APPLIANCE RECYCLING CENTERS OF AMERICA INC /MN
Form 10-K/A
April 02, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

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

For the fiscal year ended December 29, 2018

or

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

Commission File No. 000-19621

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

(Exact name of registrant as specified in its charter)

Nevada	**41-1454591**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
175 Jackson Avenue North Suite 102, Minneapolis, Minnesota	**55343-4565**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **952-930-9000**

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.001 par value	**NASDAQ Capital Market**
Title of each class	Name of each exchange on which registered

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes ý No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. o Yes ý No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. ý Yes o No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). ý Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

If any 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 pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price of $0.69 per share, as of June 30, 2018 (the last business day of the registrant's most recently completed second fiscal quarter) was $4,744,002.

As of December 29, 2018, there were outstanding 8,472,651 shares of the registrant's Common Stock, par value $0.001 per share.

EXPLANATORY NOTE

We are filing this Amendment No. 1 on Form 10-K/A to amend and restate in their entirety the following items of our Annual Report on Form 10-K for the fiscal year ended December 29, 2018 as originally filed with the Securities and Exchange Commission on March 29, 2019 (the “Original Form 10-K”): (i) Item 1 of Part I “Financial Information,” (ii) Item 2 of Part I, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and (iii) Item 6 of Part II, “Exhibits”, and we have also updated the signature page, Exhibit 23.1, the certifications of our Chief Executive Officer and Chief Financial Officer in Exhibits 31.1, 31.2, 32.1 and 32.2, and our financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibits 101. No other sections were affected, but for the convenience of the reader, this report on Form 10-K/A restates in its entirety, as amended, our Original Form 10-K. This report on Form 10-K/A is presented as of the filing date of the Original Form 10-K and does not reflect events occurring after that date or modify or update disclosures in any way other than as required to reflect the restatement described below.

This Amendment No. 1 to the Annual Report on Form 10-K is being filed to (i) furnish the Interactive Data files as Exhibit 101, in accordance with Rule 405 of Regulation S-T, (ii) correct typographical errors in our consolidated statements of changes in stockholders’ equity, specifically correcting certain numbers in Net loss row for the fiscal year ended December 30, 2017, specifically to correct amounts under the columns titled “Accumulated Other Comprehensive Deficit”, “Accumulated Deficit”, “Total”, “Noncontrolling Interest”, and “Total Stockholders’ Equity” that we off by one column; and (iii) to correct the placement of the caption heading for Note 17 in the Notes to Consolidated Financial Statements, from the body of Note 16 to its proper location at the beginning of Note 17. No other changes have been made to the Original Form 10-K.

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PART I

ITEM 1. BUSINESS

General

Appliance Recycling Centers of America, Inc. and subsidiaries (collectively, "we," the "Company," or "ARCA") are in the business of recycling major household appliances in North America by providing turnkey appliance recycling and replacement services for utilities and other sponsors of energy efficiency programs through our subsidiaries ARCA Recycling, Inc. and ARCA Canada Inc. In addition, through our GeoTraq Inc. ("GeoTraq") subsidiary, we are engaged in the development, design and, ultimately, we expect the sale of, cellular transceiver modules and associated wireless services. Prior to December 30, 2017, we sold new and out-of-the-box major household appliances in the United States though a chain of Company-owned retail stores operating under the name ApplianceSmart®. On December 30, 2017, we, together with our then subsidiary ApplianceSmart, Inc. ("ApplianceSmart"), entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with ApplianceSmart Holdings LLC (the "Purchaser"), a wholly owned subsidiary of Live Ventures Incorporated ("Live"), pursuant to which we sold to the Purchaser all of the issued and outstanding shares of capital stock (the "ApplianceSmart Stock") of ApplianceSmart in exchange for $6,500,000. Effective April 1, 2018, the Purchaser issued the Company a promissory note (the "ApplianceSmart Note") with a three-year term in the original principal amount of $3,919,494 for the balance of the purchase price. ApplianceSmart is guaranteeing the repayment of the ApplianceSmart Note. On December 26, 2018, the ApplianceSmart Note was amended and restated to grant ARCA a security interest in the assets of the Purchaser, ApplianceSmart, and ApplianceSmart Contracting Inc. in exchange for modifying the repayment terms to provide for the payment in full of all accrued interest and principal on April 1, 2021, the maturity date of the ApplianceSmart Note. On March 15, 2019, the Company entered into subordination agreements with third parties pursuant to which it agreed to subordinate the payment of indebtedness under the ApplianceSmart Note and the Company's security interest in the assets of ApplianceSmart and other related parties in exchange for up to $1,200,000 payable within 15 days of the agreement. In addition, we had a 50% interest in a joint venture, ARCA Advanced Processing, LLC ("AAP"), which recycled appliances in the Northeast and Mid-Atlantic regions of the United States, which we sold on August 15, 2017.

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

1. Fees charged for collecting and recycling appliances for utilities and other sponsors of energy efficiency programs.

2. Fees charged for recycling and replacing old appliances with new ENERGY STAR® appliances for energy efficiency programs sponsored by electric and gas utilities.

3. Sale of byproduct materials, such as metals, from appliances we recycle.

4. Sale of carbon offsets created by the destruction of ozone-depleting refrigerants acquired through various recycling programs.

Through December 30, 2017, we generated revenues from the retail sales of appliances at our ApplianceSmart stores.

Our GeoTraq subsidiary has not generated any revenue to date, including in the fiscal year ended December 29, 2018.

We were incorporated in Minnesota in 1983, although through our predecessors we began our appliance retail and recycling business in 1976. On March 12, 2018, we reincorporated into the State of Nevada. Our principal office is located at 175 Jackson Avenue North, Suite 102, Minneapolis, Minnesota 55343-4565.

Industry Background

Recycling and Retail

Major household appliances in the United States include:

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

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

1. Mercury, which easily enters the body through absorption, inhalation or ingestion, potentially causing neurological damage. Mercury-containing components may be found in freezers, washers and ranges.

2. Chlorofluorocarbon (“CFC”), hydrochlorofluorocarbon, and hydrofluorocarbon refrigerants (collectively, “Refrigerants”), which cause long-term damage to the earth’s ozone layer and may contribute to global climate change. Refrigerators, freezers, room air conditioners and dehumidifiers commonly contain Refrigerants.

3. CFCs having a very high ozone-depletion potential that may also be used as blowing agents in the polyurethane foam insulation of refrigerators and freezers.

4. Other materials, such as oil, that are harmful when released into the environment.

The U.S. federal government requires the recovery of refrigerants upon appliance disposal and also regulates the management of hazardous materials found in appliances. Most state and local governments have also enacted laws affecting how their residents dispose of unwanted appliances. For example, many areas restrict landfills and scrap metal processors from accepting appliances unless the units have been processed to remove environmentally harmful materials. As a result, old appliances usually cannot be discarded directly through ordinary solid waste systems.

In addition to these solid waste management and environmental issues, energy conservation is another compelling reason for proper disposal of old appliances. The U.S. Department of Energy’s updated appliance energy efficiency standards that took effect in September 2014 require new refrigerators to be 25 to 30 percent more efficient than those manufactured only one year earlier. Refrigerators manufactured today use about one-fifth as much electricity as units made in the mid-1970s.

While new refrigerators can save a significant amount of energy in the home, more than 30 percent of all U.S. households have a second refrigerator in the basement or garage. These units are typically 15-25 years old and consume about 750 to 1500 kilowatt-hours per year, driving electric bills up by more than $150 annually per household.

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

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

Technology

GeoTraq® is a technology company that designs innovative wireless modules to connect devices to the Mobile Internet of Things ("IoT"). The company's modules contain location-based service ("LBS") capabilities and can interface to external sensors to allow them to communicate both sensor status and position information. GeoTraq is planning to manufacture and sell wireless transceiver modules along with service subscriptions that will allow connectivity using publicly available global Mobile IoT networks. In addition, GeoTraq will operate a service platform that provides an Application Programmers Interface ("API") to give customers and partners management of and access to all of their connected modules around the world using a single interface.

GeoTraq's solution addresses the large and growing Mobile IoT market segment that needs to communicate small packets of sensor and location information over a very large geographic area. For these “Simple IoT” solutions, the market is currently under served with existing solutions due to high deployment costs (hardware, service, logistics), limited battery life and large form factor.

We believe that there is a large under-served portion of the LBS 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 designing wireless transceiver modules with technology that provides LBS directly from global Mobile IoT networks. GeoTraq’s 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.

Company Background

<u>Recycling</u>

We started our business in 1976 as a used appliance retailer that reconditioned old appliances to sell in our stores. Under contracts with national and regional retailers of new appliances, such as Sears and Montgomery Ward, we collected the replaced appliance from the retailer’s customer’s residence when one of their stores delivered a new appliance in the Minneapolis/St. Paul, Miami or Atlanta market. Any old appliances that we could not sell in our stores were sold to scrap metal processors. In the late 1980s, stricter environmental regulations began to affect the disposal of unwanted appliances and we were no longer able to take appliances that contained hazardous components to a scrap metal processor. At that time, we began to develop systems and equipment to remove the harmful materials so that metal processors would accept the appliance shells for processing. We then offered our services for disposing of appliances in an environmentally sound manner to appliance manufacturers and retailers, waste hauling companies, rental property managers, local governments, and the public.

In 1989, we began contracting with electric utility companies to provide turnkey appliance recycling services to support their energy conservation efforts. Since that time, we have provided our services to approximately 400 utilities and other providers of energy efficiency programs throughout North America.

We currently have contracts to recycle, or to replace and recycle, appliances for approximately 180 utilities across North America.

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

We operate eleven recycling centers in the U.S. and Canada to process and recycle old appliances according to all federal, state, provincial, and local rules and regulations. ARCA uses U.S. EPA RAD-compliant methods to remove and properly manage hazardous components and materials, including CFC refrigerants, mercury, polyurethane foam insulation and recyclable materials, such as ferrous and nonferrous metals, plastics and glass. All of our facilities comply with licensing and permitting requirements, and employees who process appliances receive extensive safety and hazardous materials training.

In October 2009, we entered into a Joint Venture Agreement (the “Joint Venture Agreement”) with 4301 Operations, LLC (“4301”) to establish and operate a regional processing center (“RPC”). At the time of the formation of this joint venture, we believed that 4301 had significant experience in the recycling of major household appliances and, in connection therewith, they contributed their then existing business and equipment to the joint venture. Under the Joint Venture Agreement, the parties formed a new entity known as ARCA Advanced Processing, LLC (“AAP”) in which each party had a 50% interest. In connection with the formation of the joint venture, we contributed $2.0 million to the joint venture. The joint venture commenced operations on February 8, 2010. On August 15, 2017, ARCA entered into an Equity Purchase Agreement with 4301 and sold its 50% joint venture interest in AAP to 4301 in consideration of $800,000 in cash. The gain recorded by ARCA was $81,000

On the same date and in a separate related transaction, ARCA entered into an Asset Purchase Agreement with Recleim LLC and the parent company of Recleim PA, LLC. Under the agreement, ARCA agreed to license certain intellectual property under patent No. 8,931,289 to Recleim PA, LLC for use at 4301 North Delaware Avenue, Philadelphia, PA or any successor facility within 15 miles where Recleim PA, LLC conducts business. On August 15, 2017 Recleim PA, LLC (1) paid in full all AAP indebtedness owed to BB&T in the amount of $3,454,000, (2) terminated and released all security interests in AAP and ARCA's equipment as part of Recleim PA LLC's purchase of certain equipment and assets from AAP on the same date, and, (3) Recleim PA LLC assumed approximately $768,000 in AAP liabilities and all of ARCA's liabilities to Haier US Appliance Solutions, Inc., dba GE Appliances ("GEA").

GeoTraq

In a move to diversify our offering beyond our current appliance recycling capabilities, on August 18, 2017, the Company entered into an Agreement and Plan of Merger with GeoTraq pursuant to which we acquired GeoTraq by way of merger. 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 valued at $14,963,288 inclusive of the beneficial conversion feature, and entered into one-year unsecured promissory notes for an aggregate original principal amount of $800,000. These unsecured promissory notes have been repaid in full. In addition, there was $10,133,366 deferred tax liability associated with the purchase of the intangible assets of GeoTraq. The total value of the intangible assets purchased is $26,096,654 including the deferred tax liability. See "Item 12. Security Ownership of Certain Beneficial Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters – Beneficial Ownership of Series A Preferred Stock."

GeoTraq is a Mobile Internet of Things ("IoT") technology company that designs innovative wireless modules that provide Location Based Services ("LBS") and connect external sensors to the IoT. GeoTraq is planning to manufacture and sell wireless transceiver modules and subscription services that will allow connectivity using publicly available global Mobile IoT networks. GeoTraq addresses the large LBS market segment that is currently under served with existing solutions due to high deployment costs (hardware, service, logistics), limited battery life and large form factor. We believe that there is a large under-served portion of the LBS 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 designing wireless transceiver modules with technology that provides LBS directly from global Mobile IoT networks. GeoTraq's 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.

GeoTraq applied for and was granted Patent No. 10,182,402 which covers various aspects of operation of their Mobile IoT wireless modules. A description of the patent features include:

1. An apparatus comprising: an interval timer; a power control; a Short Message Service (SMS) packetizer; a geo-locator; a radio frequency (RF) communicator; and a controller and a memory, the memory comprising instructions for the controller to operate the interval timer cooperatively with the power control to cause a transition of the geo-locator from a sleep state to a wake state after a preset defined time interval, and to operate the geo-locator to receive signal strength levels and corresponding cell ids from a plurality of cellular base stations, and to operate the SMS packetizer to package the signal strength levels and the corresponding cell ids into a first outgoing SMS message, and to communicate the first outgoing SMS message to a preset address using the RF communicator.

2. The apparatus of claim 1, further comprising: a subscriber identity module (SIM); and the memory further comprising instructions to block visibility to the SIM by the geo-locator for a limited duration after the transition of the geo-locator from the sleep state to the wake state after the defined time interval.

3. The apparatus of claim 2, further comprising: the memory further comprising instructions to override a preset floor on the signal strength levels during the limited duration after the transition of the geo-locator from the sleep state to the wake state after the defined time interval.

4. The apparatus of claim 1, further comprising: the memory further comprising instructions to operate the SMS packetizer to package the signal strength levels with the corresponding cell ids.

5. The apparatus of claim 1, further comprising: the memory further comprising instructions to receive a command SMS message via the RF communicator; a parser to extract a time interval command from the received command SMS message; and the memory further comprising instructions to apply the time interval command to the interval timer to set the defined time interval.

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6. The apparatus of claim 1, further comprising: the memory further comprising instructions to receive a response SMS message via the RF communicator, the response SMS message being a response to the first outgoing SMS message; a parser to extract geo-locations for cell ids from the response SMS message; and the memory further comprising instructions to associate the geo-locations for each of the cell ids from the response message with corresponding cell ids in the memory.

7. A method comprising: applying an interval timer to a power control to control power for a subscriber identify module (SIM), a Short Message Service (SMS) packetizer, a geo-locator, and a radio frequency (RF) communicator after a preset defined time interval; operating the interval timer cooperatively with the power control to cause a transition of the geo-locator from a sleep state to a wake state after the defined time interval; operating the geo-locator to receive signal strength levels and corresponding cell ids from a plurality of cellular base stations; operating the SMS packetizer to package the signal strength levels and the corresponding cell ids into an outgoing SMS message; and communicating the outgoing SMS message to a preset address using the RF communicator.

8. The method of claim 7, further comprising: blocking visibility to the SIM by the geo-locator for a limited duration after the transition.

9. The method of claim 8, further comprising: overriding a preset floor on the signal strength levels during the limited duration after the transition.

10. The method of claim 7, further comprising: receiving a command SMS message via the RF communicator; extracting a time interval command from the command SMS message; and applying the time interval command to the interval timer to set the defined time interval.

11. The method of claim 7, further comprising: receiving a response SMS message via the RF communicator in response to the outgoing SMS message; extracting geo-locations for cell ids from the response SMS message; and associating the geo-locations for each of the cell ids from the response SMS message with corresponding cell ids in a memory.

The GeoTraq acquisition allows us the ability to deploy Internet of Things devices to locate, monitor and track the movement of inventory and other assets and monitor connected sensors.

ApplianceSmart

At December 30, 2017, ApplianceSmart operated seventeen stores: six in the Minneapolis/St. Paul market; one in Rochester, Minn.; one in St. Cloud, Minn.; three in the Columbus, Ohio market; four in the Atlanta, Georgia market; and two in the San Antonio, Texas market. ApplianceSmart is a major household appliance retailer with two product categories: one consisting of typical and commonly available, innovative appliances, and the other consisting of affordable value-priced, niche offerings, such as close-outs, factory overruns, discontinued models and special-buy appliances, including out-of-carton merchandise and others. One example of a special-buy appliance may be due to manufacturer product redesign, in which a current model is updated to include a few new features and is then assigned a new model number. Because the major manufacturers—primarily Whirlpool, General Electric and Electrolux—ship only the latest models to retailers, a large quantity of the previous models often remain in the manufacturers' inventories. Special-buy appliances typically are not integrated into the manufacturers' normal distribution channels and require a different method of management, which we provide. On December 30, 2017, ARCA and ApplianceSmart entered into the Stock Purchase Agreement with Purchaser. Pursuant to the Agreement, ARCA sold to the Purchaser all of the issued and outstanding shares of the ApplianceSmart Stock in exchange for $6,500,000. 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 for the balance of the purchase price. ApplianceSmart is guaranteeing the repayment of this note. On December 26, 2018, the ApplianceSmart Note was amended and restated to grant ARCA a security interest in the assets of the Purchaser, ApplianceSmart, and ApplianceSmart Contracting Inc. in exchange for modifying the repayments terms to provide for the payment in full of all accrued interest and principal on April 1, 2021, the maturity date of the ApplianceSmart Note. On March 15, 2019, the Company entered into agreements with third parties pursuant to which it agreed to subordinate the payment of indebtedness under the ApplianceSmart Note and the Company's security interest in the assets of ApplianceSmart and other related parties in exchange for up to $1,200,000.

Subsidiaries

GeoTraq Inc., a Nevada corporation, is a wholly-owned subsidiary that was initially incorporated in Nevada on October 20, 2016. GeoTraq is engaged in the development and design of Mobile IoT transceiver modules and expects to begin manufacturing and sales activities this year along with wireless subscription services. We acquired GeoTraq on August 18, 2017. See "Item 1 – Business - Recent Developments."

ARCA Canada Inc., a Canadian corporation, is a wholly-owned subsidiary formed in September 2006 to provide turnkey recycling and replacement services for electric utility energy efficiency programs.

ARCA Recycling, Inc., a California corporation, is a wholly-owned subsidiary formed in November 1991 to provide turnkey recycling and appliance replacement services for energy efficiency programs.

Customer Connexx, LLC, a Nevada limited liability company, is wholly owned subsidiary formed in October 13, 2016 to provide call center services for electric utility programs.

ApplianceSmart, Inc., a Minnesota corporation, was a wholly-owned subsidiary formed through a corporate reorganization in July 2011 to hold our business of selling new major household appliances through a chain of Company-owned retail stores. On December 30, 2017, we sold ApplianceSmart to an affiliate of Live as further described elsewhere in this Annual Report on Form 10-K (this “Form 10-K”) and our other filings with the U.S. Securities and Exchange Commission (the “SEC”).

ARCA Advanced Processing, LLC, (“AAP”) a Minnesota limited liability company, was a variable interest entity that we consolidated in our financial statements. AAP was formed in October 2009 to operate a regional processing and recycling center and commenced operations on February 8, 2010. We sold our interest in AAP on August 15, 2017.

Customers and Source of Supply

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

Our contracts with utility customers prohibit us from repairing and selling appliances or appliance parts we receive through their programs. We have instituted tracking and auditing procedures to assure our customers that those appliances do not return to use.

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

1. Total number of appliances expected to be processed and/or replaced.
2. Length of the contract term.
3. Specific services the utility requires us to provide.
4. Market factors, including labor rates and transportation costs.
5. Anticipated revenue associated with the sale of recycled appliance byproducts.
6. Competitive bidding scenarios.

GeoTraq: GeoTraq currently has no customers. GeoTraq sources its raw materials, including electronic chips, computers and software from various third parties. GeoTraq is not dependent on any single supplier for its modules.

Appliance Manufacturers: When we operated our retail business, we worked with appliance manufacturers, including Electrolux, GE Appliances, LG, Samsung and Whirlpool, to acquire the appliances we sold in our ApplianceSmart stores. We purchased new, special-buy appliances, such as discontinued models, out-of-carton units and factory overruns, and sold them at a significant discount to full retail prices. In addition, our participation in a national buying cooperative enabled us to purchase the latest models of new appliances to fill out our product mix.

Company Operations

In our recycling operations, our Company-trained technicians first inspect and categorize each appliance to identify the types of hazardous materials, if any, it contains. We then process the appliances to remove and manage the environmentally hazardous substances according to federal, state and local regulations. Recyclable components are managed by materials recyclers, and we deliver the processed appliance shells to local scrap processing facilities, where they shred and recycle the metals. We are aggressively pursuing additional utility customers but have a limited ability to project revenues from new utility programs in 2019 and thereafter. We cannot predict recycling or replacement volumes. However, we were successful in obtaining new contracts in 2018 with new and former customers across the country.

Appliances collected through utility customers' energy conservation programs are recycled to prevent re-use. We process and recycle these units using environmentally sound systems and techniques.

GeoTraq is continuing to develop its technology and has recently entered into pilot test agreements with various third parties.

Principal Products and Services

At December 29, 2018, we generated revenues from two sources: recycling and byproduct, including carbon offsets. Recycling revenues were generated by charging fees for collecting and recycling appliances for utilities and other sponsors of energy efficiency programs and through the sale of new ENERGY STAR® appliances to utility companies for installation in the homes of a specific segment of their customers. Byproduct revenues were generated by selling scrap materials, such as metal and plastics, from appliances we collected and recycled, those processed at AAP, and prior to December 30, 2017, including those from our ApplianceSmart stores. Carbon offset revenues were created by the destruction of ozone-depleting refrigerants acquired through various recycling programs from our ApplianceSmart stores and through processing of refrigerators and freezers at AAP. Our technology segment did not generate any revenues in 2018.

During fiscal year 2018, we operated two reportable segments: recycling and technology. During fiscal year 2017, we operated three reportable segments: retail, recycling, and technology (commencing on August 18, 2017). The retail segment was comprised of sales generated through our ApplianceSmart stores. Our recycling segment includes all fees charged for collecting, recycling and installing appliances for utilities and other customers and includes byproduct revenue, which is generated primarily through the recycling of appliances. Our technology segment is comprised of a development stage company, we are engaged in the development, design and, ultimately, we expect the sale of, cellular transceiver modules, also known as Mobile IoT modules. In 2017, through August 15, 2017, and for the 52 weeks ended December 31, 2016, we consolidated AAP in our financial statements. Sales generated by AAP are included in byproduct revenues in our recycling segment. Financial information about our segments is included in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Note 6 of “Notes to Consolidated Financial Statements.”

Sales and Marketing

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

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

GeoTraq had no sales during 2018.

Our ApplianceSmart concept included establishing large showrooms in metropolitan locations where we offered consumers a selection of hundreds of appliances at each of our stores.

Seasonality

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

GeoTraq had no customers at December 29, 2018.

Prior to our sale of ApplianceSmart, we experienced some seasonality in retail revenues, with revenues in the second and third calendar quarters being slightly higher than revenues in the first and fourth calendar quarters.

Competition

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

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

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

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

GeoTraq plans on operating in an industry segment that is made of numerous competing technologies designed to connect devices to the Internet of Things. The business's wireless solution uses Mobile Internet of Things ("IoT") based on LTE CAT-M and the newly released NB-IoT protocols that were defined in the GSMA's (Groupe Speciale Mobile Association) 3GPP Release 13 standard. The Mobile IoT industry utilizes radio spectrum that is licensed to wireless carries by various governmental regulatory agencies around the world. Mobile IoT is extremely competitive and constantly changing as carriers, manufacturers and solution providers offer innovation to the IoT marketplace. GeoTraq believes there is a large under-served opportunity for *"Simple IoT"* solutions that significantly reduce the complexity, cycle time and cost of deploying Location Base Services ("LBS") and sensor monitoring solutions. The company's transceiver modules and associated wireless connectivity subscription service is specifically targeted at accomplishing these objectives.

Prior to our sale of ApplianceSmart, our retail competition came primarily from new-appliance and other special-buy retailers. Each ApplianceSmart store competed with local and national retail appliance chains, as well as with independently owned retailers. Many of these retailers have been in business longer than ApplianceSmart and may have significantly greater assets.

Government Regulation

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

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

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

In January 2013, through the authority of the California Air Resources Board, California launched a greenhouse gas (“GHG”) cap-and-trade program that will encompass 85% of the state’s emissions and affect all businesses operating in California by 2020; in 2017, the state legislature extended the program through 2030. The first compliance period enforcing the GHG emissions limits for capped business sectors began January 1, 2013. Entities may meet up to eight percent of their compliance obligations with freely sold or traded offset credits, such as those created through the voluntary destruction of ozone-depleting refrigerants. We have been an active participant in California’s developing carbon offset market and anticipate increased involvement as the program expands.

Our retail stores obtained business licenses, sales tax licenses and permits required for their locations. Our distribution and service vehicles comply with all DOT licensing requirements.

Approximately thirty of ARCA Recycling's clients participate in the EPA's voluntary RAD program by committing to employing best environmental practices to reduce emissions of ozone-depleting substances and greenhouse gases through the proper disposal of refrigeration appliances at end of life. We prepare annual RAD reports quantifying the materials collected to submit to EPA on behalf of our clients.

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

GeoTraq's Mobile IoT modules utilize low power wireless transmitters the emit RF energy waves, which are subject to regulation by the Federal Communications Commission ("FCC") and may be subject to regulation by other domestic and international agencies. GeoTraq believes that FCC rules Part 15, Part 20, Part 22, Part 24 and Part 27 may apply to the company's products. GeoTraq believes that its products are safe and will utilize FCC accredited testing laboratories to verify and certify that the company's modules comply with all required regulatory requirements. In addition, GeoTraq intends to seek and obtain necessary licenses and permits from the FCC and other regulatory agencies as required by law.

Employees

On December 29, 2018, we had 154 full-time employees and 5 part-time employees.

ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below with respect to an investment in our shares. If any of the following risks actually occur, our business, financial condition, operating results or cash provided by operations could be materially harmed. As a result, the trading price of our common stock could decline, and you might lose all or part of your investment. When evaluating an investment in our common stock, you should also refer to the other information in this Form 10-K, including our consolidated financial statements and related notes.

Risks Relating to Our Recycling Business and Our Business Generally

Our revenues, earnings and cash flows will fluctuate based on changes in commodity prices.

Our recycling operations process for sale certain recyclable materials, including steel, aluminum and copper, all of which are subject to significant market price fluctuations. The majority of the recyclables we process for sale are steel and non-ferrous metals. The fluctuations in the market prices or demand for such commodity items, particularly demand from China and Turkey, can affect our future operating income and cash flows negatively, such as we experienced in 2015 and 2014. As we have increased the size of our recycling operations, we have also increased our exposure to commodity price fluctuations.

In the past we have also earned a significant amount of revenue from the sale of carbon credits under the California Cap-and-Trade Program. The creation of carbon offsets involves a consultant's establishment of a project that includes the successful destruction of the Company's ozone-depleting refrigerants. The project process involves a significant degree of regulatory compliance and only a limited number of facilities are approved to destroy ozone-depleting refrigerants. The uncertainty of regulatory project approval after carbon offsets have been produced results in unpredictable assurance of or timing for revenue recognition. If we are unable to find businesses that can effectively dispose of ozone-depleting refrigerants or if we do not receive project approval for the resulting carbon offsets, we could experience a material adverse effect to our operating results.

We purchase our replacement appliances from third-party manufacturers, who we believe manufacture those appliances in China, and, as a result, international trade conditions could adversely affect us.

We purchase our replacement appliances from third-party manufacturers, who we believe manufacture certain types of those appliances in China or purchase materials or parts from China for use in manufacturing. As a result, tariffs, political or financial instability, labor strikes, natural disasters or other events resulting in the disruption of trade or transportation from China or the imposition of additional regulations relating to foreign trade could cause significant delays or interruptions in the supply of our merchandise or increase our costs, either of which could have an adverse effect on our business. If we were unable to adequately replace the merchandise we currently source with merchandise produced elsewhere, our business could be adversely affected.

On March 22, 2018, President Trump, pursuant to Section 301 of the Trade Act of 1974, directed the U.S. Trade Representative (“USTR”) to impose tariffs on $50 billion worth of imports from China. On June 15, 2018, the USTR announced its intention to impose an incremental tariff of 25% on $50 billion worth of imports from China comprised of (1) 818 product lines valued at $34 billion (“List 1”) and (2) 284 additional product lines valued at $16 billion (“List 2”). The List 1 tariffs went into effect on July 6, 2018 and the List 2 tariffs went into effect on August 23, 2018, (with respect to 279 of the 284 originally targeted product lines). On July 10, 2018, the USTR announced its intention to impose an incremental tariff of 10% on another $200 billion worth of imports from China comprised of 6,031 additional product lines (“List 3”) following the completion of a public notice and comment period. The List 3 tariffs went into effect on September 24, 2018, with the incremental tariff increasing to 25% on March 2, 2019, which has since been delayed.

Since the imposition of the tariffs as described above in addition to prior sanctions on imported steel and aluminum, these third-party manufacturers have increased the price of the appliances we purchase from them and retain the right to implement further increases. These increases, together with or without future increases, could have an adverse effect on our business.

We could incur charges due to impairment of long-lived assets.

At December 29, 2018, we had long-lived asset balances of approximately $21 million, which are subject to periodic testing for impairment. A significant amount of judgment is involved in the periodic testing. Failure to achieve sufficient levels of cash flow within our GeoTraq business, or sales of our branded products or cash flow generated from operations at individual store locations could result in impairment charges for intangible or long-lived assets, which could have a material adverse effect on our reported results of operations. Impairment charges, if any, resulting from the periodic testing are non-cash. A significant decline in the property fair values could result in long-lived asset impairment charges. A significant and sustained decline in our stock price could result in intangible and long-lived asset impairment charges. During times of financial market volatility, significant judgment is used to determine the underlying cause of the decline and whether stock price declines are short-term in nature or indicative of an event or change in circumstances. See Note 2 of Notes to Consolidated Financial Statements for further information.

If we fail to implement our business strategy or if our business strategy is ineffective, our financial performance could be materially and adversely affected.

Our future financial performance and success are dependent in large part upon the effectiveness of our business strategy and our ability to implement our business strategy successfully. Implementation of our strategy will require effective management of our operational, financial and human resources and will place significant demands on those resources.

There are risks involved in pursuing our strategy, including the following:

- Our employees, customers or investors may not embrace and support our strategy.
- We may not be able to hire or retain the personnel necessary to manage our strategy effectively.
- We may be unsuccessful in implementing improvements to operational efficiency and such efforts may not yield the intended result.
- We may record material charges against earnings due to any number of events that could cause impairments to our assets.

In addition to the risks set forth above, effectiveness of and the successful implementation of our business strategy could also be affected by a number of factors beyond our control, such as increased competition, legal developments, government regulation, general economic conditions, increased operating costs or expenses and changes in industry trends. We may decide to alter or discontinue certain aspects of our business strategy at any time. If we are not able to implement our business strategy successfully, our long-term growth and profitability may be adversely affected. Even if we are able to implement some or all of the initiatives of our business strategy successfully, our operating results may not improve and could decline substantially.

If our third-party collection or delivery services are unable to meet our promised pickup and delivery schedules, our net sales may decline due to a decline in customer satisfaction.

We offer appliance pickup and delivery services, which are significantly outsourced to third-party providers. Our third-party services are subject to risks that are beyond our control. If appliances are not picked up on time, or at all, or products are not delivered on time, our clients and customers may cancel their orders, or we may lose business from our clients and customers in the future. As a result, our net sales and profitability may decline.

A cybersecurity incident could negatively impact our business and our relationships with customers.

We use computers and transact, receive, transmit and store electronic data in substantially all aspects of our business operations. We also use mobile devices, social networking and other online activities to communicate with our employees and our customers. Such uses give rise to cybersecurity risks, including security breach, espionage, system disruption, theft and inadvertent release of information. Our business involves the storage and transmission of numerous classes of sensitive and/or confidential information, including customers’ personal information, private information about employees, and financial and strategic information about the Company and its business partners. If we fail to assess and identify cybersecurity risks associated with new initiatives, we may become increasingly vulnerable to such risks. Additionally, while we have implemented measures to prevent security breaches and cyber incidents, our preventative measures and incident response efforts may not be entirely effective. The theft, destruction, loss, misappropriation, or release of sensitive and/or confidential information or intellectual property, or interference with our information technology systems or the technology systems of third parties on which we rely, could result in business disruption, negative publicity, brand damage, violation of privacy laws, loss of customers, potential liability and competitive disadvantage.

There is no guarantee that the procedures that we have implemented to protect against unauthorized access to secured data are adequate to safeguard against all data security breaches. Any such compromise of our security or the security of information residing with our business associates or third parties could have a material adverse effect on our reputation and may expose us to material costs, penalties, compensation claims, lost sales, fines and lawsuits. In addition, any compromise of our data security may materially increase the costs we incur to protect against such breaches and could subject us to additional legal risk.

Failure to effectively manage our costs could have a material adverse effect on our profitability.

Certain elements of our cost structure are largely fixed in nature. The negative impact of not renewing existing or securing new contracts on our business could make it more challenging for us to maintain or increase our operating income. The competitiveness in our industries and increasing price pressures and transparency means that the focus on achieving efficient operations is greater than ever. As a result, we must continuously focus on achieving new contracts and managing our cost structure. Failure to manage our labor and benefit rates, operating leases, other facility expenses or indirect spending could materially adversely affect our profitability.

Any failure of our information technology infrastructure or management information systems could cause a disruption in our business and our results of operations could be materially adversely impacted.

Our ability to operate our business from day to day largely depends on the efficient operation of our information technology infrastructure and management information systems. We use our management information systems to conduct our operations and plan critical corporate and business functions, including recycling operations, sales management, supply chain and inventory management, financial reporting and accounting, delivery and other customer services and various administrative functions. Our systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, catastrophic events such as fires, tornadoes and hurricanes, and usage errors by our employees. Operating legacy systems subject us to inherent costs and risks associated with maintaining, upgrading and replacing these systems and retaining sufficiently skilled personnel to maintain and operate the systems which may also place demands on management time, as well as create other risks and costs. Any failure that is not covered by our disaster recovery plan could cause an interruption in our operations and adversely affect our results of operations.

Our sales may not be an indication of our future results of operations because they fluctuate significantly.

Our current and historical sales figures have fluctuated significantly from quarter to quarter. A number of factors have historically affected, and will continue to affect, our sales results and profitability, including:

- Changes in competition, such as pricing pressure.

- Periodic sale of carbon offsets resulting from the responsible destruction of certain refrigerants.

- Inability to comply with or to identify third parties capable of complying with protocols required for responsible destruction of certain refrigerants.

- Fluctuating commodity prices and available markets for our byproduct sales.

- Changes in recycling and replacement programs with utility customers.

- General economic conditions.

- Weather conditions in our markets.

- Timing of promotional events.

- Our ability to execute our business strategies effectively.

Our business is dependent on the general economic conditions in our markets.

In general, our sales depend on general economic factors and other conditions that may affect our business, include periods of slow economic growth or recession, political factors including uncertainty in social or fiscal policy, an overly anti-business climate or sentiment, volatility and/or lack of liquidity from time to time in U.S. and world financial markets and the consequent reduced availability and/or higher cost of borrowing for us and our customers, increasing fuel and energy costs, inflation or deflation of commodity prices, natural disasters, and acts of terrorism and developments in the war against terrorism. Additionally, any of these circumstances concentrated in a region of the U.S. in which we operate could have a material adverse effect on our net sales and results of operations. General economic conditions and discretionary spending are beyond our control and are affected by, among other things:

· The housing and home improvement markets.

· Gasoline and fuel prices.

· Interest rates and inflation.

· Foreign currency exchange rates.

· Natural disasters.

· National and geopolitical concerns.

· Tax rates and tax policy.

· Other matters that influence business confidence and spending.

· Commodity prices.

Volatility in financial markets may cause some of the above factors to change with an even greater degree of frequency and magnitude. The above factors could result in slowdown in the economy or an uncertain economic outlook, which could have a material adverse effect on our business and results of operations.

If we fail to hire, train and retain key management, qualified managers, other employees and subcontracted agents, we could have difficulty implementing our business strategy, which may result in reduced net sales, operating margins and profitability.

If we are unable to attract and retain qualified personnel as needed in the future, our level of customer service may decline, which may decrease our net sales and profitability. Other factors that impact our ability to maintain sufficient levels of qualified employees and agents in all areas of the business include, but are not limited to, the Company's reputation, worker morale, the current macroeconomic environment, competition from other employers, and our ability to offer adequate compensation packages. Adverse changes in health care costs could also adversely impact our ability to achieve our operational and financial goals and to offer attractive benefit programs to our employees. Our ability to control labor costs, which may impact our ability to hire and retain qualified personnel, is subject to numerous external factors, including prevailing wage rates, the impact of legislation or regulations governing healthcare benefits or labor relations and health and other insurance costs. If our labor and/or benefit costs increase, we may not be able to hire or maintain qualified personnel to the extent necessary to execute our competitive strategy, which could adversely affect our results of operations.

We are subject to certain statutory, regulatory and legal developments that could have a material adverse impact on our business.

Our statutory, regulatory and legal environment exposes us to complex compliance and litigation risks that could materially adversely affect our operations and financial results. The most significant compliance and litigation risks we face are:

- The difficulty of complying with sometimes conflicting statutes and regulations in local, state and national jurisdictions;
- The impact of proposed, new or changing statues and regulations, including, but not limited to, corporate governance matters, environmental impact, financial reform, Health Insurance Portability and Accounting Act, health care reform, labor reform, and/or other as yet unknown legislation that could affect how we operate and execute our strategies as well as alter our expense structure.

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- The impact of changes in tax laws (or interpretations thereof by courts and taxing authorities) and accounting standards.

- The impact of litigation, including class action or individual lawsuits involving shareholders, and labor and employment litigation related matters.

- Changes in trade regulations, currency fluctuations, economic or political instability, natural disasters, public health emergencies and other factors beyond our control may increase the cost of items we purchase or create shortages of these items, which in turn could have a material adverse effect on our cost of revenues, or may force us to increase prices, thereby adversely impacting net sales and profitability.

We are involved in a number of legal proceedings that arise from time to time in the ordinary course of business. Litigation is inherently unpredictable, and the outcome of some of these proceedings and other contingencies could require us to take or refrain from taking action which, in either case, could adversely affect our operations or reduce our net income. There can be no assurance that any litigation to which we are a party will be resolved in our favor. Any claim that is successfully decided against us may cause us to pay substantial damages, including punitive damages. Additionally, defending against regulatory changes, lawsuits and proceedings may involve significant expense and diversion of management's attention and resources from other matters which could adversely affect our results of operations.

Significant shortages in diesel fuel supply or increases in diesel fuel prices will increase our operating expenses.

The price and supply of diesel fuel can fluctuate significantly based on international, political and economic circumstances, as well as other factors outside our control, such as actions by the Organization of the Petroleum Exporting Countries ("OPEC") and other oil and gas producers, regional production patterns, weather conditions and environmental concerns. Our collection and delivery agents need diesel fuel to run a significant portion of our collection and delivery of appliance activities. Supply shortages could substantially increase our operating expenses. Additionally, if fuel prices increase, our direct operating expenses will increase and many of our vendors may raise their prices as a means to offset their rising costs. We may not be able to pass through all of our increased costs to our customers and some contracts prohibit any pass-through of the increased costs.

We are subject to risks associated with leasing substantial amounts of space, including future increases in occupancy costs.

We lease our corporate headquarters and recycling centers. Our continued growth and success depend in part on our ability to locate desirable property for new recycling centers and renew leases for existing locations. Because there is no assurance that we will be able to locate acceptable real estate for new recycling centers; or re-negotiate leases for existing locations at similar or favorable terms at the end of the lease term, we could be forced to move or exit a market if another favorable arrangement cannot be made. Furthermore, a significant rise in real estate prices or real property taxes could result in an increase in lease expense as we open new locations and renew leases for existing locations, thereby negatively impacting the Company's results of operations. The inability of the Company to renew, extend or replace expiring leases could have an adverse effect on the Company's results of operations.

We depend on cash flow from operations to pay our lease expenses. If our business does not generate sufficient cash flow from operating activities to fund these expenses, we may not be able to service our lease expenses, which could materially harm our business.

If an existing recycling center is not profitable, and we decide to close it, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. Moreover, even if a lease has an early cancellation clause, we may not satisfy the contractual requirements for early cancellation under that lease. Our inability to enter into new leases or renew existing leases on terms acceptable to us or be released from our obligations under leases for recycling centers that we close could materially adversely impact our business, financial condition, operating results or cash flows.

We have identified and disclosed in this Form 10-K material weaknesses in our internal control over financial reporting. If we are not able to remediate these material weaknesses and maintain an effective system of internal controls, we may not be able to accurately or timely report our financial results, which could cause our stock price to fall or result in our stock being delisted.

We need to devote significant resources and time to comply with the requirements of the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”) with respect to internal control over financial reporting. In addition, Section 404 under Sarbanes-Oxley requires that we assess the design and operating effectiveness of our controls over financial reporting, which are necessary for us to provide reliable and accurate financial reports.

As reported in Part II – Item 9A, Controls and Procedures, there were material weaknesses in our internal controls over financial reporting at December 29, 2018. Specifically, management's assessment concluded that the company has the following material weaknesses: (a) insufficient or inadequate financial statement closing process; and (b) inadequate segregation of duties within a significant process.

We expect our systems and controls to become increasingly complex to the extent that we integrate acquisitions and as our business grows. To effectively manage our company today and this anticipated complexity, we need to remediate these material weaknesses and continue to improve our operational, financial, and management controls and our reporting systems and procedures. Any failure to remediate these material weaknesses and implement required new or improved controls, or difficulties encountered in the implementation or operation of these controls, could harm our operating results or cause us to fail to meet our financial reporting obligations, which could adversely affect our business and jeopardize our listing on the NASDAQ Capital Market, either of which would harm our stock price.

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

Our business is dependent largely upon our ability to obtain new contracts and continue existing contracts for appliance recycling services and appliance replacement programs with utility companies and other sponsors of energy efficiency programs. Contracts with these entities generally have initial terms of one to three years, with renewal options and early termination clauses. However, some contracts are for programs that are non-recurring. Although we continue to respond to utility companies and other sponsors of energy efficiency programs requesting bids for upcoming recycling services, we are still dependent on certain customers for a large portion of our revenues. The loss or material reduction of business from any of these major customers could adversely affect our revenues and profitability. While we wish to add new recycling and appliance replacement contracts in 2019 and beyond, we cannot assure you that our existing contracts will continue, that they will be sufficiently profitable, that existing customers will continue to use our services at current levels or we will be successful in obtaining new recycling and replacement contracts going forward.

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

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

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

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

Our total capital requirements will depend on, among the other things discussed in this annual report and the number of recycling centers operating during 2019 and thereafter. Currently, we have eleven recycling centers in operation. If our revenues are lower than anticipated, our expenses are higher than anticipated or our line of credit cannot be maintained, we will require additional capital to finance our operations. Even if we are able to maintain our line of credit, we may need additional equity or other capital in the future. Sources of additional financing, if needed in the future, may include further debt financing or the sale of equity (including the issuance of preferred stock) or other securities. We cannot assure you that any additional sources of financing or new capital will be available to us, available on acceptable terms or permitted by the terms of our current debt agreements. In addition, if we sell additional equity to raise funds, all outstanding shares of common stock will be diluted.

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

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

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

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

In addition, changes and proposed changes by the Trump Administration and the head of the EPA indicate that the regulation of the emission of certain gases, commonly referred to as “greenhouse gases,” and other ozone-depleting substances may be less of a priority. In addition, the Trump Administration and head of the EPA have announced that they intend to rescind or have already rescinded various environmental regulations established and enforced by previous administrations. As a result, further regulatory, legislative and judicial developments are difficult to predict. Even if federal environmental efforts slow, states may continue pursuing new regulations. These changes by the Trump Administration and the EPA, together with other proposed changes, could adversely affect our results of operations.

Risks Relating to Our Technology Business

GeoTraq has incurred significant operating losses since inception and expects the losses will continue into the future. If the losses continue GeoTraq may have to suspend operations or cease operations.

GeoTraq has no operating history upon which an evaluation of its future success or failure can be made. GeoTraq has incurred significant operating losses since inception and has limited financial resources to support it until such time that it is able to generate positive cash flow from operations. GeoTraq’s ability to achieve and maintain profitability and positive cash flow is dependent upon its ability to (i) develop its technology and (ii) generate revenues from its planned business operations. Based upon current plans, GeoTraq expects to continue to incur operating losses in future periods. Failure to generate revenues may cause GeoTraq to suspend or cease operations

GeoTraq is in the early stages of development.

GeoTraq is developing a new technology and may encounter difficulties including unanticipated problems relating to the development and testing of its product, initial and continuing regulatory compliance, vendor manufacturing costs, production and assembly of its product, and the competitive and regulatory environments in which the company intends to operate. It is uncertain, at this stage of its development, if GeoTraq is unable to effectively resolve any such problems, should they occur. If GeoTraq cannot resolve an unanticipated problem, it may be forced to modify or abandon its business plan.

GeoTraq does not have sufficient funds to complete each phase of its proposed plan of operation and as a result may have to suspend operations.

Each of the phases of GeoTraq's plan of operation is limited and restricted by the amount of working capital that GeoTraq has and is able to obtain from ARCA, raise from financings, and generate from business operations. Initially, GeoTraq intended to finance its plan of operation with funds from ARCA and private loans, and, subsequently, with revenues generated from its business operations

Based on latest worst-case projections, GeoTraq will not generate revenues and positive cashflows from operations to satisfy its cash requirements for the next 12 months and will be required to obtain the funds from ARCA or raise the required funds by way of equity or debt financing. However, these projections do expect that GeoTraq will generate sufficient revenues and cash flows from operations to satisfy its cash requirements beginning in year 2021 and years thereafter without ARCA funding assistance. Based on this, the likelihood that GeoTraq may have to suspend operations is remote.

GeoTraq outsources the research and development of its technology, and as a result it is dependent upon those third-party developers to develop our products in a timely and cost-efficient manner while maintaining a minimum level of quality.

GeoTraq does not have internal manufacturing capabilities and relies on contract manufacturers to manufacture and develop its products. GeoTraq cannot be certain that it will not experience operational difficulties with its future manufacturers, including reductions in the availability of production capacity, errors in complying with product specifications, insufficient quality control, failures to meet production deadlines, increases in manufacturing costs and increased lead times. Additionally, GeoTraq's future manufacturers may experience disruptions in their manufacturing operations due to equipment breakdowns, labor strikes or shortages, component or material shortages, cost increases or other similar problems. Further, in order to minimize their inventory risk, GeoTraq's future manufacturers might not order components from third-party suppliers with adequate lead time, thereby impacting its ability to meet demand forecasts. Therefore, if GeoTraq fails to manage its relationship with its manufacturers effectively, or if they experience operational difficulties, GeoTraq's ability to ship products could be impaired and its competitive position and reputation could be harmed.

In the event that GeoTraq receives shipments of products that fail to comply with its technical specifications or that fail to conform to its quality control standards, and it is not able to obtain replacement products in a timely manner, GeoTraq risks revenue losses from the inability to sell those products, increased administrative and shipping costs, and lower profitability. Additionally, if defects are not discovered until after customers purchase its products, GeoTraq customers could lose confidence in the technical attributes of its products and its business could be harmed.

GeoTraq will not control its future contract manufacturers or suppliers, including their labor, environmental or other practices, or require them to comply with a formal code of conduct. However, GeoTraq intends to conduct periodic audits of its contract manufacturers' and suppliers' compliance with applicable laws and good industry practices, these audits may not be frequent or thorough enough to detect non-compliance. A violation of labor, environmental or other laws by its contract manufacturers or suppliers, or a failure of these parties to follow ethical business practices, could lead to negative publicity and harm GeoTraq's reputation. In addition, GeoTraq may choose to seek alternative manufacturers or suppliers if these violations or failures were to occur. Identifying and qualifying new manufacturers or suppliers can be time consuming and GeoTraq may not be able to substitute suitable alternatives in a timely manner or at an acceptable cost. Other consumer products companies have faced significant criticism for the actions of their manufacturers and suppliers, and GeoTraq could face such criticism as well. Any of these events could adversely affect its brand, harm its reputation, reduce demand for its products and harm its ability to meet demand if it needs to identify alternative manufacturers or suppliers.

GeoTraq's success depends on sales and adoption of its technology for asset tracking and theft recovery.

GeoTraq's revenue, if any, will be derived from module sales and recurring fees that GeoTraq receives from resellers that support end users who purchase and activate a Mobile IoT product using the company's technology. Depending on the products created by companies that use its Mobile IoT module, GeoTraq will receive recurring revenue based on the number of activations and ongoing monthly service. GeoTraq's short term success depends heavily on achieving significantly increased customer adoption of its Technology either through stand alone or integrated products. GeoTraq's success also depends on achieving widespread deployment of the Technology by attracting and retaining additional manufacturing partners. The use of the Technology will depend on the pricing, quality and features of the Mobile IoT module to be integrated into location-based products which may vary by market, as well as the level of subscriber turnover experienced by cellular subscriptions. If subscriber turnover increases more than management anticipates, GeoTraq's financial results could be adversely affected.

Cellular service providers on which GeoTraq's technology is dependent may change the terms by which the technology is used on their networks, which could result in lower revenue and adverse effects on our business.

If the cellular service providers on which GeoTraq's technology is to be used changes the terms of use or eliminates the ability to use products that incorporate GeoTraq's technology, GeoTraq could lose customers as they would no longer be able to use GeoTraq's technology in their products. In addition, GeoTraq could be required to change its fee structure to retain customers, which could negatively affect GeoTraq's gross margins. The cellular service providers may also decide to raise prices, impose usage caps or fees, or discontinue certain application bundles, which could adversely affect end users who use GeoTraq's technology. If imposed, these pricing changes or usage restrictions could make GeoTraq's technology less attractive and could result in current end users abandoning GeoTraq's technology. If end user turnover increased, the number of GeoTraq's end users and GeoTraq's revenue would decrease and its business would be harmed.

GeoTraq's ability to increase or maintain its customer base and revenue will be impaired if cellular service providers do not allow GeoTraq Technology access to their networks.

GeoTraq's technology requires cellular service to operate. The products produced by manufactures will require end users to maintain service with cellular service providers. If cellular service providers do not permit end users to purchase the cellular connectivity the product requires, GeoTraq may have difficulty attracting manufacturing customers because of the lack of, or difficulty in purchasing and provisioning a service plan. If the end user is unable to provide seamless provisioning or the carrier cancels their subscriptions, GeoTraq's business may be harmed.

GeoTraq may not be able to enhance its technology to keep pace with technological and market developments or develop new technology in a timely manner or at competitive prices.

The market for location-based products and services is characterized by rapid technological change, evolving industry standards, frequent new product introductions and short product life cycles. To keep pace with technological developments, satisfy increasing customer requirements and achieve product acceptance, GeoTraq's future success depends upon its ability to enhance its current technology and to continue to develop and introduce new technology and enhanced performance features and functionality on a timely basis at competitive prices. GeoTraq's inability, for technological or other reasons, to enhance, develop, introduce or deliver compelling technology in a timely manner, or at all, in response to changing market conditions, technologies or consumer expectations could have a material adverse effect on GeoTraq's operating results or could result in its Technology becoming obsolete. GeoTraq's ability to compete successfully will depend in large measure on its ability to maintain a technically skilled development and engineering team and to adapt to technological changes and advances in the industry, including providing for the continued compatibility of its technology with evolving industry standards and protocols and competitive network operating environments. Development and delivery schedules for newly developed technology are difficult to predict. GeoTraq in the past, and may in the future, fail to deliver new versions of its technology in a timely fashion. If new releases of GeoTraq's Technology are delayed or not integrated into products upon their initial commercial release, the manufactures may curtail their efforts to market and promote GeoTraq's technology and may switch to competing products or services, any of which would result in a delay or loss of revenue and could harm GeoTraq's business. In addition, GeoTraq cannot provide any assurance that the technology it develops will be brought to market as quickly as anticipated or that the technology will achieve broad acceptance among wireless carriers or consumers.

If GeoTraq is unable to develop or modify its technology for new customer products, GeoTraq's revenue growth may be adversely affected and its net income could decline.

If GeoTraq does not develop or modify its technology for new products envisioned or introduced by our customers to increase the number of customer end users who use GeoTraq's technology, GeoTraq may not be able to increase its revenue in the longer term. GeoTraq's sales and marketing efforts may not be successful in establishing relationships with new customers. If GeoTraq fails to develop or modify its technology to attract new customers and new subscribers or its new Technology is not successful, GeoTraq may be unable to increase its revenue and its operating results may be adversely affected.

GeoTraq's business may suffer if it is alleged or determined that its technology or another aspect of its business infringes the intellectual property rights of others.

The markets in which GeoTraq competes are characterized by the existence of a large number of patents and trade secrets and also by litigation based on allegations of infringement or other violations of intellectual property rights. Moreover, in recent years, individuals and groups have purchased patents and other intellectual property assets for the purpose of making claims of infringement to extract settlements from companies like GeoTraq. Also, third parties may make infringement claims against GeoTraq that relate to technology developed and owned by one of its suppliers for which its suppliers may or may not indemnify GeoTraq. Even if GeoTraq is indemnified against such costs, the indemnifying party may be unable to uphold its contractual obligations and determining the scope of these obligations could require additional litigation. Claims of intellectual property infringement against GeoTraq or its suppliers might require GeoTraq to redesign its products, rebrand its services, enter into costly settlement or license agreements, pay costly damage awards or face a temporary or permanent injunction prohibiting GeoTraq from marketing or selling its products or services. If GeoTraq cannot or does not license the infringed intellectual property on reasonable terms or at all, or substitute similar intellectual property from another source, its revenue and operating results could be adversely impacted. Additionally, GeoTraq's customers, distributors and retailers may not purchase its offerings if they are concerned that they may infringe third-party intellectual property rights. Responding to such claims, regardless of their merit, can be time consuming, costly to defend in litigation, divert management's attention and resources, damage GeoTraq's reputation and brand and cause it to incur significant expenses. The occurrence of any of these events may have an adverse effect on GeoTraq's business, financial condition and operating results.

GeoTraq faces significant competition and failure to successfully compete in the industry with established companies may result in GeoTraq's inability to continue with its business operations.

There are other companies that provide similar products and services. Management expects competition in this market to increase significantly as new companies enter the market and current competitors expand their products and services. GeoTraq's competitors may develop or offer technology or products that are better than GeoTraq's or that achieve greater market acceptance. It is also possible that new competitors may emerge and acquire significant market share. Competitive pressures created by any one of these companies, or by GeoTraq's competitors collectively, could have a negative impact on GeoTraq's business, results of operations and financial condition and as a result, GeoTraq may not be able to continue with its business operations. In addition, if GeoTraq is unable to develop and introduce new or enhanced products and services quickly enough to respond to market or user requirements or to comply with emerging industry standards, or if these products do not achieve market acceptance, GeoTraq may not be able to compete effectively.

Many of GeoTraq's competitors have greater name recognition, larger customer bases and significantly greater financial, technical, marketing, public relations, sales, distribution and other resources than GeoTraq. Some of GeoTraq's competitors' and its potential competitors' advantages over GeoTraq, either globally or in particular geographic markets, include the following: (a) offering their services at no or low cost to customers; (b) significantly greater revenue and financial resources; (c) stronger brand and consumer recognition regionally or worldwide; (d) the capacity to leverage their marketing expenditures across a broader portfolio of location based technologies and products; (e) access to core technology and intellectual property, including more extensive patent portfolios; (f) access to custom or proprietary content; (g) quicker pace of innovation; (h) stronger wireless carrier relationships; (i) greater resources to make and integrate acquisitions; (j) lower labor and development costs; and (k) broader global distribution and presence.

GeoTraq products require FCC approval (which could take up to 90 days), and possibly approvals from other international and domestic government regulatory agencies, that may not be approved. In addition, our technology could be affected by other existing laws or regulations or future legislative or regulatory changes that may affect our business..

Prior to the sale by GeoTraq of the Mobile IoT Modules, other than business and operations licenses applicable to most commercial ventures, GeoTraq is not required to obtain any governmental approval for its business operations. In order to sell its Mobile IoTModules, GeoTraq believes that FCC rules Part 15, Part 20, Part 22, Part 24 and Part 27 apply to such sales. GeoTraq intends to employ FCC accredited testing laboratories to verify and certify that the Mobile IoT Modules comply with all regulatory requirements prior to the sale of the Mobile IoT Modules. If the company's Mobile IoT Modules do not successfully complete required compliance tests, the FCC will withhold the issuance of certification required for GeoTraq to market and sell its products and, as a result, the financial results of GeoTraq and ARCA could be materially and adversely affected. In addition, if GeoTraq determines to market and sell its products outside of the United States, the regulatory agencies in designated countries may require GeoTraq to submit its products for compliance testing and seek local government regulatory licenses and approvals. It is possible that the company's products may not successfully complete required compliance tests or that local country regulatory agencies may withhold the issuance of certifications or approval required for GeoTraq to market and sell its products in that country, and, as a result, the financial results of GeoTraq and ARCA could be materially and adversely affected.

GeoTraq may be subject to legal proceedings involving its technology that could result in substantial costs and which could materially harm GeoTraq's business operations.

From time to time, GeoTraq may be subject to legal proceedings and claims in the ordinary course of its business, including claims of alleged infringement of the trademarks and other intellectual property rights of third parties by GeoTraq. These types of claims could result in increased costs of doing business through legal expenses, adverse judgments or settlements or require GeoTraq to change its business practices in expensive ways. Additional litigation may be necessary in the future to enforce GeoTraq's technology rights, to protect its trade secrets or to determine the validity and scope of the proprietary rights of others. Any litigation, regardless of outcome or merit, could result in substantial costs and diversion of management and technical resources, any of which could materially harm GeoTraq's business.

GeoTraq may not be able to attract and retain qualified personnel necessary for the development of its technology and implementation of its proposed plan of operations.

GeoTraq's future success depends largely upon the continued service of its board members, executive officers and other key personnel. GeoTraq's success also depends on its ability to continue to attract, retain and motivate qualified personnel. Key personnel represent a significant asset, and the competition for these personnel is intense in the communications industry.

GeoTraq may have particular difficulty attracting and retaining key personnel in initial phases of its proposed plan of operations. GeoTraq does not maintain key person life insurance on any of its personnel. The loss of one or more of its key employees or its inability to attract, retain and motivate qualified personnel could negatively impact GeoTraq's ability to complete any proposed phase of its plan of operations.

GeoTraq's management lacks any formal training or experience in offshore manufacturing and supply chain management, and as a result management may make mistakes, which could have a negative impact on GeoTraq's business operations.

GeoTraq's management, led by Pierre Parent, Chief Technology Officer and General Manager, is experienced in researching and developing technology. Management breadth of experience spans product development, sales and business development, project management and the leadership of engineering from concept through manufacturing. As a result, the risk that GeoTraq lacks experience and may have to suspend or cease operations and GeoTraq's business operations is remote.

GeoTraq's business and products are subject to a variety of additional U.S. and foreign laws and regulations that are central to our business and its failure to comply with these laws and regulations could harm our business or our operating results.

GeoTraq is or may become subject to a variety of laws and regulations in the United States and abroad that involve matters central to its business, including laws and regulations regarding consumer protection, advertising, privacy, intellectual property, manufacturing, anti-bribery and anti-corruption, and economic or other trade prohibitions or sanctions.

GeoTraq's modules are subject to regulation by various U.S. state and federal and foreign agencies, including the Federal Communications Commission. If GeoTraq fails to comply with any of these regulations, it could become subject to enforcement actions or the imposition of significant monetary fines, other penalties, or claims, which could harm its operating results or its ability to conduct its business.

Risks Relating to Our Common Stock

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

Currently, Isaac Capital Group, LLC, Timothy Matula, Abacab Capital Management and Energy Efficiency Investments LLC own approximately 14.8%, 6.6%, 5.2% and 9.9%, respectively, of our outstanding shares of common stock. Three of our current directors are also on the board of directors of Live Ventures Incorporated, a publicly held corporation controlled by Isaac Capital Group, LLC and led by Jon Isaac as its President and Chief Executive Officer. Jon Isaac is the son of ARCA Chief Executive Officer Tony Isaac. Because of such ownership, our principal shareholders may be able to significantly, and possibly adversely, affect our corporate decisions, including the election of the board of directors.

Future sales of shares of our common stock in the public market and the conversion of shares of our Series A Convertible Preferred Stock may negatively affect our stock price.

Future sales of our common stock, or the perception that these sales could occur, and the actual conversion of shares of our Series A Convertible Preferred Stock (the "Series A Preferred Stock"), which was approved by our shareholders at the Annual Meeting of Shareholders on October 23, 2018, could have a significant negative effect on the market price of our common stock. In addition, upon exercise of outstanding options, the number of shares outstanding of our common stock could increase substantially. This increase, in turn, could dilute future earnings per share, if any, and could depress the market value of our common stock. Dilution and potential dilution, the availability of a large amount of shares for sale and/or that may be issued upon conversion, and the possibility of additional issuances and sales of our common stock, may negatively affect both the trading price and liquidity of our common stock. These sales and the possibility of conversion of the shares of Series A Preferred Stock also might make it more difficult for us to raise capital through the sale of equity securities or equity-related securities in the future at a time and price that we would deem appropriate.

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

There is a limited trading market for our common stock, which is listed on the NASDAQ Capital Market. Transactions in our common stock may lack the volume and liquidity necessary to maintain an orderly trading market and this could result in both depressed and highly variable trading prices. Sales or issuances of substantial amounts of common stock into the public market, including issuances of shares of common stock upon conversion of shares of the Series A Preferred Stock, at the same time could adversely affect the market price of our common stock. The trading volume and market price of our common stock could also be adversely affected if we do not maintain our listing on the NASDAQ Capital Market.

Our stock price may fluctuate and be volatile.

The market price of our common stock may be subject to significant fluctuations due to the following factors, among others:

- Variations in our financial results.
- Changes in accounting standards, policies, guidance or interpretations.
- Sales of substantial amounts of our stock by existing shareholders.
- Conversion of shares of our Series A Preferred Stock.
- General economic conditions.

These broad fluctuations in the stock markets may also cause the price of our common stock to fall abruptly or remain significantly depressed.

In the past, securities class action litigation has often been brought against a company, including us, following periods of volatility in the market price of its securities. Such lawsuits generally result in the diversion of management's time and attention away from business operations, which could harm our business. In addition, the costs of defense and any damages resulting from litigation, a ruling against us, or a settlement of the litigation could adversely affect our financial results.

We do not intend to declare dividends on our stock in the foreseeable future.

We have never declared or paid cash dividends on our common stock. We currently intend to retain all future earnings, if any, for the operation and expansion of our business and, therefore, do not anticipate declaring or paying cash dividends on our common stock in the foreseeable future. Any payment of cash dividends on our common stock will be at the discretion of our board of directors, will require approval by our lender and will depend upon our results of operations, earnings, capital requirements, financial condition, future prospects, contractual restrictions and other factors deemed relevant by our board of directors. Therefore, dividend income should not be expected from shares of our common stock.

The Nevada Revised Statutes contain provisions that could discourage, delay or prevent a change in control of our company, prevent attempts to replace or remove current management and reduce the market price of our stock.

Provisions in our articles of incorporation and bylaws may discourage, delay or prevent a merger or acquisition involving us that our stockholders may consider favorable. For example, our articles of incorporation authorize our board of directors to issue up to two million shares of “blank check” preferred stock. As a result, without further stockholder approval, the board of directors has the authority to attach special rights, including voting and dividend rights, to this preferred stock. With these rights, preferred stockholders could make it more difficult for a third party to acquire us.

We are also subject to the anti-takeover provisions of the NRS. Depending on the number of residents in the state of Nevada who own our shares, we could be subject to the provisions of Sections 78.378 et seq. of the Nevada Revised Statutes which, unless otherwise provided in the Company's articles of incorporation or by-laws, restricts the ability of an acquiring person to obtain a controlling interest of 20% or more of our voting shares. Our articles of incorporation and by-laws do not contain any provision which would currently keep the change of control restrictions of Section 78.378 from applying to us.

We are subject to the provisions of Sections 78.411 et seq. of the Nevada Revised Statutes. In general, this statute prohibits a publicly held Nevada corporation from engaging in a "combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the combination or the transaction by which the person became an interested stockholder is approved by the corporation's board of directors before the person becomes an interested stockholder. After the expiration of the three-year period, the corporation may engage in a combination with an interested stockholder under certain circumstances, including if the combination is approved by the board of directors and/or stockholders in a prescribed manner, or if specified requirements are met regarding consideration. The term "combination" includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an "interested stockholder" is a person who, together with affiliates and associates, owns, or within three years did own, 10% or more of the corporation's voting stock. A Nevada corporation may "opt out" from the application of Section 78.411 et seq. through a provision in its articles of incorporation or by-laws. We have not "opted out" from the application of this section.

ITEM 2. PROPERTIES

Our executive offices are located in Minneapolis, Minnesota in a leased facility consisting of 15,071 square feet of office space.

Recycling Centers

We lease a total of fifteen recycling center facilities. We generally attempt to negotiate 24 to 36 month lease terms, to coincide with the term of our utility customer contracts in a particular center geography. We operate eleven processing and recycling centers. All of our processing and recycling centers are leased facilities. Our recycling centers typically range in size from 3,000 to 33,300 square feet. We believe that we may require additional facilities to respond to future needs of ARCA.

Sqft *Location*

3,840	Dartmouth, Nova Scotia
7,378	Stoney Creek, Ontario (currently being sublet)
18,505	Santa Fe Springs, California
5,900	Albuquerque, New Mexico
3,000	St. Paul, Minnesota
6,000	Indianapolis IN
15,000	Franklin, Massachusetts
7,500	Commerce City, Colorado
12,161	Cudahy, Wisconsin
7,700	Pittsburgh, Pennsylvania
8,120	Mechanicsburg, Pennsylvania
33,300	Philadelphia, Pennsylvania

GeoTraq

We lease 2,987 square foot of office space in Las Vegas, Nevada for GeoTraq.

Customer Connexx

We rent approximately 9,000 square feet of office space in Las Vegas, Nevada from Live, a related party.

ITEM 3. LEGAL PROCEEDINGS

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 (the “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. Following motion practice, on January 8, 2018 the District Court entered judgment 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 4, 2019, the Minnesota Court of Appeals (the “Court of Appeals”) ruled and (i) reversed the District Court’s judgment in favor of Skybridge on the call center location claim and remanded the issue back to the District Court for further proceedings, (ii) reversed the District Court’s judgment in favor of Skybridge on the net payment issue and remanded the issue to the District Court for further proceedings, and (iii) affirmed the District Court’s judgment in Skybridge’s favor against ARCA’s claim that Skybridge breached the contract when it failed to meet the service level agreements. As a result of the decision by the Court of Appeals, the District Court’s award of interest and attorneys’ fees, etc. was reversed.

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”), Recleim 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 arbitration is currently scheduled for August 2019, however the parties have agreed to mediation in advance of the arbitration.

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 other ordinary course disputes that we do not believe to be material.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

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

Market Information and Dividends

Our common stock trades under the symbol “ARCI” on the NASDAQ Capital Market. As of March 29, 2019, there were 113 stockholders of record, which excludes stockholders whose shares were held in nominee or street name by brokers.

We have not paid dividends on our common stock and do not presently plan to pay dividends on our common stock for the foreseeable future.

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

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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

For a description of our significant accounting policies and an understanding of the significant factors that influenced our performance during the year ended December 29, 2018, this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (hereafter referred to as “MD&A”) should be read in conjunction with the consolidated financial statements, including the related notes, appearing in Part II, Item 8 of this Annual Report on Form 10-K (this “Form 10-K”) for the fiscal year ended December 29, 2018.

Note about Forward-Looking Statements

This Form 10-K includes statements that constitute “forward-looking statements.” These forward-looking statements are often characterized by the terms “may,” “believes,” “projects,” “intends,” “plans,” “expects,” or “anticipates,” and do not reflec historical facts. Specific forward-looking statements contained in this portion of the Form 10-K include, but are not limited to: (i) statements that are based on current projections and expectations about the markets in which we operate, (ii) statements about current projections and expectations of general economic conditions, (iii) statements about specific industry projections and expectations of economic activity, (iv) statements relating to our future operations and prospects, (v) statements about future results and future performance, (vi) statements that the cash on hand and additional cash generated from operations together with potential sources of cash through issuance of debt or equity will provide the Company with sufficient liquidity for the next 12 months, (vii) statements that the outcome of pending legal proceedings will not have a material adverse effect on business, financial position and results of operations, cash flow or liquidity, and (viii) statements relating to the sale of the Company’s Recycling business.

Forward-looking statements involve risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Factors and risks that could affect our results, future performance and capital requirements and cause them to materially differ from those contained in the forward-looking statements include those identified in this Form 10-K under Item 1A “Risk Factors”, as well as other factors that we are currently unable to identify or quantify, but that may exist in the future.

In addition, the foregoing factors may generally affect our business, results of operations and financial position. Forward-looking statements speak only as of the date the statements were made. We do not undertake and specifically decline any obligation to update any forward-looking statements. Any information contained on our website www.arcainc.com or any other websites referenced in this Form 10-K are not part of this Form 10-K.

Our Company

Appliance Recycling Centers of America, Inc. and subsidiaries (collectively, "we," the "Company," or "ARCA") are in the business of recycling major household appliances in North America by providing turnkey appliance recycling and replacement services for utilities and other sponsors of energy efficiency programs through our subsidiaries ARCA Recycling, Inc. and ARCA Canada Inc. In addition, through our GeoTraq Inc. ("GeoTraq") subsidiary, we are engaged in the development, design and, ultimately, we expect the sale of wireless transceiver modules with technology that provides LBS directly from global Mobile IoT networks. Prior to December 30, 2017, we sold new major household appliances in the United States though a chain of Company-owned retail stores operating under the name ApplianceSmart®.

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 15 Regional Processing Centers ("RPCs") for this segment throughout the United States and Canada.
- Technology: GeoTraq is in the process of developing technology to enable low cost, location-based products and services.

Reporting Period. We report on a 52-or 53-week fiscal year. Our 2018 fiscal year ("2018") ended on December 29, 2018 and included 52 weeks. Our 2017 fiscal year ("2017") ended on December 30, 2017 and included 52 weeks.

Application of Critical Accounting Policies

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

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and potentially result in materially different results under different assumptions and conditions. ARCA’s critical accounting policies include intangible impairment ASC 350, ,revenue recognition ASC 606, and going concern ASC 205.

Results of Operations

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

	52 Weeks Ended December 29, 2018		52 Weeks Ended December 30, 2017	
Statement of Operations Data (in Thousands):				
Revenues	$36,794	100.0%	$41,544	100.0%
Cost of revenues	25,741	70.0%	28,399	68.4%
Gross profit	11,053	30.0%	13,145	31.6%
Selling, general and administrative expenses	17,150	46.6%	13,376	32.2%
Operating loss	(6,097)	-16.6%	(231)	-0.6%
Gain on the sale of property	–	0.0%	5,163	12.4%
Interest expense, net	(668)	-1.8%	(894)	-2.2%
Other income	430	1.2%	29	0.1%
Net income (loss) before income taxes	(6,335)	-17.2%	4,067	9.8%
Benefit from income taxes	(727)	-2.0%	(1,330)	3.2%
Net income (loss) before noncontrolling interest	(5,608)	-15.2%	5,397	13.0%
Net loss attributed to noncontrolling interest	–	0.0%	496	1.2%
Net loss from discontinued operations, net of tax	–	0.0%	(5,775)	-13.9%
Net income (loss) attributed to Company	$(5,608)	-15.2%	$118	0.3%

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:

	52 Weeks Ended December 29, 2018		52 Weeks Ended December 30, 2017	
	Gross Profit	Gross Profit %	Gross Profit	Gross Profit %
Gross Profit				
Recycling, Byproducts, Carbon Offset	7,675	31.1%	7,782	30.0%
Replacement Appliances	3,378	27.9%	5,363	34.4%
Total Gross Profit	$11,053	30.0%	$13,145	31.6%

Revenue

Revenue decreased $4,750 or 11.4% for the 52 weeks ended December 29, 2018 as compared to the 52 weeks ended December 30, 2017.

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

Recycling, Byproducts and Carbon offset decreased $1,269 or 4.9%.

Replacement Appliances decreased $3,481 or 22.3%.

Cost of Revenue

Cost of revenue decreased $2,658, or 9.4% for the 52 weeks ended December 29, 2018 as compared to the 52 weeks ended December 30, 2017, primarily as a result of the change in revenue discussed above as well as the changes in gross profit discussed below.

Gross Profit

Gross profit decreased $2,092 for the 52 weeks ended December 29, 2018 as compared to the 52 weeks ended December 30, 2017.

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

Recycling, Byproducts and Carbon Offset $107 or 1.4%.

Replacement Appliances decreased $1,985 or 37.0%.

Gross profit margin as a percentage of sales were improved for Recycling, Byproducts and Carbon Offset 31.1% vs. 30.0%. Gross profit margin as a percentage of sales decreased for Replacement Appliances 27.9% vs. 34.4%.

Selling, General and Administrative Expense

Selling, general and administrative expense increased $3,774 or 28.2%, for the 52 weeks ended December 29, 2018 as compared to the 52 weeks ended December 30, 2017. The increase in selling, general and administrative expense was primarily attributable to GeoTraq which increased $3,515 over the same period. GeoTraq expense represents annual expenses of $3,729 of amortization expense, $793 of personnel expense and $524 of facilities, R&D, and general office expense.

Operating Income

As a result of the factors described above, operating loss of $6,097 for the 52 weeks ended December 29, 2018, represented a decrease of $5,866 over the comparable prior 52-week period operating loss of $231.

Interest Expense, net

Interest expense net decreased $226 or 25.3% for the 52 weeks ended December 29, 2018 as compared to the 52 weeks ended December 30, 2017 primarily due to payoff of the MidCap Financial line of credit.

Other Income and Expense

Other income and expense increased $401 for the 52 weeks ended December 29, 2018 as compared to the 52 weeks ended December 30, 2017. The increase in other income and expense was primarily the result of ApplianceSmart transition management fees of $270, early payment vendor discounts of $66, and interest income of $48.

Benefit for Income Taxes

Benefit for income taxes decreased $603 or 45.3%, for the 52 weeks ended December 29, 2018 as compared to the 52 weeks ended December 30, 2017. The decrease in benefit from income taxes is primarily attributable to the decrease in pre-provision taxable income and the change in statutory tax rates.

Net Income

Net income before noncontrolling interest decreased $11,005, for the 52 weeks ended December 29, 2018 as compared to the 52 weeks ended December 30, 2017.

Loss attributed to noncontrolling interest decreased $496, for the 52 weeks ended December 29, 2018 as compared to the 52 weeks ended December 30, 2017. AAP operating results were consolidated for the period of January 1, 2017 through the date of sale and deconsolidation of August 15, 2017.

Loss from discontinued operations and sale of ApplianceSmart, net of tax, decreased $5,775 for the 52 weeks ended December 29, 2018 as compared to the 52 weeks ended December 30, 2017, the date of sale of ApplianceSmart.

The factors described above led to net loss of $5,608 for the 52 weeks ended December 29, 2018, from net income of $118 for the 52 weeks ended December 30, 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 recycling centers, e-commerce, individual sales reps and our internet services.

Operating income 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.

	52 Weeks Ended December 29, 2018			52 Weeks Ended December 30, 2017		
	Segments in $			Segments in $		
	Recycling	Technology	Total	Recycling	Technology	Total
Revenue	$36,794	$ –	$36,794	$41,544	$ –	$41,544
Cost of revenue	25,741	–	25,741	28,399	–	28,399
Gross profit	11,053	–	11,053	13,145	–	13,145
Selling, general and administrative expense	12,104	5,046	17,150	11,845	1,531	13,376
Operating income (loss)	$(1,051)	$ (5,046)	$(6,097)	$1,300	$ (1,531)	$(231)

	52 Weeks Ended December 29, 2018			52 Weeks Ended December 30, 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	70.0%	0.0%	70.0%	68.4%	0.0%	68.4%
Gross profit	30.0%	0.0%	30.0%	31.6%	0.0%	31.6%
Selling, general and administrative expense	32.9%	100.0%	46.6%	28.5%	100.0%	32.2%
Operating income (loss)	-2.9%	-100.0%	-16.6%	3.1%	-100.0%	-0.6%

Recycling Segment

Revenue for the 52 weeks ended December 29, 2018 decreased by $4,750, or 11.4 %, as compared to the prior year period, as a result of a decrease in Recycling, Byproducts, Carbon Offset Revenue of $1,269 or 4.9% and a decrease in Replacement Appliances of $3,481 or 22.3%.

Cost of revenue for the 52 weeks ended December 29, 2018 decreased $2,658 or 9.4%, as compared to the prior year period; this was a result of a decrease in Recycling, Byproducts, Carbon Offset $1,162 or 6.4% and a decrease in Replacement Appliances of $1,496 or 14.6%.

Operating income for the 52 weeks ended December 29, 2018 decreased $2,351, as compared to the prior year period as a result of gross profit decreasing by $2,092 and increased selling, general and administrative expense of $259.

Technology Segment

Results for the 52 weeks ended December 29, 2018 include selling, general and administrative expense of $5,046, an increase of $3,515 compared to the prior 52-week period.

Liquidity and Capital Resources

Overview

Based on our current operating plans, we believe that available cash balances, cash generated from our operating activities, sale of assets and or other refinancing of existing indebtedness will provide sufficient liquidity to fund our operations, pay scheduled loan payments, and make continued investments in recycling centers. The Company refinanced and replaced the PNC Bank Revolver loan facility with the MidCap Revolver (as defined below) in May 2017. On March 22, 2018, the Company paid off the MidCap Revolver.

On September 20, 2017 the Company received a written default notice from MidCap Funding Trust X, the Agent representing the Lenders for the MidCap Revolver. The Company strongly disagreed with the Lenders that any Event of Default had occurred and reserved all of its options with respect to the Loan Agreement. The Company and the Agent were in active discussions for forbearance and resolution of the default. The Company and the Agent could not agree on terms of forbearance and resolution of the default. The Company classified the MidCap Revolver as a current liability until paid on March 22, 2018.

As of December 29, 2018, we had total cash on hand of $1,195. 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 52 weeks ended December 29, 2018, cash provided by operating activities was $4,145, compared to cash provided by operating activities of $1,226 during the 52 weeks ended December 30, 2017. The increase in cash provided by operating activities of $2,919 as compared to the prior period was primarily due to an increase in depreciation and amortization $1,851, an increase in amortization of debt issuance costs of $336, an increase in stock compensation expense of $384, a decrease in change in provision for doubtful accounts of $39, an increase in the gain on sale of property of $5,163, an increase in the gain on sale of variable interest entity AAP $81, an increase in the gain on sale of other property and equipment of $129, an increase in the change in deferred rent of $64, an increase in the change in deferred compensation of $92, an increase in the change in deferred income taxes of $605, an increase in other of $687, a decrease in accounts receivable due to lower factoring of $5,106, and an increase in accounts payables and accrued expenses of $3,741, partially offset by an increase in net loss attributable to Company of $5,726, a decrease of $496 for loss attributable to noncontrolling interest, the absence of a loss on sale of discontinued operations of $5,775, and the net decrease in working capital accounts of $788.

Cash used by investing activities was $172 and provided by investing activities was $7,329 for the 52 weeks ended December 29, 2018 and the 52 weeks ended December 30, 2017, respectively. The $7,501 decrease in cash provided by investing activities as compared to the prior period is primarily attributable to a decrease in the proceeds from the sale of property of $6,726, an increase in the purchases of property and equipment of $379; partially offset by the cash received from Live Ventures Incorporated on its note to the Company of $170.

Cash used by financing activities was $6,109 and $6,268 for the 52 weeks ended December 29, 2018 and the 52 weeks ended December 30, 2017, respectively. The $159 decrease in cash used by financing activities, as compared to the prior period, was attributable to final payments on the PNC line of credit of $10,333, decrease in payments of debt obligations of $1,73, and decrease in payment of debt issuance costs of $546; offset by net change in borrowing on the MidCap Financial Trust Revolver of $11,210, increased payments on debt obligations $675, and payments on short term notes payable $566.

Sources of Liquidity

We utilize cash on hand and cash generated from operations, funds provided by factoring existing accounts receivable with Prestige Capital Corporation (“Prestige Capital”)and until March 22, 2018, funds available to us under our revolving loan facility with MidCap Financial Trust, to cover normal and seasonal fluctuations in cash flows and to support our various growth initiatives. Our cash and cash equivalents are carried at cost and consist primarily of demand deposits with commercial banks.

We acknowledge that we continue to face a challenging competitive environment as we continue to focus on our overall profitability, including managing expenses. We reported an operating loss of $6,097 and a net loss of $5,608 in 2018. In addition, the Company has total current assets of $8,518 and total current liabilities $9,265 resulting in a net negative working capital of $747.

The Company has available cash balances, cash generated from operating activities and funds available under the accounts receivable factoring program with Prestige Capital, to provide sufficient liquidity to fund the entity's operations, the entity's continued investments in center openings and remodeling activities, for at least the next twelve months. The agreement with Prestige Capital allows the company to get advance funding of 80% of an unpaid customer's invoice amount within 2 days and the balance less a fee upon ultimate collection in cash of the invoice. The Company will be able to utilize the available funds under the accounts receivable factoring agreement to provide liquidity, to pursue acquisitions, and other strategic transactions to expand and grow the business to enhance shareholder value. Management also regularly monitors capital market conditions to ensure no other conditions or events exist that may materially affect the Company's financial conditions and liquidity and the Company may raise additional funds through borrowings or public or private sales of debt or equity securities, if necessary.

In Item 1A. RISK FACTORS, management has addressed and evaluated the risk factors that could materially and adversely affect the entity's business, financial condition and results of operations, cash flows and liquidity. The Company has determined the risk factors do not materially affect the Company's ability to continue as a going concern within one year after the date that the financial statements are issued.

Based on the above, management has concluded that the Company is not aware and did not identify any other conditions or events that would cause the Company to not be able to continue business as a going concern for the next twelve months.

Prestige Capital

On March 26, 2018, Appliance Recycling Centers of America, Inc. ("ARCA") entered into a purchase and sale agreement with Prestige Capital whereby from time to time ARCA 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 initial term of the purchase and sale agreement was for a six-month period beginning March 26, 2018. The purchase and sale agreement with Prestige Capital continues to renew for automatic six-month extensions until terminated in writing by either party.

MidCap Revolver

On December 30, 2017, we had available borrowing capacity under the Credit Agreement of $1,031. At December 29, 2018 and December 30, 2017, we had an outstanding balance on the Credit Agreement of $0 and $5,605, respectively. We paid off the MidCap Revolver on March 22, 2018.

Update on Possible Sale of Recycling Business

As part of the Company's overall strategy to diversify and focus on technology and provide shareholder value, the Company previously announced that it engaged an investment banker to pursue strategic alternatives with respect to the possible sale of the Company's Recycling business. The investment banker has received, and management continues to evaluate interest from outside potential buyers with respect to such sale. The Company also previously announced that it signed a non-binding exclusive letter of intent with one potential buyer which conducted a due diligence process and decided not to proceed with a firm and binding offer. During the most recent fiscal quarter, we have seen increased interest expressed from other outside potential buyers with respect to the possible purchase of the Company's Recycling business. Letters of interest or intent have been provided to the Company with potential purchase prices ranging from $30 to $35 million. The Company is engaged in discussions with these outside potential buyers. There are no guarantees that any of these discussions will result in a sale of the Recycling business. The Company expects to continue to operate the Recycling business until such time as a sale of the Recycling business is consummated, if at all.

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.

Off Balance Sheet Arrangements and Contractual Obligations

Other than operating leases, we do not have any off-balance sheet financing. A summary of our operating lease obligations by fiscal year is included in "Note 18. Commitments and Contingencies" of the Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data."

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk and Impact of Inflation

Interest Rate Risk. We do not believe there is any significant risk related to interest rate fluctuations on our short and long-term fixed rate debt.

Foreign Currency Exchange Rate Risk. We currently generate revenues in Canada. The reporting currency for our consolidated financial statements is U.S. dollars. It is not possible to determine the exact impact of foreign currency exchange rate changes; however, the effect on reported revenue and net earnings can be estimated. We estimate that the overall strength of the U.S. dollar against the Canadian dollar had an immaterial impact on the revenues and net income for the fiscal year ended December 29, 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Appliance Recycling Centers of America, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Appliance Recycling Centers of America, Inc. and its subsidiaries (collectively, the “Company”) as of December 29, 2018 and December 30, 2017, the related consolidated statements of operations and comprehensive income (loss), changes in stockholders’ equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 29, 2018 and December 30, 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ SingerLewak LLP

We have served as the Company’s auditor since 2017.

Los Angeles, California

March 29, 2019

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

CONSOLIDATED BALANCE SHEETS

(In Thousands)

	December 29, 2018	December 30, 2017
Assets		
Cash and cash equivalents	$ 1,195	$ 3,313
Trade and other receivables, net	5,804	10,036
Due From Appliancesmart Holdings, LLC a subsidiary of Live Ventures Incorporated	–	6,500
Income taxes receivable	101	–
Inventories	801	762
Prepaid expenses and other current assets	617	506
Total current assets	8,518	21,117
Note receivable - ApplianceSmart Holdings, LLC a subsidiary of Live Ventures Incorporated	3,837	–
Property and equipment, net	617	538
Intangible assets, net	20,988	24,718
Deposits and other assets	661	518
Total assets	$ 34,621	$ 46,891
Liabilities and Stockholders' Equity		
Liabilities:		
Accounts payable	$ 3,169	$ 3,321
Accrued liabilities - other	1,118	1,998
Accrued liability - California Sales Taxes	4,722	4,563
Notes payable - short term	–	300
Accrued income taxes	–	3
Short term debt	256	5,577
Total current liabilities	9,265	15,762
Deferred income taxes, net	3,549	4,577
Other noncurrent liabilities	196	314
Total liabilities	13,010	20,653
Stockholders' equity:		
Preferred stock, series A - par value $.001 per share 2,000 authorized, 288 shares issued and outstanding at December 29, 2018 and December 30, 2017	–	–
Common stock, par value $.001 per share, 50,000 shares authorized, 8,472 and 6,875 shares issued and outstanding at December 29, 2018 and at December 30, 2017, respectively	8	7
Additional paid in capital	38,654	37,634

Accumulated deficit	(16,518)	(10,910)
Accumulated other comprehensive loss	(533)	(493)
Total stockholders' equity	21,611	26,238
Total liabilities and stockholders' equity	$ 34,621	$ 46,891

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

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(In Thousands)

	For the Fifty Two Weeks Ended	
	December 29, 2018	**December 30, 2017**
Revenues	$36,794	$ 41,544
Cost of revenues	25,741	28,399
Gross profit	11,053	13,145
Operating expenses:		
Selling, general and administrative expenses	17,150	13,376
Operating loss	(6,097)	(231)
Other income (expense):		
Gain on the sale of property	–	5,163
Gain on the sale of AAP equity interest	–	81
Interest expense, net	(668)	(894)
Other income (expense)	430	(52)
Total other income (expense), net	(238)	4,298
Income (loss) from continuing operations before provision for (benefit from) income taxes	(6,335)	4,067
Total benefit from income taxes	(727)	(1,330)
Net income (loss)	(5,608)	5,397
Net loss attributed to noncontrolling interest	–	496
Net income (loss) from continuing operations attributed to company	(5,608)	5,893
Net loss from discontinued operations, net of tax	–	(5,775)
Net income (loss) attributed to company	$(5,608)	$ 118
Earnings (loss) per share:		
Basic earnings (loss) per share from continued operations	$(0.75)	$ 0.88
Basic earnings (loss) per share - discontinued operations, net of tax	–	(0.86)
Basic earnings (loss) per share	$(0.75)	$ 0.02
Diluted earnings (loss) per share from continued operations	$(0.75)	$ 0.87
Diluted earnings (loss) per share - discontinued operations, net of tax	–	(0.85)
Diluted earnings (loss) per share	$(0.75)	$ 0.02
Weighted average common shares outstanding:		
Basic	7,475	6,708
Diluted	7,475	6,758

Net income (loss)	$(5,608)	$ 5,397
Net loss from discontinued operations, net of tax	–	(5,775)
Other comprehensive income (loss), net of tax		
Effect of foreign currency translation adjustments	(40)	81
Total other comprehensive income (loss), net of tax	(40)	81
Comprehensive income (loss)	(5,648)	(297)
Comprehensive income (loss) attributable to noncontrolling interest	–	496
Comprehensive income (loss) attributable to controlling interest	$(5,648)	$ 199

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

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In Thousands)

	Common Stock		**Series A Preferred**		**Additional Paid in**	**Accumulated Other Comprehensive**	**Accumulated**		**Noncontrolling**	**Total Stockholders'**
	Shares	**Amount**	**Shares**	**Amount**	Capital	**Deficit**	**Deficit**	**Total**	**Interest**	**Equity**
Balance, December 31, 2016	6,655	$ 7	–	$ –	$ 22,398	$ (574)	$ (11,028)	$ 10,803	$ 406	$ 11,209
Issuance of Series A Preferred Stock	–	–	288	–	12,323	–	–	12,323	–	12,323
Deconsolidation of noncontrolling interest	–	–	–	–	–	–	–	–	90	90
Beneficial Conversation of Series A Preferred Stock Issued	–	–	–	–	2,641	–	–	2,641	–	2,641
Share based compensation	220	–	–	–	272	–	–	272	–	272
Other comprehensive income, net of tax	–	–	–	–	–	81	–	81	–	81
Net loss	–	–	–	–	–		118	118	(496)	(378)
Balance, December 30, 2017	6,875	$ 7	288	$ –	$ 37,634	$ (493)	$ (10,910)	$ 26,238	$ –	$ 26,238
Share based compensation	1,597	1	–	–	919	–	–	920	–	920
EEI conversion of note payable into common	–	–	–	–	101	–	–	101	–	101
Other comprehensive income, net of tax	–	–	–	–	–	(40)	–	(40)	–	(40)
Net loss							(5,608)	(5,608)		(5,608)
Balance, December 29, 2018	8,472	$ 8	288	$ –	$ 38,654	$ (533)	$ (16,518)	$ 21,611	$ –	$ 21,611

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

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APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	For the Fifty Two Weeks Ended December 29, 2018	December 30, 2017
OPERATING ACTIVITIES:		
Net income (loss) attributable to Company	$(5,608)	$ 118
Less: loss attributable to noncontrolling interest	–	496
Comprehensive net income (loss)	(5,608)	(378)
Loss from discontinued operations	–	5,775
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,998	2,147
Amortization of debt issuance costs	589	253
Stock based compensation expense	656	272
Change in provision for doubtful accounts	(32)	7
Gain on sale of property	–	(5,163)
Gain on sale of variable interest entity equity	–	(81)
Gain on sale of property and equipment	(5)	(134)
Change in deferred rent	(14)	(78)
Change in deferred compensation	120	28
Change in deferred income taxes	(1,028)	(1,633)
Other	(146)	(833)
Changes in assets and liabilities:		
Accounts receivable	3,947	(1,159)
Prepaid expenses and other current assets	153	513
Income taxes receivable	(101)	–
Inventories	(41)	264
Accounts payable and accrued expenses	1,660	(2,081)
Accrued income taxes	(3)	19
Net cash provided by (used in) operating activities - continuing operations	4,145	(2,262)
Net cash provided by operating activities - discontinued operations	–	3,488
Net cash provided by operating activities	4,145	1,226
INVESTING ACTIVITIES:		
Purchases of property and equipment	(401)	(22)
Proceeds from the sale of property and equipment	59	6,785
Purchase of intangible asset, GeoTraq Inc., net of debt and Series A preferred stock issued	–	(199)
Proceeds from sale of equity in AAP less ash retained by AAP as a result of deconsolidations	–	765
Net payments received from Live Ventures Incorporated note receivable	170	–

Net cash provided by (used) in investing activities - continuing operations	(172)	7,329
Net cash provided by (used) in investing activities - discontinued operations	–	–
Net cash provided by (used) in investing activities	(172)	7,329
FINANCING ACTIVITIES:		
Net payments under line of credit - PNC Bank	–	(10,333)
Net borrowing (payments) under the line of credit - MidCap Financial Trust	(5,605)	5,605
Proceeds from issuance of short term debt obligations	562	1,237
Payments on short term notes payable	(1,066)	(500)
Payment of debt issuance costs	–	(546)
Payments on debt obligations	–	(1,731)
Net cash used in financing activities - continuing operations	(6,109)	(6,268)
Net cash used in financing activities - discontinued operations	–	–
Net cash used in financing activities	(6,109)	(6,268)
Effect of changes in exchange rate on cash and cash equivalents	18	58
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,118)	2,345
CASH AND CASH EQUIVALENTS, beginning of period	3,313	968
CASH AND CASH EQUIVALENTS, end of period	$1,195	$3,313

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

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

Supplemental cash flow disclosures:		
Interest paid	$526	$779
Income taxes refunded (paid)	$(199)	$48
Notes payable issued to sellers of GeoTraq, Inc.	$–	$800
Net liabilities assumed by ApplianceSmart	$1,901	$–
Series A convertible preferred stock issued to sellers of GeoTraq, Inc.	$–	$12,322
Beneficial conversion feature attributable to Series A convertible preferred stock issued	$–	$2,641
EEI note balance conversion into common stock	$101	$–
Due from buyer of ApplianceSmart - Live Ventures Incorporated	$–	$6,500

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

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands Except Per Share Amounts)

Note 1: Background and Basis of Presentation

The accompanying consolidated financial statements include the accounts of Appliance Recycling Centers of America, Inc., a Nevada corporation, and its subsidiaries (collectively the "Company" or "ARCA"). The Company has two operating segments for fiscal year 2018 – Recycling and Technology, and the Company had three operating segments for fiscal year 2017 – Retail, Recycling and Technology.

ARCA is 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, we are engaged in the development, design and, ultimately, we expect the sale of cellular transceiver modules, also known as Mobile IoT modules.

ARCA's Recycling segment is comprised of three entities, ARCA Recycling Inc., ARCA Canada Inc., and Customer Connexx, LLC.

ARCA Recycling, Inc., a California corporation, is a wholly owned subsidiary that was formed in November 1991 to provide turnkey recycling services for electric utility efficiency programs.

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 limited liability company, is a wholly owned subsidiary formed in October 2016 to provide call center services for electric utility programs.

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. AAP was a joint venture that was formed in October 2009 between ARCA and 4301 Operations, LLC ("4301"). Both ARCA and 4301 had a 50% interest in AAP. AAP established a regional processing center in Philadelphia, Pennsylvania, at which the recyclable appliances were processed. AAP commenced operations in February 2010. The financial position and results of operations of AAP had been consolidated in our financial statements since AAP was formed in October 2009 through August 15, 2017, based on our conclusion that AAP was a variable interest entity due to our contribution in excess of 50% of the total equity, subordinated debt and other forms of financial support. We had a controlling financial interest in AAP during the period of October 2009 through August 15, 2017, whereby we provided substantially all of the financial support to fund the operations of AAP.

On December 30, 2017, we sold our 100% interest in ApplianceSmart, Inc. ApplianceSmart, Inc., a Minnesota corporation, was a wholly owned subsidiary that was formed through a corporate reorganization in July 2011 to hold our retail business of selling new major household appliances through a chain of Company-owned retail stores under the name ApplianceSmart®.

We report on a 52- or 53-week fiscal year. Our 2018 fiscal year ("2018") ended on December 29, 2018, and our fiscal year ("2017") ended on December 30, 2017, each fiscal year 52 weeks in length.

Note 2: Summary of Significant Accounting Policies

Principles of 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 its 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 was 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 engaged in the development, design, and, ultimately, we expect, sale of cellular transceiver modules, also known as Mobile IoT modules. GeoTraq has created a dedicated Mobile IoT 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 Mobile IoT 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”). As a result of this transaction, GeoTraq became a wholly-owned subsidiary and, therefore, the results of GeoTraq are included in our consolidated results as of August 18, 2017.

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.

Reincorporation in the State of Nevada

On March 12, 2018, we changed our 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”).

The Reincorporation was previously submitted to a vote of, and approved by, the Company's stockholders at its 2017 Annual Meeting of Stockholders held on November 21, 2017 (the "Annual Meeting"). Upon the effectiveness of the Reincorporation:

- the affairs of the Company ceased to be governed by the Minnesota Business Corporation Act, the Company's existing Articles of Incorporation and the Company's existing Bylaws, and the affairs of the Company became subject to the Nevada Revised Statutes, the Nevada Articles of Incorporation and the Nevada Bylaws;

- each outstanding share of the Minnesota corporation's common stock and Series A Preferred Stock converted into an outstanding share of the Nevada corporation's common stock and Series A Preferred Stock, respectively;

- each outstanding option to acquire shares of the Minnesota corporation's common stock converted into an equivalent option to acquire, upon the same terms and conditions (including the vesting schedule and exercise price per share applicable to each such option), the same number of shares of the Nevada corporation's common stock;

- each employee benefit, stock option or other similar plan of the Minnesota corporation continued to be an employee benefit, stock option or other similar plan of the Nevada corporation; and

- each director and officer of the Minnesota corporation continued to hold his or her respective position with the Nevada corporation.

Certain rights of the Company’s stockholders were also changed as a result of the Reincorporation, as described in the Company’s Definitive Proxy Statement on Schedule 14A for the Annual Meeting filed with the Securities and Exchange Commission on October 25, 2017, under the section entitled “Proposal 3 – Approval of the Reincorporation of the Company from the State of Minnesota to the State of Nevada – Significant Differences Related to State Law”, which description is incorporated in its entirety herein by reference.

The Reincorporation did not affect any of the Company’s material contracts with any third parties, and the Company’s rights and obligations under such material contractual arrangements continue to be rights and obligations of the Company after the Reincorporation. The Reincorporation did not result in any change in headquarters, business, jobs, management, location of any of the offices or facilities, number of employees, assets, liabilities or net worth (other than as a result of the costs incident to the Reincorporation) of the Company.

The Reincorporation changed the par value of the Company’s common shares from no par value to a par value of $.001 per common share.

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 other intangibles and long-lived assets for impairment, 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, notes receivables, 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 December 29, 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 $29 and $61 to be adequate to cover any exposure to loss as of December 29, 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 December 29, 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 $270 and $750 for the fiscal years ended December 29, 2018 and December 30, 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 maintaining our facilities and projected discounted cash flows from operations. 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.

Intangible Assets

The Company accounts for intangible assets in accordance with ASC 350, *Intangibles—Goodwill and Other*. Under ASC 350, intangible assets subject to amortization, shall be reviewed for impairment in accordance with the Impairment or Disposal of Long-Lived Assets in ASC 360, *Property, Plant, and Equipment*.

Under ASC 360, long-lived assets are tested for recoverability whenever events or changes in circumstances (‘triggering event’) indicate that the carrying amount may not be recoverable. In making this determination, triggering events that were considered included:

- A significant decrease in the market price of a long-lived asset (asset group);
- A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition;
- A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator;
- An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group);
- A current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group); and,
- A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50 percent.

If a triggering event has occurred, for purposes of recognition and measurement of an impairment loss, a long-lived asset or assets shall be grouped with other assets and liabilities at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. After the asset group determination is completed, a two-step testing is performed. If after identifying a triggering event it is determined that the asset group's carrying value may not be recoverable, a recoverability test must then be performed. The recoverability test is performed by forecasting the expected cash flows to be derived from the asset group for the remaining useful life of the asset group's primary asset compared to their carrying value. The recoverability test relies upon the undiscounted cash flows (excluding interest and taxes) which are derived from the company's specific use of those assets (not how a market participant would use those assets); and, are based upon the existing service potential of the current assets (excluding any improvements that would materially enhance the assets). If the expected undiscounted cash flows exceed the carrying value, the assets are considered recoverable. If the recoverability test is failed a second fair market value test is required to calculate the amount of the impairment (if any). This second test calculates the fair value of the asset or asset group, with the impairment being the amount by which the carrying value exceeds the asset or asset group's fair value. Under this test, the financial projections have been created using market participant assumptions and fair value concepts.

We last performed intangible asset impairment testing as of December 29, 2018. Based on the testing, there was no impairment of intangibles as of December 29,2018.

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, patent USPTO reference No. 10,182,402, and historical know-how, designs and related manufacturing procedures. 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, technology intangibles – 7 years, customer relationships – 7 to 15 years. Intangible amortization expense is $3,730 and $1,397 for the years ended December 29, 2018, and December 30, 2017, respectively.

Revenue Recognition

We provide replacement appliances and provide appliance pickup and recycling services for consumers ("end users") of public utilities, our customers. We receive as part of our de-manufacturing and recycling process revenue from scrap dealers for refrigerant, steel, plastic, glass, cooper and other residual items.

We adopted Accounting Standards Update, or ASU, No. 2014-09, Revenue from Contracts with Customers (Topic 606) and related ASU No. 2016-08, ASU No. 2016-10, ASU No. 2016-12 and ASU No. 2016-20, which provide supplementary guidance, and clarifications, effective December 30, 2017. We adopted ASC 606 using the modified retrospective method. The results for the reporting period beginning after December 30, 2017, are presented in accordance with the new standard, although comparative information for the prior year has not been restated and continues to be reported under the accounting standards and policies in effect for those periods.

Adoption of the new standard did not have a significant impact on the current period revenues or on the prior year Consolidated Financial Statements. No transition adjustment was required to our retained earnings as of December 30, 2017. Under the new standard revenue is recognized as follows:

We determine revenue recognition through the following steps:

a. Identification of the contract, or contracts, with a customer,
b. Identification of the performance obligations in the contract,
c. Determination of the transaction price,
d. Allocation of the transaction price to the performance obligations in the contract, and
e. Recognition of revenue when, or as, we satisfy a performance obligation.

As part of its assessment of each contract, the Company evaluates certain factors including the customer's ability to pay, or credit risk. For each contract, the Company considers the promise to transfer products or services, each of which is distinct, to be the identified performance obligations. In determining the transaction price, the price stated on the contract is typically fixed and represents the net consideration to which the Company expects to be entitled per order, and therefore there is no variable consideration. As the Company's standard payment terms are less than 90 days, the Company has elected, as a practical expedient, to not assess whether a contract has a significant financing component. The Company allocates the transaction price to each distinct product or service based on its relative standalone selling price. The product or service price as specified on the contract is considered the standalone selling price as it is an observable source that depicts the price as if sold to a similar customer in similar circumstances.

Replacement Product Revenue

We generate revenue by providing replacement appliances. We recognize revenue at the point in time when control over the replacement product is transferred to the end user, when our performance obligations are satisfied, which typically occur upon delivery from our center facility and installation at the end user's home.

Recycling Services Revenue

We generate revenue by providing pickup and recycling services. We recognize revenue at the point in time when we have picked up a to be recycled appliance and transfer of ownership has occurred, and therefore our performance obligations are satisfied, which typically occur upon pickup from our end user's home.

Byproduct Revenue

We generate other recycling byproduct revenue (the sale of copper, steel, plastic and other recoverable non-refrigerant byproducts) as part of our de-manufacturing process. We recognize byproduct revenue upon delivery and transfer of control of byproduct to a third-party recycling customer, 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. Revenue recognized is a function of byproduct weight, type and in some cases volume of the byproduct delivered multiplied by the market rate as quoted.

Technology Revenue

We currently are not generating any Technology revenue.

Assets Recognized from Costs to Obtain a Contract with a Customer

We recognize an asset for the incremental costs of obtaining a contract with a customer if it expects the benefit of those costs to be longer than one year. We have concluded that no material costs have been incurred to obtain and fulfill our FASB Accounting Standards Codification, or ASC 606 contracts, meet the capitalization criteria, and as such, there are no material costs deferred and recognized as assets on the consolidated balance sheet at December 29, 2018.

Practical Expedients and Exemptions:

a. Taxes collected from customers and remitted to government authorities and that are related to sales of our products are excluded from revenues.
b. Sales commissions are expensed when incurred because the amortization period would have been one year or less. These costs are recorded in Selling, General and Administrative expense.
c. We do not disclose the value of unsatisfied performance obligations for (i) contracts with original expected lengths of one year or less or (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for the services performed.

Revenue recognized for Company contracts - $32,459 and $36,351 for the 52 weeks ended December 29, 2018 and December 30, 2017, respectively.

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 $1,101 and $1,667 for the years ended December 29, 2018 and December 30, 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.

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 rates of exchange at year end. 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 25).

Concentration of Credit Risk

The Company maintains cash balances at several banks in several states including, Minnesota, California and Nevada. Accounts are insured by the Federal Deposit Insurance Corporation up to $250,000 per institution as of December 29, 2018. At times, balances may exceed federally insured limits.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* ASU 2014-09, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). Early adoption is not permitted. In August 2015, the FASB issued ASU No. 2015-04, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date.* The amendment in this ASU defers the effective date of ASU No. 2014-09 for all entities for one year. Public business entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 31, 2016, including interim reporting periods within that reporting period.

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-08, *Revenue from Contracts with Customers*. The standard addresses the implementation guidance on principal versus agent considerations in the new revenue recognition standard. The ASU clarifies how an entity should identify the unit of accounting (i.e. the specified good or service) for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements.

Subsequently, the FASB has issued the following standards related to ASU 2014-09 and ASU No. 2016-08: ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* (“ASU 2016-10”); ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* (“ASU 2016-12”); ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers* (“ASU 2016-20”); and, ASU 2017-05—*Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* (“ASU 2017-05). The Company must adopt ASU 2016-10, ASU 2016-12, ASU 2016-20 and ASU 2017-05 with ASU 2014-09 (collectively, the “new revenue standards”). The Company has evaluated the provisions of the new revenue standards. We transitioned to the new revenue standards using the modified retrospective method effective December 30, 2017 and did not have a significant impact on our consolidated results of operations, financial condition and cash flows.

In September 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The standard requires an entity's management to determine whether substantial doubt exists regarding the entity's ability to continue as a going concern. The amendments denote how and when companies are obligated to disclose going concern uncertainties, which are required to be evaluated every interim and annual period. If management determines that substantial doubt exists, particular disclosures are required. The extent of these disclosures is dependent upon management's evaluation of mitigation of the going concern uncertainty. ASU 2014-15 applies prospectively to annual periods ending after December 15, 2016 and to interim and annual periods thereafter. The Company has adopted this guidance during its 2017 fiscal year and it did not have a significant impact on the disclosures to the consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805). Topic 805 requires that an acquirer retrospectively adjust provisional amounts recognized in a business combination, during the measurement period. To simplify the accounting for adjustments made to provisional amounts, the amendments in the update require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for fiscal years beginning December 15, 2015. The Company has adopted this guidance during its 2017 fiscal year and it did not have a significant impact on its consolidated results of operations, financial condition and cash flows.

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 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. Under the current implementation guidance in Topic 805, there are three elements of a business—inputs, processes, and outputs. While an integrated set of assets and activities (collectively referred to as a "set") that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs, for example, by integrating the acquired set with their own inputs and processes. The amendments in this Update provide a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated by public business entities applying the amendments in this Update to annual periods beginning after December 15, 2017, including interim periods within those periods.

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 adopted ASU 2017-09 as of the beginning of fiscal year 2018 and it did not have a significant impact on its consolidated results of operations, financial condition and cash flows.

In July 2017, the FASB issued ASU No. 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivative and Hedging (Topic 815). The standard is intended to simplify the accounting for certain financial instruments with down round features. This ASU changes the classification analysis of particular equity-linked financial instruments (e.g. warrants, embedded conversion features) allowing the down round feature to be disregarded when determining whether the instrument is to be indexed to an entity's own stock. Because of this, the inclusion of a down round feature by itself exempts an instrument from having to be remeasured at fair value each earnings period. The standard requires that entities recognize the effect of the down round feature on EPS when it is triggered (i.e., when the exercise price is adjusted downward due to the down round feature) equivalent to the change in the fair value of the instrument instantly before and after the strike price is modified. An adjustment to diluted EPS calculation may be required. The standard does not change the accounting for liability-classified instruments that occurred due to a different feature or term other than a down round feature. Additionally, entities must disclose the presence of down round features in financial instruments they issue, when the down round feature triggers a strike price adjustment, and the amount of the adjustment necessary. ASU 2017-11 is effective for all fiscal years beginning after December 15, 2018. The Company decided to early adopt ASU 2017-11 and it did not have a significant impact on its consolidated results of operations, financial condition and cash flows.

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 years ended December 29, 2018 and December 30, 2017, our comprehensive income includes foreign currency translation gains and losses.

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 $.001 per share. Amounts for common stock and additional paid in capital for fiscal year 2017 have been reclassified to reflect this change of incorporation.

Note 5: Acquisition of GeoTraq, Inc.

On August 18, 2017, the Company acquired all of the assets and capital stock of GeoTraq by way of merger. GeoTraq is engaged in the development, design, and, ultimately, the sale of cellular transceiver modules, also known as Mobile IoT 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 USPTO reference No. 10,182,402 titled "Locator Device with Low Power Consumption" together with the assignment of intellectual property that included historical know-how, designs and related manufacturing procedures was $26,097, which included 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 (exact number) of convertible series A preferred stock with a final fair value of $14,963. See Note 19 – Series A Preferred Stock. In connection with the acquisition, an additional intangible asset 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 had been consolidated in our financial statements since AAP's inception based on our conclusion that AAP was 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 were reported in our recycling segment. On August 15, 2017, we sold our 50% interest in AAP, and therefore, as of August 15, 2017, we no longer consolidated the results of AAP in our financial statements.

The following table summarizes the assets and liabilities of AAP consolidated in our financial position as of August 1, 2017 (date of deconsolidation) and December 31, 2016:

Assets	August 15, 2017	December 31, 2016
Current assets	$367	$ 438
Property and equipment, net	6,809	7,322
Other assets	93	83
Total assets	$7,269	$ 7,843
Liabilities		
Accounts payable	$2,661	$ 1,388
Accrued expenses	619	523
Current maturities of long-term debt obligations	729	3,558
Long-term debt obligations, net of current maturities	3,431	435
Other liabilities (a)	–	1,126
Total liabilities	$7,440	$ 7,030

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

The following table summarizes the operating results of AAP consolidated in our financial results for the 52 weeks ended December 30, 2017:

	52 Weeks Ended December 30, 2017 (b)
Revenues	$ 1,433
Gross profit	24
Operating loss	(848)
Net loss	(991)

(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 $35. The Company received $800 in cash consideration for its 50% equity interest in AAP.

Note 7: Note receivable – sale of discontinued operations

On December 30, 2017, we signed an agreement to dispose of our 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, then a subsidiary of the Company. ApplianceSmart is a retail chain specializing in new and out-of-the-box appliances. 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"). The Purchase Price per the Agreement was due and payable on or before March 31, 2018. As of December 30, 2017, the Company had an amount due from the Purchaser in the amount of $6,500 recorded as a current asset.

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 a 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 and principal payable at the Maturity Date. ApplianceSmart provided the Company a guaranty of repayment of the ApplianceSmart Note. On December 26, 2018, the ApplianceSmart Note was amended and restated to grant ARCA a security interest in the assets of the Purchaser, ApplianceSmart, and ApplianceSmart Contracting Inc. in exchange for modifying the repayments terms to provide for the payment in full of all accrued interest and principal on April 1, 2021, the maturity date of the ApplianceSmart Note. On March 15, 2019, the Company entered into agreements with third parties pursuant to which it agreed to subordinate the payment of indebtedness under the ApplianceSmart Note and the Company's security interest in the assets of ApplianceSmart and other related parties in exchange for up to $1,200. 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 re-borrowings, from the Company up to the Original Principal Amount. Subsequent to December 30, 2017, ApplianceSmart assumed $1,901 in liabilities from the Company. For the 52 weeks ended December 29, 2018, the original balance owed to the Company of $6,500, increased with new borrowings of $1,819 and decreased with repayments of $2,581 and debt assumed of $1,901 represents a net amount due from the Purchaser, now in the form of a note receivable, in the sum of $3,837 as of December 29, 2018.

Discontinued operations 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 DISCONTINUED OPERATIONS (In Thousands)

	52 Weeks Ended December 30, 2017
Revenue	$ 56,296
Cost of revenue	42,252
Gross profit	14,044
Selling, general and administrative expense	15,911
Operating loss - discontinued operations	(1,867)
Other income	862
Other expense	(5)
Net loss - discontinued operations before income tax benefit	(1,010)
Income tax benefit	270
Net loss - discontinued operations, net of tax	$ (740)

DISCONTINUED OPERATIONS (In Thousands)

As of December 30, 2017 (date of sale)

	At December 30, 2017
Accounts Receivable	$ 2,356
Inventories	8,836
Prepaid expenses	173
Total current assets held for sale	11,365
Buildings and improvements	2,073
Equipment	1,756
Accumulated depreciation	(3,319)
Restricted cash	1,298

Other assets	204
Total non-current assets held for sale	2,012
Total assets held for sale - discontinued operations	$ 13,377
Purchase price	6,500
Loss of sale of assets held for sale	(6,877)
Income tax benefit	1,842
Net loss on sale of assets held for sale and discontinued operations, net of tax	$ (5,035)

Note 8: Inventory

Inventories of continuing operations, consisting principally of appliances, are stated at the lower of cost, determined on a specific identification basis, or market and consist of the following as of December 29, 2018 and December 30, 2017:

	December 29, 2018	December 30, 2017
Appliances held for resale	$ 801	$ 762

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

Note 9: Prepaids and other current assets

Prepaids and other current assets as of December 29, 2018 and December 30, 2017 consist of the following:

	December 29, 2018	December 30, 2017
Prepaid insurance	$ 271	$ 443
Prepaid rent	–	5
Prepaid consulting fees	265	–
Prepaid other	81	58
	$ 617	$ 506

Note 10: Property and equipment

Property and equipment of continuing operations as of December 29, 2018 and December 30, 2017 consist of the following:

	Useful Life (Years)	December 29, 2018	December 30, 2017
Buildings and improvements	18-30	$ 67	$ 156
Equipment (including computer software)	3-15	6,049	5,908
Projects under construction		58	29
Property and equipment		6,174	6,093
Less accumulated depreciation and amortization		(5,557)	(5,555)
Property and equipment, net		$ 617	$ 538

Property and equipment are stated at cost. We compute depreciation using straight-line method over a range of estimated useful lives from 3 to 30 years. We amortize leasehold improvements on a straight-line basis over the shorter of their estimated useful lives or the underlying lease term. Repair and maintenance costs are charged to operations as incurred.

Depreciation expense for continuing operations was $268 and $750 for fiscal years 2018 and 2017, respectively. During 2018, property and equipment with a net book value of $54 was sold resulting in a gain on sale of $5.

Note 11: Intangible assets

Intangible assets of continuing operations as of December 29, 2018 and December 30, 2017 consist of the following:

	December 29, 2018	December 30, 2017
Intangible assets GeoTraq, net	$ 20,969	$ 24,699
Patent	19	19
	$ 20,988	$ 24,718

The useful life and amortization period of the GeoTraq intangible acquired is seven years. Intangible amortization expense for continuing operations was $3,730 and $1,397 for fiscal years 2018 and 2017, respectively.

Note 12: Deposits and other assets

Deposits and other assets of continuing operations as of December 29, 2018 and December 30, 2017 consist of the following:

	December 29, 2018	December 30, 2017
Deposits	$ 561	$ 411
Other	100	107
	$ 661	$ 518

Deposits are primarily refundable security deposits with landlords the Company leases property from.

Note 13: Accrued liabilities

Accrued liabilities of continuing operations as of December 29, 2018 and December 30, 2017 consist of the following:

	December 29, 2018	December 30, 2017
Compensation and benefits	567	1,061
Deferred revenue	–	300
Accrued incentive and rebate checks	316	285
Accrued rent	16	77
Accrued interest	–	115
Accrued payables	–	129
Other	219	31
	$ 1,118	$ 1,998

We operate in fourteen 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 years 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 years 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 has appealed this assessment and continues 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.

A settlement proposal was filed on February 22, 2019 and we are awaiting a settlement conference date in an attempt to resolve the matter expeditiously.

Note 14: 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 amount of 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 terminated, and the PNC Revolver was paid in full on May 10, 2017 with funds advanced from MidCap Financial Trust. A letter of credit to Whirlpool Corporation remained outstanding with PNC backed by restricted cash collateral of $750 as of December 30, 2017. This restricted cash collateral was transferred with the sale of ApplianceSmart. See Note 17, long term obligations, for additional information.

Note 15: 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 original balance of the notes payable – short term was $800. The outstanding balance of the notes payable – short term as of December 29, 2018 and December 30, 2017 is $0 and $300, respectively. Interest accrued at December 30, 2017 was included in accrued expenses. See Note 5.

Note 16: Income taxes

For fiscal year 2018, we recorded an income tax benefit of $727. For fiscal year 2017, we recorded an income tax benefit of $3,441. As of December 29, 2017, we maintained a valuation allowance of $407 against our net operating loss carryforwards, foreign tax credits and all deferred tax assets in Canada, principally net operating losses.

The benefit of income taxes for fiscal years 2018 and 2017 consisted of the following:

	For the fiscal years ended December 29, 2018	December 30, 2017
Current tax expense (benefit):		
Federal	$8	$ –
State	511	34
Foreign	–	–
Current tax expense (benefit)	$519	$ 34
Deferred tax expense - domestic	(1,246)	(3,475)
Deferred tax expense - foreign	–	–
Benefit of income taxes	$(727)	$ (3,441)

A reconciliation of our benefit of income taxes with the federal statutory tax rate for fiscal years 2018 and 2017 is shown below:

	For the fiscal years ended December 29, 2018	December 30, 2017
Income tax expense at statutory rate	$(1,155)	$ (995)
Portion attributable to noncontrolling interest at statutory rate	–	–
State tax expense, net of federal tax effect	771	(141)
Permanent differences	28	55
Change in tax rates	–	(3,107)
Change in valuation allowance	(694)	590
Other	323	157
	$(727)	$ (3,441)

Loss before benefit of income taxes and noncontrolling interest was derived from the following sources for fiscal years 2018 and 2017 as shown below:

	For the fiscal years ended	
	December 29, 2018	December 30, 2017
United States	$ (5,500)	$ (2,835)
Canada	(835)	(90)
	$ (6,335)	$ (2,925)

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The components of net deferred tax assets (liabilities) as of December 29, 2018 and December 30, 2017, are as follows:

	December 29, 2018	December 30, 2017
Current deferred tax assets (liabilities):		
Allowance for bad debts	$ 7	$ 16
Accrued expenses	998	1,107
Inventory	–	80
Accrued compensation	39	23
Reserves	–	4
Prepaid expenses	(147)	(125)
	897	1,105
Less: valuation allowance	–	–
Total current deferred tax assets (liabilities)	897	1,105
Long term deferred tax assets (liabilities):		
Net operating loss	292	1,217
Capital loss	–	–
Tax credits	256	473
Share-based compensation	271	302
Intangibles	(5,068)	(6,615)
Property and equipment	(103)	(72)
Deferred rent	12	16
Unrealized losses (gains)	129	132
Section 481(a) adjustment	–	(44)
Section 163(j) interest	172	11
	(4,039)	(4,580)
Less: valuation allowance	(407)	(1,102)
Total long term deferred tax assets (liabilities)	(4,446)	(5,682)
Net deferred tax assets (liabilities)	$ (3,549)	$ (4,577)

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

	December 29, 2018	December 30, 2017
Non-current assets	$ –	$ –
Non-current liabilities	3,549	4,577
	$ 3,549	$ 4,577

As of December 29, 2018, the Company has net operating loss carryforwards of approximately $1.2 million for federal income tax purposes, which will be available to offset future taxable income. Due to recent tax legislation, these net operating losses are eligible for indefinite carryforward, limited by certain taxable income limitations. The Company has certain foreign tax credits available but has recorded a full valuation allowance against these tax credits until the Company has sufficient foreign source income to utilize these credits. The Company continues to have a full valuation allowance against its Canadian operations. The Company released approximately $0.7 of valuation allowance related to state net operating losses due to sufficient income in those jurisdictions or otherwise expired.

The Company annually conducts an analysis of its uncertain tax positions and has concluded that it has no uncertain tax positions as of December 29, 2018. The Company's policy is to record uncertain tax positions as a component of income tax expense. The Company was selected for examination by the IRS for its 2016 tax year. As of March 29, 2019, the IRS has not proposed any adjustments, and the Company is not aware of any adjustments.

Due to recent tax legislation that occurred on December 22, 2017 the federal corporate income tax rate was reduced to a flat 21%, which provides a significant income tax benefit to our Company in future reporting periods. The Company recognized a tax benefit of approximately $3.1 million related to adjusting our deferred tax balances to reflect the new corporate tax rate.

Note 17: Long term obligations

Long term debt, capital lease and other financing obligations as of December 29, 2018 and December 30, 2017, consist of the following:

	December 29, 2018	December 30, 2017
MidCap financial trust asset based revolving loan	$ –	$ 5,605
AFCO Finance	193	367
GE 8% loan agreement	482	482
EEI note	–	103
Capital leases and other financing obligations	–	30
Debt issuance costs MidCap, net	–	(442)
Debt issuance costs EEI, net	(419)	(568)
Total short term debt	$ 256	$ 5,577

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 be 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 that we could incur, the amount we could spend on fixed assets, and the amount of investments that 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. The weighted average interest rate for the period of May 10, 2017 through December 30, 2017 was 8.29%. We borrowed $62,845 and repaid $57,240 on the Credit Agreement during the period of May 10, 2017 through December 30, 2017, leaving an outstanding balance on the Credit Agreement of $5,605 at December 30, 2017. The debt issuance costs for the MidCap Revolver were $546. The un-amortized debt issuance costs for the MidCap Revolver as of December 30, 2017 were $442.

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 had failed to comply with certain terms of the Loan Agreement, and that such failure constituted one or more Events of Default under the Loan Agreement. Specifically, the Notice of Default stated that as a result of the acquisition and related issuance of promissory notes, the Borrowers had 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 would 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 was 5% in excess of the rates otherwise payable under the Loan Agreement), effective as of August 18, 2017 and continuing until the Agent notified 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 Agreement, 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 classified 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.

AFCO Finance

On June 16, 2017, we entered into a financing agreement with AFCO Credit Corporation ("AFCO") to fund the annual premiums due June 1, 2017 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' insurance. The total amount of the premiums financed was $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 were made beginning July 1, 2017 and ending April 1, 2018. The June 16, 2017 AFCO agreement had a zero balance as of December 29, 2018.

On July 2, 2018, we entered into another financing agreement with AFCO to fund the annual premiums on insurance policies due June 1, 2018 purchased through Marsh Insurance. These policies related to workers' compensation and various liability policies including, but not limited to, General, Auto, Umbrella, Property, and Directors' and Officers' insurance. The total amount of the premiums financed was $556 with an interest rate of 4.519%. An initial down payment of $56 was due before July 1, 2018 with additional monthly payments of: $57 will be made beginning July 1, 2018 and ending September 1, 2018; and $65 will be made beginning October 1, 2018 and ending March 1, 2019.

The outstanding principal due AFCO at December 29, 2018 and December 30, 2017 was $193 and $367, respectively.

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 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.

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 may 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 8% 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 December 29, 2018 and December 30, 2017 was $0 and $103, respectively. The debt issuance costs of the EEI note are $740 and are being amortized over 60 months. The un-amortized debt issuance costs of the EEI note as of December 29, 2018 and December 30, 2017 are $419 and $568, respectively.

Note 18: Commitments and Contingencies

Litigation

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 (the “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. Following motion practice, on January 8, 2018 the District Court entered judgment 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 4, 2019, the Minnesota Court of Appeals (the “Court of Appeals”) ruled and (i) reversed the District Court’s judgment in favor of Skybridge on the call center location claim and remanded the issue back to the District Court for further proceedings, (ii) reversed the District Court’s judgment in favor of Skybridge on the net payment issue and remanded the issue to the District Court for further proceedings, and (iii) affirmed the District Court’s judgment in Skybridge’s favor against ARCA’s claim that Skybridge breached the contract when it failed to meet the service level agreements. As a result of the decision by the Court of Appeals, the District Court’s award of interest and attorneys’ fees of $133,867.50, etc. was reversed. At December 29, 2018, ARCA had recorded a liability in the amount of $497,792 and a refundable escrow deposit of approximately $400,000 related to Skybridge litigation. The District Court is expected to release the escrow funds after a period of 30 days from the Court of Appeals decision.

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”), Recleim 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 Recleim is obligated to pay have been paid into escrow pending the outcome of the arbitration. The arbitration is currently scheduled for August 2019 however the parties have agreed to mediation in advance of the arbitration.

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 other ordinary course disputes that we do not believe to be material.

Operating Leases

The Company leases its office space and recycling centers under non-cancelable operating leases expiring through fiscal year 2022. Rent expense under these leases for continuing operations was $2,252 and $1,450 for the fiscal years ended December 29, 2018 and December 30, 2017, respectively. Rent expense may include certain common area charges such as taxes, maintenance, utilities and insurance.

Future minimum annual rental commitments under noncancelable operating lease agreements as of December 29, 2018 are as follows:

Fiscal year 2019	$789
Fiscal year 2020	459
Fiscal year 2021	129
Fiscal year 2022	98
Fiscal year 2023	58
	$1,533

Note 19: Series A Preferred Stock

On August 18, 2017, the Company acquired GeoTraq by way of merger. GeoTraq is engaged in the development, manufacture, and, ultimately, we expect, sale of cellular transceiver modules, also known as Mobile IoT 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, issued to them an aggregate of 288 shares of the Company’s Series A Convertible Preferred Stock (the “Series A Preferred Stock”), and entered into one-year unsecured promissory notes in the aggregate principal amount of $800.

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. In connection with the Reincorporation, we filed Articles of Incorporation with the Secretary of State of the State of Nevada on March 12, 2018, and a Certificate of Correction with the Secretary of State of the State of Nevada on August 7, 2018 (collectively, the “Nevada Articles of Incorporation”). The following summary of the Nevada Articles of Incorporation does not purport to be complete and is qualified in its entirety by reference to the provisions of applicable law and to the Nevada Articles of Incorporation, which are filed as Exhibit 3.1 to the Company’s Current Report on Form 8-K filed with the SEC on March 13, 2018, and as Exhibit 3.1. to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018.

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 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 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. On October 23, 2018, at the Company's 2018 Annual Meeting of Shareholders, the Company's shareholders approved of the future conversion of the shares of Series A Preferred Stock into shares of the Company's common stock.

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.

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 20: Share-based compensation

We recognized share-based compensation expense of $656 and $272 for the 52 weeks ended December 29, 2018, and December 30, 2017, respectively. There is estimated future share-based compensation expense as of December 29, 2018 of $20 per month for a total of $265.

Note 21: Shareholders' Equity

Common Stock: Our Articles of Incorporation authorize 50 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 fiscal year 2018, 1,390 shares of common stock were granted and issued in lieu of professional services at a fair value of $920, and EEI converted its outstanding note into 207 shares of common stock at a fair value of $101. As of December 29, 2018, and December 30, 2017, there were 8,472 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 December 29, 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 December 29, 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 December 29, 2018, no 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.

No options were issued in fiscal year 2018 and 2017.

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 December 31, 2016	710	$ 2.62	$ –	4.66
Granted	–			
Exercised	–			
Cancelled/expired	(83)	3.04		
Forfeited	–			
Balance at December 30, 2017	627	$ 2.56	$ –	4.22
Granted	–			
Exercised	–			
Cancelled/expired	(122)	3.98		
Forfeited	–			
Balance at December 29, 2018	505	$ 2.21	$ –	3.84

The weighted average fair value per option of options granted during fiscal year 2016 was $1.12. We recognized share-based compensation expense related to option grants of $0 and $32 for fiscal years 2018 and 2017, respectively. The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on our closing stock price of $0.51 on December 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 December 29, 2018, December 30, 2017 and December 31, 2016, there were no in-the-money options exercisable.

Based on the value of options outstanding as of December 29, 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.

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. This warrant contains a blocker provision under which EEI does not have the right to exercise this warrant to the extent that such exercise would result in beneficial ownership by EEI, together with any of EEI's affiliates, of more than 4.99% of the number of shares of our Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon exercise of this warrant (the "Beneficial Ownership Limitation"). EEI is entitled to, among other things, upon notice to us, increase the Beneficial Ownership Limitation to 9.99% of the number of shares of the Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock upon exercise of this warrant, with such increase to take effect 61 days after such notice is delivered to us. EEI elected to increase the Beneficial Ownership Limitation to 9.99% and we elected to waive the 61-day notice period. 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 December 29, 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 2018, 288,588 shares (number specific – not rounded) of preferred stock were issued for the Geo Traq acquisition. See Note 19.

Note 22: Earnings per share

Net earnings per share is calculated using the weighted average number of shares of common stock outstanding during the applicable period. Basic weighted average common shares outstanding do not include shares of restricted stock that have not yet vested, although such shares are included as outstanding shares in the Company's Consolidated Balance Sheet. Diluted net earnings per share is computed using the weighted average number of common shares outstanding and if dilutive, potential common shares outstanding during the period. Potential common shares consist of the additional common shares issuable in respect of restricted share awards, stock options and convertible preferred stock.

The following table presents the computation of basic and diluted net earnings per share:

	For the Fifty Two Weeks Ended December 29, 2018	December 30, 2017
Basic		
Net income (loss) from continuing operations	$(5,608)	$ 5,893
Net income from discontinued operations, net of tax	–	(5,775)
Net income (loss)	$(5,608)	$ 118
Basic earnings (loss) per share:		
Basic earnings (loss) per share from continued operations	$(0.75)	$ 0.88
Basic earnings per share - discontinued operations, net of tax	–	(0.86)
Basic earnings (loss) per share	$(0.75)	$ 0.02
Weighted average common shares outstanding	7,475	6,708

Diluted		
Diluted earnings (loss) per share:		
Diluted earnings (loss) per share from continued operations	$(0.75)	$0.87
Diluted earnings per share - discontinued operations, net of tax	–	(0.85)
Diluted earnings (loss) per share	$(0.75)	$0.02

Weighted average common shares outstanding	7,475	6,708
Add: Series A Convertible Preferred Stock	–	–
Add: Common Stock Warrants	–	50
Assumed diluted weighted average common shares outstanding	7,475	6,758

Potentially dilutive securities were excluded from the calculation of diluted net income per share for years ended December 29, 2018 and December 30, 2017. The weighted average number of dilutive securities excluded were 651 and 651, respectively for each fiscal year, because the effects were anti-dilutive based on the application of the treasury stock method. Series A preferred shares issued and outstanding are excluded from dilutive securities until the conditions for conversion have been satisfied. See Note 19.

Note 23: Major customers and suppliers

For the fiscal year ended December 29, 2018, one customer represented 10% or more of our total revenues for a combined total of 19%. For the fiscal year ended December 30, 2017, no customer represented more than 10% of our total revenues. As of December 29, 2018, three customers each represented 10% or more of our total trade receivables for a combined total of 38%. As of December 30, 2017, two customers, each represented more than 10% of our total trade receivables, for a total of 41% of our total trade receivables.

During the fiscal years ended December 29, 2018 and December 30, 2017, 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 24: 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 $40 and $90 for fiscal years 2018 and 2017, respectively.

Note 25: Segment information

We operate within targeted markets through two reportable segments for continuing operations: recycling and technology. The recycling segment includes all fees charged and costs incurred for collecting, recycling and installing appliances for utilities and other customers. The recycling segment also includes byproduct revenue, which is primarily generated through the recycling of appliances and includes all revenues from AAP up until the date of deconsolidation August 15, 2017. The nature of products, services and customers for both segments varies significantly. As such, the segments are managed separately. Our Chief Executive Officer has been identified as the Chief Operating Decision Maker (“CODM”). The CODM evaluates performance and allocates resources based on sales and income from operations of each segment. Income (loss) from operations represents revenues less cost of revenues and operating expenses, including certain allocated selling, general and administrative costs. There are no intersegment sales or transfers. Our retail segment comprised of ApplianceSmart was sold on December 29, 2018, see Note 7.

The following tables present our segment information for continuing operations for fiscal years 2018 and 2017:

	Fifty Two Weeks Ended December 29, 2018	December 30, 2017
Revenues		
Recycling	$36,794	$41,544
Technology	–	–
Total Revenues	$36,794	$41,544
Gross profit		
Recycling	$11,053	$13,145
Technology	–	–
Total Gross profit	$11,053	$13,145
Operating income (loss)		
Recycling	$(1,051)	$1,300
Technology	(5,046)	(1,531)
Total Operating income (loss)	$(6,097)	$(231)
Depreciation and amortization		
Recycling	$268	$750
Technology	3,730	1,397
Total Depreciation and amortization	$3,998	$2,147
Interest expense		
Recycling	$668	$894
Technology	–	–
Total Interest expense	$668	$894
Net income (loss) before provision for income taxes		
Recycling	$(1,289)	$5,598
Technology	(5,046)	(1,531)
Total Net income (loss) before provision for income taxes	$(6,335)	$4,067

	As of December 29, 2018	As of December 30, 2017
Assets		
Recycling	$ 13,566	$ 21,745
Technology	21,055	25,146
Total Assets	$ 34,621	$ 46,891
Intangible Assets		
Recycling	$ 19	$ 19
Technology	20,969	24,699
Total Intangible Assets	$ 20,988	$ 24,718

Certain items have been reclassified from prior year for presentation with no effect to net income.

Note 26: Related parties

Tony Isaac, the Company's Chief Executive Officer, is the father of Jon Isaac, President and Chief Executive Officer of Live Ventures Incorporated and managing member of Isaac Capital Group LLC, a 15% 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 member, 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 shared were $211 and $30 for fiscal years ending December 29, 2018 and December 30, 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 were $174 and $213 for fiscal years ending December 29, 2018 and December 30, 2017, respectively.

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. ApplianceSmart is a chain specializing in new and out-of-the-box appliances. 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, the Purchaser issued the Company a promissory note (the "ApplianceSmart Note") with a three-year term in the original principal amount of $3,919,494 for the balance of the purchase price. ApplianceSmart is guaranteeing the repayment of the ApplianceSmart Note. On December 26, 2018, the ApplianceSmart Note was amended and restated to grant ARCA a security interest in the assets of the Purchaser, ApplianceSmart, and ApplianceSmart Contracting Inc. in exchange for modifying the repayment terms to provide for the payment in full of all accrued interest and principal on April 1, 2021, the maturity date of the ApplianceSmart Note. On March 15, 2019, the Company entered into subordination agreements with third parties pursuant to which it agreed to subordinate the payment of indebtedness under the ApplianceSmart Note and the Company's security interest in the assets of ApplianceSmart and other related parties in exchange for up to $1,200,000 payable within 15days of the agreement. In connection with the sale to the Purchaser, ApplianceSmart Inc. incurred $270 of transition fee expense for fiscal year 2018.

In the Company's definitive proxy statement on Schedule 14A filed with the SEC on September 18, 2018 (the "Proxy Statement"), under the caption "Transactions with Related Parties" the Company disclosed that Tony Isaac, the Company's Chief Executive Officer, was the sole stockholder and owner of Negotiart of America, Inc. ("Negotiart of America"), a company that provided consulting services to the Company. After the filing of the Proxy Statement, it was determined that this was an error and that the foregoing disclosure was incorrect and that Negotiart of America is a wholly-owned subsidiary of Negotiart, Inc., a Canadian corporation.

Timothy Matula was granted 560,000 shares of common stock at a market price of $0.64 per share for services to be provided over the period of August 10, 2018 through February 9, 2020 on August 10, 2018. Timothy Matula was formerly a director of the Company.

Note 27: Going concern

In September 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The standard requires an entity's management to determine whether substantial doubt exists regarding the entity's ability to continue as a going concern. The amendments denote how and when companies are obligated to disclose going concern uncertainties, which are required to be evaluated every interim and annual period. If management determines that substantial doubt exists, particular disclosures are required.

We acknowledge that we continue to face a challenging competitive environment as we continue to focus on our overall profitability, including managing expenses. We reported an operating loss of $6,097 and a net loss of $5,608 in 2018. In addition, the Company has total current assets of $8,518 and total current liabilities $9,265 resulting in a net negative working capital of $747.

The Company has available cash balances, cash generated from operating activities and funds available under the accounts receivable factoring program with Prestige Capital, to provide sufficient liquidity to fund the entity's operations, the entity's continued investments in center openings and remodeling activities, for at least the next twelve months. The agreement with Prestige Capital allows the company to get advance funding of 80% of an unpaid customer's invoice amount within 2 days and the balance less a fee upon ultimate collection in cash of the invoice. The Company will be able to utilize the available funds under the accounts receivable factoring agreement to provide liquidity, to pursue acquisitions, and other strategic transactions to expand and grow the business to enhance shareholder value. Management also regularly monitors capital market conditions to ensure no other conditions or events exist that may materially affect the Company's financial conditions and liquidity and the Company may raise additional funds through borrowings or public or private sales of debt or equity securities, if necessary.

In Item 1A. RISK FACTORS, management has addressed and evaluated the risk factors that could materially and adversely affect the entity's business, financial condition and results of operations, cash flows and liquidity. The Company has determined the risk factors do not materially affect the Company's ability to continue as a going concern within one year after the date that the financial statements are issued.

Based on the above, management has concluded that at December 28, 2018 the Company is not aware and did not identify any other conditions or events that would cause the Company to not be able to continue business as a going concern for the next twelve months.

Note 28: Subsequent events

Sears Holdings Management Corp – Logistics Services

On February 18, 2019, the Company informed Sears Holdings Management Corp – Logistics Services ("Sears") that Sears may have overcharged ARCA Recycling $642 and that it planned on filing a proof of claim with the trustee in the Sears' bankruptcy against Sears for the overcharged amount. The Company requested that Sears provide contractual written proof to the contrary supporting their claim for invoices submitted in excess of the contractually agreed upon amounts for transportation services. Sears provided transportation services to ARCA Recycling in fiscal years 2013 through 2018. ARCA Recycling has $559 recorded as outstanding and un-paid accounts payable as of December 30, 2018. The Company is of the opinion that Sears owes ARCA Recycling a net amount due of $83. The overcharged amount has not been corrected in the consolidated results of the Company through December 30, 2018. The Company is in the process of preparing to file such proof of claim.

ApplianceSmart Note

On March 15, 2019, the Company entered into subordination agreements with third parties pursuant to which it agreed to subordinate the payment of indebtedness under the ApplianceSmart Note and the Company's security interest in the assets of ApplianceSmart and other related parties in exchange for up to $1,200,000 payable within 15 days of the agreement.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

ITEM 9A. Controls and Procedures

Evaluation of Disclosure control and Procedures. We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of December 29, 2018, the period covered in this report, our disclosure controls and procedures were not effective to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting. There were no changes in the Company's internal control over financial reporting during the quarter ended December 29, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 29, 2018. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013 regarding Internal Control – Integrated Framework. Based on our assessment using those criteria, our management concluded that our internal control over financial reporting was not effective as of December 29, 2018.

Management noted two material weaknesses in internal control, fraud, or illegal acts of which we became aware when conducting their evaluation of internal control. (i) Insufficient information technology general controls ("ITGCs") and segregation of duties. Several employees of the Company have been provided access to Company systems when their duties do not appear to require access, or which results in a lack of segregation of duties. No authorization or lack of sufficient approval was noted on some journal entry transactions, (ii) Inadequate control design or lack of sufficient controls over significant accounting processes. Inventory and purchase controls are not sufficient. The financial close process needs additional formal procedures and closing checklists and reconciliations. Revenue recognition controls regarding transactions with sales tax elements need additional process checks and controls. Management will work to remediate these material weaknesses in a timely manner. Management did not become aware of any fraud or illegal acts when conducting their evaluation of internal control.

The Company's management, including the Company's CEO and CFO, do not expect that the Company's disclosure controls and procedures or the Company's internal control over financial reporting will prevent or detect all error and all fraud. A control system, regardless of how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met. These inherent limitations include the following: judgements in decision-making can be faulty, and control and process breakdowns can occur because of simple errors or mistakes, controls can be circumvented by individuals, acting alone or in collusion with each other, or by management override, the design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

ITEM 9B. Other Information

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The directors and executive officers of the Company and their ages as of December 29, 2018, are as follows:

Name	**Position with Company**	**Age**
Richard D. Butler	Director	69
Nael Hajjar	Director	34
Dennis (De) Gao	Director	38
Tony Isaac	Director and Chief Executive Officer	64
Virland A. Johnson	Chief Financial Officer	58

Richard D. Butler, Jr. has been a director of the Company since May 2015. Mr. Butler is the owner of Solution Provider Services, an advisory firm which provides real estate, corporate and financial advisory services, since 1999, and is the co-Founder, Managing Director and major shareholder of Ref-Razzer Company, a whistle manufacturing and vending company, since 2005. Prior to this, Mr. Butler was the Co-Founder and Executive Vice President of Aspen Healthcare, Inc., from 1996 to 1999. From 1993 to 1996, Mr. Butler was a Managing Director at Landmark Financial and from 1989 to 1993 he was a Partner at Cal Ventures Real Estate Investment Group. Prior to this, Mr. Butler has also served as the President and Chief Executive Officer of Mt. Whitney Savings Bank, Chief Executive Officer of First Federal Mortgage Bank, Chief Executive Officer of Trafalgar Mortgage, and Executive Officer and Member of the President's Advisory Committee at State Savings & Loan Association (peak assets $14 billion) and American Savings & Loan Association (NYSE: FCA; peak assets $34 billion). Mr. Butler has served on the board of directors of Live Ventures Incorporated (NASDAQ: LIVE), a company providing specialized online marketing solutions to small-to-medium sized local business that boost customer awareness and merchant visibility, since August 2006 (including YP.com from 2006 to 2007). Mr. Butler attended Bowling Green University in Ohio, San Joaquin Delta College in California, and Southern Oregon State College. Mr. Butler brings to the Board extensive experience in financial management and executive roles, which enable him to provide important expertise in financial, operating and strategic matters that impact our Company.

Dennis (De) Gao has been a director of the Company since May 2015. Mr. Gao co-founded and, from July 2010 to March 2013, served as the CFO at Oxstones Capital Management, a privately held company and a social and philanthropic enterprise, serving as an idea exchange for the global community. Prior to establishing Oxstones Capital Management, from June 2008 until July 2010, Mr. Gao was a product owner at The Procter & Gamble Company for its consolidation system and was responsible for the Procter & Gamble's financial report consolidation process. From May 2007 to May 2008, Mr. Gao was a financial analyst at the Internal Revenue Service's CFO division. Mr. Gao has served as a director of Live Ventures Incorporated (NASDAQ: LIVE) and as a member of the Audit Committee of Live Ventures Incorporated since January 2012. Mr. Gao has a dual major Bachelor of Science degree in Computer Science and Economics from University of Maryland, and an M.B.A. specializing in finance and accounting from

Georgetown University's McDonough School of Business. Mr. Gao has significant finance, accounting and operational experience and brings substantial finance and accounting expertise to the Board.

Tony Isaac has been a director of the Company since May 2015 and Chief Executive Officer of the Company since May 2016. He served as Interim Chief Executive Officer of the Company from February 2016 until May 2016. Mr. Isaac has served as Financial Planning and Strategist/Economist of Live Ventures Incorporated (NASDAQ: LIVE), a holding company of diversified businesses, since July 2012. He is the Chairman and Co-Founder of Isaac Organization, a privately held investment company. Mr. Isaac has invested in various companies, both private and public from 1980 to present. Mr. Isaac's specialty is negotiation and problem-solving of complex real estate and business transactions. Mr. Isaac has served as a director of Live Ventures Incorporated since December 2011. Mr. Isaac graduated from Ottawa University in 1981, where he majored in Commerce and Business Administration and Economics. Mr. Isaac has significant investment and financial expertise and public board experience.

Virland A. Johnson was appointed Chief Financial Officer of the Company on August 21, 2017. Mr. Johnson had previously served the Company as a consultant beginning in February 2017. Mr. Johnson also continues to serve as Chief Financial Officer for Live Ventures Incorporated, a holding company of diversified businesses (NASDAQ: LIVE). Prior to joining Live Ventures Incorporated, Mr. Johnson was Sr. Director of Revenue for JDA Software from February 2010 to April 2016, where he was responsible for revenue recognition determination, sales and contract support while acting as a subject matter expert. Prior to joining JDA, Mr. Johnson provided leadership and strategic direction while serving in C-Level executive roles in public and privately held companies such as Cultural Experiences Abroad, Inc., Fender Musical Instruments Corp., Triumph Group, Inc., Unitech Industries, Inc. and Younger Brothers Group, Inc. Mr. Johnson’s more than 25 years of experience is primarily in the areas of process improvement, complex debt financings, SEC and financial reporting, turn-arounds, corporate restructuring, global finance, merger and acquisitions and returning companies to profitability and enhancing shareholder value. Mr. Johnson holds a Bachelor’s degree in Accountancy from Arizona State University.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company’s officers and directors, and persons who own more than 10% of a registered class of the Company’s equity securities, to file reports of ownership on Form 3 and changes in ownership on Form 4 or Form 5 with the SEC. Such officers, directors and 10% shareholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of copies of such forms received by it, or written representations from certain reporting persons, the Company believes that, during the fiscal year ended December 29, 2019, all of its officers, directors and 10% shareholders timely complied with all Section 16(a) filing requirements.

Code of Ethics

Our Audit Committee has adopted a code of ethics applicable to our directors and officers (including our Chief Executive Officer and Chief Financial Officer) and other of our senior executives and employees in accordance with applicable rules and regulations of the SEC and The NASDAQ Stock Market. A copy of the code of ethics may be obtained upon request, without charge, by addressing a request to Investor Relations, Appliance Recycling Centers of America, Inc., 175 Jackson Avenue North, Suite 102, Minneapolis, MN 55343. The code of ethics is also posted on our website at www.arcainc.com under “Investor Relations — Corporate Governance.”

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding the amendment to, or waiver from, a provision of the code of ethics by posting such information on our website at the address and location specified above and, to the extent required by the listing standards of the NASDAQ Capital Market, by filing a Current Report on Form 8-K with the SEC disclosing such information.

Audit Committee

The Audit Committee of the Board of Directors is comprised entirely of non-employee directors. In fiscal 2018, the members of the Audit Committee were Mr. Gao, Mr. Butler and Mr. Matula (until August 10, 2018). Mr. Hajjar was appointed as a member of the Audit Committee as of August 10, 2018. Each of Messrs. Gao, Butler, Matula, and Hajjar was an “independent” director as defined under NASDAQ rules. The Audit Committee is responsible for selecting and approving the Company’s independent auditors, for relations with the independent auditors, for review of internal auditing functions (whether formal or informal) and internal controls, and for review of financial reporting policies to assure full disclosure of financial condition. The Audit Committee operates under a written charter adopted by the Board of Directors, which is posted on the Company’s website at www.arcainc.com under the caption “Investor Relations - Corporate Governance.” The Board has determined that Mr. Butler is an “audit committee financial expert” as defined in SEC rules.

Compensation and Benefits Committee

The Compensation Committee of the Board of Directors is comprised entirely of non-employee directors. In fiscal 2018, the members of the Compensation Committee were Mr. Gao, Mr. Butler (Chairman) and Mr. Matula (until August 10, 2018), each of whom was also an “independent” director as defined under NASDAQ rules. The Compensation Committee is responsible for review and approval of officer salaries and other compensation and benefits programs and determination of officer bonuses. Annual compensation for the Company’s executive officers, other than the CEO, is recommended by the CEO and approved by the Compensation Committee. The annual compensation for the CEO is recommended by the Compensation Committee and formally approved by the full Board of Directors. The Compensation Committee may approve grants of equity awards under the Company’s stock compensation plans.

In the performance of its duties, the Compensation Committee may select independent compensation consultants to advise the committee when appropriate. In addition, the Compensation Committee may delegate authority to subcommittees where appropriate. The Compensation Committee may separately meet with management if deemed necessary and appropriate. The Compensation Committee operates under a written charter adopted by the Board of Directors in March 2011, which is posted on the Company's website at www.ARCAInc.com under the caption "Investor Relations - Corporate Governance."

Governance Committee

The Nominating and Corporate Governance Committee (the "Governance Committee") is comprised entirely of non-employee directors. In fiscal 2018, the members of the Governance Committee were Mr. Gao (Chairman), Mr. Butler and Mr. Matula (until August 10, 2018), each of whom was also an "independent" director as defined under NASDAQ rules. The primary purpose of the Governance Committee is to ensure an appropriate and effective role for the Board of Directors in the governance of the Company. The principal recurring duties and responsibilities of the Governance Committee include (i) making recommendations to the Board regarding the size and composition of the Board, (ii) identifying and recommending to the Board of Directors candidates for election as directors, (iii) reviewing the Board's committee structure, composition and membership and recommending to the Board candidates for appointment as members of the Board's standing committees, (iv) reviewing and recommending to the Board corporate governance policies and procedures, (v) reviewing the Company's Code of Business Ethics and Conduct and compliance therewith, and (vi) ensuring that emergency succession planning occurs for the positions of Chief Executive Officer, other key management positions, the Board chairperson and Board members. The Governance Committee operates under a written charter adopted by the Board of Directors in March 2011, which is posted on the Company's website at www.ARCAInc.com under the caption "Investor Relations - Corporate Governance."

The Governance Committee will consider director candidates recommended by shareholders. The criteria applied by the Governance Committee in the selection of director candidates is the same whether the candidate was recommended by a Board member, an executive officer, a shareholder or a third party, and accordingly, the Governance Committee has not deemed it necessary to adopt a formal policy regarding consideration of candidates recommended by shareholders. Shareholders wishing to recommend candidates for Board membership should submit the recommendations in writing to the Secretary of the Company.

The Governance Committee identifies director candidates primarily by considering recommendations made by directors, management and shareholders. The Governance Committee also has the authority to retain third parties to identify and evaluate director candidates and to approve any associated fees or expenses. Board candidates are evaluated on the basis of a number of factors, including the candidate's background, skills, judgment, diversity, experience with companies of comparable complexity and size, the interplay of the candidate's experience with the experience of other Board members, the candidate's independence or lack of independence, and the candidate's qualifications for committee membership. The Governance Committee does not assign any particular weighting or priority to any of these factors and considers each director candidate in the context of the current needs of the Board as a whole. Director candidates recommended by shareholders are evaluated in the same manner as candidates recommended by other persons.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth the cash and non-cash compensation for fiscal years ended December 29, 2018 and December 30, 2017, earned by each person who served as Chief Executive Officer during fiscal 2018, and our other two most highly compensated executive officers who held office as of December 29, 2018 ("named executive officers"):

Summary Compensation Table for Fiscal Year Ended December 29, 2018

Name and Principal Position (1)	Year	Salary ($)	Bonus ($)	Stock Award ($)	**Option Awards ($)**	**All Other Compensation ($)**	Total ($)
Tony Isaac Chief Executive Officer	2018	542,719	–	262,400 (2)	–	–	805,119
	2017	550,253	–	–	–	–	550,253
Virland A. Johnson Chief Financial Officer (3)	2018	123,559	–	128,000 (4)	–	57,000	308,559
	2017	57,802	–	–	–	50,000	107,802

(1) The Company only had two executive officers for the fiscal year ended December 29, 2018.

(2) This amount reflects the fair value of a stock grant awarded to Mr. Isaac during fiscal 2018. The shares were fully vested upon grant. See Notes 20 and 21 to the Company's consolidated financial statements.

(3) Mr. Johnson was appointed Chief Financial Officer of the Company on August 21, 2017.

(4) This amount reflects the fair value of a stock grant awarded to Mr. Johnson during fiscal 2018. The shares were fully vested upon grant. See Notes 20 and 21 to the Company's consolidated financial statements.

Outstanding Equity Awards at December 29, 2018

The following table provides a summary of equity awards outstanding for our Named Executive Officers at December 29, 2018:

Name	**Number of Securities Underlying Unexercised Options (in shares) Exercisable**		**Number of Securities Underlying Unexercised Options (in shares) Unexercisable**	**Option Exercise Price ($)**	**Option Expiration Date**
Tony Isaac	10,000	(1)	–	1.98	05/18/2025
Virland A. Johnson	–		–	–	–

(1) Options granted May 18, 2015 and vested six months thereafter.

Stock Option Plans

The Company uses stock options to attract and retain executives, directors, consultants and key employees. Stock options are currently outstanding under three stock option plans. The Company's 2016 Equity Incentive Plan (the "2016 Plan") was adopted by the Board of Directors in October 2016 and approved by the shareholders at the 2016 annual meeting of shareholders. Under the 2016 Plan, the Company has reserved an aggregate of 2,000,000 shares of its common stock for option grants. The Company's 2011 Stock Compensation Plan (the "2011 Plan") was adopted by the Board of Directors in March 2011 and approved by the shareholders at the 2011 annual meeting of shareholders. Under the 2011 Plan, the Company reserved an aggregate of 700,000 shares of its common stock for option grants. The 2011 Plan expired on December 29, 2016, but options granted under the 2011 Plan before it expired will continue to be exercisable in accordance with their terms. The Company's 2006 Stock Option Plan (the "2006 Plan") was adopted by the Board of Directors in March 2006 and approved by the shareholders at the 2006 annual meeting of shareholders. The 2006 Plan expired on June 30, 2011, but options granted under the 2006 Plan before it expired will continue to be exercisable in accordance with their terms. As of December 29, 2018, options to purchase an aggregate of 504,500 shares were outstanding, including options for 20,000 shares under the 2016 Plan and options for 484,500 shares under the 2011 Plan. The Plans are administered by the Compensation Committee or the full Board of Directors acting as the Committee.

The 2016 Plan permits the grant of the following types of awards, in the amounts and upon the terms determined by the Administrator:

- *Options*. Options may either be incentive stock options ("ISOs") which are specifically designated as such for purposes of compliance with Section 422 of the Internal Revenue Code or non-qualified stock options ("NSOs"). Options shall vest as determined by the Administrator, subject to certain statutory limitations regarding the maximum term of ISOs and the maximum value of ISOs that may vest in one year. The exercise price of each share subject to an ISO will be equal to or greater than the fair market value of a share on the date of the grant of the ISO, except in the case of an ISO grant to a stockholder who owns more than 10% of the Company's outstanding shares, in which case the exercise price will be equal to or greater than 110% of the fair market value of a share on the grant date. The exercise price of each share subject to an NSO shall be determined by the Board at the time of grant but will be equal to or greater than the fair market value of a share on the date of grant. Recipients of options have no rights as a stockholder with respect to any shares covered by the award until the award is exercised and a stock certificate or book entry evidencing such shares is issued or made, respectively.

- *Restricted Stock Awards*. Restricted stock awards consist of shares granted to a participant that are subject to one or more risks of forfeiture. Restricted stock awards may be subject to risk of forfeiture based on the passage of time or the satisfaction of other criteria, such as continued employment or Company performance. Recipients of restricted stock awards are entitled to vote and receive dividends attributable to the shares underlying the award beginning on the grant date.

- *Restricted Stock Units*. Restricted stock units consist of a right to receive shares (or cash, in the Administrator's discretion) on one or more vesting dates in the future. The vesting dates may be based on the passage of time or the satisfaction of other criteria, such as continued employment or Company performance. Recipients of restricted stock units have no rights as a stockholder with respect to any shares covered by the award until the date a stock certificate or book entry evidencing such shares is issued or made, respectively.

Compensation of Non-Employee Directors

The Company uses a combination of cash and share-based incentive compensation to attract and retain qualified candidates to serve on the Board of Directors. In setting director compensation, the Company considers the significant amount of time that directors expend fulfilling their duties to the Company as well as the skill level required by the Company of members of the Board.

Non-employee directors of the Company receive an annual fee of $24,000 for their service as directors. The Chairperson of the Audit Committee receives an additional annual fee of $6,000. All of the Company's directors are reimbursed for reasonable travel expenses incurred in attending meetings.

Non-employee directors also receive stock options under the 2016 Equity Incentive Plan. Each year, on the date of the Company's annual meeting, non-employee directors receive an option to purchase 10,000 shares of common stock. In addition, upon their initial appointment or election to the Board, non-employee directors receive a one-time grant of options to purchase 10,000 shares of common stock. Generally, such options become exercisable in full six months after the date of grant and expire ten years from the date of grant.

The table below presents cash and non-cash compensation paid to non-employee directors during the last fiscal year.

Non-Management Director Compensation for Fiscal Year Ended December 29, 2018

Name (1)	**Fees Earned or Paid in Cash ($)**	**Option Awards ($)**	**All Other Compensation ($)**	Total ($)
Dennis (De) Gao	30,000	–	–	30,000

Richard D. Butler	30,000	–	32,000 (2)	62,000
Timothy Matula (3)	15,419	–	–	15,419
Nael Hajjar (4)	5,652	–	–	5,652

(1) The Chairperson of the Audit Committee received an additional annual fee of $6,000 and each other member of the Audit Committee received an additional annual fee of $6,000. All of the Company's directors were reimbursed for reasonable travel expenses incurred in attending meetings.

(2) This amount reflects the fair value of the stock granted during fiscal 2018. Stock grants issued in fiscal 2018 were valued at the market price of the Company's common stock on the date of grant.

(3) Mr. Matula resigned from the Board of Directors effective August 10, 2018.

(4) Mr. Hajjar was appointed to the Board of Directors effective August 10, 2018.

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

The following table sets forth as of March 29, 2019 the beneficial ownership of common stock by each of the Company's directors, each of the named executive officers, and all directors and executive officers of the Company as a group, as well as information about beneficial owners of 5% or more of the Company's voting securities. Beneficial ownership includes shares that may be acquired in the next 60 days through the exercise of options or warrants.

Beneficial Owner	Position with Company	Number of Shares Beneficially Owned (1)	Percent of Outstanding Common (2)
Directors and executive officers:			
Tony Isaac (3)	Director, Chief Executive Officer	470,000	5.5%
Virland A. Johnson	Chief Financial Officer	260,000	3.1%
Richard D. Butler (3)	Director	90,000	1.1%
Dennis (De) Gao (3)	Director	20,000	*
Nael Hajjar (3) (5)	Director	–	
All directors and executive officers as a group (5 persons) (3)		840,000	9.9%
Other 5% shareholders:			
Isaac Capital Group, LLC (6)		1,251,993	14.7%
Abacab Capital Management (7)		439,587	5.2%
Timothy Matula (4)		570,000	6.7%
Energy Efficiency Investments, LLC (8)		1,005,610	11.8%

* Indicates ownership of less than 1% of the outstanding shares

(1) Unless otherwise noted, each person or group identified possesses sole voting and investment power with respect to such shares.

(2) Applicable percentage of ownership is based on 8,472,651 shares of common stock outstanding as of March 29, 2019 plus, for each shareholder, all shares that such shareholder could purchase within 60 days upon the exercise of existing stock options and warrants.

(3) Includes shares which could be purchased within 60 days upon the exercise of existing stock options or warrants, as follows: Mr. Isaac, 10,000 shares; Mr. Butler, 20,000 shares; Mr. Gao, 20,000 shares; and all directors and executive officers as a group, 50,000 shares. The address for each individual is 175 Jackson Avenue North, Suite

102, Minneapolis, Minnesota 55343.

(4) Mr. Matula resigned from the Board of Directors effective August 10, 2018.

(5) Mr. Hajjar was appointed to the Board of Directors effective August 10, 2018.

(6) According to a Schedule 13D/A filed September 11, 2018, Isaac Capital Group, LLC ("Isaac Capital") beneficially owned 1,251,993 shares of common stock. Isaac Capital has sole dispositive power as to all 1,251,993 shares and sole voting power as to 1,251,993 shares. The address for Isaac Capital is 3525 Del Mar Heights Road, Suite 765, San Diego, CA 92130.

(7) According to a Schedule 13G filed March 11, 2015, Abacab Capital Management, LLC ("Abacab") beneficially owned 439,587 shares of common stock. Abacab has sole dispositive and voting power as to all 439,587 shares. The address for Abacab is 33 W. 38th Street, New York, NY 10018.

(8) According to a Schedule 13G/A filed September 7, 2018, Energy Efficiency Investments, LLC ("EEI") beneficially owns 838,793 shares of common stock. The foregoing includes 166,817 shares of Common Stock issuable upon exercise of a common stock purchase warrant (the "Warrant"). EEI has sole dispositive and voting power as to all 838,793 shares. The address for EEI is 600 Anton Boulevard, Suite 9000, Costa Mesa, CA 92626-7221.

Beneficial Ownership of Series A Preferred Stock

The following table sets forth as of March 29, 2019 the beneficial ownership of Series A Preferred Stock by each owner of 5% or more of the Company's Series A Preferred Stock. No officers or directors of the Company have beneficial ownership of Series A Preferred Stock. Beneficial ownership includes shares that may be acquired in the next 60 days through the exercise of options or warrants.

Beneficial Owner	**Number of Shares Beneficially Owned (1)**	Percent of Outstanding Series A Preferred (2)	
Gregg Sullivan (3)	28,859	11.1	%
Juan Yunis (4)	216,729	83.4	%
Isaac Capital Group, LLC (5)	14,141	5.5	%

(1) Unless otherwise noted, each person or group identified possesses sole voting and investment power with respect to such shares.

(2) Applicable percentage of ownership is based on 259,729 shares of Series A Preferred Stock outstanding as of March 29, 2019 plus, for each shareholder, all shares that such shareholder could purchase within 60 days upon the exercise of existing stock options and warrants.

(3) The business address for Mr. Sullivan is c/o Appliance Recycling Centers of America, Inc., 175 Jackson Avenue North, Suite 102, Minneapolis, Minnesota 55343. On January 16, 2019, GeoTraq terminated the employment of Mr. Sullivan pursuant to the terms of the employment agreement dated August 18, 2017 (the "Employment Agreement") between GeoTraq and Mr. Sullivan. Under the terms of the Employment Agreement, 28,859 of the shares of the Company's Series A Preferred Stock owned by Mr. Sullivan immediately prior to the termination are deemed to have been returned to the Company's treasury for cancellation effective as of January 16, 2019, without the requirement that either Mr. Sullivan or the Company take any further action. The remaining 28,859 shares of Series A Preferred Stock owned by Mr. Sullivan may not be sold or otherwise transferred by him until January 17, 2020.

(4) The business address for Mr. Yunis is c/o Appliance Recycling Centers of America, Inc., 175 Jackson Avenue North, Suite 102, Minneapolis, Minnesota 55343.

(5) The address for Isaac Capital Group, LLC is 3525 Del Mar Heights Road, Suite 765, San Diego, CA 92130.

The following table gives aggregate information under our equity compensation plans as of December 29, 2018:

	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options and Warrants	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Available for Future Issuance Under Equity Compensation Plans, Excluding Securities Reflected in Column (a)
Equity compensation plans approved by shareholders	504,500	$ 2.21	2,033,000
Equity compensation plans not approved by shareholders	–	$ –	–
Total	504,500	$ 2.21	2,033,000

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

Review, Approval or Ratification of Transactions with Related Persons

There are no family relationships between any of the directors or executive officers of the Company. Mr. Gao, Mr. Butler and Mr. Matula, three of the persons who served as directors during the fiscal year ended December 30, 2017, were "independent" directors as defined under the rules of The NASDAQ Stock Market ("NASDAQ") for companies included in The NASDAQ Capital Market. Mr. Isaac, who previously was an "independent" director, ceased to be "independent" on February 29, 2016, when he assumed the role of Interim Chief Executive Officer for the Company.

The Audit Committee, comprised of Messrs. Gao, Matula and Butler, is responsible for the review and approval of all transactions in which the Company was or is to be a participant and in which any executive officer, director or director nominee of the Company, or any immediate family member of any such person ("related persons") has or will have a material interest. In addition, all, if any, transactions with related persons that come within the disclosures required by Item 404 of the SEC's Regulation S-K must also be approved by the Audit Committee. The policies and procedures regarding the approval of all such transactions with related persons have been approved at a meeting of the Audit Committee and are evidenced in the corporate records of the Company. Each member of the Audit Committee is an "independent" director as defined under NASDAQ rules.

Related Party Transactions

Tony Isaac, the Company's Chief Executive Officer, is the father of Jon Isaac, President and Chief Executive Officer of Live Ventures Incorporated and managing member of Isaac Capital Group LLC, a 15% 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 member, 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 shared were $211 and $30 for fiscal years ending December 29, 2018 and December 30, 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 were $174 and $213 for fiscal years ending December 29, 2018 and December 30, 2017, respectively.

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. ApplianceSmart is a chain specializing in new and out-of-the-box appliances. 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. On December 26, 2018, the ApplianceSmart Note was amended and restated to grant ARCA a security interest in the assets of the Purchaser, ApplianceSmart, and ApplianceSmart Contracting Inc. in exchange for modifying the repayments terms to provide for the payment in full of all accrued interest and principal on April 1, 2021, the maturity date of the ApplianceSmart Note. On March 15, 2019, the Company entered into agreements with third parties pursuant to which it agreed to subordinate the payment of indebtedness under the ApplianceSmart Note and the Company’s security interest in the assets of ApplianceSmart and other related parties in exchange for up to $1,200. See Note 7. In connection with the sale to the Purchaser, ApplianceSmart Inc. incurred $270 of transition fee expense for fiscal year 2018.

In the Company’s definitive proxy statement on Schedule 14A filed with the SEC on September 18, 2018 (the “Proxy Statement”), under the caption “Transactions with Related Parties” the Company disclosed that Tony Isaac, the Company’s Chief Executive Officer, was the sole stockholder and owner of Negotiart of America, Inc. (“Negotiart of America”), a company that provided consulting services to the Company. After the filing of the Proxy Statement, it was determined that this was an error and that the foregoing disclosure was incorrect and that Negotiart of America is a wholly-owned subsidiary of Negotiart, Inc., a Canadian corporation.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Fees Paid to Auditors by the Company During Most Recent Fiscal Years

Anton & Chia, LLP served as the independent auditor for the Company for fiscal year 2016 and reviewed three quarters of fiscal year 2017. Weinberg & Company, P.A. was retained briefly and then subsequently dismissed as the Company’s independent auditor of fiscal year 2017. Weinberg & Company did not audit or provide an opinion on any of the Company’s financial statements. SingerLewak LLP has served as Company auditor since fiscal year 2017. The Company either paid fees or estimates that it will pay audit fees to Anton & Chia, LLP, for the fiscal year ended December 30, 2017, Weinberg & Company for fiscal year ended December 30, 2017 and SingerLewak LLP for fiscal years ended December 29, 2018 and December 30, 2017 for the following professional services:

Description	**December 29, 2018**	**December 30, 2017**
Audit fees, SingerLewak LLP	$210,000	$150,000
Audit fees, other	$46,200	$79,000

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(1) Audit fees consist of fees for professional services rendered in connection with the audit of the Company's year-end financial statements, quarterly reviews of financial statements included in the Company's quarterly reports, services rendered relative to regulatory filings, and attendance at Audit Committee meetings.

The Audit Committee of the Board of Directors has considered whether the provision of the services described above was and is compatible with maintaining the independence of Anton & Chia, LLP, Weinberg & Company, and SingerLewak LLP.

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. All the fees and services for fiscal 2018 and fiscal 2017 were approved by the Audit Committee.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements, Financial Statement Schedules and Exhibits

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

2 *Financial Statement Schedules*
None.

3 *Exhibits*
See Index to Exhibits

ITEM 16. FORM 10-K SUMMARY

None.

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.

April 2, 2019	**APPLIANCE RECYCLING CENTERS OF AMERICA, INC.** (Registrant)
	By /s/ Tony Isaac Tony Isaac Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	**Title**	**Date**
Principal Executive Officer /s/ Tony Isaac Tony Isaac	Chief Executive Officer	April 2, 2019
Principal Financial and Accounting Officer /s/ Virland A. Johnson Virland A. Johnson	Chief Financial Officer	April 2, 2019
Directors /s/ Tony Isaac Tony Isaac	Director	April 2, 2019
/s/ Richard Butler Richard Butler	Director	April 2, 2019
/s/ Dennis Gao Dennis Gao	Director	April 2, 2019
/s/ Nael Hajjar	Director	April 2, 2019

Nael Hajjar

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Index to Exhibits

Exhibit No.	**Description**
3.1	Articles of Incorporation of Appliance Recycling Centers of America, Inc. [filed as Exhibit 3.3 to the Company's Form 8-K filed on March 13, 2018 (File No. 0-19621) and incorporated herein by reference]
3.2	Articles of Conversion [filed as Exhibit 3.1 to the Company's Form 8-K filed on March 13, 2018 (File No. 0-19621) and incorporated herein by reference].
3.3	Articles of Conversion [filed as Exhibit 3.2 to the Company's Form 8-K filed on March 13, 2018 (File No. 0-19621) and incorporated herein by reference].
3.4	Certificate of Correction to Articles of Incorporation [filed as Exhibit 3.1 to the Company's Form 10-Q for the quarterly period ended June 30, 2018 (File No 0-19621) and incorporated herein by reference].
3.5	Bylaws of Appliance Recycling Centers of America, Inc. [filed as Exhibit 3.4 to the Company's Form 8-K filed on March 13, 2018 (File No. 0-19621) and incorporated herein by reference].
3.6	First Amendment to Bylaws of Appliance Recycling Centers of America, Inc. [filed as Exhibit 3.1 to the Company's Form 8-K filed on December 31, 2018 (File No. 0-19621) and incorporated herein by reference].
10.1*	2006 Stock Option Plan (filed with the Company's Schedule 14A on March 31, 2006 and incorporated herein by reference).
10.2*	2011 Stock Compensation Plan (filed with the Company's Schedule 14A on March 31, 2011 and incorporated herein by reference).
10.3*	2016 Equity Incentive Plan [filed as Exhibit 10.3 to the Company's Form 10-K for the fiscal year ended December 31, 2016 (File No. 0-19621) and incorporated herein by reference]
10.4	Revolving Credit, Term Loan and Security Agreement dated January 24, 2011, between PNC Bank, National Association and the Company [filed as Exhibit No. 10.11 to the Company's Form 10-K for the fiscal year ended January 1, 2011 (File No. 0-19621) and incorporated herein by reference].
10.5	Amendment No. 1, dated December 30, 2011, to Revolving Credit, Term Loan and Security Agreement dated January 24, 2011, between PNC Bank, National Association and the Company [filed as Exhibit No. 10.8 to the Company's Form 10-K for the fiscal year ended December 31, 2011 (File No. 0-19621) and incorporated herein by reference].
10.6	Amendment No. 2, dated March 22, 2012, to Revolving Credit, Term Loan and Security Agreement dated January 24, 2011, between PNC Bank, National Association and the Company [filed as Exhibit No. 10.1 to the Company's Form 10-Q for the quarter ended March 29, 2012 (File No. 0-19621) and incorporated herein by reference].
10.7	Amendment No. 3, dated March 14, 2013, to Revolving Credit, Term Loan and Security Agreement dated January 24, 2011, between PNC Bank, National Association and the Company [filed as Exhibit No. 10.10 to the Company's Form 10-K for the fiscal year ended December 29, 2012 (File No. 0-19621) and incorporated herein by reference].
10.8	Amendment No. 4, dated September 27, 2013, to Revolving Credit, Term Loan and Security Agreement dated January 24, 2011, between PNC Bank, National Association and the Company [filed as Exhibit No. 10.3 to the Company's Form 10-Q for the quarterly period ended September 28, 2013 (File No. 0-19621) and incorporated herein by reference].
10.9	

	Amendment No. 5, dated January 22, 2016, to Revolving Credit, Term Loan and Security Agreement dated January 24, 2011, between PNC Bank, National Association and the Company [filed as Exhibit 10.9 to the Company's Form 10-K for the fiscal year ended December 30, 2017 (File No. 0-19621) and incorporated herein by reference].
10.10	Amendment No. 6, dated January 31, 2017, to Revolving Credit, Term Loan and Security Agreement dated January 24, 2011, between PNC Bank, National Association and the Company [filed as Exhibit 10.10 to the Company's Form 10-K for the fiscal year ended December 31, 2016 (File No. 0-19621) and incorporated herein by reference]
10.11	Amendment No. 7, dated May 4, 2017, to Revolving Credit, Term Loan and Security Agreement dated January 24, 2011, between PNC Bank, National Association and the Company [filed as Exhibit 10.11 to the Company's Form 10-K for the fiscal year ended December 30, 2017 (File No. 0-19621) and incorporated herein by reference]
10.12	Term Loan dated January 24, 2011, between PNC Bank, National Association and ARCA Advanced Processing, LLC [filed as Exhibit No. 10.12 to the Company's Form 10-K for the fiscal year ended January 1, 2011 (File No. 0-19621) and incorporated herein by reference].
10.13	Term Loan facility dated March 10, 2011, between Susquehanna Bank and ARCA Advanced Processing, LLC, pursuant to the guidelines of the U.S. Small Business Administration 7(a) Loan Program, including $2,100,000 term loan, $1,400,000 term loan and $1,250,000 term loan, guaranties by the Company and others, and security agreements [filed as Exhibit No. 10.13 to the Company's Form 10-Q for the quarterly period ended April 2, 2011 (File No. 0-19621) and incorporated herein by reference].
10.14	ARCA Advanced Processing, LLC Joint Venture Agreement dated October 20, 2009, between 4301 Operations, LLC and the Company, as amended by Amendment No. 1 dated June 3, 2010, and Amendment No. 2 dated February 15, 2011 [filed as Exhibit No. 10.16 to the Company's Form 10-K for the fiscal year ended December 28, 2013 (File No. 0-19621) and incorporated herein by reference].

10.15	Securities Purchase Agreement dated November 8, 2016, between Energy Efficiency Investments, LLC and the Company [filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended October 1, 2016 (File No. 0-19621) and incorporated herein by reference].
10.16	Form of 3% Original Issue Discount Senior Convertible Promissory Note issuable under Securities Purchase Agreement dated November 8, 2016, between Energy Efficiency Investments, LLC and the Company [filed as Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended October 1, 2016 (File No. 0-19621) and incorporated herein by reference].
10.17	Form of Common Stock Purchase Warrant issuable under Securities Purchase Agreement dated November 8, 2016, between Energy Efficiency Investments, LLC and the Company[filed as Exhibit 10.3 to the Company's Form 10-Q for the quarter ended October 1, 2016 (File No. 0-19621) and incorporated herein by reference].
10.18	Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate dated December 12, 2016, between Terreno Acacia LLC and the Company [filed as Exhibit 10.17 to the Company's Form 10-K for the fiscal year ended December 31, 2016 (File No. 0-19621) and incorporated herein by reference].
10.19	Credit and Security Agreement dated May 10, 2017, among the Company, ApplianceSmart, Inc., ARCA Recycling, Inc., Customer Connexx LLC, and MidCap Financial Trust [filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended July 1, 2017 (File No. 0-19621) and incorporated herein by reference].
10.20	Revolving Loan Note dated May 10, 2017, among the Company, ApplianceSmart, Inc., ARCA Recycling, Inc., Customer Connexx LLC, and MidCap Financial Trust [filed as Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended July 1, 2017 (File No. 0-19621) and incorporated herein by reference].
10.21	Pledge Agreement dated May 10,2017, between the Company and MidCap Financial Trust [filed as Exhibit 10.3 to the Company's Current Report on Form 10-Q for the quarterly period ended July 1, 2017 (File No. 0-19621) and incorporated herein by reference].
10.22	Letter Agreement dated August 14, 2017, between the Company and MidCap Financial Trust [filed as Exhibit 10.4 to the Company's Form 10-Q for the quarter ended July 1, 2017 (File No. 0-19621) and incorporated herein by reference].
10.23	Equity Purchase Agreement dated August 15, 2017, between 4301 Operations, LLC and the Company [filed as Exhibit 10.5 to the Company's Form 10-Q for the quarter ended July 1, 2017 (File No. 0-19621) and incorporated herein by reference].
10.24	Asset Purchase Agreement dated August 15, 2017, among ARCA Advanced Processing, LLC, 4301 Operations, LLC, Brian Conners, James Ford and Recleim PA, LLC [filed as Exhibit 10.6 to the Company's Form 10-Q for the quarterly period ended July 1, 2017 (File No. 0-19621) and incorporated herein by reference].
10.25	Agreement dated August 14, 2017 between Recleim, LLC and the Company [filed as Exhibit 10.7 to the Company's Current Report on Form 10-Q for the quarterly period ended July 1, 2017 (File No. 0-19621) and incorporated herein by reference].
10.26	Patent License Agreement dated August 14, 2017 between the Company and Recleim PA, LLC [filed as Exhibit 10.8 to the Company's Form 10-Q for the quarterly period ended July 1, 2017 (File No. 0-19621) and incorporated herein by reference].
10.27	Agreement and Plan of Merger dated August 18, 2017, between the Company, Appliance Recycling Acquisition Corp., GeoTraq Inc., and the stockholders of GeoTraq Inc. [filed as Exhibit 10.9 to the Company's Form 10-Q / A for the quarterly period ended July 1, 2017 (File No. 0-19621) and incorporated herein by reference].
10.28	Stock Purchase Agreement dated December 30, 2017 [filed as Exhibit 10.28 to the Company's Form 10-K for the fiscal year ended December 30, 2017 (File No. 0-19621) and incorporated herein by reference]
10.29	

	Amended and Restated Promissory Note, effective April 1, 2018, issued by ApplianceSmart Holdings LLC [filed as Exhibit 10.1 to the Company's Form 8-K filed on December 31, 2018 (File No. 0-19621) and incorporated herein by reference].
10.30	Security Agreement dated December 26, 2018 by and between ApplianceSmart Holdings LLC and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10.2 to the Company's Form 8-K filed on December 31, 2018 (File No. 0-19621) and incorporated herein by reference].
10.31	Security Agreement dated December 26, 2018 by and between ApplianceSmart, Inc. and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10.3 to the Company's Form 8-K filed on December 31, 2018 (File No. 0-19621) and incorporated herein by reference].
10.32	Security Agreement dated December 26, 2018 by and between ApplianceSmart Contracting Inc. and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10.4 to the Company's Form 8-K filed on December 31, 2018 (File No. 0-19621) and incorporated herein by reference].
10.33	Subordination Agreement, dated March 15, 2019, from Appliance Recycling Centers of America, Inc. to Crossroads Financing, LLC [filed as Exhibit 10.1 to the Company's Form 8-K filed on March 15, 2019 (File No. 0-19621) and incorporated herein by reference].
10.34	Intercreditor and Subordination Agreement, dated March **[18]**, 2019, by and between Appliance Recycling Centers of America, Inc. and Crossroads Financing, LLC [filed as Exhibit 10.2 to the Company's Form 8-K filed on March 15, 2019 (File No. 0-19621) and incorporated herein by reference].
16.1	Letter of Weinberg & Company, P.A. [filed as Exhibit 16.1 to the Company's Current Report on Form 8-K filed on March 28, 2018 (File No. 0-19621) and incorporated herein by reference]
16.2	Letter of Anton & Chia, LLP [filed as Exhibit 16.1 to the Company's Current Report on Form 8-K filed on March 8, 2018 (File No. 0-19621) and incorporated herein by reference]
21.1	Subsidiaries of Appliance Recycling Centers of America, Inc. [filed as Exhibit 21.1 to the Company's Form 10-K filed on March 29, 2019 (File No. 0-19621) and incorporated herein by reference]
23.1+	Consent of SingerLewak LLP, Independent Registered Public Accounting Firm.
31.1+	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1†	Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2†	Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101+	The following materials from our Annual Report on Form 10-K for the fiscal year ended December 29, 2018, formatted in Extensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations and Comprehensive Income, (iii) the Consolidated Statements of Cash Flows, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Notes to Consolidated Financial Statements, and (vi) document and entity information.
*	Items that are management contracts or compensatory plans or arrangements required to be filed as an exhibit pursuant to Item 14(a)3 of this Form 10-K.
+	Filed herewith.
†	Furnished herewith.

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