to be past due if any portion of the receivable balance is outstanding for more than ninety days. We do not charge interest on past due receivables. Our management considers the allowance for doubtful accounts of $338 and $61 to be adequate to cover any exposure to loss as of March 31, 2018, and December 30, 2017, respectively.

Inventories

Inventories, consisting primarily of Appliances, are stated at the lower of cost, determined on a specific identification basis, or market. We provide estimated provisions for the obsolescence of our appliance inventories, including adjustment 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 reports and margin analyses in determining our provision estimate. A revised cost basis is used once a provision for obsolescence is recorded. The Company does not have a reserve for obsolete inventory at March 31, 2018 and December 30, 2017.

Property and Equipment

Property and Equipment are stated at cost less accumulated depreciation. Expenditures for repairs and maintenance are charged to expense as incurred and additions and improvements that significantly extend the lives of assets are capitalized. Upon sale or other retirement of depreciable property, the cost and accumulated depreciation are removed from the related accounts and any gain or loss is reflected in operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The useful lives of building and improvements are three to thirty years, transportation equipment is three to fifteen years, machinery and equipment are five to ten years, furnishings and fixtures are three to five years and office and computer equipment are three to five years. Depreciation expense was $61 and $257 for the 13 weeks ended March 31, 2018 and April 1, 2017, respectively.

We periodically review our property and equipment when events or changes in circumstances indicate that their carrying amounts may not be recoverable or their depreciation or amortization periods should be accelerated. We assess recoverability based on several factors, including our intention with respect to our stores and those stores projected undiscounted cash flows. An impairment loss would be recognized for the amount by which the carrying amount of the assets exceeds their fair value, as approximated by the present value of their projected discounted cash flows.

Goodwill

The Company accounts for purchased goodwill and intangible assets in accordance with ASC 350, *Intangibles—Goodwill and Other*. Under ASC 350, purchased goodwill are not amortized; rather, they are tested for impairment on at least an annual basis. Goodwill represents the excess of consideration paid over the fair value of underlying identifiable net assets of business acquired.

We test goodwill annually on July 1 of each fiscal year or more frequently if events arise or circumstances change that indicate that goodwill may be impaired. The Company assesses whether goodwill impairment exists using both the qualitative and quantitative assessments. The qualitative assessment involves determining whether events or circumstances exist that indicate it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If based on this qualitative assessment the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount or if the Company elects not to perform a qualitative assessment, a quantitative assessment is performed using a two-step approach required by ASC 350 to determine whether a goodwill impairment exists.

The first step of the quantitative test is to compare the carrying amount of the reporting unit's assets to the fair value of the reporting unit. If the fair value exceeds the carrying value, no further evaluation is required, and no impairment loss is recognized. If the carrying amount exceeds the fair value, then the second step is required to be completed, which involves allocating the fair value of the reporting unit to each asset and liability using the guidance in ASC 805 ("*Business Combinations, Accounting for Identifiable Intangible Assets in a Business Combination*"), with the excess being applied to goodwill. An impairment loss occurs if the amount of the recorded goodwill exceeds the implied goodwill. The determination of the fair value of our reporting units is based, among other things, on estimates of future operating performance of the reporting unit being valued. We are required to complete an impairment test for goodwill and record any resulting impairment losses at least annually. Changes in market conditions, among other factors, may have an impact on these estimates and require interim impairment assessments.

When performing the two-step quantitative impairment test, the Company's methodology includes the use of an income approach which discounts future net cash flows to their present value at a rate that reflects the Company's cost of capital, otherwise known as the discounted cash flow method ("DCF"). These estimated fair values are based on estimates of future cash flows of the businesses. Factors affecting these future cash flows include the continued market acceptance of the products and services offered by the businesses, the development of new products and services by the businesses and the underlying cost of development, the future cost structure of the businesses, and future technological changes. The Company also incorporates market multiples for comparable companies in determining the fair value of our reporting units. Any such impairment would be recognized in full in the reporting period in which it has been identified.

Intangible Assets

The Company's intangible assets consist of customer relationship intangibles, trade names, licenses for the use of internet domain names, Universal Resource Locators, or URL's, software, and marketing and technology related intangibles. Upon acquisition, critical estimates are made in valuing acquired intangible assets, which include but are not limited to: future expected cash flows from customer contracts, customer lists, and estimating cash flows from projects when completed; tradename and market position, as well as assumptions about the period of time that customer relationships will continue; and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from the assumptions used in determining the fair values. All intangible assets are capitalized at their original cost and amortized over their estimated useful lives as follows: domain name and marketing – 3 to 20 years; software – 3 to 5 years, customer relationships – 7 to 15 years. Intangible amortization expense is $933 and $0 for the 13 weeks ended March 31, 2018 and April 1, 2017, respectively.

Revenue Recognition

We record contract revenue with customers in the period when all of the following requirements have been met: (i) there is persuasive evidence of an arrangement, (ii) the sales transaction price is fixed or determinable, (iii) title, ownership and risk of loss have been transferred to the customer (iv) allocation of sales price to specific performance obligations, and (v) performance obligations are satisfied.

We recognize revenue and a receivable per customer upon confirmed and accepted pickup of the to be recycled appliance for appliance recycling services when we collect and recycle the old appliance. No provision for bad debt is provided at the time of recording revenue given the credit of our customers. All direct costs are either paid and or accrued for in the period in which the appliance recycling service is provided.

We recognize revenue and a receivable per customer upon confirmed and accepted delivery of the replacement appliance, and or pickup of the to be recycled appliance. The delivery of the replacement appliance is one performance obligation and the pickup of the to be recycled appliance is another performance obligation. Revenue is recorded for each performance obligation. No provision for bad debt is provided at the time of recording revenue given the credit of our customers. All direct costs are either paid and or accrued for in the period in which the replacement appliance(s)and program service(s) are provided. Customer's do not typically have a right to return appliances sold. The manufacturers warranty is the only warranty provided to a customer.

We do not have any contracts with third-party recycling customers that we sell recycling byproduct or carbon offsets. We recognize the revenue from the sale of carbon offsets and ozone-depleting refrigerants upon having in writing a mutually agreed upon price per pound, confirmed delivery, verification of volume and purity of the refrigerant by the buyer and collectability is reasonably assured. Other recycling byproduct revenue (the sale of copper, steel, plastic and other recoverable non-refrigerant byproducts) is recorded as revenue upon delivery to the third-party recycling customer for processing, having a mutually agreed upon price per pound and collection reasonably assured. Transfer of control occurs at the time the customer is in possession of the byproduct material. Funds are sent to the Company by the customer typically by check for the actual weight, type and in some cases volume of the byproduct delivered multiplied by the market rate as quoted.

The Company has changed its accounting for revenue recognition for revenue derived from contracts with our customers and the related costs associated with those contracts effective December 31, 2017. The Company adopted the modified retrospective transition method, of making the transition effective December 31, 2017.

The Company has applied ASC 606 and 340-40 to only those contracts that were not completed as of December 31, 2017.

The effect of applying ASC 606 and 340-40 as of December 31, 2017, requires the Company to (a) determine that amount of revenue and related costs it would have recognized in the period of adoption if it had continued to apply legacy GAAP in that period and (b) disclose the change for each financial statement item affected and explain the reasons for those changes that are significant. The Company has determined that the effect of applying ASC 606 and 340-40 as of December 31, 2017 is immaterial.

For the Quarter ended March 31, 2018:

Revenue recognized for Company contracts - $7,822 and $6,391 for the 13 weeks ended March 31, 2018 and April 1, 2017, respectively.

There was no impairment (or credit) losses on accounts receivable or contract assets related to Company contracts that were recognized in accordance with ASC 310 or ASC 326-30.

The Company provides replacement appliances and program services, mainly recycling of aged appliances to Utility customers. The Company operates in twenty-four states within the continental United States, and two provinces of Canada. The Company does not enter into contracts with for byproduct or carbon offset revenue. The Company uses a direct sales channel and typically enters into contracts for recycling program services and replacement appliances lasting a few months up to a couple of years in length. The Company has two reportable segments – Recycling and Technology. The Technology segment currently is a development segment with no revenue. Contract revenue for the recycling segment is recorded upon the confirmed delivery and or pickup of the aged appliance for both replacement appliance revenue and program services revenue. Byproduct revenue is record upon delivery of the byproduct to the customer of the Company's choice, one price and terms are agreed too.

The Company does not have any contract assets or liabilities as of March 31, 2018 and December 30, 2017, respectively.

Performance obligations are typically satisfied upon confirmed delivery of replacement appliance(s) revenue, pickup of the aged appliance for program services revenue and delivery to a customer of choice for byproduct revenue. Revenue recorded in the 13 weeks ended March 31, 2018 related to performance obligations satisfied in the same period December 31, 2017 through March 31, 2018.

The Company does not capitalize costs under ASC 340-40, or use any other method to amortize costs capitalized. There was no balance of capitalized costs at either March 31, 2018 or December 30, 2017, respectively.

The Company has not incurred any impairment losses in the quarter ended March 31, 2018 related to costs capitalized in accordance with ASC 340-40.

Shipping and Handling

The Company classifies shipping and handling charged to customers as revenues and classifies costs relating to shipping and handling as cost of revenues.

Advertising Expense

Advertising expense is charged to operations as incurred. Advertising expense totaled $156 and $275 for the 13 weeks ended March 31, 2018 and April 1, 2017, respectively.

Fair Value Measurements

ASC Topic 820, “Fair Value Measurements and Disclosures,” requires disclosure of the fair value of financial instruments held by the Company. ASC topic 825, “Financial Instruments,” defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The three levels of valuation hierarchy are defined as follows: Level 1 - inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets. Level 2 – to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Income Taxes

The Company accounts for income taxes using the asset and liability method. The asset and liability method requires recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences that currently exist between tax bases and financial reporting bases of the Company's assets and liabilities. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is provided on deferred taxes if it is determined that it is more likely than not that the asset will not be realized. The Company recognizes penalties and interest accrued related to income tax liabilities in the provision for income taxes in its Consolidated Statements of Income.

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Significant management judgment is required to determine the amount of benefit to be recognized in relation to an uncertain tax position. The Company uses a two-step process to evaluate tax positions. The first step requires an entity to determine whether it is more likely than not (greater than 50% chance) that the tax position will be sustained. The second step requires an entity to recognize in the financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements of the Company in future periods.

Lease Accounting

We lease warehouse facilities and office space. These assets and properties are generally leased under noncancelable agreements that expire at various dates through 2022 with various renewal options for additional periods. The agreements, which have been classified as operating leases, generally provide for minimum and, in some cases percentage rent and require us to pay all insurance, taxes and other maintenance costs. Leases with step rent provisions, escalation clauses or other lease concessions are accounted for on a straight-line basis over the lease term and includes “rent holidays” (periods in which we are not obligated to pay rent). Cash or lease incentives received upon entering into certain store leases (“tenant improvement allowances”) are recognized on a straight-line basis as a reduction to rent expense over the lease term. We record the unamortized portion of tenant improvement allowances as a part of deferred rent. We do not have leases with capital improvement funding.

Stock-Based Compensation

The Company from time to time grants restricted stock awards and options to employees, non-employees and Company executives and directors. Such awards are valued based on the grant date fair-value of the instruments, net of estimated forfeitures. The value of each award is amortized on a straight-line basis over the vesting period.

Foreign Currency

The financial statements of the Company’s non-U.S. subsidiary are translated into U.S. dollars in accordance with ASC 830, Foreign Currency Matters. Under ASC 830, if the assets and liabilities of the Company are recorded in certain non-U.S. functional currencies other than the U.S. dollar, they are translated at current rates of exchange. Revenue and expense items are translated at the average monthly exchange rates. The resulting translation adjustments are recorded directly into accumulated other comprehensive income (loss).

Earnings Per Share

Earnings per share is calculated in accordance with ASC 260, "*Earnings Per share*". Under ASC 260 basic earnings per share is computed using the weighted average number of common shares outstanding during the period except that it does not include unvested restricted stock subject to cancellation. Diluted earnings per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of warrants, options, restricted shares and convertible preferred stock. The dilutive effect of outstanding restricted shares, options and warrants is reflected in diluted earnings per share by application of the treasury stock method. Convertible preferred stock is reflected on an if-converted basis.

Segment Reporting

ASC Topic 280, "*Segment Reporting*," requires use of the "management approach" model for segment reporting. The management approach model is based on the way a Company's management organizes segments within the Company for making operating decisions and assessing performance. The Company determined it has two reportable segments (See Note 24).

Concentration of Credit Risk

The Company maintains cash balances at several banks in several states including, Minnesota, California, and Nevada within the United States. Accounts are insured by the Federal Deposit Insurance Corporation up to $250,000 per institution as of March 31, 2018. At times, balances may exceed federally insured limits.

Recently Issued Accounting Pronouncements

ASU 2016-02, *Leases (Topic 842)*. The standard requires a lessee to recognize a liability to make lease payments and a right-of-use asset representing a right to use the underlying asset for the lease term on the balance sheet. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

ASU 2016-04, *Recognition of Breakage for Certain Prepaid Stored-Value Products*. The standard specifies how prepaid stored-value product liabilities should be derecognized, thereby eliminating the current and potential future diversity in practice. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

ASU 2016-09, *Compensation- Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting,* introduces targeted amendments intended to simplify the accounting for stock compensation. Specifically, the ASU requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits, and assess the need for a valuation allowance, regardless of whether the benefit reduces taxes payable in the current period. That is, off balance sheet accounting for net operating losses stemming from excess tax benefits would no longer be required and instead such net operating losses would be recognized when they arise. Existing net operating losses that are currently tracked off balance sheet would be recognized, net of a valuation allowance if required, through an adjustment to opening retained earnings in the period of adoption. Entities will no longer need to maintain and track an “APIC pool.” The ASU also requires excess tax benefits to be classified along with other income tax cash flows as an operating activity in the statement of cash flows. In addition, the ASU elevates the statutory tax withholding threshold to qualify for equity classification up to the maximum statutory tax rates in the applicable jurisdiction(s). The ASU also clarifies that cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. The ASU provides an optional accounting policy election (with limited exceptions), to be applied on an entity-wide basis, to either estimate the number of awards that are expected to vest (consistent with existing U.S. GAAP) or account for forfeitures when they occur. The ASU is effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted in any interim or annual period for which the financial statements have not been issued or made available to be issued. Certain detailed transition provisions apply if an entity elects to early adopt. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

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ASU 2017-09, *Compensation- Stock Compensation (Topic 718): Scope of Modification Accounting*, clarifies such that an entity must apply modification accounting to changes in the terms or conditions of a share-based payment award unless all of the following criteria are met: (1) the fair value of the modified award is the same as the fair value of the original award immediately before the modification. The ASU indicates that if the modification does not affect any of the inputs to the valuation technique used to value the award, the entity is not required to estimate the value immediately before and after the modification; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the modification; and (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the modification. The ASU is effective for all entities for fiscal years beginning after December 15, 2017, including interim periods within those years. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

Note 3: Comprehensive Income

Comprehensive income is the sum of net income and other items that must bypass the income statement because they have not been realized, including items like an unrealized holding gain or loss from available for sale securities and foreign currency translation gains or losses. For the 13 weeks ended March 31, 2018 and April 1, 2017, our comprehensive income (loss) is $(1,497) and $2,221, respectively. Our comprehensive income includes foreign currency translation gains and losses, net loss from discontinued operations, and net loss attributable to non-controlling interest.

Note 4: Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on the previously reported net income or stockholders' equity. On March 12, 2018, the Company changed its state of incorporation from Minnesota to Nevada. Nevada requires a stated par value, which the company stated at $0.001 per share. Amounts for Common stock and additional paid in capital for December 30, 2017 have been reclassified to reflect this change.

Note 5: Acquisition of GeoTraq, Inc.

On August 18, 2017, the Company, entered into a series of transactions, acquiring all of the assets and capital stock of GeoTraq by way of merger. GeoTraq is a development stage company that is engaged in the development, design, and, ultimately, the sale of cellular transceiver modules, also known as Cell-ID modules. As of August 18, 2017, GeoTraq became a wholly-owned subsidiary of the Company.

The final fair value of the single identifiable intangible asset acquired in the GeoTraq acquisition is a U.S. patent application USPTO reference No. 14724039 titled “Locator Device with Low Power Consumption” together with the assignment of intellectual property that included historical know-how, designs and related manufacturing procedures is $26,097, which includes the deferred income tax liability associated with the intangible asset. Total consideration paid for GeoTraq included cash $200, unsecured promissory notes bearing interest at the annual rate of 1.29%; maturing on August 18, 2018 in the aggregate principal of $800, and 288,588 shares of convertible series A preferred stock with a final fair value of $14,963. See Note 19 – Series A Preferred Stock to these consolidated financial statements. In connection with the acquisition, an additional amount was recorded in the amount of $10,134 and an offsetting deferred tax liability recorded of the same amount, $10,134 to reflect the future tax liability attributable to the Geotraq asset acquired. There were no other assets acquired or liabilities assumed.

At the time of the acquisition of GeoTraq, GeoTraq was a shell company with no business operations, one intangible asset and historical know-how and designs. GeoTraq is in the development stage. The Company elected to early adopt ASU 2017-01, which clarifies the definition of a business for purposes of applying ASC 805. The Company has determined that GeoTraq is a single or group of related assets, not a business as clarified by ASU 2017-01 at the time of acquisition.

Note 6: Sale and deconsolidation of variable interest entity - AAP

The financial position and results of operations of AAP have been consolidated in our financial statements since AAP's inception based on our conclusion that AAP is a variable interest entity that we controlled due to our contribution in excess of 50% of the total equity, subordinated debt and other forms of financial support. Since inception we provided substantial financial support to fund the operations of AAP. The financial position and results of operations for AAP are reported in our recycling segment. On August 15, 2017, we sold our 50% interest in AAP, and therefore, as of August 15, 2017, no longer consolidate the results of AAP in our financial statements.

The following table summarizes the unaudited assets and liabilities of AAP consolidated in our financial position as of April 1, 2017:

	April 1, 2017
Assets	
Current assets	$307
Property and equipment, net	7,120
Other assets	83
Total assets	$7,510
Liabilities	
Accounts payable	$2,421
Accrued expenses	555
Current maturities of long-term debt obligations	734
Long-term debt obligations, net of current maturities	3,208
Other liabilities (a)	289
Total liabilities	$7,207

(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 consolidated in our financial results for the 13 weeks ended March 31, 2018, and April 1, 2017, respectively:

	13 Weeks Ended March 31, 2018	April 1, 2017 (b)
Revenues	$–	$485
Gross profit	–	(117)
Operating loss	–	(475)
Net loss	–	(511)

(b) Operating results for AAP were consolidated in the Company's operating results from inception of AAP through August 15, 2017, the date of our 50% equity sale in AAP. We recorded a gain of $81 on the sale and deconsolidation of our 50% equity interest in AAP. Net Cash outflow arising from deconsolidation of AAP was $157. The Company received $800 in cash consideration for its 50% equity interest in AAP.

Note 7: Assets of held for sale – discontinued operations

On December 30, 2017, we signed an agreement to dispose of our Appliancesmart retail appliance segment. ApplianceSmart Holdings LLC (the "Purchaser"), a wholly owned subsidiary of Live Ventures Incorporated, entered into a Stock Purchase Agreement (the "Agreement") with the Company and ApplianceSmart, Inc. ("ApplianceSmart"), a subsidiary of the Company. ApplianceSmart is a 17-store chain specializing in new and out-of-the-box appliances with annualized revenues of approximately $65 million. Pursuant to the Agreement, the Purchaser purchased from the Company all the issued and outstanding shares of capital stock (the "Stock") of ApplianceSmart in exchange for $6,500 (the "Purchase Price"). See Note 23. The Purchase Price per agreement was due and payable on or before March 31, 2018. As of December 30, 2017, the Company had an amount due from ApplianceSmart Holdings LLC a subsidiary of Live Ventures Incorporated in the sum of $6,500 recorded as a current asset. As of March 31, 2018, the Company had an amount due from ApplianceSmart Holdings LLC in the sum of $2,550.

Between March 31, 2018 and April 24, 2018, the Purchaser and the Seller negotiated in good faith the method of payment of the remaining outstanding balance of the Purchase Price. On April 25, 2018, the Purchaser delivered to the Seller that certain Promissory Note (the “ApplianceSmart Note”) in the original principal amount of $3,919 (the “Original Principal Amount”), as such amount may be adjusted per the terms of the ApplianceSmart Note. The ApplianceSmart Note is effective as of April 1, 2018 and matures on April 1, 2021 (the “Maturity Date”). The ApplianceSmart Note bears interest at 5% per annum with interest payable monthly in arrears. Ten percent of the outstanding principal amount will be repaid annually on a quarterly basis, with the accrued and unpaid principal due on the Maturity Date. ApplianceSmart has agreed to guaranty repayment of the ApplianceSmart Note. The remaining $2,581 of the Purchase Price was paid in cash by the Purchaser to the Seller. The Purchaser may reborrow funds, and pay interest on such reborrowings, from the Seller up to the Original Principal Amount. Subsequent to December 30, 2017, ApplianceSmart assumed $1,901 in liabilities from the Company.

Discontinued operations and assets held for sale include our retail appliance business Appliancesmart. Results of operations, financial position and cash flows for this business are separately reported as discontinued operations for all periods presented. The Company made the decision to sell Appliancesmart to eliminate losses and poor financial performance from our retail segment, decrease existing leverage, assign and eliminate long term lease liabilities for store leases, increase cash balances, enhance shareholder value and focus Company resources on its’ two remaining segments, Recycling and Technology.

FINANCIAL INFORMATION FOR HELD FOR SALE AND DISCONTINUED OPERATIONS (In Thousands)

	13 Weeks Ended March 31, 2018	13 Weeks Ended April 1, 2017
Revenue	$ –	$ 15,789
Cost of revenue	–	11,582
Gross profit	–	4,207
Selling, general and administrative expense	–	4,285
Operating (loss) - discontinued operations	–	(78)
Other income	–	–
Other expense	–	–
Net (loss) - discontinued operations before income tax benefit	–	(78)
Income tax benefit	–	21
Net (loss) - discontinued operations, net of tax	$ –	$ (57)

Note 8: Receivables

	March 31, 2018	December 30, 2017
Trade receivables, net	$5,471	$ 8,826
Factored accounts receivable	(716)	–
Prestige Capital reserve receivable	130	–
Due from Recleim	819	819
Other receivables	172	391
Trade and other receivables, net	$5,876	$ 10,036

For the 13 weeks ended March 31, 2018, two customers represented more than 10% of our total revenues. For the 13 weeks ended April 1, 2017, three customers represented more than 10% of our total revenues. As of March 31, 2018, two customers, each represented more than 10% of our total trade receivables, for a total of 43% of our total trade receivables. As of December 30, 2017, two customers, each represented more than 10% of our total trade receivables, for a total of 25% of our total trade receivables.

During the 13 weeks ended March 31, 2018 and April 1, 2017, respectively, we purchased appliances for resale from three suppliers. We have and are continuing to secure other vendors from which to purchase appliances. However, the curtailment or loss of one of these suppliers or any appliance supplier could adversely affect our operations.

Note 9: 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:

	March 31, 2018	December 30, 2017
Appliances held for resale	$1,154	$ 762

We provide estimated provisions for the obsolescence of our appliance inventories, including adjustments to net realizable value, 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. For the period ended March 31, 2018 and December 30, 2017, there was no inventory obsolescence reserve.

Note 10: Prepaids and other current assets

Prepaids and other current assets as of March 31, 2018 and December 30, 2017 consist of the following:

	March 31, 2018	December 30, 2017
Prepaid insurance	235	443
Prepaid rent	16	5
Prepaid other	96	58
	$ 347	$ 506

Note 11: Property and equipment

Property and equipment as of March 31, 2018, and December 30, 2017, consist of the following:

	Useful Life (Years)	March 31, 2018	December 30, 2017
Land		$ –	$ –
Buildings and improvements	18-30	156	156
Equipment (including computer software)	3-15	5,922	5,908
Projects under construction		29	29
Property and equipment		6,107	6,093
Less accumulated depreciation and amortization		(5,616)	(5,555)
Property and equipment, net		$ 491	$ 538

Depreciation and amortization expense for continuing operations was $61 and $257 for the 13 weeks ended March 31, 2018 and April 1, 2017, respectively.

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On January 25, 2017, as disclosed by the Company in Item 2.01 of its Current Report on Form 8-K filed with the SEC on January 31, 2017, the Company sold its' Compton, California facility (the "Compton Facility") for $7,103 to Terreno Acacia, LLC. The proceeds from the sale paid off the PNC term loan in the aggregate principal amount of $1,020 that was secured by the property and costs of sale of $325, with the remaining proceeds of $5,758 paid towards the PNC Revolver (as defined below). The Company recorded a gain on the sale of property of $5,163. The Company rented the Compton Facility back from Terreno Acacia, LLC after the completion of the sale from January 26, 2017 through April 10, 2017.

Note 12: Intangible assets

Intangible assets as of March 31, 2018, and December 30, 2017, consist of the following:

	March 31, 2018	December 30, 2017
Intangible assets GeoTraq, net	$23,766	$ 24,699
Patent	19	19
	$23,785	$ 24,718

For the 13 Week period ended March 31, 2018, we recorded amortization expense of $932, related to our finite intangible assets. The useful life and amortization period of the GeoTraq intangible acquired is seven years.

Note 13: Deposits and other assets

Deposits and other assets as of March 31, 2018, and December 30, 2017, consist of the following:

	March 31, 2018	December 30, 2017
Deposits	408	411
Other	100	107
	$ 508	$ 518

Deposits are primarily refundable security deposits with landlords for the Company's leased property.

Note 14: Accrued liabilities

Accrued liabilities as of March 31, 2018, and December 30, 2017, consist of the following:

	March 31, 2018	December 30, 2017
Sales tax estimates, including interest	$4,350	$ 4,563
Compensation and benefits	382	1,061
Deferred revenue	–	300
Accrued incentive and rebate checks	247	285
Accrued rent	–	77
Accrued interest	–	115
Accrued payables	–	129
Other	5	31
	$4,984	$ 6,561

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 Company’s California operations 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 intends to 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. The Company anticipates that resolution of the BOE assessment could take up to two years.

Note 15: Line of credit - PNC Bank

We had a Revolving Credit, Term Loan and Security Agreement, as amended, (“PNC Revolver”) with PNC Bank, National Association (“PNC”) that provided us with a $15,000 revolving line of credit. The PNC Revolver loan agreement included 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 PNC Revolver was collateralized by a security interest in substantially all of our assets and PNC was also secured by an inventory repurchase agreement with Whirlpool Corporation solely with respect to Whirlpool purchases only. In addition, we issued a $750 letter of credit in favor of Whirlpool Corporation. The PNC Revolver required, starting with the fiscal quarter ending April 2, 2016, that we meet a specified 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 PNC Revolver loan agreement limited investments that we could purchase, the amount of other debt and leases that we could incur, the amount of loans that we could issue to our affiliates and the amount we could spend on fixed assets, along with prohibiting the payment of dividends.

The interest rate on the PNC Revolver, as stated in our renewal agreement on January 22, 2016, was PNC Base Rate (as defined below) 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 meant, 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 available revolving borrowings under the PNC Revolver was based on a formula using accounts receivable and inventories. We did not have access to the full $15,000 revolving line of credit due to such formula, the amount of the letter of credit issued in favor of Whirlpool Corporation and the amount of outstanding loans owed to PNC by out AAP joint venture.

As discussed above, the Company sold its the Compton Facility building and land for $7,103. The net proceeds from the sale, after costs of sale and payoff of the Term Loan (as defined below), were used to reduce the outstanding balance under our PNC Revolver.

On May 1, 2017, the PNC Revolver loan agreement was amended, and the term was extended through June 2, 2017. The amendment, effective May 2, 2017, also reduced the maximum amount of borrowing under the PNC Revolver to $6 million. On May 10, 2017 we repaid in full and terminated our existing Revolving Credit, Term Loan and Security Agreement, as amended, with PNC Bank, National Association on the same date.

The PNC Revolver loan agreement was terminated, and the PNC Revolver was paid in full on May 10, 2017 with funds from MidCap Financial Trust. See Note 13, long term obligations, for additional information.

Note 16: Notes payable – short term

On August 18, 2017, the Company, as part of its' acquisition of GeoTraq, issued unsecured promissory notes to the sellers of GeoTraq with interest at the annual rate of interest of 1.29% maturing on August 18, 2018. The outstanding balance of the notes payable – short term as of March 31, 2018 is $300.

Note 17: Long term obligations

Long term debt, capital lease and other financing obligations as of March 31, 2018, and December 30, 2017, consist of the following:

	March 31, 2018	December 30, 2017
MidCap financial trust asset based revolving loan	$ –	$ 5,605
AFCO Finance	92	367
GE 8% loan agreement	482	482
EEI note	103	103
Capital leases and other financing obligations	–	30
Debt issuance costs, net	(532)	(1,010)
Total debt obligations	145	5,577
Less current maturities	(145)	(5,577)
Long-term debt obligations, net of current maturities	$ –	$ –

PNC Term Loan

On January 24, 2011, we entered into a $2,550 Term Loan ("Term Loan") with the PNC Bank to refinance the mortgage on our Compton Facility. The Term Loan was payable in 119 consecutive monthly principal payments of $21 plus interest commencing on February 1, 2011 and followed by a 120th payment of all unpaid principal, interest and fees on February 1, 2021. The PNC Revolver loan agreement required a balloon payment of $1,020 in principal plus interest and additional fees due on January 31, 2017. The Term Loan was collateralized by the Compton Facility. As disclosed by the Company in Item 2.01 of the Company's Current Report on Form 8-K filed with the SEC on January 31, 2017, the Term Loan was paid off in full on January 25, 2017 when the Compton Facility was sold.

MidCap Financial Trust

On May 10, 2017, we entered into a Credit and Security Agreement ("Credit Agreement") with MidCap Financial Trust ("MidCap Financial Trust"), as a lender and as agent for itself and other lenders under the Credit Agreement. The Credit Agreement provided us with a $12,000 revolving line of credit, which may have been increased to $16,000 under certain terms and conditions (the "MidCap Revolver"). The MidCap Revolver had a stated maturity date of May 10, 2020, if not renewed. The MidCap Revolver was collateralized by a security interest in substantially all of our assets.

The lender was also secured by an inventory repurchase agreement with Whirlpool Corporation for Whirlpool purchases only. The Credit Agreement required 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 was (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 limited the amount of other debt we could incur, the amount we could spend on fixed assets, and the amount of investments we could make, along with prohibiting the payment of dividends.

The amount of revolving borrowings available under the Credit Agreement was based on a formula using receivables and inventories. We did not have access to the full $12,000 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. The interest rate on the revolving line of credit was the one-month LIBOR rate plus four and one-half percent (4.50%).

On December 30, 2017, our available borrowing capacity under the Credit Agreement was $1,031. We borrowed $21,470 and repaid $27,075 on the Credit Agreement during the period of December 31, 2017 through March 22, 2018, leaving an outstanding balance on the Credit Agreement of $0 and $5,605 at March 31, 2018 and December 30, 2017, respectively.

On September 20, 2017, we received a written notice of default, dated September 20, 2017 (the “Notice of Default”), from MidCap Funding X Trust (the “Agent”), asserting that events of default had occurred with respect to the Credit Agreement. The Agent alleged in the Notice of Default that, as a result of the Company’s recent acquisition of GeoTraq, and the issuance of promissory notes to the stockholders of GeoTraq in connection with such acquisition, the Borrowers have failed to comply with certain terms of the Loan Agreement, and that such failure constitutes one or more Events of Default under the Loan Agreement. Specifically, the Notice of Default states that as a result of the acquisition and related issuance of promissory notes, the Borrowers have failed to comply with (i) a covenant not to incur additional indebtedness other than Permitted Debt (as defined in the Loan Agreement), without the Agent’s prior written consent, and a covenant not to make acquisitions or investments other than Permitted Acquisitions or Permitted Investments (as defined in the Credit Agreement). The Notice of Default also stated that the Borrowers’ failure to pledge the stock in GeoTraq as collateral under the Credit Agreement and to make GeoTraq a “Borrower “under the Credit Agreement will become an Event of Default if not cured within the applicable cure period. The Agent reserved the right to avail itself of any other rights and remedies available to it at law or by contract, including the right to (a) withhold funding, increase reserves and suspend making further advances under the Credit Agreement, (b) declare all principal, interest and other sums owing in connection with the Credit Agreement immediately due and payable in full, (c) charge the Default Rate on amounts outstanding under the Credit Agreement, and/or (d) exercise one or more rights and remedies with respect to any and all collateral securing the Credit Agreement.

The Agent did not declare the amounts outstanding under the Credit Agreement to be immediately due and payable but imposed the default rate of interest, which is 5% in excess of the rates otherwise payable under the Loan Agreement), effective as of August 18, 2017 and continuing until the Agent notifies the Borrowers that the specified Events of Default have been waived and no other Events of Default exist. The Company strongly disagreed with the Lenders that any Event of Default had occurred.

On March 22, 2018, the Company terminated the Credit and Security Agreement (the“Credit Agreement”) by and among the Company and the subsidiaries of the Company as borrowers (the “Borrowers”), on the one hand, and MidCap Financial Trust, as administrative agent and lender (the “Lender”), on the other hand, together with the related revolving loan note and pledge agreement. The Company did not incur any termination penalties as a result of the termination of the Credit Agreement. The Company is classifying the MidCap Revolver as a current liability until March 22, 2018, at which time the MidCap Revolver was terminated and paid in full. The security interests held by the Lender in substantially all Company assets were released following termination and payoff on March 22, 2018. The debt issuance costs of the MidCap Revolver were $546. The un-amortized debt issuance costs recorded as interest expense upon termination of the Credit Agreement on March 22, 2018 were $395.

GE

On August 14, 2017 as a part of the sale of the Company’s equity interest in AAP, Recleim LLC, a Delaware limited liability company (“Recleim”), agreed to undertake, pay or assume the Company’s GE obligations consisting of a promissory note (GE 8% loan agreement) and other payables of $336 which were incurred after the issuance of such promissory note. Recleim has agreed to indemnify, and hold ARCA harmless from any action to be taken by GE relating to such obligations. The Company has an offsetting receivable due from Recleim of $818.

AFCO Finance

On June 16, 2017, we entered into a financing agreement with AFCO Credit Corporation (“AFCO”) to fund the annual premiums on insurance policies purchased through Marsh Insurance. These policies relate to workers’ compensation and various liability policies including, but not limited to, General, Auto, Umbrella, Property, and Directors’ and Officers’. The total amount of the premiums financed is $1,070 with an interest rate of 3.567%. An initial down payment of $160 was paid on June 16, 2017 and an additional 10 monthly payments of $92 will be made beginning July 1, 2017 and ending April 1, 2018. The outstanding principal at the end of March 31, 2018 and December 30, 2017 was $92 and $367, respectively.

Energy Efficiency Investments LLC

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. These 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 Energy Efficiency Investments, LLC. 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 these notes. The principal amount of these notes outstanding at March 31, 2018 and December 30, 2017, was $103. The debt issuance costs of the EEI note are $740. The un-amortized debt issuance costs of the EEI note as of March 31, 2018 and December 30, 2017, are $532 and $568, respectively.

Note 18: Commitments and Contingencies

Litigation

On March 6, 2015, a complaint was filed in United States District Court for the Central District of California by Jason Feola, individually and as a representative of a putative class consisting of purchasers of the Company’s common stock between March 15, 2012 and February 11, 2015, against Appliance Recycling Centers of America, Inc. and certain current and former officers of the Company. Mr. Feola, pursuant to terms of his retainer agreement with The Rosen Law Firm, certified that he purchased 240 shares of the Company’s common stock for $984 in total consideration. On May 7, 2015, the Company and the individual defendants were served the complaint. In July 2015, the Company and the individual defendants received an amended complaint. The complaint alleges that misstatements and omissions occurred in press releases and filings by the Company with the Securities and Exchange Commission and that these misstatements or omissions constitute violations of Section 20 (a) and Section 10(b) of, and Rule 10b-5 under, the Securities Exchange Act of 1934. In October 2015, the court held a hearing on the Company's motion to dismiss the complaint. On November 24, 2015, the United States District Court for the Central District of California entered an order granting the motion to dismiss the amended complaint. The Court’s order provided that the dismissal was without prejudice and that the plaintiffs could file an amended complaint within 21 days of the issuance of the order. On December 15, 2015, the Company and the individual defendants were served with a second amended complaint. In May 2016, the court held a hearing on the Company’s motion to dismiss the second amended complaint. On October 21, 2016 the court entered a final judgement to dismiss the class action complaint with prejudice.

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 alleged that the defendants breached their fiduciary duties to the Company, and that the defendants have been unjustly enriched as a result thereof. The complaint sought damages, disgorgement, an award of attorneys' fees and other expenses, and an order compelling changes to the Company's corporate governance and internal procedures. The Company and the other defendants vigorously denied plaintiffs' allegations and have not admitted any liability or wrongdoing as part of the settlement. The court made no findings or determinations with respect to the merit of plaintiffs' claims, and no payment is being made by the Company or the other defendants. The parties have reached a settlement that fully resolves plaintiffs' claims and provides for the release of all claims asserted in the litigation. On August 2, 2017, the court entered an order granting preliminary approval of the settlement. On September 29, 2017, the court issued an order granting final approval of the settlement. As a condition of the settlement, the Company has agreed to provide certain training to employees in the Company's accounting department within one year of the settlement. The court also granted an application by plaintiffs' counsel for attorneys' fees, to be paid by the Company's insurance carrier. Other than this award of attorneys' fees, no payment or other consideration was paid by the Company nor its officers or directors in connection with the settlement.

On December 29, 2016, ARCA served a Minnesota state court complaint for breach of contract on Skybridge Americas, Inc. ("SA"), ARCA's primary call center vendor throughout 2015 and most of 2016. ARCA seeks damages in the millions of dollars as a result of alleged overcharging by SA and lost client contracts. On January 25, 2017, SA served a counterclaim for unpaid invoices in the amount of approximately $460,000 plus interest and attorneys' fees. On March 29, 2017, the Hennepin County district court dismissed ARCA's breach of contract claim based on SA's overuse of its Canadian call center but permitted ARCA's remaining claims to proceed. On October 24, 2017, ARCA filed a motion for partial summary judgment; SA cross-motioned on November 6, 2017. On January 8, 2018, judgment was entered in SA's favor, which was amended as of February 28, 2018 for a total amount of $613,566.32 including interest and attorneys' fees. On March 2, 2018, ARCA appealed the judgment to the Minnesota Court of Appeals. The appeal is in progress.

On November 15, 2016, ARCA served an arbitration demand on Haier US Appliance Solutions, Inc., dba GE Appliances (“GEA”), alleging breach of contract and interference with prospective business advantage. ARCA seeks over $2 million in damages. On April 18, 2017, GEA served a counterclaim for approximately $337,000 in alleged obligations under the parties’ recycling agreement. Simultaneously with serving its counterclaim in the arbitration, which is venued in Chicago, GEA filed a complaint in the United States District Court for the Western District of Kentucky seeking damages of approximately $530,000 plus interest and attorneys’ fees allegedly owed under a previous agreement between the parties. On December 12, 2017, the court stayed GEA’s complaint in favor of the arbitration. Under the terms of ARCA’s transaction with Recleim LLC, Recleim LLC is obligated to pay GEA on ARCA’s behalf the amounts claimed by GEA in the arbitration and in the lawsuit pending in Kentucky. Those amounts have been paid into escrow pending the outcome of the arbitration. The parties have selected an arbitrator and the arbitration was deemed to have commenced as of May 29, 2018.

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 agreement between the parties. A dispute has arisen between AMTIM and us with respect to the calculation of amounts due to AMTIM pursuant to the agreement. 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 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.

Note 19: Income Taxes

Our overall effective tax rate was 26.8% for the 13 weeks ended March 31, 2018 and a positive tax provision of $575 against a pre-provision loss of $2,050 for the 13 weeks ended March 31, 2018, respectively. The effective tax rates and related provisional tax amounts vary from the U.S. federal statutory rate due to state taxes, foreign taxes, share-based compensation, non-controlling interest, valuation allowance, and certain non-deductible expenses.

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.

Note 20: Series A Preferred Stock

On August 18, 2017, the Company acquired GeoTraq by way of merger. GeoTraq is a development stage company that is engaged in the development, manufacture, and, ultimately, we expect, sale of cellular transceiver modules, also known as Cell-ID modules. As a result of this transaction, GeoTraq became a wholly-owned subsidiary of the Company. In connection with this transaction, the Company tendered to the owners of GeoTraq $200,000, issued to them an aggregate of 288,588 shares of the Company's Series A Convertible Preferred Stock, and entered into one-year unsecured promissory notes in the aggregate principal amount of $800,000.

To accomplish the designation and issuance of the Series A Preferred Stock, we filed a Certificate of Designation with the Secretary of State of the State of Minnesota. On November 9, 2017, we filed a Certificate of Correction with the Minnesota Secretary of State. The following summary of the Series A Preferred Stock and Certificate of Designation does not purport to be complete and is qualified in its entirety by reference to the provisions of applicable law and to the Certificate of Designation and Certificate of Correction, which is filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q, as amended, for the quarterly period ended July 1, 2017, and Certificate of Correction, which is filed as Exhibit 3.2. hereto.

Dividends

We cannot declare, pay or set aside any dividends on shares of any other class or series of our capital stock unless (in addition to the obtaining of any consents required by our Articles of Incorporation) the holders of the Series A Preferred Stock then outstanding shall first receive, or simultaneously receive, a dividend in the aggregate amount of $1.00, regardless of the number of then-issued and outstanding shares of Series A Preferred Stock. Any remaining dividends allocated by the Board of Directors shall be distributed in an equal amount per share to the holders of outstanding common stock and Series A Preferred Stock (on an as-if-converted to common stock basis pursuant to the Conversion Ratio as defined below).

Liquidation Rights

Immediately prior to the occurrence of any liquidation, dissolution or winding up of the Company, whether voluntary of involuntary, all shares of Series A Convertible Preferred Stock automatically convert into shares of our common stock based upon the then-applicable "conversion ratio" (as defined below) and shall participate in the liquidation proceeds in the same manner as other shares of our common stock.

Conversion

The Series A Convertible Preferred Stock is not convertible into shares of our common stock except as described below.

Subject to the third sentence of this paragraph, each holder of a share of Series A Preferred Stock has the right, exercisable at any time and from time to time (unless otherwise prohibited by law, rule or regulation, or as restricted below), to convert any or all of such holder's shares of Series A Preferred Stock into shares of our common stock at the conversion ratio. The "conversation ratio" per share of the Series A Preferred Stock is a ratio of 1:100, meaning every one share of Series A Preferred Stock, if and when converted into shares of our common stock, converts into 100 shares of our common stock. Notwithstanding anything to the contrary in the Certificate of Designation, a holder of Series A Preferred Stock may not convert any of such holder's shares and we may not issue any shares of our common stock in connection with a conversation that would trigger any Nasdaq requirement to obtain shareholder approval prior to such conversion or issuance in connection with such conversion that would be in excess of that number of shares of common stock equivalent to 19.9% of the number of shares of common stock as of August 18, 2017 ; *provided*, *however*, that holders of the Series A Preferred Stock may effectuate any conversion and we are obligated to issue shares of common stock in connection with a conversion that would not trigger such a requirement. The foregoing restriction is of no further force or effect upon the approval of our stockholders in compliance with Nasdaq's shareholder voting requirements. Notwithstanding anything to the contrary contained in the Certificate of Designation, the holders of the Series A Preferred Stock may not effectuate any conversion and we may not issue any shares of common stock in connection with a conversion until the later of (x) February 28, 2018, or (y) sixty-one days following the date on which our stockholders have approved the voting, conversion, and other potential rights of the holders of Series A Preferred Stock described in the Certificate of Designation in accordance with the relevant Nasdaq requirements.

Redemption

The shares of Series A Preferred Stock have no redemption rights.

Preemptive Rights

Holders of shares of Series A Preferred Stock are not entitled to any preemptive rights in respect to any securities of the Company, except as set forth in the Certificate of Designation or any other document agreed to by us.

Voting Rights

Each holder of a share of Series A Preferred Stock has a number of votes as is determined by multiplying (i) the number of shares of Series A Preferred Stock held by such holder, and (ii) 100. The holders of Series A Preferred Stock vote together with all other classes and series of common and preferred stock of the Company as a single class on all actions to be taken by the common stockholders of the Company, except to the extent that voting as a separate class or series is required by law. Notwithstanding anything to the contrary herein, the holders of the Series A Preferred Stock may not engage in any vote where the voting power would trigger any Nasdaq requirement to obtain shareholder approval; provided however the holders do have the right to vote that portion of their voting power that would not trigger such a requirement. The foregoing voting restriction lapses upon the requisite approval of the shareholders in compliance with Nasdaq’s shareholder voting requirements in effect at the time of such approval.

Protective Provisions

Without first obtaining the affirmative approval of a majority of the holders of the shares of Series A Preferred Stock, we may not directly or indirectly (i) increase or decrease (other than by redemption or conversion) the total number of authorized shares of Series A Preferred Stock; (ii) effect an exchange, reclassification, or cancellation of all or a part of the Series A Preferred Stock, but excluding a stock split or reverse stock split or combination of the common stock or preferred stock; (iii) effect an exchange, or create a right of exchange, of all or part of the shares of another class of shares into shares of Series A Preferred Stock; or (iii) alter or change the rights, preferences or privileges of the shares of Series A Preferred Stock so as to affect adversely the shares of such series, including the rights set forth in this Designation; provided, however, that we may, without any vote of the holders of shares of the Series A Preferred Stock, make technical, corrective, administrative or similar changes to the Certificate of Designation that do not, individually or in the aggregate, materially adversely affect the rights or preferences of the holders of shares of the Series A Preferred Stock.

Note 21: Share-based compensation

We recognized share-based compensation expense of $0 and $23 for the 13 weeks ended March 31, 2018, and April 1, 2017 respectively. There is no estimated future share-based compensation expense as of March 31, 2018. The weighted average fair value per option of options granted during fiscal year 2016 was $1.12. Based on the value of options outstanding as of March 31, 2018, we do not estimate any future share-based compensation expense for existing options issued. This estimate does not include any expense for additional options that may be granted and vest in subsequent years.

Note 22: Shareholders' Equity

Common Stock: Our Articles of Incorporation authorize fifty million shares of common stock that may be issued from time to time having such rights, powers, preferences and designations as the Board of Directors may determine. During the 13 weeks ended March 31, 2018, respectively, no additional shares of common stock were granted and issued. As of March 31, 2018, and December 30, 2017, there were 6,875 and 6,875 shares, respectively, of common stock issued and outstanding.

Stock options: The 2016 Plan authorizes the granting of awards in any of the following forms: (i) incentive stock options, (ii) nonqualified stock options, (iii) restricted stock awards, and (iv) restricted stock units, and expires on the earlier of October 28, 2026, or the date that all shares reserved under the 2016 Plan are issued or no longer available. The 2016 Plan provides for the issuance of up to 2,000 shares of common stock pursuant to awards granted under the

2016 Plan. Options granted to employees typically vest over two years, while grants to non-employee directors vest in six months. As of March 31, 2018, 20 options were outstanding under the 2016 Plan. Our 2011 Plan authorizes the granting of awards in any of the following forms: (i) stock options, (ii) stock appreciation rights, and (iii) other share-based awards, including but not limited to, restricted stock, restricted stock units or performance shares, and expires on the earlier of May 12, 2021, or the date that all shares reserved under the 2011 Plan are issued or no longer available. Options granted to employees typically vest over two years, while grants to non-employee directors vest in six months. As of March 31, 2018, 485 options were outstanding under the 2011 Plan. No additional awards will be granted under the 2011 Plan after the adoption of the 2016 Plan. Our 2006 Stock Option Plan (the "2006 Plan") expired on June 30, 2011, but the options outstanding under the 2006 Plan continue to be exercisable in accordance with their terms. As of March 31, 2018, 90 options were outstanding to employees and non-employee directors under the 2006 Plan. We issue new common stock when stock options are exercised. The Company periodically grants stock options that vest based upon the achievement of performance targets. For performance-based options, the Company evaluates the likelihood of the targets being met and records the expense over the probable vesting period.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for fiscal year 2016. No options were issued in the 13 weeks ended March 31, 2018 or fiscal year 2017. The expected dividend yield is zero. The expected stock price volatility is 85.44%. The risk-free interest rate is 2.16%. The expected life of options in years is ten.

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

	Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Life
Balance at December 30, 2017	627	$ 2.56	$ –	4.22
Granted	–			
Exercised	–			
Cancelled/expired	(33)	5.00		
Forfeited	–			
Balance at March 31, 2018	594	$ 2.42	$ –	3.97

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on our closing stock price of $0.83 on March 29, 2018, which theoretically could have been received by the option holders had all option holders exercised their options as of that date. As of March 31, 2018, and December 30, 2017, there were no in-the-money options exercisable.

Warrants: On November 8, 2016, we issued a warrant to Energy Efficiency Investments, LLC (EEI) to purchase 167 shares of common stock at a price of $0.68 per share. The fair value of the warrant issued was $106 and it was exercisable in full at any time during a term of five years. The fair value per share of common stock underlying the warrant issued to EEI was $0.63 based on our closing stock price of $0.95. The exercise price may be reduced and the number of shares of common stock that may be purchased under the warrant may be increased if the Company issues or sells additional shares of common stock at a price lower than the then-current warrant exercise price or the then-current market price of the common stock. The shares underlying the warrant include legal restrictions regarding the transfer or sale of the shares. The fair value of the EEI warrant was recorded as deferred financing costs and is being amortized over the term of the commitment.

As of March 31, 2018, and December 30, 2017, we had fully vested warrants outstanding to purchase 24 shares of common stock at a price of $3.55 per share and expire in May 2020 and 167 shares of common stock at a price of $0.68 per share.

Preferred Stock: Our Articles of Incorporation authorize two million shares of preferred stock that may be issued from time to time in one or more series having such rights, powers, preferences and designations as the Board of Directors may determine. In 2017, 288,588 shares (number specific – not rounded) of preferred stock were issued for the Geo Traq acquisition. See Note 5.

Note 23: 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 shares of common stock outstanding adjusted by the number of additional shares that would have been outstanding had the potentially dilutive shares of common stock 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 shareholders of the parent by the weighted average number of shares of common stock 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 shares of common stock at the average market price during the quarter. For the 13 weeks ended March 31, 2018 and April 1, 2017, we excluded options and warrants to purchase 818 and 901 shares, respectively, of common stock from the diluted weighted average shares outstanding calculation as the effect of these options were anti-dilutive.

	For the Thirteen Weeks Ended	
	March 31, 2018	April 1, 2017
Basic		
Net income (loss) from continuing operations	$(1,475)	$2,265
Net income (loss) from discontinued operations and loss on sale, net of tax	–	(57)
Net income (loss)	$(1,475)	$2,208
Basic earnings (loss) per share:		
Basic earnings (loss) per share from continued operations	$(0.21)	$0.34
Basic earnings (loss) per share - discontinued operations and loss on sale, net of tax	–	(0.02)
Basic earnings (loss) per share	$(0.21)	$0.33
Weighted average common shares outstanding	6,875	6,655
Diluted		
Diluted earnings (loss) per share:		
Diluted earnings (loss) per share from continued operations	$(0.21)	$0.33
Diluted earnings (loss) per share - discontinued operations and loss on sale, net of tax	–	(0.02)
Diluted earnings (loss) per share	$(0.21)	$0.32
Weighted average common shares outstanding	6,875	6,655
Add: Common Stock Warrants	–	167
Assumed diluted weighted average common shares outstanding	6,875	6,822

Note 24: Segment Information

We operate within targeted markets through two reportable segments: recycling and technology. The recycling segment is composed of income generated by fees charged and costs incurred for collecting, recycling and installing appliances for utilities and other customers and includes byproduct revenue, which are primarily generated through the recycling of appliances. We have included the results from consolidating AAP in our recycling segment through August 15, 2017. The technology segment is composed of all revenue and costs incurred or associated with GeoTraq. At this time, GeoTraq is in the development stage and expects to go to market with products and services in the location based services market. The nature of products, services and customers for each segment 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:

	Thirteen Weeks Ended March 31, 2018	April 1, 2017
Revenues		
Recycling	$8,913	$7,450
Technology	–	–
Total Revenues	$8,913	$7,450
Gross profit		
Recycling	$2,412	$1,816
Technology	–	–
Total Gross profit	$2,412	$1,816
Operating loss		
Recycling	$(289)	$(1,631)
Technology	(1,273)	–
Total Operating income	$(1,562)	$(1,631)
Depreciation and amortization		
Recycling	$61	$257
Technology	933	–
Total Depreciation and amortization	$994	$257
Interest expense		
Recycling	$591	$297
Technology	–	–
Total Interest expense	$591	$297
Net income (loss) before provision for income taxes		
Recycling	$(777)	$3,240
Technology	(1,273)	–
Total Net income (loss) before provision for income taxes	$(2,050)	$3,240

	As of March 31, 2018	As of December 30, 2017
Assets		

Recycling	$12,007	$ 21,745
Technology	24,852	25,146
Total Assets	$36,859	$ 46,891
Goodwill and intangible assets		
Recycling	$19	$ 19
Technology	23,766	24,699
Total Goodwill and intangible assets	$23,785	$ 24,718

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Note 25: Defined Contribution Plan

We have a defined contribution salary deferral plan covering substantially all employees under Section 401(k) of the Internal Revenue Code. We contribute an amount equal to 10 cents for each dollar contributed by each employee up to a maximum of 5% of each employee's compensation. We recognized expense for contributions to the plans of $13 and $15 for the 13 weeks ended March 31, 2018 and April 1, 2017, respectively.

Note 26: Related Parties

Tony Isaac, the Company's Chief Executive Officer, is the father of Jon Isaac, Chief Executive Officer of Live Ventures Incorporated and managing member of Isaac Capital Group LLC, a 9% shareholder of the Company. Tony Isaac, Chief Executive Officer, Virland Johnson, Chief Financial Officer, Richard Butler, Board of Directors member, and Dennis Gao, Board of Directors member of the Company, are Board of Directors, Chief Financial Officer, Board of Directors member, and Board of Directors members of, respectively, Live Ventures Incorporated. The Company also shares certain executive and legal services with Live Ventures Incorporated. The total services were $66 and $4 for the 13 weeks ended March 31, 2018 and April 1, 2017, respectively. Customer Connexx rents approximately 9,879 square feet of office space from Live Ventures Incorporated at its Las Vegas, NV office. The total rent and common area expense was $44 and $41 for the 13 weeks ended March 31, 2018 and April 1, 2017, respectively. The Company received a transition services fee $68 from ApplianceSmart for the 13 weeks ended March 31, 2018.

On December 30, 2017, ApplianceSmart Holdings LLC (the "Purchaser"), a wholly owned subsidiary of Live Ventures Incorporated, entered into a Stock Purchase Agreement (the "Agreement") with the Company and ApplianceSmart, Inc. ("ApplianceSmart"), a subsidiary of the Company. Pursuant to the Agreement, the Purchaser purchased from the Company all the issued and outstanding shares of capital stock (the "Stock") of ApplianceSmart in exchange for $6,500 (the "Purchase Price"). Effective April 1, 2018, Purchaser issued the Company a promissory note with a three-year term in the original principal amount of $3,919,494 (exact amount) for the balance of the purchase price. ApplianceSmart is guaranteeing the repayment of this promissory note. See Note 7.

Note 27: Subsequent Events

ApplianceSmart, Inc. Financing

As previously announced by the “Company, on December 30, 2017, the Purchaser, entered into a Agreement with the Company and ApplianceSmart. Pursuant to the Agreement, the Purchaser purchased (the “Transaction”) from the Seller all of the issued and outstanding shares of capital stock of ApplianceSmart in exchange for $6,500 (the “Purchase Price”). The Purchaser was required to deliver the Purchase Price, and a portion of the Purchase Price was delivered, to the Company prior to March 31, 2018. Between March 31, 2018 and April 24, 2018, the Purchaser and the Company negotiated in good faith the method of payment of the remaining outstanding balance of the Purchase Price. On April 25, 2018, the Purchaser delivered to the Company that certain Promissory Note (the “ApplianceSmart Note”) in the original principal amount of $3,919 (the “Original Principal Amount”), as such amount may be adjusted per the terms of the ApplianceSmart Note. The ApplianceSmart Note is effective as of April 1, 2018 and matures on April 1, 2021 (the “Maturity Date”). The ApplianceSmart Note bears interest at 5% per annum with interest payable monthly in arrears. Ten percent of the outstanding principal amount will be repaid annually on a quarterly basis, with the accrued and unpaid principal due on the Maturity Date. ApplianceSmart has agreed to guaranty repayment of the ApplianceSmart Note. The remaining $2,581 of the Purchase Price was paid in cash by the Purchaser to the Company. The Purchaser may reborrow funds, and pay interest on such reborrowings, from the Company up to the Original Principal Amount. Subsequent to December 30, 2017, ApplianceSmart assumed $1,901 in liabilities from the Company.

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 on Form 10-Q contains "forward-looking statements" within the meaning of the federal securities laws, including Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which involve risks and uncertainties. You can identify forward-looking statements because they contain words such as ''believes,'' ''expects,'' ''may,'' ''will,'' ''should,'' ''seeks,'' ''approximately,'' ''intends,'' ''plan ''anticipates'' or similar expressions that concern our strategy, plans or intentions. Any statements we make relating to our future operations, performance and results, and anticipated liquidity are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those we expected. We derive most of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from our expectations, including, without limitation, in conjunction with the forward-looking statements included in this Form 10-Q, are disclosed in "Item 1-Business, Item 1A – Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 30, 2017, as amended, and this Quarterly Report on Form 10-Q. Some of the factors that we believe could affect our results include:

· the volume of appliance sales;

· the strength of energy conservation recycling programs;

· our continued ability to purchase product from our suppliers at acceptable prices;

· 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 outcome of the pending sales and use tax examination in California; and

- general economic conditions affecting consumer demand for appliances.

We caution you that the foregoing list of important factors may not contain all of the material factors that are important to you. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this Quarterly Report on Form 10-Q may not in fact occur. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. Our MD&A should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 30, 2017 (including the information presented therein under *Risk Factors*), as amended, as well as our Quarterly 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 and replacing. We are committed to energy efficiency and have been a pioneer in appliance recycling programs. We expect that our recent acquisition of GeoTraq, a development stage company, will ultimately allow us to market and sell products and services that capitalize on the large under-served portion of the location based services market that is not addressed by existing solutions. RFID and Wi-Fi require close proximity for asset tracking, while GPS is too bulky and power hungry for many needs. GeoTraq addresses the white space in-between by exclusively using Cell-ID technology. GeoTraq's patented technology allows for a substantially lower cost solution, extended service life, a small form factor and even disposable devices, which we believe can significantly reduce return logistics costs.

We operate two reportable segments:

- 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.
- Technology: Our technology segment is in the development stage with the recent acquisition of GeoTraq. GeoTraq is in the process of developing technology to enable low cost location based products and services through the use of Cell-ID technology.

For the Thirteen Weeks Ended March 31, 2018 and April 1, 2017

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 March 31, 2018		13 Weeks Ended April 1, 2017	
Statement of Operations Data (in Thousands):				
Revenue	$8,913	100.0%	$7,450	100.0%
Cost of revenue	6,501	72.9%	5,634	75.6%

Gross profit	2,412	27.1%	1,816	24.4%
Selling, general and administrative expense	3,974	44.6%	3,447	46.3%
Operating (loss)	(1,562)	-17.5%	(1,631)	-21.9%
Interest expense, net	(591)	-6.6%	(297)	-4.0%
Other income	103	1.2%	5,168	69.4%
Net income (loss) before income taxes	(2,050)	-23.0%	3,240	43.5%
Provision (benefit) for income taxes	(575)	-6.5%	1,238	-16.6%
Net income (loss) before noncontrolling interest	(1,475)	-16.5%	2,002	26.9%
Net (loss) attributed to noncontrolling interest	–	0.0%	263	3.5%
Net (loss) from discontinued operations, net of tax	–	0.0%	(57)	-0.8%
Net income (loss) attributed to shareholders' of parent	$(1,475)	-16.5%	$2,208	29.6%

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:

	March 31, 2018		April 1, 2017	
	Net Revenue	Percent of Total	Net Revenue	Percent of Total
Revenue				
Recycling, Byproducts, Carbon Offset	$4,743	53.2%	$4,653	62.5%
Replacement Appliances	4,170	46.8%	2,797	37.5%
Total Revenue	$8,913	100.0%	$7,450	100.0%

	March 31, 2018		April 1, 2017	
	Gross Profit	Gross Profit %	Gross Profit	Gross Profit %
Gross Profit				
Recycling, Byproducts, Carbon Offset	1,089	23.0%	992	21.3%
Replacement Appliances	1,323	31.7%	824	29.5%
Total Gross Profit	$2,412	27.1%	$1,816	24.4%

Revenue

Revenue increased $1,463 or 19.6% for the 13 weeks ended March 31, 2018 as compared to the 13 weeks ended April 1, 2017.

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

Replacement Appliance revenue increased $1,373 or 49.1%, primarily due to strong demand from our Southern California customers.

Revenue increased in Recycling, Byproducts, Carbon Offset $90 or 1.9%.

Cost of Revenue

Cost of revenue increased $867, or 15.4% for the 13 weeks ended March 31, 2018 as compared to the 13 weeks ended April 1, 2017, primarily as a result of the change in revenue discussed above as well as the changes in gross profit discussed below. The Company has made several vendor changes in the area of delivery and transportation to improve scalability, cost and customer service.

Gross Profit

Gross profit increased $596 or 32.8%, for the 13 weeks ended March 31, 2018 as compared to the 13 weeks ended April 1, 2017.

Gross profit for Recycling, Byproducts and Carbon Offset increased $97 or 9.8%, and Replacement Appliance gross profit increased $499 or 60.6%, primarily due to increased volume of Replacement Appliances sold through our customers in Southern California.

Gross profit margin as a percentage of sales were improved for Recycling, Byproducts and Carbon Offset to 23.0% vs. 21.4%. Gross profit margin as a percentage of sales were improved for Replacement Appliances to 31.7% vs. 29.5%.

Selling, General and Administrative Expense

Selling, general and administrative expense increased $527 or 15.3%, for the 13 weeks ended March 31, 2018 as compared to the 13 weeks ended April 1, 2017. Selling, general and administrative expense increased for our Technology segment by $1,273 and decreased for our Recycling segment by $746, primarily attributable to decreased personnel and benefit expenses.

Operating Loss

As a result of the factors described above, operating loss of $1,562 for the 13 weeks ended March 31, 2018, represented an increase of $69 over the comparable prior year 13 weeks loss ended April 1, 2017 of $1,631.

Interest Expense, net

Interest expense net increased $294 or 99.0%, for the 13 weeks ended March 31, 2018 as compared to the 13 weeks ended April 1, 2017 primarily due to decreased rates and amounts of interest paid as a result of decreased borrowing.

Other Income and Expense

Other income and expense decreased $5,065 for the 13 weeks ended March 31, 2018 as compared to the 13 weeks ended April 1, 2017, primarily due to the sale of and related gain on sale of $5,163 for the Compton, CA building and property.

Provision for (benefit from) Income Taxes

We recorded a benefit for income taxes of $575 for the 13 weeks ended March 31, 2018, compared with a provision of $1,238 in the same period of 2017. The provision for income taxes for the 13 weeks ended March 31, 2018, decreased over the same period of 2017 by $1,813.

Net Income (loss)

The factors described above led to a net loss of $1,475 for the 13 weeks ended March 31, 2018, a decrease of $3,683 from a net income of $2,208 for the 13 weeks ended April 1, 2017.

Segment Performance

We report our business in the following segments: Recycling and Technology. 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 March 31, 2018			13 Weeks Ended April 1, 2017		
	Segments in $			Segments in $		
	Recycling	Technology	Total	Recycling	Technology	Total
Revenue	$8,913	$ –	$8,913	$7,450	$ –	$7,450
Cost of revenue	6,501	–	6,501	5,634	–	5,634
Gross profit	2,412	–	2,412	1,816	–	1,816
Selling, general and administrative expense	2,701	1,273	3,974	3,447	–	3,447
Operating (loss)	$(289)	$ (1,273)	$(1,562)	$(1,631)	$ –	$(1,631)

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	13 Weeks Ended March 31, 2018			13 Weeks Ended April 1, 2017		
	Segments in %			Segments in %		
	Recycling	Technology	Total	Recycling	Technology	Total
Revenue	100.0%	0.0%	100.0%	100.0%	0.0%	100.0%
Cost of revenue	72.9%	0.0%	72.9%	75.6%	0.0%	75.6%
Gross profit	27.1%	0.0%	27.1%	24.4%	0.0%	24.4%
Selling, general and administrative expense	30.3%	100.0%	44.6%	46.3%	0.0%	46.3%
Operating (loss)	-3.2%	-100.0%	-17.5%	-21.9%	0.0%	-21.9%

Recycling Segment

Segment results for ARCA Recycling, Customer Connexx, ARCA Canada and AAP (through August 15, 2017). Revenue for the 13 weeks ended March 31, 2018 increased by $1,465, or 19.7%, as compared to the prior year period, as a result of increases in Replacement Appliances $1,373 or 49.1% and Recycling, Byproducts, Carbon Offset Revenue of $92 or 2.0%.

Cost of revenue for the 13 weeks ended March 31, 2018 increased $870 or 15.5%, as compared to the prior year period; as a result of an increase in Replacement Appliances $874 or 44.3%; partially offset by a decrease in the cost of revenue of Recycling, Byproducts, Carbon Offset $4 or 0.1%. Cost of revenue was up primarily due to the increase in volume of Replacement Appliance business. The Cost of Revenue increase was offset by higher revenues of $1,373 for Replacement Appliances for the 13 weeks ended March 31, 2018.

Operating income for the 13 weeks ended March 31, 2018 increased $1,103, as compared to the prior year period; as a result of increased gross profit of $595 and decreased selling, general and administrative expense of $508.

Technology Segment

Segment results for Technology include GeoTraq. Results for the 13 weeks ended March 31, 2018 include a loss of $1,273. The loss represents intangible asset amortization expense for $932, and other selling general and administrative expense of $340. No prior year period results as this acquisition was completed August 18, 2017.

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 factoring agreement with Prestige Capital, sale of assets and or other refinancing of existing indebtedness 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 the MidCap Revolver in May of 2017. The MidCap Revolver was paid in full on March 22, 2018.

As of March 31, 2018, we had total cash on hand of $2,148. 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 March 31, 2018, cash provided by operations was $3,354, compared to cash provided by operations of $2,217 during the 13 weeks ended April 1, 2017. The decrease in cash provided by operations of $1,137 as compared to the prior year period; was primarily due to a decrease in net income of $3,420, a negative change in cash provided by operating activities of discontinued operations of $5,922, a decrease in loss from discontinued operations of $57, a decrease in cash provided by stock compensation expense of $23, change in deferred rent of $7, change in deferred income taxes of $1,052; partially offset by an increase in non-cash depreciation and amortization of $737, an increase in amortization of debt issuance costs of $425, a positive change in reserve for uncollectible accounts $303, a positive change in gain on sale of property of $5,163, a positive change in deferred compensation of $32, a positive change in other of $634 and cash provided by working capital accounts provided a positive change in operating cash flow of $4,284.

Cash provided by investing activities was $1,413 and $6,623 for the 13 weeks ended March 31, 2018 and the 13 weeks ended April 1, 2017, respectively. The $5,305 decrease in cash provided by investing activities, as compared to the prior period, is primarily attributable to the decrease in proceeds from the sale of property and equipment of $6,785 and a decrease in purchase of property and equipment of $53; partially offset by proceeds received from the sale of our subsidiary ApplianceSmart of $1,427.

Cash used by financing activities was $5,910 and $9,037 for the 13 weeks ended March 31, 2018 and the 13 weeks ended April 1, 2017, respectively. The $3,127 decrease in cash used, as compared to the prior period, was attributable to decreased payments under the PNC Revolver of $7,959, decreased payments on debt obligations of $773; partially offset by a decrease in net borrowing under the MidCap Revolver of $5,605.

Sources of Liquidity

We utilize cash on hand and cash generated from operations and factor on occasion certain accounts receivable invoices 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. On March 26, 2018, the Company entered into a purchase and sale agreement with Prestige Capital Corporation ("Prestige Capital"), whereby from time to time the Company can factor certain accounts receivable to Prestige Capital up to a maximum advance and outstanding balance of $7,000. Discount fees ultimately paid depend upon how long an invoice and related amount is outstanding from ARCA's customer. Prestige Capital has been granted a security interest in all ARCA accounts receivable. The term of the purchase and sale agreement is six months from March 26, 2018.

MidCap Revolver

On March 31, 2018 and December 30, 2017, our available borrowing capacity under the Credit Agreement was $0 and $1,031, respectively. We borrowed $21,470 and repaid $27,075 on the Credit Agreement during the period of December 31, 2017 through March 22, 2018, leaving an outstanding balance on the Credit Agreement of $0 and $5,605 at March 31, 2018 and December 30, 2017, respectively. On March 22, 2018, Appliance Recycling Centers of America, Inc. terminated the Credit and Security Agreement (the "Credit Agreement") with MidCap Financial Trust together with the related revolving loan note and pledge agreement. ARCA has no further obligations (financial or otherwise) to MidCap Financial Trust and did not incur any termination penalties as a result of the termination of the Credit Agreement.

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 13 week period ended March 31, 2018. 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 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 December 30, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at March 31, 2018, our disclosure controls and procedures were ineffective.

Changes in Internal Control over Financial Reporting

During the first fiscal quarter of fiscal 2018, covered by this Quarterly Report on Form 10-Q, we did not make any changes to our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act).

Management noted two significant deficiencies in internal control when conducting their evaluation of internal control as of December 30, 2017. (1) Insufficient or inadequate financial statement closing process. The cutoff procedures were not effective with certain accrued and deferred expenses. (2) Inadequate separation of duties within a significant process. The cash receipt and cash reconciliation process are without adequate separation of duties. Additional procedures are necessary to have check and balance on significant transactions and governance with those charged with governance authority. Management also noted a deficiency in establishing and providing adequate support for transfer of title and ownership. These significant deficiencies remained outstanding as of March 31, 2018 and management is currently working to remedy these outstanding significant deficiencies.

PART II. Other Information

Item 1. Legal Proceedings

On March 6, 2015, a complaint was filed in United States District Court for the Central District of California by Jason Feola, individually and as a representative of a putative class consisting of purchasers of the Company’s common stock between March 15, 2012 and February 11, 2015, against Appliance Recycling Centers of America, Inc. and certain current and former officers of the Company. Mr. Feola, pursuant to terms of his retainer agreement with The Rosen Law Firm, certified that he purchased 240 shares of the Company’s common stock for $984 in total consideration. On May 7, 2015, the Company and the individual defendants were served the complaint. In July 2015, the Company and the individual defendants received an amended complaint. The complaint alleges that misstatements and omissions occurred in press releases and filings by the Company with the Securities and Exchange Commission and that these misstatements or omissions constitute violations of Section 20 (a) and Section 10(b) of, and Rule 10b-5 under, the Securities Exchange Act of 1934. In October 2015, the court held a hearing on the Company's motion to dismiss the complaint. On November 24, 2015, the United States District Court for the Central District of California entered an order granting the motion to dismiss the amended complaint. The Court’s order provided that the dismissal was without prejudice and that the plaintiffs could file an amended complaint within 21 days of the issuance of the order. On December 15, 2015, the Company and the individual defendants were served with a second amended complaint. In May 2016, the court held a hearing on the Company’s motion to dismiss the second amended complaint. On October 21, 2016 the court entered a final judgement to dismiss the class action complaint with prejudice.

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 alleged that the defendants breached their fiduciary duties to the Company, and that the defendants have been unjustly enriched as a result thereof. The complaint sought damages, disgorgement, an award of attorneys’ fees and other expenses, and an order compelling changes to the Company’s corporate governance and internal procedures. The Company and the other defendants vigorously denied plaintiffs’ allegations and have not admitted any liability or wrongdoing as part of the settlement. The court made no findings or determinations with respect to the merit of plaintiffs’ claims, and no payment is being made by the Company or the other defendants. The parties have reached a settlement that fully resolves plaintiffs’ claims and provides for the release of all claims asserted in the litigation. On August 2, 2017, the court entered an order granting preliminary approval of the settlement. On September 29, 2017, the court issued an order granting final approval of the settlement. As a condition of the settlement, the Company has agreed to provide certain training to employees in the Company’s accounting department within one year of the settlement. The court also granted an application by plaintiffs’ counsel for attorneys’ fees, to be paid by the Company’s insurance carrier. Other than this award of attorneys’ fees, no payment or other consideration was paid by the Company nor its officers or directors in connection with the settlement.

On December 29, 2016, ARCA served a Minnesota state court complaint for breach of contract on Skybridge Americas, Inc. (“SA”), ARCA’s primary call center vendor throughout 2015 and most of 2016. ARCA seeks damages in the millions of dollars as a result of alleged overcharging by SA and lost client contracts. On January 25, 2017, SA served a counterclaim for unpaid invoices in the amount of approximately $460,000 plus interest and attorneys’ fees. On March 29, 2017, the Hennepin County district court dismissed ARCA’s breach of contract claim based on SA’s overuse of its Canadian call center but permitted ARCA’s remaining claims to proceed. On October 24, 2017, ARCA filed a motion for partial summary judgment; SA cross-motioned on November 6, 2017. On January 8, 2018, judgment was entered in SA’s favor, which was amended as of February 28, 2018 for a total amount of $613,566.32 including interest and attorneys’ fees. On March 2, 2018, ARCA appealed the judgment to the Minnesota Court of Appeals. The appeal is in progress.

On November 15, 2016, ARCA served an arbitration demand on Haier US Appliance Solutions, Inc., dba GE Appliances (“GEA”), alleging breach of contract and interference with prospective business advantage. ARCA seeks over $2 million in damages. On April 18, 2017, GEA served a counterclaim for approximately $337,000 in alleged obligations under the parties’ recycling agreement. Simultaneously with serving its counterclaim in the arbitration, which is venued in Chicago, GEA filed a complaint in the United States District Court for the Western District of Kentucky seeking damages of approximately $530,000 plus interest and attorneys’ fees allegedly owed under a previous agreement between the parties. On December 12, 2017, the court stayed GEA’s complaint in favor of the arbitration. Under the terms of ARCA’s transaction with Recleim LLC, Recleim LLC is obligated to pay GEA on ARCA’s behalf the amounts claimed by GEA in the arbitration and in the lawsuit pending in Kentucky. Those amounts have been paid into escrow pending the outcome of the arbitration. The parties have selected an arbitrator and the arbitration was deemed to have commenced as of May 29, 2018.

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 agreement between the parties. A dispute has arisen between AMTIM and us with respect to the calculation of amounts due to AMTIM pursuant to the agreement. 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 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.

Item 1A. Risk Factors

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 5. Other Information

Item 4.02. Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review.

As part of preparing and reporting on our previously issued Form 10-K and our consolidated financial statements for year ended December 30, 2017 we determined that certain assets and liabilities for quarter ended September 30, 2017 were previously reported in error and require restatement.

The deferred tax liability of $10,133 associated with purchase of the GeoTraq intangible asset or group of assets was not recorded at the time of purchase as an addition to the intangible asset. For the quarter ended September 30, 2017, the additional amortization expense of the intangible $181 before provision for income tax, applicable to the increase in intangible asset or group of assets due to the increase in deferred tax liability was determined by management not to be material, and was subsequently adjusted in our year end results for fiscal year ended December 30, 2017.

The beneficial conversion feature was not recorded at the time of the issuance of Series A Preferred Stock in the amount of $2,641, reducing series A convertible preferred stock and increasing additional paid in capital.

Management has evaluated the impact of the above-referenced errors. The impact on our previously issued Form 10-Q for quarterly period ended September 30, 2017 are as follows, in error and will be amended to reflect the following changes:

Fiscal Quarter Ended September 30, 2017			
In Thousands, except for per share amounts	As Previously Reported	Change	(Restated)
Balance Sheet Changes			
Intangible assets, net	$ 15,748	$ 10,133	$ 25,881
Deferred taxes	1,305	(1,305)	–
Total assets	46,191	8,828	55,019
Deferred tax liability	–	8,828	8,828
Total liabilities	15,353	8,828	24,181
Preferred stock, series A	14,963	(2,641)	12,322
Additional paid in capital	–	2,641	2,641
Total liabilities and equity	46,191	8,828	55,019

Cash Flow Statement Changes Thirty Nine Weeks Ended September 30, 2017

Non-cash disclosures:			
Series A convertible preferred stock issued	$14,963	$(2,641)	$12,322
Beneficial conversion feature Series A convertible preferred stock	–	2,641	2,641

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Item 6. Exhibits.

Index to Exhibits

Exhibit Number		Exhibit Description	Form	File Number	Exhibit Number	Filing Date
3.1		Articles of Conversion	8-K	000-19621	3.1	03/13/2018
3.2		Articles of Conversion	8-K	000-19621	3.2	03/13/2018
3.3		Articles of Incorporation	8-K	000-19621	3.3	03/13/2018
3.4		Bylaws	8-K	000-19621	3.4	03/13/2018
31.1	*	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
31.2	*	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				
32.1	*	Certification of the President and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
32.2	*	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				
Ex. 101.INS	*	XBRL Instance Document				
Ex. 101.SCH	*	XBRL Taxonomy Extension Schema Document				
Ex. 101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document				
Ex. 101.DEF	*	XBRL Taxonomy Extension Definition Linkbase Document				
Ex. 101.LAB	*	XBRL Taxonomy Extension Label Linkbase Document				
	*					

Ex. 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

*Filed herewith.

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: July 2, 2018 By: /s/ Tony Isaac
Tony Isaac
Chief Executive Officer
(Principal Executive Officer)

Date: July 2, 2018 By: /s/ Virland A Johnson
Virland A Johnson
Chief Financial Officer
(Principal Financial and Accounting Officer)