
Form 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2000

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Commission file number 0-19621

APPLIANCE RECYCLING CENTERS of AMERICA, INC.

Minnesota
(State or other jurisdiction of
incorporation or organization)

41-1454591
(I.R.S. Employer
Identification No.)

7400 Excelsior Blvd.
Minneapolis, Minnesota 55426-4517
(Address of principal executive offices)

(612) 930-9000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

YES **X** **NO**

As of November 10, 2000, the number of shares outstanding of the registrant's no par value common stock was 2,286,744 shares.

APPLIANCE RECYCLING CENTERS of AMERICA, INC.

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PART II. OTHER INFORMATION

Appliance Recycling Centers of America, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2000	January 1, 2000
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 664,000	\$ 220,000
Accounts receivable, net of allowance of \$16,000 and \$25,000, respectively	2,206,000	1,452,000
Inventories, net of reserves of \$465,000 and \$275,000, respectively	3,155,000	1,586,000
Deferred income taxes	75,000	75,000
Other current assets	416,000	89,000
Total current assets	\$ 6,516,000	\$ 3,422,000
Property and Equipment, at cost		
Land (Note 4)	\$ 2,050,000	\$ 2,103,000
Buildings and improvements (Note 4)	3,535,000	4,028,000
Equipment	3,828,000	3,542,000
	\$ 9,413,000	\$ 9,673,000
Less accumulated depreciation	3,851,000	3,950,000
Net property and equipment	\$ 5,562,000	\$ 5,723,000
Other Assets		
Goodwill, net of amortization of \$105,000 and \$76,000, respectively	\$ 224,000	\$ 258,000
	86,000	114,000
Total assets	\$ 12,388,000	\$ 9,517,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Line of credit (Note 3)	\$ 1,904,000	\$ 888,000
Current maturities of long-term obligations	284,000	135,000
Accounts payable	1,343,000	1,037,000
Accrued expenses (Note 2)	1,124,000	742,000
Unrealized gain (Note 4)	78,000	—
Income taxes payable	456,000	75,000
Total current liabilities	\$ 5,189,000	\$ 2,877,000
Long-Term Obligations, less current maturities	4,502,000	4,831,000
Total liabilities	\$ 9,691,000	\$ 7,708,000
Shareholders' Equity		
Common stock, no par value; authorized 10,000,000 shares; issued and outstanding 2,287,000 shares	\$ 11,345,000	\$ 11,345,000
Accumulated deficit	(8,648,000)	(9,536,000)
Total shareholders' equity	\$ 2,697,000	\$ 1,809,000
Total liabilities and shareholders' equity	\$ 12,388,000	\$ 9,517,000

See Notes to Consolidated Financial Statements.

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

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u> <u>2000</u>	<u>October 2,</u> <u>1999</u>	<u>September 30,</u> <u>2000</u>	<u>October 2,</u> <u>1999</u>
Revenues				
Retail	\$ 3,681,000	\$ 2,100,000	\$ 8,908,000	\$ 6,104,000
Recycling	2,507,000	2,589,000	7,273,000	5,456,000
Total revenues	\$ 6,188,000	\$ 4,689,000	\$ 16,181,000	\$ 11,560,000
Cost of revenues	3,782,000	2,429,000	9,232,000	6,632,000
Gross profit	\$ 2,406,000	\$ 2,260,000	\$ 6,949,000	\$ 4,928,000
Selling, general and administrative expenses	1,997,000	1,536,000	5,162,000	4,067,000
Operating income	\$ 409,000	\$ 724,000	\$ 1,787,000	\$ 861,000
Other income (expense)				
Other income (Note 4)	281,000	8,000	289,000	117,000
Interest expense	(222,000)	(200,000)	(634,000)	(594,000)
Income before provision for income taxes	\$ 468,000	\$ 532,000	\$ 1,442,000	\$ 384,000
Provision for income taxes	211,000	—	554,000	—
Net income	\$ 257,000	\$ 532,000	\$ 888,000	\$ 384,000
Basic Earnings per Common Share	\$ 0.11	\$ 0.23	\$ 0.39	\$ 0.18
Diluted Earnings per Common Share	\$ 0.09	\$ 0.22	\$ 0.31	\$ 0.18
Weighted Average Number of Common Shares				
Outstanding				
Basic	2,287,000	2,271,000	2,287,000	2,102,000
Diluted	2,948,000	2,371,000	2,893,000	2,146,000

See Notes to Consolidated Financial Statements.

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

	<u>Nine Months Ended</u>	
	September 30, 2000	October 2, 1999
Cash Flows from Operating Activities		
Net income	\$ 888,000	\$ 384,000
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	278,000	301,000
Gain on sale of property and equipment	(253,000)	(54,000)
Accretion of long-term debt discount	29,000	25,000
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	(754,000)	(1,080,000)
Inventories	(1,569,000)	365,000
Other current assets	(327,000)	(54,000)
Increase (decrease) in:		
Accounts payable	306,000	(138,000)
Accrued expenses	382,000	39,000
Income Taxes Payable	381,000	-
Net cash used in operating activities	\$ (639,000)	\$ (212,000)
Cash Flows from Investing Activities		
Purchases of property and equipment	\$ (391,000)	\$ (161,000)
Proceeds from disposal of property and equipment	667,000	68,000
Net cash provided by (used in) investing activities	\$ 276,000	\$ (93,000)
Cash Flows from Financing Activities		
Increase in line of credit	1,016,000	\$ 52,000
Payments on long-term obligations	(286,000)	(81,000)
Proceeds from sale of common stock	-	475,000
Proceeds from long-term debt obligations	77,000	-
Net cash provided by financing activities	\$ 807,000	\$ 446,000
Increase in cash and cash equivalents	\$ 444,000	\$ 141,000
Cash and Cash Equivalents		
Beginning	220,000	14,000
Ending	\$ 664,000	\$ 155,000
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	\$ 605,000	\$ 508,000
Cash payments for income taxes	\$ 177,000	\$ -

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. Financial Statements

In the opinion of management of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal, recurring accruals) necessary to present fairly the financial position of the Company and its subsidiaries as of September 30, 2000, and the results of their operations for the three-month and nine-month periods ended September 30, 2000 and October 2, 1999 and their cash flows for the nine-month periods ended September 30, 2000 and October 2, 1999. The results of operations for any interim period are not necessarily indicative of the results for the year. These interim consolidated financial statements should be read in conjunction with the Company's annual financial statements and related notes in the Company's Annual Report on Form 10-K for the year ended January 1, 2000.

2. Accrued Expenses

Accrued expenses were as follows:

	September 30, 2000	January 1, 2000
Compensation	\$ 418,000	\$178,000
Warranty	199,000	182,000
Other	507,000	382,000
	\$1,124,000	\$742,000

3. In September 2000, the Company secured an expanded \$5,000,000 line of credit with its current lender that replaces the previous \$2,000,000 line of credit. The expanded line of credit has a lower interest rate and is no longer guaranteed by the President of the Company. The new line of credit will be used primarily to finance inventories of the Company's ApplianceSmart retail operation.
4. In September 2000, the Company recognized a gain of \$257,000 from the sale of the ApplianceSmart outlet property in Saint Paul, Minnesota. The Company is still operating this outlet and has an operating lease on this outlet until September 30, 2001. Therefore, the Company has an unrecognized gain of \$78,000 that will be recognized as income on a straight-line basis over the remaining 12-month lease term.

PART I: ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of the Company's level of operations and financial condition. This discussion should be read with the consolidated financial statements appearing in Item 1.

RESULTS OF OPERATIONS

The Company generates revenues from two sources: retail and recycling. Retail revenues are sales of appliances, warranty and service revenue and delivery fees. Recycling revenues are fees charged for the disposal of appliances and sales of scrap metal and reclaimed chlorofluorocarbons ("CFCs") generated from processed appliances.

Total revenues for the three and nine months ended September 30, 2000 were \$6,188,000 and \$16,181,000, respectively, compared to \$4,689,000 and \$11,560,000 for the same periods in the prior year.

Retail sales accounted for approximately 59% of revenues in the third quarter of 2000. Retail revenues for the three and nine months ended September 30, 2000 increased by \$1,581,000 or 75% and by \$2,804,000 or 46%, respectively, from the same periods in the prior year. Third quarter same-store retail sales increased 53% (a sales comparison of 5 stores that were open the entire third quarters of 2000 and 1999). The increase in retail sales was primarily due to an increase in scratch and dent appliance sales offset by a decrease in reconditioned appliance sales. The increase in scratch and dent appliance sales was primarily due to increased advertising and a 30,000 square foot store being opened offset by a smaller store being closed in 2000.

The Company had six retail locations at the end of both the current and last year's third quarter; however, during the second quarter of this year, the Company closed a smaller store in the Minneapolis/Saint Paul market and opened a 30,000 square foot store in the Ohio market. The Company is currently investigating sites for a new retail location. The Company experiences seasonal fluctuations and expects retail sales to be higher in the second and third calendar quarters than in the first and fourth calendar quarters, reflecting consumer purchasing cycles.

RESULTS OF OPERATIONS — CONTINUED

Recycling revenues for the three and nine months ended September 30, 2000 decreased slightly by \$82,000 or 3% and increased by \$1,817,000 or 33%, respectively, from the same periods in the prior year. The slight decrease in recycling revenue in the third quarter of 2000 was primarily due to recycling volumes nearing the upper limits of the number of units to be recycled under the contract with Southern California Edison Company (“Edison”) and a decrease in scrap metal revenue. The decrease in scrap metal revenue was due to a combination of lower scrap metal prices and increased cost of transporting the scrap to the scrap yard offset by an increase in CFC prices. The increase in recycling revenue for the nine months ended September 30, 2000 was primarily due to more recycling volume from the Edison contract occurring in the first nine months of 2000 compared to the same period in 1999. Total recycling volume under this Edison contract for the year 2000 is expected to be approximately the same as 1999. Therefore, recycling revenue from this Edison contract was higher in the first quarter of 2000 and is expected to be lower in the fourth quarter of 2000 compared to comparable periods in 1999. Also, the increase was due to an increase in CFC prices during the first nine months of 2000 compared to the same period in 1999.

In October 2000, the Company signed a contract with Edison to implement a recycling program in the service areas of Pacific Gas & Electric (the San Francisco Bay area) and San Diego Gas & Electric (“Summer Initiative”). This contract is in accordance with a ruling issued by the California Public Utilities Commission (“CPUC”). Under the Summer Initiative, the Company expects to recycle approximately 30,000 to 40,000 units through the end of 2001. This recycling is in addition to the existing program with Edison which is expected to recycle approximately 36,000 units in 2001. As with its existing Edison program, there are no guaranteed minimum number of units that must be recycled under the Summer Initiative. The Company began the Summer Initiative in September of 2000 and expects to be fully operational in the first quarter of 2001. For the contract period, the CPUC has budgeted \$8,500,000, which includes a \$75 per unit incentive payment to residential participants. The Company is responsible for advertising for the Summer Initiative.

Gross profit as a percentage of total revenues for the three months ended September 30, 2000 decreased to 39% from 48% for the same period in 1999. Gross profit as a percentage of total revenues was 43% for both of the nine-month periods ended September 30, 2000 and October 2, 1999. The decrease for the three months ended September 30, 2000 was primarily due to higher sales of scratch and dent appliances that have a lower margin than reconditioned appliances. Gross profit as a percentage of total revenues for future periods can be affected favorably or unfavorably by numerous factors, including the volume of appliances recycled from the Edison contract and the Summer Initiative contract, the mix of retail products sold during the periods and the price and volume of byproduct revenues. The Company believes that gross profit as a percentage of total revenues will decrease slightly in the fourth quarter due to anticipated lower retail sales and lower recycling revenues from the Edison contract with a corresponding decrease in expenses.

RESULTS OF OPERATIONS — CONTINUED

Selling, general and administrative expenses for the three and nine months ended September 30, 2000 increased by \$461,000 or 30% and \$1,095,000 or 27%, respectively, from the same periods in 1999. Selling expenses for the three and nine months ended September 30, 2000 increased by \$396,000 or 81% and \$680,000 or 49%, respectively, from the same periods in 1999. The increase in selling expenses was primarily due to opening a new 30,000 square foot retail store during the first nine months of 2000 compared to 1999 and an increase in advertising and commissions. General and administrative expenses for the three and nine months ended September 30, 2000 increased by \$67,000 or 6% and \$425,000 or 16%, respectively, from the same periods in 1999. The increase in general and administrative expenses was primarily due to an increase in personnel costs and consultant fees for the Company's computer systems.

Interest expense was \$222,000 for the three months and \$634,000 for the nine months ended September 30, 2000 compared to \$200,000 and \$594,000 for the same periods in 1999. The increase in interest expense was due to a higher average borrowed amount for the three and nine months ended September 30, 2000 than in the same periods in 1999 and an increase in the interest rate on the line of credit.

The Company recorded a provision for income taxes for the three and nine months ended September 30, 2000 of \$211,000 and \$554,000, respectively. The Company has net operating loss carryovers of approximately \$8,425,000 at September 30, 2000, which may be available to reduce taxable income and in turn income taxes payable in future years. However, future utilization of these loss and credit carryforwards is subject to certain limitations under provisions of the Internal Revenue Code including limitations subject to Section 382, which relate to a 50 percent change in control over a three-year period, and are further dependent upon the Company maintaining profitable operations. The Company believes that the issuance of Common Stock during 1999 resulted in an "ownership change" under Section 382. Accordingly, the Company's ability to use net operating loss carryforwards generated prior to February 1999 may be limited to approximately \$56,000 per year. At September 30, 2000, the Company had a valuation allowance recorded against its net deferred tax assets of approximately \$4,085,000, due to uncertainty of realization. The realization of deferred tax assets is dependent upon sufficient future taxable income during the periods when deductible temporary differences and carryforwards are expected to become available to reduce taxable income.

RESULTS OF OPERATIONS — CONTINUED

The Company recorded net income of \$257,000 or \$.09 per diluted share for the three months and \$888,000 or \$.31 per diluted share for the nine months ended September 30, 2000 compared to net income of \$532,000 or \$.22 per diluted share and \$384,000 or \$.18 per diluted share in the same periods of 1999. The decrease in income for the three months ended September 30, 2000 compared to the same period in 1999 was due to lower gross profit as a percentage of revenues and an increase in selling, general and administrative expenses offset by the recognized gain of the sale of the ApplianceSmart retail outlet property in St. Paul. The increase in income for the nine months ended September 30, 2000 compared to the same period in 1999 was due to gross profit as a percentage of total revenues remaining the same as the previous year period offset by an increase in selling, general and administrative expenses, plus the aforementioned recognized gain on the sale of the retail outlet property.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2000, the Company had working capital of \$1,327,000 compared to working capital of \$545,000 at January 1, 2000. Cash and cash equivalents increased to \$664,000 at September 30, 2000 from \$220,000 at January 1, 2000. Net cash used in operating activities was \$639,000 for the nine months ended September 30, 2000 compared to \$212,000 in the same period of 1999. The increase in cash used in operating activities was primarily due to an increase in inventories offset by an increase in the net income for the period.

The Company's capital expenditures for the nine months ended September 30, 2000 and October 2, 1999 were approximately \$391,000 and \$161,000, respectively. The 1999 capital expenditures were related to building improvements and the purchase of computer equipment. The 2000 capital expenditures were related to the continued upgrade of computer systems and communications equipment.

In September 2000, the Company secured an expanded \$5,000,000 line of credit with its current lender that replaces the previous \$2,000,000 line of credit. The expanded line of credit has a lower interest rate and is no longer guaranteed by the President of the Company. The line of credit was renewed through August 30, 2001. The interest rate as of September 30, 2000 was 11.25%. The amount of borrowings available under the line of credit is based on a formula using receivables and inventories. The line of credit provides that the lender may demand payment in full of the entire outstanding balance of the loan at any time. The line of credit is secured by substantially all the Company's assets and requires minimum monthly interest payments of \$14,000 regardless of the outstanding principal balance. The lender also has an inventory repurchase agreement with Whirlpool Corporation that secures the line of credit. The line also requires that the Company meet certain financial covenants, provides payment penalties for noncompliance, limits the amount of other debt the Company can incur, limits the amount of spending on fixed assets and limits payments of dividends.

LIQUIDITY AND CAPITAL RESOURCES — CONTINUED

At September 30, 2000, the Company was in compliance with such covenants and had unused borrowing capacity of \$924,000.

In September 2000, the Company recognized a gain of \$257,000 from the sale of the ApplianceSmart outlet property in Saint Paul, Minnesota. The Company is still operating this outlet and has an operating lease on this outlet until September 30, 2001. Therefore the Company has an unrecognized gain of \$78,000 which will be recognized as income on a straight-line basis over the remaining 12-month lease term.

The Company believes, based on the anticipated revenues from the Edison contract and the Summer Initiative contract, the anticipated sales per retail store and its anticipated gross profit, that its cash balance, anticipated funds generated from operations and its current line of credit will be sufficient to finance its operations and capital expenditures through December 2000. The Company's total capital requirements for the remainder of 2000 and for 2001 will depend upon, among other things as discussed below, the recycling volumes generated from the Edison program and Summer Initiative program in 2000 and 2001 and the number and size of retail stores operating during the fiscal year. Currently, the Company has three centers and six stores in operation. If revenues are lower than anticipated or expenses are higher than anticipated or the line of credit cannot be maintained after August 2001, the Company may require additional capital to finance operations. Sources of additional financing, if needed in the future, may include further debt financing or the sale of equity (common or preferred stock) or other securities. There can be no assurance that such additional sources of financing will be available or available on terms satisfactory to the Company or permitted by the Company's current lender.

FORWARD-LOOKING STATEMENTS

Statements regarding the Company's future operations, performance and results, and anticipated liquidity discussed herein are forward-looking and therefore are subject to certain risks and uncertainties, including those discussed herein. In addition, any forward-looking information regarding the operations of the Company will be affected primarily by the Company's continued ability to purchase product from Whirlpool at acceptable prices and the ability of Edison to deliver units under both its contracts with the Company. In addition, any forward-looking information will also be affected by the ability of individual stores to meet planned revenue levels, the speed at which individual retail stores reach profitability, costs and expenses being realized at higher than expected levels, the Company's ability to secure an adequate supply of used appliances for resale and the continued availability of the Company's current line of credit.

PART I: ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT
MARKET RISK

MARKET RISK AND IMPACT OF INFLATION

The Company does not believe there is any significant risk related to interest rate fluctuations on its long-term debt since it all has fixed rates. However, there is interest rate risk on the line of credit since its interest is based on the prime rate. Also, the Company believes that inflation has not had a material impact on the results of operations for the nine-month period ended September 30, 2000. However, there can be no assurance that future inflation will not have an adverse impact on the Company's operating results and financial condition.

PART II. OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

The Company and its subsidiaries are involved in various legal proceedings arising in the normal course of business, none of which is expected to result in any material loss to the Company or any of its subsidiaries.

ITEM 2 – CHANGES IN SECURITIES AND USE OF PROCEEDS – None

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES – None

ITEM 4 – SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS – None

ITEM 5 – OTHER INFORMATION – None

ITEM 6 – EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibit 10.1 – Amendment to the line of credit dated August 30, 2000 between Appliance Recycling Centers of America, Inc. and Spectrum Commercial Services, a division of Lyons Financial Services, Inc., Amendment to General Credit and Security Agreement and Amended and Restated Revolving Note.
- (b) Exhibit 10.2 – Agreement dated August 21, 2000 between Appliance Recycling Centers of America, Inc. and Southern California Edison Company.
- (c) Exhibit No. 27 – Financial Data Schedule.
- (d) The Company did not file any reports on Form 8-K during the three months ended September 30, 2000.

SIGNATURES

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

Appliance Recycling Centers of America, Inc.
Registrant

Date: November 10, 2000

By /s/ Edward R. Cameron
Edward R. Cameron
President

Date: November 10, 2000

By /s/ Linda Koenig
Linda Koenig
Controller

EIGHTH AMENDMENT TO
GENERAL CREDIT AND SECURITY AGREEMENT

THIS AGREEMENT, dated and effective as of August 30, 2000 between SPECTRUM Commercial Services, a division of Lyon Financial Services, Inc., a Minnesota Corporation, having its mailing address and principal place of business at Two Appletree Square, Suite 415, Bloomington, Minnesota 55425 (herein called Lender" or "SCS"), and Appliance Recycling Centers of America, Inc., a Minnesota corporation, having the mailing address and principal place of business at 7400 Excelsior Boulevard, Minneapolis, MN 55426, (herein called "Borrower"), amends that certain General Credit and Security Agreement dated August 30, 1996, ("Credit Agreement") as amended. Where the provisions of this Agreement conflict with the Credit Agreement, the intent of this Agreement shall control.

1. The definition of "Maturity Date" appearing in Paragraph 2 is amended in its entirety to read as follows:

"Maturity Date" shall mean AUGUST 30, 2001, provided, however, that the then current Maturity Date shall be extended by succeeding periods of 12 calendar months without notice to or action by either Borrower or Lender, provided further however, that such extension shall not occur if: (i) Lender has notified Borrower of an Event of Default that has occurred and is continuing, or (ii) this Agreement has previously terminated as provided in the paragraph entitled "Termination", or (iii) Lender has, in its sole and absolute discretion, demanded payment of amounts owed hereunder, or (iv) Borrower or Lender have notified the other of the intention not to renew at least sixty days prior to the then current Maturity Date and thereafter no extension shall occur.

2. Paragraph 23 is amended in its entirety to read as follows:

TERMINATION. Subject to automatic termination of Borrower's ability to obtain additional Advances under this Agreement upon the occurrence of any Event of Default specified in Paragraphs 20(d), (e), (f) or (g) and to Lender's right to terminate Borrower's ability to obtain additional Advances under this Agreement upon the occurrence of any other Event of Default or upon demand, this Agreement shall have a term ending on the Termination Date provided, however, that Borrower may terminate this Agreement at any earlier time upon sixty days prior written notice and will incur no prepayment fee or charge thereafter. On the Termination Date, all obligations arising under this Agreement shall become immediately due and payable without further notice or demand. Lender's rights with respect to outstanding Obligations owing on or prior to the Termination Date will not be affected by termination and all of said rights including (without limitation) Lender's Security Interest in the Collateral existing on such Termination Date or acquired by Borrower thereafter, and the requirements of this Agreement that Borrower furnish schedules and confirmatory assignments of Receivables and Inventory and turn over to Lender all full and partial payments thereof shall continue to be operative until all such Obligations have been duly satisfied.

3. Paragraph 23 is amended in its entirety to read as follows

INTEREST. Borrower agrees to pay interest on the outstanding principal amount of the Note, at the close of each day at a fluctuating rate per annum (computed on the basis of actual number of days elapsed and a year of 360 days) which is at all times equal to One and three-quarters percent (1.75%) in excess of the Prime Rate; each change in such fluctuating rate caused by a change in the Prime Rate to occur simultaneously with the change in the Prime Rate; provided, however, that (i) in no event shall the interest rate in effect hereunder at any time be less than 10% per annum; and (ii) interest payable hereunder with respect to each calendar month shall not be less than \$14,000.00 regardless of the amount of loans, Advances or other credit extensions that actually may have been outstanding during the month. Interest accrued through the last day of each month will be due and payable to Lender on the next Monthly Payment Date. Interest shall also be payable on the Maturity Date or on any earlier Termination Date. Interest accrued after the Maturity Date or earlier

Termination Date shall be payable on Demand. Interest may be charged to Borrower's loan account as an Advance at Lender's option, whether or not Borrower then has the right to obtain an Advance pursuant to the terms of this Agreement. Notwithstanding the foregoing, after an Event of Default, this Note shall bear interest until paid at 5% per annum in excess of the rate otherwise then in effect, which rate shall continue to vary based on further changes in the Prime Rate; provided, however, that after an Event of Default, (i) in no event shall the interest rate in effect hereunder at any time be less than 15% per annum; and (ii) interest payable hereunder with respect to each calendar month shall not be less than \$20,300.00 regardless of the amount of loans, Advances or other credit extensions that actually may have been outstanding during the month. The undersigned also shall pay the holder of this Note a late fee equal to 10% of any payment under this Note that is more than 10 days past due.

4. The definition of "Borrowing Base" appearing in Paragraph 2 is respectively amended in their entirety to read as follows:

"Borrowing Base" shall mean the sum of (i) Eighty percent (80%) of the net amount of Eligible Receivables or such greater or lesser percentage as Lender, in its sole discretion, shall deem appropriate, plus (ii) the lesser of (x) Two Hundred Fifty Thousand and No/100ths Dollars (\$250,000) or (y) Twenty Five percent (25%) of the net amount of Eligible Inventory (excluding Eligible Whirlpool Inventory and Eligible Scratch and Dent Inventory), or such greater or lesser dollars and/or percentage as Lender, in its sole discretion, shall deem appropriate, plus (iii) the lesser of (x) Five Hundred Thousand and No/100ths Dollars (\$500,000) or (y) Fifty percent (50%) of the net amount of Eligible Scratch and Dent Inventory, or such greater or lesser dollars and/or percentage as Lender, in its sole discretion, shall deem appropriate, plus (iv) the lesser of (x) Four Million and No/100ths Dollars (\$4,000,000) or (y) Eighty percent (80%) of the net amount of Eligible Whirlpool Inventory, or such greater or lesser dollars and/or percentage as Lender, in its sole discretion, shall deem appropriate, provided however, that notwithstanding the dollar limits contained in subsections (ii) - (iv) above, that the total aggregate amount available under subsections (ii) - (iv) shall in no event exceed Four Million and No/100ths Dollars (\$4,000,000), or such greater or lesser dollars as Lender, in its sole discretion, shall deem appropriate.

5. The fixed component of the Loan Administration Fee referred to in paragraph 17(g) which was originally specified at \$1,000 per quarter is amended to be \$3,000 per quarter hereafter.

6. The final sentence of paragraph 7c shall be deleted and replaced with the following:

The net amount received by Lender as proceeds arising from the sale or other disposition of Collateral and/or the receipt of all other funds will be credited by Lender to Borrower's loan account (subject to final collection thereof) after allowing three Business Days for the collection of checks and other instruments.

7. The Guaranty hereof provided by Edward R. Cameron is hereby released completely and his name will be deleted from the definition of Guarantor contained in Paragraph 2.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

SPECTRUM COMMERCIAL SERVICES

APPLIANCE RECYCLING CENTERS
OF AMERICA, INC.

By /s/ Steven I. Lowenthal
Steven I. Lowenthal, Senior Vice President

By /s/ Edward R. Cameron
Its President

FIFTH AMENDED AND RESTATED REVOLVING NOTE

\$5,000,000.00

August 30, 2000
Bloomington, Minnesota

FOR VALUE RECEIVED, the undersigned, APPLIANCE RECYCLING CENTERS OF AMERICA, INC. promises to pay to the order of SPECTRUM COMMERCIAL SERVICES, a division of Lyon Financial Services, Inc., a Minnesota corporation, (the "Lender") at its office in Bloomington, Minnesota, or at such other place as any present or future holder of this Note may designate from time to time, the principal sum of (i) Five Million and 00/100 Dollars (\$5,000,000.00), or (ii) the aggregate unpaid principal amount of all advances and/or extensions of credit made by the Lender to the undersigned pursuant to this Note as shown in the records of any present or future holder of this Note, whichever is less, plus interest thereon from the date of each advance in whole or in part included in such amount until this Note is fully paid. Interest shall be computed on the basis of the actual number of days elapsed and a 360-day year, at an annual rate equal to One and three-quarters percent (1.75%) per annum in excess of the Prime Rate of Norwest Bank Minnesota, NA, and that shall change when and as said Prime Rate shall change; provided, however, that (i) in no event shall the interest rate in effect hereunder at any time be less than 10% per annum; and (ii) interest payable hereunder with respect to each calendar month shall not be less than \$14,000 regardless of the amount of loans, advances or other credit extensions that actually may have been outstanding during the month.. Interest is due and payable on the first day of each month and at maturity. The term "Prime Rate" means the rate established by Norwest Bank in its sole discretion from time to time as its Prime or Base Rate, and the undersigned acknowledges that Norwest Bank and/or Lender may lend to its customers at rates that are at, above or below the Prime Rate. Notwithstanding the foregoing, after an Event of Default, this Note shall bear interest until fully paid at 5% per annum in excess of the rate otherwise then in effect, which rate shall continue to vary based on further changes in the Prime Rate; provided, however, that after an Event of Default, (i) in no event shall the interest rate in effect hereunder at any time be less than 15% per annum; and (ii) interest payable hereunder with respect to each calendar month shall not be less than \$20,300 regardless of the amount of loans, advances or other credit extensions that actually may have been outstanding during the month. The undersigned also shall pay the holder of this Note a late fee equal to 10% of any payment under this Note that is more than 10 days past due.

All interest, principal, and any other amounts owing hereunder are due on August 30, 2001 or earlier UPON DEMAND by Lender or any holder hereof, and Lender specifically reserves the absolute right to demand payment of all such amounts at any time, with or without advance notice, for any reason or no reason whatsoever. Lender's right to make such demand is not exclusive and Lender may coincidentally or separately from such demand make further demand for payment pursuant to the terms hereof (including but not limited to upon the occurrence of an Event of Default), and further, amounts may become due hereunder without a demand by Lender.

All or any part of the unpaid balance of this Note may be prepaid at any time, provided however, that if Borrower provide Lender with 60 days advance notice thereof. At the option of the then holder of this Note, any payment under this Note may be applied first to the payment of other charges, fees and expenses under this Note and any other agreement or writing in connection with this Note, second to the payment of interest accrued through the date of payment, and third to the payment of principal. Amounts may be advanced and readvanced under this Note at the Lender's sole and absolute discretion, provided the principal balance outstanding shall not exceed the amount first above written. Neither the Lender nor any other person has any obligation to make any advance or readvance under this Note.

The occurrence of any of the following events shall constitute an Event of Default under this Note: (i) any default in the payment of this Note; or (ii) any other default under the terms of any now existing or hereafter arising debt, obligation or liability of any maker, endorser, guarantor or surety of this Note or any other person providing security for this Note or for any guaranty of this Note, including, but not limited to, that certain General Credit and Security Agreement dated August 30, 1996 as it may have been subsequently amended and/or restated; or (iii) the insolvency (other than the insolvency of the undersigned), death dissolution, liquidation, merger or consolidation of any such maker, endorser, guarantor, surety or other person; or (iv) any appointment of a receiver, trustee or similar officer of any property of any such maker, endorser, guarantor, surety or other person; or (v) any assignment for the benefit of creditors of any such maker, endorser, guarantor, surety or other person; or (vi) any commencement of any proceeding under any bankruptcy, insolvency, dissolution, liquidation or similar law by or against any such maker, endorser, guarantor, surety or other person, provided however, that if such a proceeding is commenced against the maker hereof or any Guarantor on an involuntary basis, then only if such action is not dismissed within 60 days of first being filed; or (vii) the sale, lease or other disposition (whether in one transaction or in a series of transactions) to one or more persons of all or a substantial part of the assets of any such maker, endorser, guarantor, surety or other person; or (viii) any such maker, endorser, guarantor, surety or other person takes any action to revoke or terminate any agreement, liability or security in favor of the Lender; or (ix) the entry of any judgment or other order for the payment of money in the amount of \$10,000.00 or more against any

such maker, endorser, guarantor, surety or other person which judgment or order is not discharged or stayed in a manner acceptable to the then holder of this Note within 10 days after such entry; or (x) the issuance or levy of any writ, warrant, attachment, garnishment, execution or other process against any property of any such maker, endorser, guarantor, surety or other person; or (xi) the attachment of any tax lien to any property of any such maker, endorser, guarantor, surety or other person which is other than for taxes or assessments not yet due and payable; or (xii) any statement, representation or warranty made by any such maker, endorser, guarantor, surety or other person (or any representative of any such maker, endorser, guarantor, surety or other person) to any present or future holder of this Note at any time shall be false, incorrect or misleading in any material respect when made; or (xiii) there is a material adverse change in the condition (financial or otherwise), business or property of any such maker, endorser, guarantor, surety or other person. Upon the occurrence of an Event of Default and at any time thereafter while an Event of Default is continuing, the then holder of this Note may, at its option, declare this Note to be immediately due and payable and thereupon this Note shall become due and payable for the entire unpaid principal balance of this Note plus accrued interest and other charges on this Note without any presentment, demand, protest or other notice of any kind.

The undersigned: (i) waives demand, presentment, protest, notice of protest, notice of dishonor and notice of nonpayment of this Note; (ii) agrees to promptly provide all present and future holders of this Note from time to time with financial statements of the undersigned and such other information respecting the financial condition, business and property of the undersigned as any such holder of this Note may reasonably request, in form and substance acceptable to such holder of this Note; (iii) agrees that when or at any time after this Note becomes due the then holder of this note may offset or charge the full amount owing on this note against any account then maintained by the undersigned with such holder of this Note without notice; (iv) agrees to pay on demand all fees, costs and expenses of all present and future holders of this Note in connection with this Note and any security and guaranties for this Note, including but not limited to audit fees and expenses and reasonable attorneys' fees and legal expenses, plus interest on such amounts at the rate set forth in this Note; and (v) consents to the personal jurisdiction of the state and federal courts located in the State of Minnesota in connection with any controversy related in any way to this Note or any security of guaranty for this Note, waives any argument that venue in such forums is not convenient, and agrees that any litigation initiated by the undersigned against the Lender or any other present or future holder of this Note relating in any way to this Note or any security or guaranty for this Note shall be venued (at the sole option of Lender or the

holder hereof) in either the District Court of Dakota or Hennepin County, Minnesota, or the United States District Court, District of Minnesota. Interest on any amount under this Note shall continue to accrue, at the option of any present or future holder of this Note, until such holder receives final payment of such amount in collected funds in form and substance acceptable to such holder. The maker agrees that, if it brings any action or proceeding arising out of or relating to this Agreement, it shall bring such action or proceeding in the District Court of Hennepin County, Minnesota.

No waiver of any right or remedy under this Note shall be valid unless in writing executed by the holder of this Note, and any such waiver shall be effective only in the specific instance and for the specific purpose given. All rights and remedies of all present and future holders of this Note shall be cumulative and may be exercised singly, concurrently or successively. The undersigned, if more than one, shall be jointly and severally liable under this Note, and the term "undersigned," wherever used in this Note, shall mean the undersigned or any one or more of them. This Note shall bind the undersigned and the successors and assigns of the undersigned. This Note shall be governed by and construed in accordance with the laws of the State of Minnesota.

This Note amends and restates, but does not repay, that certain Third Amended and Restated Revolving Note dated as of July 12, 1999 made by the undersigned payable to the order of Lender in the original principal amount of \$2,000,000.00.

THE UNDERSIGNED REPRESENTS, CERTIFIES, WARRANTS AND AGREES THAT THE UNDERSIGNED HAS READ ALL OF THIS NOTE AND UNDERSTANDS ALL OF THE PROVISIONS OF THIS NOTE. THE UNDERSIGNED ALSO AGREES THAT COMPLIANCE BY ANY PRESENT OR FUTURE HOLDER OF THIS NOTE WITH THE EXPRESS PROVISIONS OF THIS NOTE SHALL CONSTITUTE GOOD FAITH AND SHALL BE CONSIDERED REASONABLE FOR ALL PURPOSES.

APPLIANCE RECYCLING CENTERS
OF AMERICA, INC.

By /s/ Edward R. Cameron

Edward R. Cameron

President

SUMMER 2000-01 ENERGY EFFICIENCY INITIATIVE
REFRIGERATOR/FREEZER RECYCLING PROGRAM
AGREEMENT

Between

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

And

SOUTHERN CALIFORNIA EDISON COMPANY

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THIS AGREEMENT ("Agreement") is made and entered into as of the 11th day of September, 2000, by and between, APPLIANCE RECYCLING CENTERS OF AMERICA, INC., a Minnesota corporation ("ARCA"), and SOUTHERN CALIFORNIA EDISON COMPANY, a California corporation ("Administrator"). Administrator and ARCA are also each individually referred to herein as "Party" and collectively as "Parties."

RECITALS

WHEREAS, the California Public Utilities Commission ("CPUC"), by ruling of the Assigned Commissioners and Administrative Law Judge on the Summer 2000 Energy Efficiency Initiative, D. 00-07-017, dated August 21, 2000, and in subsequent rulings (collectively referred to as the "Ruling"), approved with modifications ARCA's proposal, dated July 21, 2000 ("Proposal"), and directed that Administrator enter into a contract with ARCA for Refrigerator/Freezer Early Retirement and Recycling Program services ("Program") to Jurisdictional electric service customers in the specified counties in the service territories of Pacific Gas & Electric ("PG&E") and San Diego Gas & Electric ("SDG&E").

AGREEMENT

NOW THEREFORE, in consideration of the foregoing Recital, the mutual covenants contained herein, the payments and agreement to be made and performed by Administrator as set forth herein, the Parties agree as follows:

1. DEFINITIONS

- 1.1 Basic Recycling Charge: Per-unit charge described in Section 7.2.1.
- 1.2 Refrigerants: Chlorofluorocarbon and hydrochlorofluorocarbon and hydrofluorocarbon refrigerants contained in the cooling systems of refrigerators and freezers.
 - 1.2.1 CFCs: Chlorofluorocarbons.
 - 1.2.2 CFC-11: Chlorofluorocarbons contained in refrigerator and freezer insulating foam.
- 1.3 Change Order: Document issued by Administrator to Contractor, executed by ARCA and Administrator, to change a Purchase Order.
- 1.4 Contact Period: September 11, 2000 to December 31, 2001, or as extended by mutual agreement of the Parties.
- 1.5 CPUC: the California Public Utilities Commission.
- 1.6 Documentation: Specifications, procedures, instructions, reports, test results, analyses, calculations, manuals, and other data specified in the Purchase Order, Change Order, this Agreement, and any amendment to this Agreement, as required by any legal entity having jurisdiction over the Work.
- 1.7 Eligible Appliances: Freezers or Refrigerators (as such terms are defined below) that meet the Program appliance eligibility criteria set forth in Section 5.3.
 - 1.7.1 Refrigerator: A Primary or a Secondary Refrigerator.
 - 1.7.2 Primary Refrigerator: Refrigerator currently in use by Customer as the main refrigeration appliance.
 - 1.7.3 Secondary Refrigerator: Surplus or spare refrigerator utilized by Customer concurrently with Primary Refrigerator.
 - 1.7.4 Freezer: A free-standing freezer utilized by a Customer concurrently with a Primary Refrigerator.
- 1.8 Eligible Customers: Customers who take distribution service from PG&E or SDG&E in accordance with the respective utility's applicable CPUC-approved rules of service, and who reside within the Territories.
- 1.9 Hazardous Materials: Any substance or material which has been designated as hazardous or toxic by the U.S. Environmental Protection Agency, the California Department of Toxic Substances Control and/or any other governmental agency now or hereinafter authorized to regulate materials in the environment, including, but not limited to "Materials which require special handling" as defined in California Public Resources Code Section 42167, which is contained in or is derived from the Eligible Appliance.
- 1.10 Mercury: Mercury found in switches and temperature control devices in refrigerators and freezers.
- 1.11 PCBS: Polychlorinated Biphenyls.
- 1.12 Pilot Program: A sub-program within the overall Program designed to demonstrate the feasibility of certain program elements prior to full implementation of a program including such program elements.
- 1.13 Program Participants: Eligible Customers who turn in Eligible Appliances.
- 1.14 Purchase Order: Document issued by the Administrator to ARCA and executed by the Parties, which contains the terms and conditions for the Work described herein.
- 1.15 Recycling Center: The site at which ARCA will process refrigerators and freezers, remove CFCs, Refrigerants, PCBS, Mercury and Used Oils, and recycle or legally dispose of Hazardous Materials.

- 1.16 Refrigerator/Freezer Early Retirement and Recycling Program: That program ordered by the CPUC in its Ruling which requires Administrator to contract with ARCA for implementation of a refrigerator/freezer early retirement and recycling program in the Territories of PG&E and SDG&E (also referred to herein as the "Program").
- 1.17 Ruling: as defined in the Recital to this Agreement and any subsequent rulings.
- 1.18 Subcontractor: Either an entity contracting directly with ARCA to furnish services or materials as part of or directly related to, the Work; or an entity contracting with Subcontractor of any tier to furnish services or materials as a part of, or directly related to, the Work.
- 1.19 Territories: The regions defined by the zip codes set forth in Attachment C located in the following counties in the service territories of SDG&E and PG&E: San Diego and portions of Orange County, San Francisco, San Mateo, and Santa Clara. Beginning January 1, 2001, the regions defined by the zip codes set forth in Attachment C located in the following counties will be added: Alameda, Contra Costa, Santa Cruz and Marin, and any additional regions as directed by the CPUC.
- 1.20 Used Oils: Used refrigeration compressor oil.
- 1.21 Work: Any and all obligations of ARCA to be performed pursuant to this Agreement.

2. GENERAL TERMS

- 2.1 ARCA shall perform the work and its associated obligations described below as an independent contractor.
- 2.2 This Agreement is appended to, and part of a Purchase Order executed by the Parties.
- 2.3 The Program is subject to spending limits, and ARCA shall not invoice SCE for an aggregate amount in excess of \$5.5 million to be spent in only PG&E's Territory, or an aggregate amount in excess of \$3.0 million to be spent in only SDG&E's Territory.

3. CONTRACT DOCUMENTS

- 3.1 This Agreement shall consist of the following documents: this Agreement, any amendments to this Agreement, the Purchase Order, and Change Orders. Except as provided below in Section 13 (Year 2000 warranty provision), in the event of any conflict or apparent conflict between any of the provisions of the documents comprising this Agreement, the following order of construction of the documents shall apply:
- 3.1.1 Amendments to the Agreement in chronological order from the most recent to the earliest;
- 3.1.2 Change Orders incorporating and reflecting any Amendments to the Agreement in chronological order from the most recent to the earliest.
- 3.1.3 This Agreement.
- 3.1.4 Purchase Order incorporating this Agreement.
- 3.2 Each Party shall notify the other immediately upon the identification of any such conflict or inconsistency.

4. SCOPE OF WORK

- 4.1. Advertising and Marketing. ARCA shall:
- o Submit to the Administrator all advertising and other marketing materials for approval prior to publishing or distributing.
 - o Implement a multi-media advertising/marketing campaign (i.e., brochures, print, cable television advertisements, truck signs, 800 number, web site address) for each Target Area which focuses on system load impacts of operating inefficient refrigerators and freezers, operating costs and potential private energy savings, and environmental benefits.

- o Provide local print and television media with program information, press kits, facility tours, collection ride-along events, press releases, and other opportunities to feature the Program.
- o As appropriate, solicit marketing affiliate participation from major retailers (i.e., Sears, Circuit City, Home Depot) including point-of-sale displays, and provide program information to consumer groups (particularly those assisting under-served segments of the residential electric customer base), community-based organizations, local governments, property owner/manager's associations, homeowner and tenant organizations, environmental organizations, and civic groups.
- o Provide a per-unit "bounty" to the authorized marketing affiliate for each participant referred to the program who turns in an Eligible Appliance for recycling.
- o Ensure that all advertising and promotional materials include program guidelines and restrictions, duration of the program, incentive amount, public and private program benefits, the 800 number and web site address; and will clearly state that the program is funded by California electric utility customers under the auspices of the Commission.
- o Explore adding program information to the Commission's web site and creating links from other sites to direct potentially Eligible Customers to the Program web site.

4.2 Customer Services. ARCA shall:

- o Establish an 800 telephone number and provide trained customer service staff to assist residential consumers Monday through Friday from 6:00 a.m. to 6:00 p.m. Pacific time with questions about the program and to schedule their participation.
- o Verify customer eligibility (i.e., live in the Territory, own a working refrigerator/freezer).'
- o Schedule in-home appliance removal appointments (choices of service dates and morning/afternoon collection, handle reschedule and cancellation requests).
- o Provide customers with information about preparing their refrigerator for removal (appliance must be plugged in and working at the time of pickup, empty and defrosted).
- o Conduct a brief customer survey, using questions provided by Administrator, with a randomly selected 20% of customers who schedule a collection appointment.
- o Produce written confirmation of appliance collection.
- o Provide customers with a day-ahead confirmation call.
- o Fulfill incentive payments (checks are sent approximately 3 weeks after collection of the refrigerator/freezer).

4.3 Collection. ARCA shall:

- o Hire and train drivers in the program service territory, provide collection vehicles and trailers, and establish a local transfer site.
- o Collect all Eligible Appliances from customers' residences or facilities within 20 days from the date of initial customer contact unless otherwise requested by the customer, and secure customer signature.
- o Contact customers a day ahead of their collection appointment as a reminder and assist customers needing to reschedule appointments.
- o Ask program participants to have their old refrigerator/freezer plugged in at the time of collection, or located within 50 feet of an outlet, so that the operational condition of the appliance can be confirmed.
- o Remove refrigerators and freezers and transfer to trailers to be shipped to ARCA's center in Compton, CA for processing and recycling.

4.4 Refrigerator Processing. ARCA shall:

- o Operate a center in compliance with all federal, state and local hazardous waste management and recycling regulations.
- o Ensure that all Refrigerants are recovered and recycled.
- o Recover and recycle CFC-11 blowing agents in the polyurethane foam insulation of refrigerators and freezers.
- o Ensure that all hazardous components, such as capacitors containing polychlorinated biphenyls (PCBS) or mercury-containing switches, are removed and properly stored prior to shipment for disposal or recycling.
- o Ensure that used compressor oil is recovered and processed to reduce the level of hazardous halogens before the oil is collected by a licensed oil recycler.
- o Ensure that PCB components are incinerated at a federally licensed hazardous waste incineration facility.
- o Ensure that mercury is recovered by a licensed mercury reclamation facility for recycling.
- o Ensure that Refrigerants and non-CFC refrigerants are sold to a certified refrigerant reclamation facility for recycling.
- o Ensure that processed refrigerators and freezers are sold to a metals recovery facility for recycling.

4.5 Records. ARCA shall document and maintain records for services under this Agreement as follows:

- 4.5.1 A Customer Comment Tracking System for recording customer inquiries, complaints, and positive feedback.
- 4.5.2 Appliance Turn-in Order Form ("ATO") to collect data such as customer name, address, home and work phone numbers; Appliance manufacturer's name; Appliance model and style; defrost type; color, size, and estimated age of unit; location of Appliance within the residence; final disposition code (which indicates operating condition of Appliance and/or Incentive received); special pick-up instructions (if applicable); and other information as needed to provide required reports under this Agreement.
- 4.5.3 Compilation of data in subsection 4.5.2 in electronic mode, employing a software program suitable for exchange of information with Administrator, subject to the approval of Administrator's Program Manager.

4.6 Customer Survey. ARCA shall conduct a customer survey, shown in Exhibit A, which is attached and incorporated by reference herein, using a stratified purposeful sample of 5% to 20% of the Program Participants. The purpose of the survey shall be to elicit information such as appliance use, customer demographics and customer satisfaction. Administrator may modify the information collected or reported in the survey, or the stratification and frequency of the survey, provided the modified survey is comparable to Exhibit A.

4.7 Incentives. ARCA shall establish and implement a financial incentive service as follows:

- 4.7.1 Each Program Participant will be entitled to receive a check in an amount to be determined by ARCA, not to exceed seventy-five Dollars (\$75.00). The check is referred to as the "Incentive".
 - 4.7.1.1 In the event ARCA determines the incentive amount will be less than \$75.00, ARCA will notify SCE at least 30 days prior to implementing the lower incentive amount.
- 4.7.2 ARCA shall provide Administrator with a weekly listing of Customers who receive an Incentive.

- 4.7.3 Upon Administrator's payment to ARCA as described in Section 7 of this Agreement, Administrator shall be under no further obligation with respect to reimbursement of such amounts and such reimbursement shall constitute full payment to ARCA on behalf of the Program Participants entitled to Incentives. Upon Administrator's payment to ARCA of such reimbursement, ARCA shall be deemed the holder of such property as far as the interests of the Program Participants entitled thereto are concerned for any and all purposes, including, but not limited to, complying with the unclaimed property laws of California and any and all other applicable states. Administrator shall not assume any responsibility for other disposition of the Incentive after such payment is paid to ARCA and shall not be entitled to the reversion of any amounts so paid.
- 4.8 Reporting. ARCA shall provide Administrator with reports for the services performed under this Agreement as follows:
- 4.8.1 A monthly report, provided no later than the 15th day of the month, and a quarterly report, each which shall contain the following:
- (a) the number of Eligible Appliances processed under this Agreement during the previous month and the size in cubic feet, year of manufacture, style, and defrost type.
 - (b) environmental data such as an estimated breakdown of amount of refrigerants recovered; number of pounds of Refrigerants, PCBs and Mercury removed; amount of Used Oils recycled; number of units containing CFC-11 foam; and weight of metals and non-recyclable materials sold for recycling.
 - (c) monthly Customer Comment Tracking System information required pursuant to Section 4.5.1.
 - (d) aging reports indicating the number of Eligible Appliances that were collected during the preceding month and that were scheduled for collection from Customers during that month, the date of the initial contact with the Customer, the date or dates the appliance was scheduled for collection, and the actual collection date.
- 4.8.2 A final report no later than thirty (30) days after the termination of this Agreement of all amounts paid by ARCA in compliance with any unclaimed property laws pursuant to Section 4.7.3 hereof.
- 4.8.3 Weekly invoices as provided in Section 8.
- 4.8.4 Upon reasonable written request from an authorized representative of Administrator, special and nonrecurring reports during the course of the Program. Such report content will be developed by the Parties and shall not necessitate unreasonable labor which would otherwise require the negotiation of a charge separate from the Basic Recycling Charge.
- 4.8.5 ARCA shall maintain records of its Program Participants. In all cases, when ARCA picks up an Eligible Appliance from a Program Participant, ARCA shall obtain the Program Participant's signature on the ATO.
- 4.8.6 ARCA shall submit to Administrator estimates of Program impact in the form of a final report at the end of the Contract Period. Such report shall include (but need not be limited to) the following:
- o a description of all activities undertaken as part of the Program
 - o the number of units retired and recycled

- o a demonstration of the energy and demand savings achieved.

4.8.7 ARCA shall make all data used in the preparation of the final report of Program impact estimates, referred to in Section 4.8.6 above, available to Administrator for auditing or other verification purposes.

4.9 Website. ARCA shall design and, subject to the prior approval of Administrator, implement a website which enables Eligible Customers in the Territories to electronically submit information for prequalification and schedule appointments on a 24 hour, seven day a week basis.

4.10 Cooperation, ARCA will work cooperatively with the Administrator, the CPUC and other interested parties to provide feed-back, determine Program effectiveness and recommend modifications to the Program's design or procedures.

5. CUSTOMER AND APPLIANCE ELIGIBILITY

5.1 Customer eligibility for the Program shall depend on the following:

5.1.1 Customer is an Eligible Customer in the Territories listed in Section 1.9 and occupies a single-family residential (Domestic Rate) or multi-unit dwelling or mobile home, or other customers as determined eligible under the Pilot Programs described in Section 5.1.4.

5.1.2 Customer is the owner of the Eligible Appliance or possesses written consent from the actual owner to turn in the Eligible Appliance.

5.1.3 Customer turns in no more than two Eligible Appliances per year unless otherwise allowed pursuant to Pilot Programs described in Section 5.1.4.

5.1.4 The Pilot Programs to be implemented during the Contract Period of this Program shall include: i) acceptance of Eligible Appliances from landlords/multi-family unit owners; (ii) acceptance of Eligible Appliances from non-profit organizations located within the Territories; and (iii) acceptance and prequalifications of PG&E and SDG&E's customers who participate in Refrigerator Rebate Programs if linkages to the utility programs can be created.

5.2 Commercial customers do not qualify for the Program. Landlords are considered commercial customers unless otherwise determined eligible under the Pilot Programs described in Section 5.1.4.

5.3 An Eligible Appliance must be capable of cooling and/or freezing, as applicable, at time of collection and its size must be 10 cubic feet or more unless it is otherwise determined eligible under the Pilot Programs described in Section 5.1.4.

5.4 Commercial refrigerators, ammonia-containing gas refrigerators, commercial freezers, and room air conditioners do not qualify as Eligible Appliances.

6. OWNERSHIP AND CONFIDENTIALITY

6.1 All information disclosed by Administrator during meetings or negotiations with regard to the Program, and any information contained in drawings, specifications, technical reports, and data, provided by Administrator to ARCA during performance of this Agreement shall be held in confidence by ARCA and used only for the performance of the Work pursuant to this Agreement.

6.2 ARCA, its employees, and any subcontractors shall not disclose any information concerning SDG&E's or PG&E's customers to any person other than Administrator's personnel either during the term of this Agreement or after its completion, without ARCA

having obtained the prior written consent of Administrator, except as provided by lawful court order or subpoena and provided ARCA gives Administrator advance written notice of such order or subpoena. Prior to any approved disclosure, persons receiving said information, including ARCA, its employees, or third parties, must enter into a nondisclosure agreement with Administrator. ARCA agrees to require its employees and subcontractors to execute a nondisclosure agreement prior to performing any services under this Agreement. This provision, however, does not prohibit ARCA from disclosing non-confidential information concerning this Agreement to the CPUC in any CPUC proceeding, or any CPUC-sanctioned meeting or proceeding or other public forum.

- 6.3 All materials provided by Administrator to ARCA during the performance of this Agreement shall be returned to Administrator after this Agreement is terminated or at the request of Administrator. ARCA shall not duplicate any material furnished by Administrator without prior written approval from Administrator.
- 6.4 Except as required by the CPUC, Administrator, its employees and any subcontractors of Administrator shall not disclose any confidential or proprietary information provided by ARCA ("ARCA's Confidential Information") to any person other than ARCA's personnel, either during the term of the Agreement, or after its completion, without having obtained the prior written consent of ARCA. By way of example, ARCA's Confidential Information shall include, without limitation, ARCA's systems for oil degassing, Refrigerant recovery and ARCA's computer software. Administrator agrees to require its employees to comply with the non-disclosure requirements of this Section prior to any contact with, or evaluation of ARCA's Confidential Information.
- 6.5 Administrator agrees that, without the prior written consent of ARCA, it will not, during the term or after termination of this Agreement, directly or indirectly, disclose to any individual, corporation, or other entity, or use for its own or such other's benefit, any of ARCA's Confidential Information, whether reduced to written or other tangible form, which:
- 6.5.1 Is not generally known to the public or in the industry;
 - 6.5.2 Has been treated by ARCA or any of its subsidiaries as confidential or proprietary; and
 - 6.5.3 Is of a competitive advantage to ARCA or any of its subsidiaries and in the confidentiality of which ARCA or any of its subsidiaries has a legally protectable interest.
- 6.6 ARCA's Confidential Information which becomes generally known to the public or in the industry, or, in the confidentiality of which, ARCA and its subsidiaries cease to have a legally protectable interest, shall cease to be subject to the restrictions of this Section 6.

7. COMMERCIAL TERMS

7.1 Payment

Administrator shall pay to ARCA, as full compensation for completing the Work, the prices set forth in Exhibit B as described in this Section 7.

7.2 Summary of Charges

7.2.1 Basic Recycling Charge. Administrator shall pay to ARCA a per-unit Basic Recycling Charge for the number of units collected and recycled pursuant to this Agreement at the price or prices set forth on Line C of Exhibit B. The Basic Recycling Charge covers the scope of work described in Section 4, excluding: the Incentive charge, CFC-11 Charge, Advertising Charge, and any Financing Charge.

7.2.1.1 True-Up. The pricing in line C of Exhibit B assumes a total volume for the Project of 20,001 to 40,000 units. In the event the

total number of units collected and recycled under the Program at any time exceeds 40,000, then the pricing under Exhibit B shall be based on line D for the 40,000 units previously processed, and for all subsequent

units processed (up to 60,000 units). In addition, ARCA shall provide Administrator with a credit, allocated based on the number of such 40,000 units attributable to PG&E's and SDG&E's Territory, in the total amount of \$228,000. ARCA shall apply such credited amounts against future invoices for each of PG&E's and SDG&E's Territory, respectively, subject to the spending limitations in Section 2.3. ARCA shall refund to Administrator any unused credit within 30 days after termination of this Agreement.

- 7.2.2 Incentive Charge. Administrator shall pay to ARCA the per-unit Incentive charge in the amount set forth in line C of Exhibit B.
 - 7.2.3 CFC-11 Charge. Administrator shall pay to ARCA the per-unit CFC-11 charge in the amount set forth in Line C of Exhibit B for all units collected.
 - 7.2.4 Advertising Charge. Administrator shall pay to ARCA the perunit advertising charge in the amount set forth in line C of Exhibit B.
 - 7.2.5 Financing Charges. Administrator shall pay to ARCA monthly interest at the rate of three-quarter of one percent (0. 75%) on the average monthly balance of any unpaid and overdue invoice over and above the charges set forth on Exhibit B.
- 7.3 ARCA agrees that any agreement it has, or in which it may enter with other utilities or agencies for a recycling program, shall not detrimentally affect ARCA's services under this Agreement.

8. BILLING

- 8.1 ARCA shall submit separate weekly invoices respectively relating to the Territories of SDG&E and PG&E, respectively, indicating the per-unit charges for the refrigerators and freezers collected, processed, and recycled. ARCA shall include with each invoice copies of all ATOs relating to invoiced amounts, and a summary, setting forth for each ATO included with the invoice, the ATO number, zip code, first unit price, additional units, and total price. Administrator shall have no obligation to pay any invoice unless all of the data and documents listed above have been received. ARCA shall apply a per-unit charge on units that have been disabled and only for the following transactions:
 - 8.1.1 Collection of an Eligible Appliance.
 - 8.1.2 Collection contact made for Eligible Appliance that cannot be removed due to obstruction because of size of structural barrier provided that ARCA obtains written permission from Customer to permanently disable said unit, and ARCA then permanently disables the unit.
- 8.2 ARCA shall apply a 25% per unit discount to the Basic Recycling Charge to any additional units when two Eligible Appliances are removed during a single collection appointment from a Customer's residence. Said discount shall be clearly documented and identified in ARCA's invoice.
- 8.3 Administrator shall make payment (less any unsubstantiated or incorrect charge) within thirty days of receipt of an invoice from ARCA.
- 8.4 ARCA acknowledges that Administrator will forward to SDG&E and PG&E, for their review, copies of the supporting documentation

and reports ARCA submits to Administrator. In the event SDG&E or PG&E provides Administrator with evidence demonstrating that any invoiced amount paid by Administrator to ARCA was incorrect or improper, Administrator shall have the right to offset from current payments due ARCA the full amount of such incorrect or improper payment, pending resolution of the discrepancy. No Financing Charges shall accrue on any amount offset by Administrator unless the offset was improper or incorrect.

9. RESPONSIBILITIES OF ADMINISTRATOR AND ARCA

- 9.1 Administrator shall be responsible for making contractual arrangements to transfer funding from PG&E and SDG&E to Administrator for payment, for arranging for its cost sharing with PG&E and SDG&E, and shall administer the Program for purposes of streamlining administration and oversight.
- 9.2 ARCA shall work with the Administrator to ensure that the Program meets the test for cost-effectiveness, using the 1.0 minimum ratio total resource cost test, as set forth in the Rulings. ARCA shall provide Administrator with all documentation necessary to demonstrate such test is met.
- 9.3 ARCA shall provide Administrator with estimates of Program impact at the conclusion of this Contract.
- 9.4 Administrator and ARCA shall meet their respective directives pursuant to the Rulings.

10. RIGHT TO AUDIT

During the Program and for 3 years after termination of the Agreement, Administrator, or its Authorized Representative, shall have the right and free access, at any reasonable time during normal business hours, to examine, audit, and copy all ARCA's records and books as related to ARCA's obligations under this Agreement, including, but not limited to, verification of costs to Administrator, as claimed by ARCA.

11. CHANGES

Changes to this Agreement shall be made by mutual agreement of the Parties through a written amendment to the Agreement. Such written amendment may be incorporated into this Agreement through a subsequent Purchase Order or Change Order.

12. PERMITS, CODES, AND STATUTES

- 12.1 ARCA shall perform the Work set forth in this Agreement in accordance with all applicable federal, state, and local laws, rules, and/or ordinances. Prior to performance of any services, ARCA shall, at its own cost, have obtained, and shall have required all Subcontractors to obtain, all licenses and permits required by law, rule, regulation, and ordinance, or any of them, to engage in the activities required in connection with this transaction. Said licenses and permits shall be kept current at all times during the term of the Agreement. ARCA also represents and warrants that, to the best of its knowledge, based upon reasonable and prudent inquiry, any storage site and any disposal facility to which the Hazardous Materials may be moved are in compliance with any and all federal, state and local laws and regulations pertaining thereto and that such storage sites and disposal facilities are suitable and may lawfully receive and/or dispose of the Hazardous materials.
- 12.2 ARCA shall comply with all applicable local, state, and federal safety and health laws in effect on the date of this Agreement, including, but not limited to, EPA, California EPA, RCRA, the Occupational Safety and Health Act of 1970 (OSHA), and all standards, rules, regulations, and orders issued pursuant to such local, state, and federal safety and health laws. Should any such law, rule, or regulation be enacted or promulgated subsequent to the date of this Agreement, which renders ARCA's performance impractical, ARCA and Administrator shall, in good faith, negotiate an amendment to this Agreement reasonably compensating ARCA for its additional costs.

13. WARRANTY

- 13.1 ARCA warrants to Administrator that the Work shall be performed in a competent manner, in accordance with this Agreement, and that the acceptance, handling, storage, recycling, and disposal of the refrigerators and freezers and the Hazardous Materials shall be in accordance with (i) the requirements of this Agreement and (ii) the applicable local, state, and federal laws and regulations in effect at the time of the work performed.
- 13.2 ARCA represents and warrants (i) that it has knowledge of the California Public Resources Code and the California Health and Safety Code which require that refrigerators and freezers be processed to remove Refrigerants, PCBs, Mercury, and Used Oils prior to crushing for transport or transferring to a baler or shredder for recycling; (ii) that it has knowledge of the hazards associated with the removal, handling, storage, recycling, and legal disposal of Hazardous Materials; (iii) that it has experience and expertise in such removal, handling, storage, recycling, and legal disposal; (iv) that it uses only qualified personnel, (including subcontractor's and agent's personnel) who have been instructed and certified in the proper safety procedures to be used in such removal, handling, storage, recycling, or legal disposal; and (v) that it will continue to operate and maintain its Recycling Center.
- 13.3 Year 2000 Warranty. ARCA hereby represents and warrants to Administrator and agrees that its software, hardware and equipment, and any piece, part, component or system thereof, and/or work provided hereunder will (a) at the time of delivery or performance be and will remain Year 2000 Compliant and (b) not fail to meet, or to be delivered in accordance with, all the requirements and specifications of this Agreement, as a result of any failure of ARCA or of its operations, suppliers, software, hardware or equipment to be Year 2000 compliant. In order for the software to be Year 2000 Compliant, it must accurately process date/time data (including, but not limited to, calculating, comparing, sorting, sequencing and calendar generation), including single century formulas and multi-century formulas, from, into, within and between the twentieth and twenty-first centuries, including all dates and leap year calculations, and will not malfunction or generate abnormal endings, incorrect values or invalid results involving such date/time data; (ii) accurately interface with other software, hardware or equipment, as necessary and appropriate, in order to supply, receive, process or transmit date/time and other data; (iii) provide that date/time-related functionalities, date/time fields and any user input interfaces include a four digit year format and/or other appropriate indication of century; (iv) not cause any of Administrator's other software, hardware or equipment that Administrator deems to be otherwise Year 2000 compliant to fail to be Year 2000 compliant; and (v) not cause any of Administrator's other software, hardware or equipment that

Administrator deems to be otherwise Year 2000 ready to fail to be Year 2000 ready. For purposes of this Agreement, Administrator shall deem software, hardware or equipment to be "Year 2000 compliant" if it has been or is determined by Administrator to accurately process date/time data from, into, within and between the twentieth and twenty-first centuries including all dates and leap year calculations. For purposes of this Agreement, Administrator shall deem software, hardware or equipment to be "Year 2000 ready" if it has been or is determined by Administrator to be suitable for continued use into the Year 2000 and beyond.

- 13.4 Year 2000 Warranty Controlling. In the event of any conflict or apparent conflict between any other provisions of this Agreement the terms and conditions of this Year 2000 Warranty shall control. Nothing in this Year 2000 Warranty shall be construed to limit any rights or remedies Administrator may otherwise have under any other provision of this Agreement, or under any other contract or agreement between the Parties.

14. TITLE

- 14.1 Title to the Hazardous Materials shall pass to ARCA when ARCA collects refrigerators and freezers from Customers.
- 14.2 Title of collected refrigerators and freezers shall pass to ARCA.

15.1 Without limiting ARCA's liability to Administrator, including the requirements of Section 16 (Indemnity), ARCA shall maintain for the Work, and shall require that each Subcontractor of the first tier maintain, at all times during the Work and at its own expense, valid and collectible insurance as described below. This insurance shall not be terminated, expire, not be materially altered, except on thirty days written notice to Administrator. ARCA shall furnish Administrator with certificates of insurance and forms acceptable to Administrator and shall require each Subcontractor of the first tier to furnish ARCA with certificates of insurance, as evidence that policies do provide the required coverage and limits of insurance listed below. Such certificates shall be furnished to Administrator's Program Manager by ARCA upon receipt of the Purchase Order, and by Subcontractor for the first tier upon receipt of its subcontract, but in any event prior to start of its portion of the Work. Any other insurance carried by Administrator, its officers, agents, and employees, which may be applicable, shall be deemed to be excess insurance, and ARCA's insurance shall be deemed primary for all purposes notwithstanding any conflicting provision in ARCA's policies to the contrary.

- (i) Workers' Compensation Insurance with statutory limits, as required by the state in which the Work is performed, and Employer's Liability Insurance with limits of not less than \$5,000,000. Carriers furnishing such insurance shall be required to waive all rights of subrogation against Administrator, its officers, agents, employees, and other contractors and subcontractors.
- (ii) Comprehensive Bodily Injury and Property Damage Liability Insurance, including owners, and contractors' protective liability, product/completed operations liability, contractual liability, and coverage for liability incurred as a result of sudden and accidental discharge, dispersal, release or escape of polluting materials, (excluding automobile) with a combined single limit of not less than \$3,000,000 for each occurrence. Such insurance shall: (a) acknowledge Administrator and SDG&E or PG&E, as appropriate, their respective officers, agents, and employees, as additional insureds; (b) be primary for all purposes; and (c) contain standard cross-liability provisions.
- (iii) Automobile Bodily Injury and Property Damage Liability Insurance with a combined single limit of not less than \$3,000,000 for each occurrence. Such insurance shall cover liability arising out of the use by ARCA and Subcontractors of owned, non owned and hired automobiles in the performance of the Work. As used herein, the term "automobile" means vehicles licensed or required to be licensed under the Vehicle Code of the state in which the Work is performed. Such insurance shall acknowledge Administrator and SDG&E or PG&E, as appropriate as additional insureds and be primary for all purposes.
- (iv) Environmental Impairment Expense Insurance with a combined single limit of not less than \$5,000,000 for each occurrence and overall limits of \$10,000,000. Such insurance shall provide coverage for necessary costs or expense of removing, cleaning up, transporting, nullifying, and rendering ineffective, or any of them, any substance which has caused environmental impairment and such insurance shall contain no exclusions for non-sudden and/or non-accidental discharge, release or escape of polluting materials. Such insurance shall acknowledge Administrator and SDG&E or PG&E, as appropriate, as additional insureds and be primary for all purposes.

ARCA shall report immediately to Administrator and confirm in writing any injury, loss, or damage

incurred by ARCA or Subcontractors in excess of \$500.00, or its receipt of notice of any claim by a third party in excess of \$500.00, or any occurrence that might give rise to such claim.

If ARCA fails to comply with any of the provisions of this Section 15, ARCA shall, at its own cost, defend, indemnify, and hold harmless Administrator, its officers, agents, employees, assigns, and successors in interest, from and against any and all liability, damages, losses, claims, demands, actions, causes of action, costs, including in-house and outside attorney's fees and expenses, or any of them, resulting from the death or injury to any person or damage to any property to the extent that Administrator would have been protected had ARCA complied with all of the provisions of this Section.

16. INDEMNITY

16.1 ARCA shall, at its own cost, indemnify, defend, reimburse, and hold harmless Administrator, its officers, directors, employees, agents, assigns, and successors in interest, from and against any and all liability, damages, losses, claims, suits, demands, actions, causes of action, costs, expenses, including in-house and outside attorney's fees and expenses, or any of them resulting from the death or injury to any person or damage to or destruction of any property caused by ARCA, Subcontractors, and employees, officers and agents of either ARCA or Subcontractors, or any of them, and arising out of or attributable to the performance or nonperformance of ARCA's obligations under this Agreement and including, without limitation, failure to comply fully with any federal, state, or local law, statute, regulation, rule, ordinance, or government directive which directly or indirectly regulates or affects the handling, storage, recycling, or disposal of the Hazardous Materials to be managed by ARCA hereunder. In all cases of death or injury to employees, officers or agents of either ARCA or Subcontractors, whether or not caused by ARCA, Administrator shall be indemnified by ARCA for any and all liability except to the extent such death or injury results from the negligence of Administrator.

16.2 ARCA shall, at its own cost, indemnify, defend, reimburse, and hold harmless Administrator, its officers, directors, employees, and agents, assigns, and successors in interest, from and against any and all liability imposed upon, or to be imposed upon Administrator, under any law imposing liability for the environmental clean-up of the Hazardous Materials at any location (other than Administrator's property) where the Hazardous Materials have been placed, stored or disposed of in the performance or nonperformance of ARCA's obligations under this Agreement, or any other site to which the Hazardous Materials have migrated.

16.3 The indemnities set forth in this Section 16 shall not be limited by the insurance requirements set forth in Section 15.

17. TERM AND TERMINATION

17.1 This Agreement shall commence on the date first written above and shall continue in effect until the first to occur of (1) conclusion of the Contract Period, and (ii) ninety (90) days after ARCA has invoiced Administrator for a total aggregate amount of \$8.5 million under this Agreement. In either event, ARCA shall complete all work associated with all amounts invoiced under this Agreement. This Agreement may be extended as agreed to in writing by the Parties, subject to approval by the CPUC.

17.2 Either Party may terminate the Agreement for cause by providing 60 days advance written notice to the other Party. If the default has not been cured within the 60 day notice period, the non-defaulting party may declare this Agreement terminated, effective on the last day of said notice period ("Termination Date"). ARCA shall be paid for all work performed prior to the Termination Date.

17.3 Administrator shall have the right to terminate this Agreement by providing 30 days advance written notice to ARCA upon CPUC mandate, or upon depletion of the amount of funding authorized by the CPUC for the Contract Period. In the event the

Agreement is terminated upon CPUC mandate, Administrator shall pay ARCA all amounts owed under the Agreement as of 30 days after Administrator's written notice to ARCA of the CPUC's mandate (the "Termination Date"). In such event, Administrator shall only be obligated to pay contractor for such refrigerators and freezers actually collected by ARCA for recycling as of the Termination Date.

- 17.4 In the event of termination pursuant to this Section 17, ARCA and Administrator shall work cooperatively to facilitate the termination of the Summer Initiative.
- 17.5 Each Party shall immediately provide at no cost to the other, any report, testimony, or any communications with the CPUC, or any board, division, committee or member thereof, which could reasonably be anticipated to effect the Program or which addresses it in any manner.

18. WRITTEN NOTICES

- 18.1 Any written notice, demand or request required or authorized in connection with this Agreement, shall be deemed properly given if delivered in person or sent by facsimile, nationally recognized overnight courier, or first class mail, postage prepaid, to the address specified below, or to another address specified in writing by Administrator as follows:

ADMINISTRATOR: Southern California Edison Company
Attn: Jeannette Duvall-Ward
2244 Walnut Grove Avenue - Quad 2A
Rosemead, CA 91770
(626) 302-8791 telephone
(626) 302-8313 facsimile

ARCA: Appliance Recycling Centers of America, Inc.
Attention: Mr. Jack Cameron President
7400 Excelsior Boulevard Minneapolis, MN 55426
(952) 612-1717 telephone
(952) 612-1801 facsimile

- 18.2 Notices shall be deemed received (a) if personally or hand-delivered, upon the date of delivery to the address of the person to receive such notice if delivered before 5:00 p.m., or otherwise on the Business Day following personal delivery; (b) if mailed, three Business Days after the date the notice is postmarked; (c) if by facsimile, upon electronic confirmation of transmission, followed by telephone notification of transmission by the noticing Party; or (d) if by overnight courier within the time limits set by that courier for next-day

19. SUBCONTRACTS.

- 19.1 ARCA shall contractually require each Subcontractor of the first tier providing service in connection with the Work to be bound by general terms and conditions protecting Administrator which are equivalent to the terms and conditions of this Agreement.
- 19.2 ARCA shall, at all times, be responsible for the work, and acts and omissions, of Subcontractors and persons directly or indirectly employed by them for services in connection with the Work. The Purchase Order and this Agreement shall not constitute a contractual relationship between any Subcontractor and Administrator nor any obligation for payment to any Subcontractor.

20. CALIFORNIA PUBLIC UTILITIES COMMISSION

This Agreement and the Purchase Order incorporating this Agreement are entered into in furtherance of the Ruling, and shall at all times be subject to such changes or modifications by the CPUC as it may from time to time direct in the exercise of its jurisdiction.

21. NON-WAIVER

None of the provisions of the Agreement shall be considered waived by either Party unless such waiver is specifically stated in writing.

22. ASSIGNMENT

Administrator may be required to assign its rights, duties and obligations under this Agreement to the CPUC and/or its designee. ARCA and Administrator hereby consent to such assignment. Other than an assignment to the CPUC or the CPUC's administrator, neither Party shall delegate or assign this Agreement or any part or interest thereof, without the prior written consent of the other Party, and any assignment without such consent shall be void and of no effect.

23. FORCE MAJEURE

Failure of ARCA to perform any of the provisions of this Agreement by reason of any of the following shall not constitute an event of default or breach of this Agreement: strikes, picket lines, boycott efforts, earthquakes, fires, floods, war (whether or not declared), revolution, riots, insurrections, acts of God, acts of government (including, without limitation, any agency or department of the United States of America), acts of the public enemy, scarcity or rationing of gasoline or other fuel or vital products, inability to obtain materials or labor, or other causes which are reasonable beyond the control of the ARCA.

24. GOVERNING LAW

The contract shall be interpreted, governed, and construed under the laws of the State of California as if executed and to be performed wholly within the State of California.

25. SECTION HEADINGS

Section headings appearing in this Agreement are for convenience only and shall not be construed as interpretations of text.

26. SURVIVAL

Notwithstanding completion or termination of the Work, of this Agreement, any amendment to the Agreement, or of any Purchase Order or Change Order, the Parties shall continue to be bound by the provisions of this Agreement and any Purchase order incorporating this Agreement, Amendment to this Agreement and Change Orders, which by their nature shall survive such completion or termination. Such provisions shall include, but not be limited to, ARCA's indemnity protecting Administrator from any liability for environmental clean up as provided in Section 16 of this Agreement.

27. NO RELIANCE

Neither Party has relied upon any representation, warranty, projection, estimate or other communication from the other not specifically so identified in this Agreement.

28. ATTORNEYS' FEES

In the event of any legal action or other proceeding between the Parties arising out of this Agreement or the transactions contemplated herein, the prevailing Party in such legal action or proceeding shall be entitled to have and recover from the other Party all costs and expenses incurred therein, including reasonable in-house and outside attorneys' fees.

29. COOPERATION

Each Party agrees to cooperate with the other Party in whatever manner reasonably required to facilitate the successful completion of the Agreement.

30. ENTIRE AGREEMENT

This Agreement contains the entire agreement and understanding between the Parties and merges and supersedes all prior representations and discussions pertaining to the Agreement, including ARCA's proposal. Any changes, exceptions, or different terms and conditions proposed by ARCA are hereby rejected unless expressly stated in this Agreement.

SIGNATURES

Each of the persons signing this Agreement individually represents that he or she is duly authorized to execute this Agreement on behalf of the

Party for whom he or she signs.

SOUTHERN CALIFORNIA
EDISON COMPANY

By: /s/ Pamela A. Bass

Name: Pamela A. Bass

Title: Sr. Vice President

Date: October 5, 2000

APPLIANCE RECYCLING
OF AMERICA, INC.

By: /s/ Edward R. Cameron

Name: Edward R. Cameron

Title: President

Date: September 26, 2000

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