

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

APPLIANCE RECYCLING CENTERS OF AMERICA INC /MN

Form: 8-K

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

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): **March 15, 2019**

Appliance Recycling Centers of America, Inc.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction
of incorporation)

000-19621
(Commission
File Number)

41-1454591
(IRS Employer
Identification No.)

175 Jackson Avenue North, Suite 102, Minneapolis, MN
(Address of principal executive offices)

55343-4565
(Zip Code)

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

Not Applicable
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

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 provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 1.01 Entry into a Material Definitive Agreement.

As previously reported by Appliance Recycling Centers of America, Inc. (the "Company") in its Current Report on Form 8-K filed with the Securities and Exchange Commission on December 31, 2018, on December 26, 2018, the Company received that certain Amended and Restated Secured Promissory Note (the "ApplianceSmart Note") from ApplianceSmart Holdings LLC ("ApplianceSmart Holdings"), a wholly-owned subsidiary of Live Ventures Incorporated ("Live"). In connection therewith, the Company entered into certain Security Agreements, each dated December 26, 2018, with each of ApplianceSmart, Inc. ("ApplianceSmart"), a subsidiary of Live, and ApplianceSmart Contracting Inc. ("ApplianceSmart Contracting"), a subsidiary of ApplianceSmart Holdings, pursuant to which the Company took a security interest in certain assets of ApplianceSmart and ApplianceSmart Contracting to secure, among other things, all obligations under the ApplianceSmart Note and each of ApplianceSmart's and ApplianceSmart Contracting's guaranty in favor of the Company of the repayment of ApplianceSmart Holdings' obligations under the Note. As of March 18, 2019, there was approximately \$3.9 million outstanding on the ApplianceSmart Note.

As reported by Live in its Current Report on Form 8-K filed with the Securities and Exchange Commission on March 19, 2019, on March 15, 2019, ApplianceSmart entered into a Loan and Security Agreement (the "Loan Agreement") with Crossroads Financing, LLC (the "Lender"). Advances under the Loan Agreement are guaranteed by ApplianceSmart Holdings and ApplianceSmart Contracting. As a condition to the Lender's entry into the Loan Agreement and providing the credit facility thereunder, the Lender required that all obligations of ApplianceSmart, ApplianceSmart Holdings and ApplianceSmart Contracting (collectively, the "ApplianceSmart Entities") to the Company and the Company's security interest in the assets of the ApplianceSmart Entities be subordinated in favor of the Lender. As reported by Live, the proceeds of the credit facility under the Loan Agreement are intended to, among other things, be used to repay a portion of the outstanding amount owed to the Company under the ApplianceSmart Note.

On March 15, 2019, the Company entered into a Subordination Agreement with the Lender and, on March 18, 2019, the Company entered into an Intercreditor and Subordination Agreement with the Lender (collectively, the "Subordination Agreements"). Pursuant to the Subordination Agreements, the Company agreed to subordinate the payment of indebtedness of the ApplianceSmart Entities to the Company and the Company's security interest in the assets of the ApplianceSmart Entities to the payment of any and all debts, obligations and liabilities of the ApplianceSmart Entities to the Lender and the Lender's security interest in the assets of the ApplianceSmart Entities. In exchange for entering into the Subordination Agreements, the parties have agreed that ApplianceSmart and ApplianceSmart Contracting will pay, or make arrangements to pay, a prepayment of up to approximately \$1.2 million on the outstanding amount of the ApplianceSmart Note within fifteen days of the closing of the Loan Agreement. The Subordination Agreements were approved by a special committee of the Company's Board of Directors composed entirely of an independent and disinterested director.

As previously disclosed, Jon Isaac, the President and Chief Executive Officer of Live, is the CEO, Manager and sole member of Isaac Capital Group, LLC, which, as of September 11, 2018, was the beneficial owner 14.8% of the outstanding capital stock of the Company. Jon Isaac is also the son of Tony Isaac, the Chief Executive Officer of the Company and former Chief Executive Officer of ApplianceSmart.

The foregoing descriptions of the Subordination Agreements are qualified in their entirety by reference to the Subordination Agreements, copies of which are filed as Exhibits 10.1 and 10.2 to this Current Report on Form 8-K and are incorporated herein by reference in this Item 1.01.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits:

<u>No.</u>	<u>Description</u>
10.1	<u>Subordination Agreement, dated March 15, 2019, from Appliance Recycling Centers of America, Inc. to Crossroads Financing, LLC.</u>
10.2	<u>Intercreditor and Subordination Agreement, dated March 18, 2019, by and between Appliance Recycling Centers of America, Inc. and Crossroads Financing, LLC.</u>

SIGNATURES

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

Appliance Recycling Centers of America, Inc.

Date: March 21, 2019

/s/ Tony Isaac
Tony Isaac
Chief Executive Officer

SUBORDINATION AGREEMENT

Crossroads Financing, LLC
6001 Broken Sound Parkway Suite 620
Boca Raton, FL 33487

Gentlemen:

The undersigned, Appliance Recycling Centers of America, Inc., with an address at 175 Jackson Avenue North, Suite 102, Minneapolis, MN 55343, Attention: Tony Isaac (hereinafter referred to as the "**Creditor**"), represents that ApplianceSmart, Inc. ("**AS**"), and ApplianceSmart Contracting, Inc. ("**Contracting**" and together with AS, individually and collectively hereinafter referred to as the "**Grantor**"), is indebted or obligated to the Creditor as follows:

Amount of indebtedness: \$3,864,599.88 as of March 18, 2019.

Said indebtedness is evidenced and secured by (a) that certain Amended and Restated Secured Promissory Note dated as of December 26, 2018 by Appliance Smart Holdings LLC in favor of Creditor in the original principal amount of \$3,821,507.10, (b) a guaranty by Grantors in favor of Creditor, (c) a Uniform Commercial Code filing with the Minnesota Secretary of State #948594200604 and (d) a Uniform Commercial Code filing with the Minnesota Secretary of State #1056945800045.

The Creditor represents that said indebtedness has not heretofore been assigned to or subordinated in favor of any other person, firm or corporation.

In order to induce CROSSROADS FINANCING, LLC (hereinafter referred to as the "**Lender**") to make loans and advances and/or to grant financial accommodation or credit to or for the benefit of Grantor (or any Grantor) at any time (including the extension or renewal, in whole or in part, of any antecedent or other debt), upon such terms and for such amounts as may be mutually agreeable to the Lender and the Grantor, and in consideration thereof, the Creditor acknowledges, covenants and agrees as follows:

1. The Creditor does hereby subordinate the payment of the indebtedness of the Grantor to the Creditor described above, and any renewals, amendments, substitutions, revisions, etc., together with any and all interest accrued or to accrue thereon, and any other obligations of any kind now existing or hereafter arising between Creditor and Grantor (all hereinafter referred to as the "**Secondary Obligations**") to the payment of any and all debts, obligations and liabilities of the Grantor to the Lender, whether absolute or contingent, due or to become due, now existing or hereafter arising, whether direct or acquired by the Lender by transfer, assignment or otherwise, and whether arising out of existing or future agreements and/or arrangements between the Lender and the Grantor (all hereinafter referred to as the "**Primary Obligations**"). The documents between Lender and Grantor evidencing the Primary Obligations are referred to herein as the "**Primary Obligation Loan Documents**".

Notwithstanding the above prohibition on receipt of payments, (a) the Grantor may make, and Creditor may receive, a prepayment of the principal outstanding amount of the Secondary Obligations not to exceed \$1,200,000 within fifteen (15) days after the date hereof and (b) so long as there is no Event of Default under the Primary Obligations, both before and after the making of the payments, the Grantor may make and the Creditor may receive payments of normal interest due under the Secondary Obligations, but excluding default interest or penalty or any amounts due by acceleration. In the event of written notice by Lender of an Event of Default (as defined in the Primary Obligation Loan Documents), all allowed payments shall cease until such Event of Default is cured or waived in accordance with the Primary Obligation Loan Documents. Upon such cure or waiver of any such Event of Default in accordance with the Primary Obligation Loan Documents, Lender shall notify Creditor in writing that such payments may begin again.

2. [Reserved].

3. Upon any distribution of any assets of the Grantor, whether by reason of sale, reorganization, liquidation, dissolution, arrangement, bankruptcy, receivership, assignment for the benefit of creditors, foreclosure or otherwise, the Lender shall be entitled to receive payment in full of the Primary Obligations prior to the payment of all or any part of the Secondary Obligations. To enable the Lender to assert and enforce its rights hereunder in any such proceeding or upon the happening of any such event, the Lender or any person whom the Lender may designate are hereby irrevocably appointed attorney in fact for the undersigned with full power to act in the place and stead of the undersigned to make, present, file and vote such proofs of claim against the Grantor (or any Grantor) on account of all or any part of the Secondary Obligations as the Lender may deem advisable to receive and collect any and all dividends or other payments made thereon and to apply the same on account of the Primary Obligations provided that Lender shall provide Creditor with 5 business days' notice prior to taking any such action under this sentence and shall not take such action if, within 5 business days of such notice, Creditor shall provide evidence that it shall have taken such action as requested by Lender.

4. [Reserved].

5. Except as expressly permitted under Section 1 above, or as expressly allowed in the Intercreditor and Subordination Agreement, dated on or about the date hereof, by and between Creditor and Lender (as amended, the "**Intercreditor Agreement**"), the Creditor agrees not to ask, demand, sue for, take or receive payment of or for all or any party of the Secondary Obligations unless and until all and every part of the Primary Obligations have been fully paid and discharged. Creditor acknowledges, confirms and agrees that the priority and enforcement of any security interest or lien (consensual or non-consensual) now or hereafter held by Creditor in or upon any asset or property of any Grantor shall be subject to the Intercreditor Agreement.

6. The Creditor has, to the extent deemed necessary by the Creditor, reviewed the existing agreements between the Lender and the Grantor, and understands that there is no commitment or obligation on the Lender's part to make any loans or advances or to extend credit to the Grantor; provided, however, that the Creditor further understands that such agreements may be modified, altered, or amended, without notice to or consent of the Creditor.

7. The Creditor agrees not to sell, assign, transfer, pledge or hypothecate all or any part of the Secondary Obligations without (a) disclosing to any such third party that said Secondary Obligations are subject to the terms of this Agreement and (b) causing such third party to execute and deliver to Lender the written agreement of such third party to be bound by the terms hereof to the same extent as Creditor.

8. The Lender may at any time, in its discretion, renew or extend the time of payment of all or any of the Primary Obligations or waive or release any collateral which may be held therefor, and the Lender may enter into such agreements with the Grantor as the Lender may deem desirable without notice to or further assent from the undersigned and without in any way affecting the Lender's rights hereunder.

9. [Reserved.]

10. The Lender shall have no obligation to collect the Secondary Obligations. Further, the Lender shall have no obligation whatsoever for maintenance, protection, preservation or liquidation of any security for the Secondary Obligations.

11. In the event any payments are made by the Grantor to the Creditor or any amounts are received by the Creditor contrary to the provisions of this Agreement, the Creditor will promptly remit said payments or amounts to the Lender. Upon failure to so remit, the Lender shall have the right to proceed directly against the Creditor for any such amount.

12. The Creditor agrees to pay all counsel fees and expenses which the Lender may incur in protecting or enforcing any of its rights hereunder against the Creditor.

13. [Reserved.]

14. This Agreement shall be binding upon the Creditor and their successors and assigns, and all of the Lender's rights hereunder shall inure to the benefit of its successors and assigns.

15. This Agreement shall be construed and interpreted in accordance with the laws of the State of New York, including its conflict of laws principles. Any suit, action or proceeding arising hereunder, or the interpretation, performance or breach hereof, shall, if Lender so elects, be instituted in any court sitting in New York, County, New York (the "Acceptable Forums"). Creditor agrees that the Acceptable Forums are convenient to it, and submits to the jurisdiction of the Acceptable Forums and waives any and all objections to jurisdiction or venue. Should such proceeding be initiated in any other forum, Creditor waives any right to oppose any motion or application made by Lender to transfer such proceeding to an Acceptable Forum.

16. Any written notice required or permitted by this Agreement shall be delivered by depositing it (registered or certified mail, return receipt requested) in the U.S. mail, postage prepaid, addressed to the appropriate party at the address set forth on page 1 hereof, or by recognized overnight courier which provides evidence of delivery addressed to the appropriate party at the address set forth on page 1 hereof. A facsimile or electronic copy of this Agreement shall have the same force as an original version. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

17. **WAIVER OF JURY TRIAL.** THE PARTIES HERETO MUTUALLY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER DOCUMENTS CONTEMPLATED TO BE EXECUTED IN CONNECTION HERewith OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS, WHETHER VERBAL OR WRITTEN, OR ACTIONS OF ANY PARTY, INCLUDING, WITHOUT LIMITATION, ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS OR ACTIONS OF LENDER RELATING TO THE ADMINISTRATION OF THE TRANSACTION CONTEMPLATED HEREBY OR ENFORCEMENT OF THE DOCUMENTS EXECUTED IN CONNECTION HERewith, AND AGREE THAT NEITHER PARTY WILL SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. EXCEPT AS PROHIBITED BY LAW, THE CREDITOR AND LENDER EACH HEREBY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO CLAIM OR RECOVER ANY LITIGATION ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN OR IN ADDITION TO, ACTUAL DAMAGES. THE CREDITOR AND LENDER EACH CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR EACH PARTY TO ENTER ITO THIS AGREEMENT AND ENTER INTO THE TRANSACTION CONTEMPLATED HEREBY.

IN WITNESS WHEREOF, the parties have hereto their hands and seals as of the 15th day of March, 2019.

Appliance Recycling Centers of America, Inc.

By: /s/ Virland A. Johnson

Name: Virland A. Johnson

Title: Chief Financial Officer

Crossroads Financing, LLC

/s/ Lee Haskin

By: Lee Haskin

Its: CEO

Crossroads Financing, LLC, a Connecticut limited liability company

**6001 Broken Sound Parkway, Suite 620
Boca Raton, FL 33487**

Gentlemen:

As of the 15th day of March, 2019, ApplianceSmart, Inc. and ApplianceSmart Contracting, Inc. (individually and collectively, the "Grantor") hereby acknowledges notice of the within and foregoing Subordination Agreement and agrees to be bound by all the terms, provisions and conditions thereof. Grantor further agrees, except as may be specifically permitted under the foregoing Subordination Agreement, without the Lender's written consent thereto first procured, not to repay all or any part of the Secondary Obligations or to issue any note or other instrument evidencing the same.

ApplianceSmart, Inc.

/s/ Virland A. Johnson

Name: Virland A. Johnson

Title: Chief Financial Officer/Director

ApplianceSmart Contracting, Inc.

/s/ Virland A. Johnson

Name: Virland A. Johnson

Title: Chief Financial Officer/Director

INTERCREDITOR AND SUBORDINATION AGREEMENT

THIS AGREEMENT made and entered into this 18th day of March, 2019 by and between Appliance Recycling Centers of America, Inc. (hereinafter referred to as secured party or "SP") and Crossroads Financing, LLC (hereinafter referred to as "CROSSROADS").

WITNESSETH:

WHEREAS, SP and CROSSROADS have each respectively entered or intend to enter into leases, loans or factoring transactions with each of ApplianceSmart, Inc. ("ApplianceSmart") and ApplianceSmart Contracting, Inc. ("Contracting") (individually collectively hereinafter referred to as "Grantor");

WHEREAS, in connection with said leases, loans and factoring transactions, SP and CROSSROADS have been or are to be granted security interests in certain assets;

WHEREAS, it is the intent of the parties that the security interests to be granted to SP in the SP Priority Collateral (as defined herein), shall be a first priority security interests and senior to the interests (if any) of CROSSROADS therein; and the security interests to be granted to CROSSROADS in the CROSSROADS Priority Collateral (as defined herein), shall be a first priority security interests and senior to the interests of SP therein;

WHEREAS, the parties hereto desire to define their respective rights with respect to their respective interests in the assets of Grantor;

NOW, THEREFORE, in consideration of the mutual terms, conditions and covenants contained herein, the parties hereby agree as follows:

1. References to the following terms herein shall mean and include:

- (a) "Collateral" – the ApplianceSmart Collateral or Contracting Collateral, as applicable.
- (b) "ApplianceSmart Collateral" – all existing and future assets of ApplianceSmart, including but not limited to now owned and hereafter acquired, present and future, all inventory, wherever located, now or hereafter acquired, including without limitation, raw materials, work in process, finished goods, materials and supplies, all accounts receivable, contract rights, documents, instruments, chattel paper, machinery and equipment, and the computer software, programs, stored data, aging schedules, customer lists, general intangibles, books, records, returns, repossessions, deposits and credit balances relating thereto and proceeds thereof, together with any substitution, additions, and replacements thereof.
- (c) "Contracting Collateral" – all existing and future assets of Contracting, including but not limited to now owned and hereafter acquired, present and future, all inventory, wherever located, now or hereafter acquired, including without limitation, raw materials, work in process, finished goods, materials and supplies, all accounts receivable, contract rights, documents, instruments, chattel paper, machinery and equipment, and the computer software, programs, stored data, aging schedules, customer lists, general intangibles, books, records, returns, repossessions, deposits and credit balances relating thereto and proceeds thereof, together with any substitution, additions, and replacements thereof
- (d) "SP Priority Collateral" – as applicable, (1) with respect to the ApplianceSmart Collateral, the SP Priority ApplianceSmart Collateral, and (2) with respect to the Contracting Collateral, the SP Priority Contracting Collateral.
- (e) "SP Priority ApplianceSmart Collateral" – none. It is understood and agreed that all ApplianceSmart Collateral is CROSSROADS Priority ApplianceSmart Collateral and no ApplianceSmart Collateral is SP Priority ApplianceSmart Collateral.

- (f) "SP Priority Contracting Collateral" – the Contracting Collateral other than the CROSSROADS Priority Contracting Collateral.
- (g) "CROSSROADS Priority Collateral" – as applicable, (1) with respect to the ApplianceSmart Collateral, the CROSSROADS Priority ApplianceSmart Collateral, and (2) with respect to the Contracting Collateral, the CROSSROADS Priority Contracting Collateral.
- (h) "CROSSROADS Priority ApplianceSmart Collateral" – all ApplianceSmart Collateral.
- (i) "CROSSROADS Priority Contracting Collateral" – all now owned and hereafter acquired, present and future, inventory of Contracting, wherever located, now or hereafter acquired, including without limitation, raw materials, work in process, finished goods, materials and supplies of Contracting, and the proceeds thereof.

2. SP represents that the transactions between CROSSROADS and Grantor and the granting of security interests to CROSSROADS as set forth therein will not be construed to be a default by Grantor under any agreements between Grantor and SP.

3. CROSSROADS represents that the transactions between SP and Grantor and the granting of security interests to SP as set forth therein will not be construed to be a default by Grantor under any agreements between Grantor and CROSSROADS.

4. Notwithstanding anything contained in the provisions of the Uniform Commercial Code or any other applicable law relative to the priority of such security interests of the parties hereto as may now or in the future be perfected by the parties hereto, CROSSROADS acknowledges and agrees that its security interests (if any) in each applicable Grantor's SP Priority Collateral are hereby made subordinate and junior in priority to the security interests of SP and its successors and assigns in the SP Priority Collateral.

5. With respect to said SP Priority Collateral, upon disposition by any party hereto, in exercise of its rights as secured party, or upon any distribution, whether by reason of sale, reorganization, liquidation, dissolution, arrangement, any proceedings under the Bankruptcy Code, receivership, assignment for the benefit of creditors, foreclosure or otherwise, of all or any portion of the SP Priority Collateral, CROSSROADS shall have no right to any proceeds of such disposition or distribution until such time as SP has realized all amounts due to it from Grantor, including but not limited to, expenses of retaking, holding for sale, preparing for sale, selling, collecting, attorneys' fees and legal expenses.

6. With respect to said SP Priority Collateral, so long Grantor is indebted to SP or its successors and assigns and so long as SP has not authorized the termination of its UCC_1 financing statements against Grantors and its financing arrangements with Grantor have not been terminated or expired by their terms, CROSSROADS will take no action whatsoever, under any circumstances, to exercise or enforce any rights or remedies which it may have to the SP Priority Collateral either under its agreements with Grantor or under the Uniform Commercial Code or any applicable law.

7. Notwithstanding anything contained in the previous of the Uniform Commercial Code or any other applicable law relative to the priority of such security interests of the parties hereto as may now or in the future be perfected by the parties hereto, SP acknowledges and agrees that its security interest in CROSSROADS Priority Collateral are hereby made subordinate and junior in priority to the security interests of CROSSROADS and its successors and assigns in the CROSSROADS Priority Collateral.

8. With respect to said CROSSROADS Priority Collateral, upon disposition by any party hereto, in exercise of its rights as secured party, or upon any distribution, whether by reason of sale, reorganization, liquidation, dissolution, arrangement, any proceedings under the Bankruptcy Code, receivership, assignment of the benefit of creditors, foreclosure or otherwise, of all or any portion of the CROSSROADS Priority Collateral, SP shall have not right to any proceeds of such disposition or distribution until such time as CROSSROADS has realized all amounts due to it from Grantor, including but not limited to expenses of retaking, holding for sale, preparing for sale, selling, collecting, attorneys' fees and legal expenses.

9. With respect to said CROSSROADS Priority Collateral, so long Grantor is indebted to CROSSROADS or its successors and assigns and so long as CROSSROADS has not authorized the termination of its UCC-1 financing statements against Grantors and its financing arrangements with Grantor have not been terminated or expired by their terms, SP will take no action whatsoever, under any circumstances, to exercise or enforce any rights or remedies which it may have against the CROSSROADS Priority Collateral either under its agreement with Grantor or under the Uniform Commercial Code or any other applicable law.

10. With respect to those instances where both SP and CROSSROADS are or may be named as loss payee on any insurance policies of Grantor, the rights of SP and CROSSROADS in any proceeds resulting from said insurance policies and loss payee endorsements shall be in accordance with the respective priority interests of SP and CROSSROADS as set forth in this Agreement.

11. SP and CROSSROADS agree that neither of them will transfer nor assign their security interests in the Collateral of Grantor or any portion thereof without obtaining written agreement from any purchaser or assignee that its security interests are subject to the terms of this Agreement.

12. Any requirements of this Agreement with respect to notice may be complied with by depositing said notice in the mails, registered or certified, return receipt requested, or with an overnight delivery company (with provision for personal delivery and receipt certifying thereto), addressed to the party to whom notice is being given at its address shown in this Agreement.

13. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

14. This Agreement is entered into solely for purpose set forth herein, and no party assumes any responsibility to any other party to advise the other of information known to such party regarding the financial condition of the Grantor, or regarding the SP Priority Collateral or the CROSSROADS Priority Collateral, or of any circumstances bearing upon the risk of nonpayment of the obligations of Grantor. Each party shall be responsible for managing its relationship with Grantor and no party shall be deemed the agent of any other party under this Agreement. Except as otherwise expressly provided herein, each party may alter, amend, supplement, release, discharge or otherwise modify any terms of their respective lease, loan, and factoring agreements with Grantor without notice to or consent of any other party.

15. Nothing contained in this Agreement shall be deemed to indicate that this Agreement has been entered into for the benefit of any person other than the parties hereto.

16. This Agreement shall be construed and interpreted in accordance with the laws of the State of New York, including its conflict of laws principles. Any suit, action or proceeding arising hereunder, or the interpretation, performance or breach hereof, shall be instituted in any court sitting in New York County, New York (the "Acceptable Forums"). Each party hereto agrees that the Acceptable Forums are convenient to it, and submits to the jurisdiction of the Acceptable Forums and waives any and all objections to jurisdiction or venue.

17. A facsimile or electronic copy of this Agreement shall have the same force as an original version. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have hereunto set their hands and seals on the day and year first above written.

Appliance Recycling Centers of America, Inc.

/s/ Virland A. Johnson
By: Virland A. Johnson
Its: Chief Financial Officer

Crossroads Financing, LLC

/s/ Lee Haskin
By: Lee Haskin
Its: CEO

The undersigned hereby acknowledges notice of the foregoing Intercreditor Agreement and agrees to be bound by all of the terms and conditions thereof.

ApplianceSmart, Inc.

/s/ Virland A. Johnson
By: Virland A. Johnson
Its: Chief Financial Officer/Director

ApplianceSmart Contracting, Inc.

/s/ Virland A. Johnson
By: Virland A. Johnson
Its: Chief Financial Officer/Director