

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

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

For the quarterly period ended March 31, 2001

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

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

(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 May 11, 2001, the number of shares outstanding of the registrant's no par value Common Stock was 2,287,369 shares.

APPLIANCE RECYCLING CENTERS of AMERICA, INC.

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

| | <u>March 31,</u> 2001 | <u>December 30,</u> 2000 |
|---|--------------------------|-----------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 635,000 | \$ 302,000 |
| Accounts receivable, net of allowance of \$20,000 | 2,926,000 | 1,731,000 |
| Inventories, net of reserves of \$374,000 and \$375,000, respectively | 4,239,000 | 4,233,000 |
| Deferred income taxes and other current assets | 362,000 | 386,000 |
| Total current assets | 8,162,000 | 6,652,000 |
| Property and Equipment, at cost | | |
| Land | 2,050,000 | 2,050,000 |
| Buildings and improvements | 3,609,000 | 3,550,000 |
| Equipment | 4,336,000 | 4,046,000 |
| | 9,995,000 | 9,646,000 |
| Less accumulated depreciation | 4,010,000 | 3,930,000 |
| Net property and equipment | 5,985,000 | 5,716,000 |
| Other Assets | | |
| | 297,000 | 207,000 |
| Goodwill, net of amortization of \$123,000 and \$114,000, respectively | | |
| | 67,000 | 76,000 |
| Total assets | \$ 14,511,000 | \$ 12,651,000 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Line of credit | \$ 3,590,000 | \$ 2,402,000 |
| Current maturities of long-term obligations | 307,000 | 275,000 |
| Accounts payable | 1,890,000 | 1,279,000 |
| Accrued expenses (Note 2) | 951,000 | 936,000 |
| Deferred gain on building sale | 42,000 | 60,000 |
| Income taxes payable | 191,000 | 517,000 |
| Total current liabilities | 6,971,000 | 5,469,000 |
| Long-Term Obligations, less current maturities | | |
| | 4,473,000 | 4,431,000 |
| Total liabilities | 11,444,000 | 9,900,000 |
| Shareholders' Equity | | |
| Common stock, no par value; authorized 10,000,000 shares; issued and outstanding 2,287,000 shares | 11,360,000 | 11,360,000 |
| Accumulated deficit | (8,293,000) | (8,609,000) |
| Total shareholders' equity | 3,067,000 | 2,751,000 |
| Total liabilities and shareholders' equity | \$ 14,511,000 | \$ 12,651,000 |

See Notes to Consolidated Financial Statements.

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

| | Three Months Ended | |
|-------------------|---------------------------|-------------------------|
| | <u>March 31,</u> 2001 | <u>April 1,</u> 2000 |
| Revenues (Note 3) | | |
| Retail | \$ 4,728,000 | \$ 2,207,000 |
| Recycling | 2,866,000 | 1,676,000 |
| Byproduct | 170,000 | 291,000 |

| | | |
|---|------------|------------|
| Total revenues | 7,764,000 | 4,174,000 |
| Cost of Revenues | 4,610,000 | 2,170,000 |
| Gross profit | 3,154,000 | 2,004,000 |
| Selling, General and Administrative Expenses | 2,390,000 | 1,432,000 |
| Operating income | 764,000 | 572,000 |
| Other Income (Expense) | | |
| Other income | 21,000 | 1,000 |
| Interest expense | (240,000) | (187,000) |
| Income before provision for income taxes | 545,000 | 386,000 |
| Provision for Income Taxes | 229,000 | 96,000 |
| Net income | \$ 316,000 | \$ 290,000 |
| Basic Earnings per Common Share | \$ 0.14 | \$ 0.13 |
| Diluted Earnings per Common Share | \$ 0.11 | \$ 0.10 |
| Weighted Average Number of Common Shares Outstanding: | | |
| Basic | 2,287,000 | 2,287,000 |
| Diluted | 2,863,000 | 2,812,000 |

See Notes to Consolidated Financial Statements.

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

| | Three Months Ended | |
|---|---------------------------|------------------------|
| | <u>March 31,</u> | <u>April 1,</u> |
| | 2001 | 2000 |
| Cash Flows from Operating Activities | | |
| Net income | \$ 316,000 | \$ 290,000 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 101,000 | 94,000 |
| Accretion of long-term debt discount | 11,000 | 9,000 |
| Loss on disposal of property and equipment | -- | 5,000 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (1,195,000) | 119,000 |
| Inventories | (6,000) | (932,000) |
| Other assets | (78,000) | 17,000 |
| Accounts payable | 611,000 | 290,000 |
| Accrued expenses | 15,000 | 150,000 |
| Unrealized gain on building sale | (18,000) | -- |
| Income taxes payable | (326,000) | 29,000 |
| Net cash provided by (used in) operating activities | (569,000) | 71,000 |
| Cash Flows from Investing Activities | | |
| Purchases of property and equipment | (349,000) | (42,000) |
| Cash Flows from Financing Activities | | |
| Net borrowings under line of credit | 1,188,000 | 121,000 |
| Proceeds from long-term obligations | 142,000 | -- |
| Payments on long-term obligations | (79,000) | (29,000) |
| Net cash provided by financing activities | 1,251,000 | 92,000 |
| Increase in cash and cash equivalents | 333,000 | 121,000 |
| Cash and Cash Equivalents | | |
| Beginning | 302,000 | 220,000 |
| Ending | \$ 635,000 | \$ 341,000 |
| Supplemental Disclosures of Cash Flow Information | | |
| Cash payments for: | | |
| Interest | \$ 230,000 | \$ 171,000 |
| Income taxes | 555,000 | 67,000 |

Appliance Recycling Centers of America, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Financial Statements – In the opinion of the Company’s management, 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 March 31, 2001 and the results of operations and its cash flows for the three-month periods ended March 31, 2001 and April 1, 2000. 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 consolidated financial statements and related notes in the Company’s Annual Report on Form 10-K for the fiscal year ended December 30, 2000.

Certain information and footnote disclosures usually included in the annual consolidated financial statements in accordance with generally accepted accounting principles have been condensed or omitted.

2. Accrued Expenses
Accrued expenses were as follows:

| | March 31, 2001 | December 30, 2000 |
|--------------|-------------------|----------------------|
| Compensation | \$ 351,000 | \$ 330,000 |
| Warranty | 193,000 | 188,000 |
| OTHER | 407,000 | 418,000 |
| | \$ 951,000 | \$ 936,000 |

3. Revenue Recognition – In prior periods, the Company had reported consolidated recycling revenues and byproduct revenues together as recycling revenues. The Company has determined that byproduct revenues should be separately reported because of their significant dollar amount and since this revenue is a result of both retail and recycling activities. Prior periods have been reclassified to be consistent with this presentation.

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 three sources: retail, recycling and byproduct activities. Retail revenues are sales of appliances, warranty and service revenue and delivery fees. Recycling revenues are fees charged for the disposal of appliances. Byproduct revenues are sales of scrap metal and reclaimed chlorofluorocarbons (“CFC’s”) generated from processed appliances. The Company is managed as a unit and does not measure profit or loss separately for its three primary revenue sources. Therefore, the Company believes that it has one operating segment.

Total revenues for the three months ended March 31, 2001 were \$7,764,000 compared to \$4,174,000 for the three months ended April 1, 2000, an increase of 86%. Retail revenues for the three months ended March 31, 2001 were \$4,728,000, compared to \$2,207,000 for the three months ended April 1, 2000, an increase of 114%. Same-store retail sales increased 34% (a sales comparison of five stores that were open the entire first three months of both 2001 and 2000). The increase in retail revenues was primarily due to an increase in scratch and dent sales as a result of increased advertising and operating three additional stores during the first quarter of 2001 compared to the same period in the previous year. Currently, the Company has eight retail locations. The Company plans to open a store in May 2001 in the Columbus, Ohio market, which will replace a significantly smaller store in this market. Any additional stores opened later this year would be located in an existing market. 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.

Recycling revenues increased to \$3,036,000 in the three months ended March 31, 2001 from \$1,967,000 for the same period of 2000, an increase of 54%. The increase in recycling revenues was primarily due to an increase in the recycling volumes principally related to the Summer Initiative contract with Southern California Edison Company ("Edison"). The Company has a two-year contract with Edison for its refrigerator recycling program through December 30, 2001. In the first quarter of 2001, the Company signed an updated contract for the second year of the two-year contract with Edison. There are no material changes in the Edison arrangement in the updated contract. The Company expects the volume for the second year of this contract, 2001, to be at approximately the same level as 2000. This two-year contract does not provide for a minimum number of refrigerators to be recycled in either 2000 or 2001. The timing and amount of revenues will be dependent on advertising by Edison.

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RESULTS OF OPERATIONS – Continued

The Company has another contract with Edison ("Summer Initiative") for a recycling program in the service areas of Pacific Gas & Electric (the San Francisco Bay area) and San Diego Gas & Electric. Under this contract, the Company expects to recycle approximately 30,000 to 40,000 additional units through the end of 2001. However, the contract goal could be attained by the third quarter of this year. Also, this contract does not provide for a minimum number of units to be recycled. The Company began the Summer Initiative in September 2000 and was fully operational in the first quarter of 2001. The Company is responsible for advertising for the Summer Initiative.

The recent energy crisis in California has not had a material adverse effect on the Company's operations. However, there can be no assurance that it will not have an adverse effect in the future if Edison is unable to perform under the terms of its contracts with the Company.

Byproduct revenues decreased to \$170,000 in the three months ended March 31, 2001 from \$291,000 in the same period of 2000. The decrease was primarily due to a decrease in scrap metal prices and a decrease in the volume of CFCs offset by an increase in CFC prices.

Gross profit as a percentage of total revenues decreased to 40.6% for the three months ended March 31, 2001 from 48.0% for the three months ended April 1, 2000. The decrease was primarily due to higher retail sales of scratch and dent appliances which have a lower gross margin than sales of reconditioned appliances. Gross profit as a percentage of total revenues for future periods can be affected favorably or unfavorably by numerous factors, including the mix of retail products sold, the volume of appliances recycled from the Edison contracts, and the price and volume of byproduct revenues. The Company believes that gross profit as a percentage of total revenues for the year will approximate the gross profit as a percentage of total revenues of the first quarter of 2001.

Selling, general and administrative expenses for the three months ended March 31, 2001 increased by \$958,000 or 66.9% from the same period in 2000. Selling expenses for the three months ended March 31, 2001 increased by \$805,000 or 170.1% from the same period in 2000. The increase in selling expenses was primarily due to an increase in advertising and sales commissions and the expenses for the opening of three stores during the first quarter of 2001. General and administrative expenses for the three months ended March 31, 2001 increased by \$153,000 or 16.0% from the same period in 2000. The increase in general and administrative expense was primarily due to an increase in personnel costs.

Interest expense was \$240,000 for the three months ended March 31, 2001 compared to \$187,000 for the same period in 2000. The increase was due to a higher average borrowed amount in the three months ended March 31, 2001 than in the same period in 2000 offset by a decrease in the effective interest rate on the line of credit.

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RESULTS OF OPERATIONS – Continued

The Company recorded a provision for income taxes of \$229,000 for the three months ended March 31, 2001 compared to \$96,000 for the three months ended April 1, 2000. This increase was due to both greater pre-tax income and a higher effective tax rate for the three months ended March 31, 2001 compared to the same period in the prior year.

The Company has net operating loss carryovers of approximately \$8,514,000 at March 31, 2001, which may be available to reduce taxable income and in turn income taxes payable in future years. However, future utilization of these loss 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 \$46,000 per year. At March 31, 2001, the Company had recorded cumulative valuation allowances of approximately \$4,022,000 against its net deferred tax assets due to the uncertainty of their 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.

The Company recorded net income of \$316,000 or \$.11 per diluted share for the three months ended March 31, 2001 compared to \$290,000 or \$.10 per diluted share for the same period of 2000. The increase in the net income was due to a decrease in selling, general and administrative expenses as a percentage of total revenues offset by a decrease in the gross profit percentage.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2001, the Company had working capital of \$1,191,000 compared to working capital of \$1,183,000 at December 30, 2000. Cash and cash equivalents increased to \$635,000 at March 31, 2001 from \$302,000 at December 30, 2000. Net cash used in operating activities was \$569,000 for the three months ended March 31, 2001 compared to net cash provided by operating activities of \$71,000 in the same period of 2000. The cash used in operating activities was primarily due to an increase in accounts receivable and payment of income taxes offset by net income and an increase in accounts payable.

The Company's capital expenditures for the three months ended March 31, 2001 and April 1, 2000 were approximately \$349,000 and \$42,000, respectively. The 2001 capital expenditures were primarily related to the continued upgrade of computer systems and the purchase of equipment related to the refrigerator recycling operation. The 2000 capital expenditures were primarily related to the purchase of computer equipment.

LIQUIDITY AND CAPITAL RESOURCES – continued

As of March 31, 2001, the Company had a \$5.0 million line of credit with a lender. The interest rate on the line as of March 31, 2001 was 9.75%. The amount of borrowings available under the line of credit is based on a formula using receivables and inventories. The line of credit has a stated maturity date of August 30, 2001, if not renewed, and 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 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. At March 31, 2001, the Company had unused borrowing capacity of \$361,000.

The recent energy crisis in California has not had a material adverse effect on the Company's operations. However, there can be no assurance that it will not have an adverse effect in the future if Edison is unable to perform under the terms of its contracts with the Company.

The Company believes, based on the anticipated revenues from the Edison contract and the Summer Initiative contract, anticipated sales per retail store and anticipated gross profit, that its cash balance, anticipated funds generated from operations and its current line of credit, if renewed in August 2001, will be sufficient to finance its operations and capital expenditures through December 2001. The Company's total capital requirements will depend on, among other things as discussed herein, the recycling volumes generated from the Edison program and Summer Initiative program in 2001 and the number and size of retail stores operating during the fiscal year. Currently, the Company has three recycling centers and eight retail 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 the line of credit will be renewed or such additional sources of financing will be available or available on terms satisfactory to the Company or permitted by the Company's current lenders.

FORWARD-LOOKING STATEMENTS

Statements contained in this quarterly report regarding the Company's future operations, performance and results, and anticipated liquidity are forward-looking and therefore are subject to certain risks and uncertainties, including, but not limited to those discussed herein. 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 and timing 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 retail stores to meet planned revenue levels, the rate of sustainable growth in the number of retail stores, 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 special buy and used appliances for resale and the continued availability of the Company's current line of credit.

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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 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 three-month period ended March 31, 2001. However, there can be no assurance that future inflation will not have an adverse impact on the Company's operating results and financial conditions.

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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

On April 26, 2001, the Company held its Annual Meeting of Shareholders. At the meeting, Edward R. Cameron, Duane S. Carlson, Harry W. Spell, Marvin Goldstein and George B. Bonniwell were elected as directors for 2001. The shareholders also approved an amendment to the Company's Restated 1997 Stock Option Plan and ratified the appointment of McGladrey & Pullen, LLP as independent auditors for the fiscal year ending December 29, 2001.

ITEM 5 – OTHER INFORMATION – None

ITEM 6 – EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibit 10.1 – Updated contract dated January 1, 2001 between Southern California Edison Company and Appliance Recycling Centers of America, Inc.
- (b) Exhibit 10.2 — Amendment effective April 26, 2001 to 1997 Stock Option Plan.
- (c) The Company did not file any reports on Form 8-K during the three months ended March 31, 2001.

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SIGNATURES

undersigned thereunto duly authorized.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
Registrant

DATE: May 11, 2001

/s/ EDWARD R. CAMERON
Edward R. Cameron
President

DATE: May 11, 2001

/s/ LINDA KOENIG
Linda Koenig
Controller

SOUTHERN CALIFORNIA EDISON COMPANY'S 2001 REFRIGERATOR RECYCLING
AND HAZARDOUS MATERIALS DISPOSAL AGREEMENT

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2001 REFRIGERATOR RECYCLING
AND HAZARDOUS MATERIALS DISPOSAL AGREEMENT

BETWEEN

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

AND

SOUTHERN CALIFORNIA EDISON COMPANY

THIS PROGRAM IS FUNDED BY CALIFORNIA UTILITY CUSTOMERS AND ADMINISTERED BY
SOUTHERN CALIFORNIA EDISON COMPANY UNDER THE AUSPICES OF THE CALIFORNIA PUBLIC
UTILITIES COMMISSION.

THIS AGREEMENT ("Agreement") is made and entered into as of the 1st day
of January, 2001, by and between SOUTHERN CALIFORNIA EDISON COMPANY, a
California corporation ("SCE") and APPLIANCE RECYCLING CENTERS OF
AMERICA, INC., a Minnesota corporation ("Contractor"). SCE and
Contractor are also each individually referred to herein as "Party" and
collectively as "Parties."

RECITALS

WHEREAS, the Parties have previously entered into an agreement
with respect to the recycling of older inefficient refrigerators and
freezers and the disposal of hazardous materials for the period January
2000 through December 2001 ("the 2000/2001 Refrigerator Recycling
Program Agreement").

WHEREAS the Parties desire to terminate the 2000/2001
Refrigerator Recycling Program Agreement and to allow ARCA to continue
to implement a Refrigerator Recycling Program in 2001 under the terms
and conditions set forth herein for the removal of older, inefficient
refrigerators and freezers ("Refrigerators and Freezers") from SCE
Customer residences thereby reducing the load demand on the electrical
system under the terms set forth below ("the 2001 Refrigerator
Recycling Program").

WHEREAS, SCE desires to continue and increase its efforts to
reduce the load demand on the electrical system through the further
removal of older inefficient primary and secondary Refrigerators and
Freezers.

WHEREAS, SCE desires to ensure the safe, lawful recovery and
recycling or lawful disposal, as necessary, of CFCs, PCBs, and
Hazardous Materials.

WHEREAS, in furtherance thereof, SCE desires to contract with
Contractor for the continued comprehensive management of its 2001
Refrigerator Recycling Program.

WHEREAS, Contractor desires to contract with SCE for the
continued comprehensive management of SCE's 2001 Refrigerator Recycling

Program, said management to include collection and dismantling of primary and secondary Refrigerators and Freezers; removal of CFCs, PCBs and other Hazardous Materials from collected Refrigerators and Freezers; handling storage and legal disposal of compressor oil, PCBs and other Hazardous Materials; recycling of metal, sulfur dioxide, and CFCs; providing incentives to participating SCE Customers who relinquish Refrigerators and Freezers; and performance of a customer survey.

WHEREAS, Contractor represents (i) that it has knowledge of the Metallic Discard Act, effective January 1, 1994, which prohibits the disposal of Refrigerators and Freezers in landfills and requires that Refrigerators and Freezers be shredded for metal recovery following removal of CFCs, PCBs, and other Hazardous Materials contained in discarded Refrigerators and Freezers, (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 has purchased property and has established and will continue to operate and maintain its recycling center on said purchased property in the City of Compton or other area acceptable to Contractor and SCE.

WHEREAS, the Parties hereto desire to set forth terms and conditions under which the aforesaid management services shall be performed and which shall constitute the Parties' agreement.

NOW THEREFORE, in consideration of the foregoing Recitals, the mutual covenants contained herein, the payments and agreement to be made and performed by SCE as set forth in the pricing schedule attached hereto as EXHIBIT A and incorporated by reference herein, the Parties agree as follows:

1. DEFINITIONS

- 1.1 Agreement: This document, the terms and conditions contained in this Agreement as amended from time to time.
- 1.2 CFCs: Chlorofluorocarbons
- 1.3 CFC-11: Chlorofluorocarbons contained in refrigerator and freezer insulating foam.
- 1.4 Change Order: Document issued by SCE to Contractor to change a Purchase Order.
- 1.5 Contract Period: January 1, 2001 to December 30, 2001, or as extended by mutual agreement of the Parties.
- 1.6 CPUC: the California Public Utilities Commission.
- 1.7 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.
- 1.8 Eligible Appliances: see Eligible Refrigerators and Freezers (section 1.10).
- 1.9 Eligible Customers: Residential customers in SCE service territory who meet the customer eligibility criteria in Section 6.
- 1.10 Eligible Refrigerators and Freezers: Appliances that meet the 2001 Refrigerator Recycling Program appliance eligibility criteria as set forth in Section 5.
- 1.11 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 Refrigerators or Freezers.
- 1.12 2001 Refrigerator Recycling Program: Refrigerator Recycling

Program defined by this Agreement.

- 1.13 2001 Program Participants: Eligible customers who turn in qualifying Refrigerators or Freezers.
- 1.14 PCB: Polychlorinated Biphenyl.
- 1.15 Pilot Program: A sub-program within the overall 2001 Refrigerator Recycling Program designed to demonstrate the feasibility of certain program elements prior to full implementation of a program including such program elements.
- 1.16 Purchase Order: Document issued by SCE to Contractor and executed by the Parties, which contains additional terms and conditions for the Work described herein.
- 1.17 Recycling Center: The site at which Contractor will process Refrigerators and Freezers, remove CFCs, PCBs and other Hazardous Materials, and recycle or legally dispose of Hazardous materials.
- 1.18 Recycling Charge: Per-unit price for services performed by Contractor under scope of work, including CFC-11 recovery services, and excluding incentive and financing services.
- 1.19 Primary refrigerator: refrigerator currently in use by customer as the main refrigeration appliance.
- 1.20 Secondary refrigerator: Surplus refrigerator utilized by customer concurrently with primary refrigerator.
- 1.21 Subcontractor: Either an entity contracting directly with Contractor 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.
- 1.22 Work: Any and all obligations of Contractor to be performed pursuant to this Agreement or a subsequent Purchase Order or Change Order incorporating this Agreement, such as Refrigerator and Freezer collection, Refrigerator and Freezer processing, handling, storing, recycling, and legal disposal, of Hazardous Materials and Documentation preparation.

2. GENERAL TERMS

- 2.1 Contractor shall perform the work and its associated obligations described below as an independent contractor.
- 2.2 This Agreement shall be supplemented by a Purchase Order containing additional terms and conditions for performing the work described below.

3. CONTRACT DOCUMENTS

- 3.1 This Agreement shall consist of the following documents: this Agreement, any amendments to this Agreement, Purchase Orders, and Change Orders. Except as provided below in Section 12 (Year 2001 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 Contractor shall be responsible for customer service activities, including providing inbound 800 telephone numbers for Customers, a webpage which allows Customer access for

inquiries and/or qualification and signup 24 hours a day, seven days a week, (see Section 4.9), all communication services, scheduling Eligible Refrigerator and Freezer collection appointments, verification of customer and appliance eligibility, documentation of customer data, and other activities.

- 4.2 Contractor shall (i) collect all Eligible Appliances from Customers' residences within 10 to 15 business days from the date of initial customer contact (unless otherwise requested by the Customer), in remote areas of the service territory, or as approved by SCE's Program Manager. Collection shall be no later than 20 business days from the date of the initial customer contact, unless otherwise requested by Customer. A twenty-five percent (25%) reduction in the Recycling Fee shall be made by SCE if Eligible Appliances are collected later than 20 business days after the initial customer contact, except in creation remote areas of SCE's service territory or unless the customer requested the later collection date. For purposes of this section, the remote areas of SCE's service territory shall include: those districts listed below. See EXHIBIT B for more information on the zip codes and cities for the remote areas of SCE's service territory.

DISTRICT NAME/NUMBER
* Antelope Valley (36)
* Arrowhead (40)
* Barstow (72)

* Bishop (85)
* Blythe (87)
* Catalina Island (61)
* Kernville (53)
* Tehachapi (52)
* High Desert (73)
* 29 Palms (84)
* Big Creek (50)
* San Joaquin Valley (51)
* Ridgecrest (86);

(ii) ensure that the Eligible Appliance is an operating unit before removing it from a residence; (iii) disable the unit prior to leaving pick-up location; and (iv) process the unit at its Recycling Center.

- 4.3 Contractor shall be solely responsible for all methods, techniques, sequences, and procedures for the dismantling of Eligible Appliances, processing of metal panels and components, recycling of recovered scrap metal, removal, recycling, or lawful disposal of Hazardous Materials.
- 4.4 Contractor shall be solely responsible for all methods, techniques, sequences, and procedures for the removal and management of all capacitors found in Eligible Appliances, and the removal and disposal of compressor oil, PCBs, and other Hazardous Materials from the time Contractor collects Eligible Appliances pursuant to this Agreement.
- 4.5 Contractor shall document and maintain records for services under this Agreement, or any Purchase order incorporating 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 to collect data such as customer name, address, home and work phone numbers; utility account number, Appliance manufacturer's name; Appliance model and style; defrost type; color, size, and estimated age of unit; location of Appliance within the residence; amperage, final disposition code (which indicates operating condition of Appliance and/or Incentive received) identification of units containing CFC-11; special pick-up instructions (if applicable) and signature of customer in the event refrigerator or freezer is discovered not to be an Eligible Appliance as certified, customer acknowledges liability to SCE for recycling costs.
- 4.5.3 Compilation of data in subsection 4.5.2 in electronic

mode, employing a software program suitable for exchange of information with SCE, subject to the approval of SCE's Program Manager.

- 4.6 Contractor shall conduct a customer survey, comparable to EXHIBIT C, which is attached and incorporated by reference herein, using a stratified purposeful sample of 5% to 20% of the 2001 Program Participants. The stratification and frequency of the survey may be modified periodically by SCE, provided that an Amendment to this Agreement or a separate agreement shall be entered into if any such modification necessitates unreasonable labor, as substantiated by Contractor, requiring the negotiation of a charge separate from the Recycling Charge. The purpose of the survey shall be to elicit information such as appliance use, customer demographics and customer satisfaction. Stratification and frequency of survey shall be modified periodically as determined by SCE provided modified survey is comparable to EXHIBIT C.
- 4.7 Contractor and SCE shall establish and implement a financial incentive service as follows:
- 4.7.1 Each 2001 Program Participant, other than low income customers serviced pursuant to SCE's 1999/2001 Refrigerator Replacement Pilot Program For Low Income Customers, will be entitled to receive a check in the amount of thirty-five Dollars (\$35.00) and/or a promotional item to be provided by SCE (the "Promotional Item"). The check and the Promotional Item are each referred to individually as the "Incentive".
- The Promotional Item shall be delivered to Contractor at a location to be mutually agreed upon by the Parties. SCE shall require the manufacturer to deliver the Promotional Items in packages designed to diminish the possibility of damage to the units during transit.
- 4.7.2 Contractor shall deliver Promotional Items to 2001 Program Participants at the time the Eligible Appliance is picked up. Each Program Participant who receives a Promotional Item must sign a receipt acknowledging that he/she received the Promotional Item. Requests for checks shall be processed and mailed via the U.S. Postal System within 15 business days of the date the Eligible refrigerator or freezer was picked up.
- 4.7.3. Contractor shall provide SCE with a weekly listing of Customers qualifying for an Incentive for SCE's approval. Customers qualifying for an Incentive are 2001 non low income Program Participants who turn in an Eligible Appliance for which SCE will pay a per-unit price as set forth in Section 7.2 of this Agreement.
- 4.7.4 Upon SCE's reimbursement of Contractor for the Incentives described in Section 7.4 of this Agreement, SCE shall be under no further obligation with respect to reimbursement of such amounts and such reimbursement shall constitute full payment to Contractor on behalf of the 2001 Program Participants entitled to Incentives. Moreover, upon SCE's payment to Contractor of such reimbursement, Contractor shall be deemed the holder of such property as far as the interests of the 2001 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. SCE shall not assume any responsibility for other disposition of the reimbursement payments after such reimbursement is paid to Contractor and shall not be entitled to the reversion of any amounts so paid.
- 4.8 Contractor shall provide SCE 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 which shall contain the following:

(a) the number of Eligible Appliances processed through the Recycling Center 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 capacitors removed; number and size of CFC-11 units and amount of CFC-11 recovered; amount of sulfur dioxide recovered, amount of compressor oil recycled; and weight of metals and nonrecyclable materials sold for shredding.

(c) the 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 Contractor in compliance with any unclaimed property laws pursuant to Section 4.7.4 hereof.

4.8.3 Upon reasonable written request from an authorized representative of SCE, special and nonrecurring reports during the course of the 2001 Refrigerator Recycling Program. Such report content will be developed by the Parties in anticipation of requests from the CPUC, SCE internal audits, or compilation of data relevant to Rebuild LA activities. An amendment to this Agreement or a separate agreement shall be entered into only if any such report necessitates unreasonable labor, as substantiated by Contractor, requiring the negotiation of a charge separate from the Recycling Charge.

4.8.4 Contractor shall modify its current computer software program so that the Contractor's Appliance Turn-In Order Form ("ATO") has a disposition code which can be coded for each 2001 Program Participant indicating which Incentive was selected by the 2001 Program Participant. In all cases, when Contractor picks up an Eligible Appliance from a 2001 Program Participant, Contractor shall obtain the 2001 Program Participant's signature on the Contractor's ATO.

On a weekly basis, Contractor shall prepare an invoice for SCE to substantiate the fees due for Contractor's delivery of Promotional Items and the costs, if any, incurred by Contractor pursuant to Section 9.6 of this Agreement (the "Invoice"). The Invoice shall include an ATO report showing the delivery of Promotional Items during the billing period. The Invoice shall also separately identify all low income customers serviced. All Invoices will be paid pursuant to Section 8.5.

4.9 Contractor shall design and implement a website which enables SCE's customers to electronically submit information for prequalification and schedule appointments on a 24 hour, seven day a week basis. The website content shall be approved by the SCE Program Manager. Any changes to the content must be reviewed and approved prior to implementation. The site shall match the "look and feel" of the SCE server page which shall host the link.

5. CUSTOMER AND APPLIANCE ELIGIBILITY

5.1 Customer eligibility for the 2001 Refrigerator Recycling Program shall depend on the following:

5.1.1 Customer is a resident in the SCE service territory and occupies a single-family residential (Domestic Rate) or multi-unit dwelling or mobile home. Eligible

customers include customers who reside in SCE's service territory but who take distribution services from an entity other than SCE.

- 5.1.2 Customer is not one of the low income customers identified by SCE as a participant in the 1999/2001 Refrigerator Replacement Pilot Program For Low Income Customers.
- 5.1.3 Customer is the owner of the Eligible Appliance or possesses written consent from the actual owner to turn in the Eligible Appliance.
- 5.1.4 Customer turns in no more than two Eligible Refrigerators or Freezers per year unless written SCE approval is obtained for any additional Eligible Appliance.
- 5.1.5 The Pilot Programs to be implemented in 2001 as part 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 SCE's service territory; and (iii) acceptance and pre-qualifications of SCE customers who participate in SCE's Refrigerator Rebate Program.
- 5.2 Commercial customers do not qualify for the 2001 Refrigerator Recycling Program. Landlords are considered commercial customers.
- 5.3 Refrigerator and Freezer eligibility for the 2001 Refrigerator Recycling Program shall depend on the following:
 - 5.3.1 Refrigerator or Freezer must be capable of cooling or freezing, or both, as applicable, at time of collection.
 - 5.3.2 Refrigerator or Freezer minimum size is 10 cubic feet and maximum size is 27 cubic feet.
- 5.4 Commercial refrigerators, ammonia-containing gas refrigerators, commercial freezers, and room air conditioners do not qualify for the 2001 Refrigerator Recycling Program.

6. OWNERSHIP AND CONFIDENTIALITY

- 6.1 All information disclosed by SCE during meetings or negotiations with regard to the 2001 Refrigerator Recycling Program, and any information contained in drawings, specifications, technical reports, and data provided by SCE to Contractor during performance of this Agreement shall be held in confidence by Contractor and used only for the performance of the Work pursuant to this Agreement.
- 6.2 Contractor, its employees, and any subcontractors shall not disclose any 2001 Refrigerator Recycling Program or customer information to any person other than SCE's personnel either during the term of this Agreement or after its completion, without Contractor having obtained the prior written consent of SCE, except as provided by lawful court order or subpoena and provided Contractor gives SCE advance written notice of such order or subpoena. Prior to any approved disclosure, persons receiving said information, including Contractor, its employees, or third parties, must enter into a nondisclosure agreement with SCE. Contractor 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 CONTRACTOR FROM DISCLOSING NON-CONFIDENTIAL INFORMATION CONCERNING THE 2001 REFRIGERATOR RECYCLING PROGRAM TO THE CPUC IN ANY CPUC PROCEEDING, OR ANY CPUC-SANCTIONED MEETING OR PROCEEDING OR OTHER PUBLIC FORUM.
- 6.3 All materials provided by SCE to Contractor during the performance of this Agreement shall be returned to SCE after this Agreement is terminated or at the request of SCE. Contractor shall not duplicate any material furnished by SCE without prior written approval from SCE.
- 6.4 All information, material, and documents prepared or caused to be prepared under this Agreement by Contractor shall become the

property of SCE. Such information, or derivative information, materials, and documents, shall be used by Contractor only for work performed directly for SCE, and shall not be used in Contractor's general course of business, disclosed nor revealed in any way to a third party without the prior express written consent of SCE.

6.5 All information disclosed by Contractor to SCE during meetings or negotiations with regard to the 2001 Refrigerator Recycling Program, and any information contained in drawings, specifications, technical reports, and data provided by contractor to SCE during performance of this Agreement, shall be held in confidence by SCE, and used only in relation to the Work pursuant to this Agreement.

6.6 Except as required by the CPUC, SCE, its employees and any subcontractors of SCE shall not disclose any confidential or proprietary information provided by Contractor ("Contractor's Confidential Information") to any person other than Contractor's personnel, either during the term of the Agreement, or after its completion, without having obtained the prior written consent of Contractor. By way of example, Contractor's Confidential Information shall include, without limitation, Contractor's systems for oil degassing, CFC recovery, CFC-11 recovery and Contractor's computer software. Prior to any approved disclosure, persons to receive Contractor's Confidential Information, including SCE, its employees or any third-party, must enter into a nondisclosure agreement with Contractor. SCE agrees to require its employees to execute appropriate nondisclosure agreements prior to any contact with, or evaluation of Contractor's Confidential Information.

6.7 SCE agrees that, without the prior written consent of Contractor, 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 Contractor's Confidential Information, whether reduced to written or other tangible form, which:

- 6.7.1 Is not generally known to the public or in the industry;
- 6.7.2 Has been treated by Contractor or any of its subsidiaries as confidential or proprietary; and
- 6.7.3 Is of a competitive advantage to Contractor or any of its subsidiaries and in the confidentiality of which Contractor or any of its subsidiaries has a legally protectable interest.

6.8 Contractor's Confidential Information which becomes generally known to the public or in the industry, or, in the confidentiality of which, Contractor 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

No payment shall be made under this Agreement until SCE has received a signed "Acceptance Copy" of the Purchase Order from Contractor. SCE shall pay to Contractor, as full compensation for completing the Work, the prices set forth in EXHIBIT A in accordance with the payment provisions set forth below in subsections 7.2 through 7.4.

7.2 Summary of Charges

7.2.1 Recycling Charge. SCE shall pay to Contractor a per-unit Recycling Charge for the number of units collected pursuant to this Agreement at the price or prices set forth in Section 8.3 below. The Recycling Charge covers the scope of work described in Section 4, including CFC-11 Recovery and excluding incentive purchasing and financing services.

- 7.2.2 Other Charges. All other costs for services shall be negotiated between the parties and implemented by an amendment to the Agreement.
- 7.2.3 SCE shall pay Contractor a fee of Two Dollars (\$2.00) ("Handling Fee") per Promotional Item for each Promotional Item distributed to 2001 Program Participants in accordance with subsection 8.5.3. The Handling Fee shall compensate Contractor for the storage, handling and delivery of the Promotional Items, additional labor, and any and all other costs and expenses in connection with the Promotional Item Incentive, including any additional documentation and reports that may be necessary or required as a result of the Promotional Item incentive. SCE shall not be responsible for any other compensation or reimbursement to Contractor as a result of the Promotional Item incentive except for the Handling Fee.
- 7.2.4 Incentive Cost and Finance Charges. SCE shall pay to Contractor Incentive costs and finance charges as specified in Section 7.4 below.
- 7.3 Pricing Recycling Charge
 - 7.3.1 The per-unit Recycling Charge to be paid by SCE for the Contract Period shall be as set forth in EXHIBIT A.
- 7.4 Pricing Incentive Costs and Finance Charges
 - 7.4.1 SCE shall reimburse Contractor for the cost of each incentive payment distributed to 2001 Program Participants.
 - 7.4.2 SCE shall pay to Contractor monthly interest at the rate of three-quarter of one percent (0.75%) on the average monthly balance of the outstanding incentive costs.
- 7.5 Miscellaneous

Contractor 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 Contractor's services under this Agreement.

8. BILLING

- 8.1 Contractor shall submit a weekly invoice reflecting the per-unit charge for the refrigerators and freezers collected, processed, and recycled, and for the purchase and approval of incentives. Contractor 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 or structural barrier provided that Contractor obtains written permission from Customer to permanently disable said unit, and Contractor then permanently disables the unit.
 - 8.1.3 Collection of an oversized Eligible Appliance that requires additional trips, personnel, or equipment to execute removal. Additional services for removal of an oversized Eligible Appliance shall be charged as a single appointment with no extra charge for said additional services.
 - 8.1.4 Collection of an Eligible Appliance that could not be inspected for eligibility confirmation only with prior approval in accordance with subsection 5.3.

- 8.2 Contractor shall submit a final invoice for the Contract Period in hard copy and in electronic format acceptable to SCE.
- 8.3 Contractor shall apply a 25% per unit discount to the Recycling Charge to any additional units when two or more Eligible Refrigerators or Freezers are removed during a single collection appointment from Customer's residence. Said discount shall be clearly documented and identified in Contractor's invoice.
- 8.4 Contractor shall submit a weekly invoice for the purchase price of the incentive payments and a monthly invoice for the interest charge identified in subsection 7.4.2.
- 8.5 SCE shall make payment (less any unsubstantiated or incorrect charge):
- 8.5.1 For check incentive services, within thirty days of receipt of an Invoice by SCE's Accounts Payable Department.
 - 8.5.2 Of Recycling Fee, within thirty days of receipt of an Invoice from Contractor approved by SCE.
 - 8.5.3 For Handling Fees within thirty days of receipt of an Invoice from Contractor approved by SCE.
- 8.6 Upon receipt of each shipment of the Promotional Items, Contractor shall inspect the shipment for any damaged or defective Promotional Items. Contractor shall contact the SCE Program Manager for instructions regarding the disposition of any damaged and/or defective Promotional Item. SCE shall reimburse Contractor for all costs associated with the return of any such damaged and/or defective Promotional Items.
- 8.7 On a weekly basis, Contractor shall provide SCE with an unaudited accounting of Promotional Items remaining in Contractor's inventory of Promotional Items. At the end of the program year, Contractor shall complete and provide SCE with a reconciliation to account for the Promotional Items that were defective, damaged, or stolen. Contractor shall reimburse SCE for any and all Promotional Items stolen from Contractor after delivery to Contractor.
- 8.8 If after a Promotional Item is delivered by Contractor any 2001 Program Participant alleges that a Promotional Item is damaged or defective, SCE shall replace such defective and/or damaged Promotional Item. SCE shall be responsible for the replacement of the damaged and/or defective Promotional Item, including, but not limited to, the delivery of a new Promotional Item to the 2001 Program Participant. If the damage to a Promotional Item is the result of any action by Contractor, SCE shall be relieved of any obligation to pay Contractor a Handling Fee for the damaged Promotional Item.

9. RIGHT TO AUDIT

SCE, 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 Contractor's records and books as related to Contractor's obligations under this Agreement, including, but not limited to, verification of costs to SCE, as claimed by Contractor.

10. 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.

11. PERMITS, CODES, AND STATUTES

11.1 Contractor 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, Contractor 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. Contractor 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.

11.2 Contractor 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 Contractor's performance impractical, Contractor and SCE shall, in good faith, negotiate an amendment to this Agreement reasonably compensating Contractor for its additional costs.

12. WARRANTY

12.1 Contractor warrants to SCE 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.

12.2 Year 2001 Warranty. Contractor hereby represents and warrants to SCE 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 2001 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 Contractor or of its operations, suppliers, software, hardware or equipment to be Year 2001 compliant. In order for the software to be Year 2001 Compliant, it must (i) 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 SCE's other software, hardware or equipment that SCE deems to be otherwise Year 2001 compliant to fail to be Year 2001 compliant; and (v) not cause any of SCE's other software, hardware or equipment that SCE deems to be otherwise Year 2001 ready to fail to be Year 2001 ready. For purposes of this Agreement, SCE shall deem software, hardware or equipment to be "Year 2001 compliant" if it has been or is determined by SCE 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, SCE shall deem software, hardware or equipment to be "Year 2001 ready" if it has been or is determined by SCE to be suitable for continued use into the Year 2001 and beyond.

12.3 Year 2001 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 2001 Warranty shall control. Nothing in this Year 2001 Warranty shall be construed to limit any rights or remedies SCE may otherwise have under any other provision of this Agreement, or under any other contract or agreement between the Parties.

13. TITLE

- 13.1 Title to the Hazardous Materials shall pass to Contractor when Contractor collects refrigerators and freezers from customers.
- 13.2 Title of collected Refrigerators and Freezers shall pass to Contractor.

14. INSURANCE

- 14.1 Without limiting Contractor's liability to SCE, including the requirements of Section 15, Indemnity, Contractor 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 prior written notice to SCE. Contractor shall furnish SCE with certificates of insurance and forms acceptable to SCE and shall require each Subcontractor of the first tier to furnish Contractor 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 SCE's 2001 Program Manager by Contractor 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 SCE, its officers, agents, and employees, which may be applicable, shall be deemed to be excess insurance, and Contractor's insurance shall be deemed primary for all purposes notwithstanding any conflicting provision in Contractor'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 SCE, 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 SCE, its officers, agents, and employees, and additional insureds;
 - (b) be primary for all purposes;
 - (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 Contractor 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 SCE as an additional insured 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 SCE as an additional insured and be primary for all purposes.

Contractor shall report immediately to SCE and confirm in writing any injury, loss, or damage incurred by Contractor 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 Contractor fails to comply with any of the provisions of this Section 14, Contractor shall, at its own cost, defend, indemnify, and hold harmless SCE, 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 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 SCE would have been protected had Contractor complied with all of the provisions of this Section.

15. INDEMNITY

- 15.1 Contractor shall, at its own cost, indemnify, defend, reimburse, and hold harmless SCE, 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 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 Contractor, Subcontractors, and employees, officers and agents of either Contractor or Subcontractors, or any of them, and arising out of or attributable to the performance or nonperformance of Contractor's obligations under this Agreement and including, without limitation, failure to comply fully with every 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 Contractor hereunder. In all cases of death or injury to employees, officers or agents of either Contractor or Subcontractors, whether or not caused by Contractor, SCE shall be indemnified by Contractor for any and all liability except to the extent such death or injury results -from the negligence of SCE.
- 15.2 Contractor shall, at its own cost, indemnify, defend, reimburse, and hold harmless SCE, 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 SCE, under any law imposing liability for the environmental clean-up of the Hazardous Materials at any location (other than SCE's property) where the Hazardous Materials have been placed, stored or disposed of in the performance or nonperformance of Contractor's obligations under this Agreement, or any other site to which the Hazardous Materials have migrated.
- 15.3 The indemnities set forth in this Section 15 shall not be limited by the insurance requirements set forth in Section 14.

16. TERM AND TERMINATION

- 16.1 This Agreement shall commence on January 1, 2001 and shall continue in effect until December 30, 2001, or until Contractor has picked up all units called in prior to December 30, 2001, whichever is later. This Agreement may be extended as agreed to in writing by the Parties.
- 16.2 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"). Contractor shall be paid for all work performed prior to the Termination Date.
- 16.3 SCE shall have the right to terminate this Agreement by

providing 30 days advance written notice to Contractor upon CPUC mandate set forth below in Section 19, 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, SCE shall pay Contractor all amounts owed under the Agreement as of 30 days after SCE's written notice to Contractor of the CPUC's mandate (the "Termination Date"). In such event, SCE shall only be obligated to pay contractor for such Refrigerators and Freezers actually collected by Contractor for recycling as of the Termination Date, and shall not be obligated to pay contractor for units not collected but which would otherwise be required to be paid for as units comprising SCE's Specified Volume.

- 16.4 In the event of termination pursuant to this Section 16 or Section 19, Contractor and SCE shall work cooperatively to facilitate the termination of the 2001 Refrigerator Recycling Program.
- 16.5 Each Party shall immediately provide at no cost to the other any testimony, or any communications with the CPUC, or any board, division, committee or member thereof, which could reasonably be anticipated to effect the 2001 Refrigerator Recycling Program or which addresses it in any manner.

17. WRITTEN NOTICES

- 17.1 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 SCE as follows:

SCE: Southern California Edison Company
Refrigerator Recycling Program
2244 Walnut Grove Avenue - Quad 2A
Rosemead, CA 91770
(626) 302-8791 telephone
(626) 302-8313 facsimile

CONTRACTOR: 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

- 17.2 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: on the Business Day following delivery to the overnight courier within the time limits set by that courier for next-day delivery.

18. SUBCONTRACTS

- 18.1 Contractor 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 SCE which are equivalent to the terms and conditions of this Agreement.
- 18.2 Contractor 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 SCE nor any obligation for payment to any Subcontractor.

19. CALIFORNIA PUBLIC UTILITIES COMMISSION

This Agreement and the Purchase Order incorporating this Agreement 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.

20. NON-WAIVER

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

21. ASSIGNMENT

SCE may be required to assign its rights, duties and obligations under this Agreement to the CPUC and/or its designee. Contractor hereby consents to such assignment. Other than SCE's assignment to the Board or the Board'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.

22. FORCE MAJEURE

Failure of Contractor 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 reasonably beyond the control of the Contractor.

23. 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. Any action brought to enforce or interpret this Agreement shall be filed in Los Angeles County, California.

24. SECTION HEADINGS

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

25. 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, Contractor's indemnity protecting SCE from any liability for environmental clean up as provided in Section 16 of this Agreement.

26. NONRELIANCE

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

27. 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 attorneys' fees.

28. COOPERATION

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

29. 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 Contractor's proposal. Any changes, exceptions, or different terms and conditions proposed by Contractor are hereby rejected unless expressly stated in this Agreement.

APPLIANCE RECYCLING
CENTERS OF AMERICA, INC.

SOUTHERN CALIFORNIA
EDISON COMPANY

By: _____
Its: _____
Date: March 29, 2001

By: _____
Its: _____
Date: April 30, 2001

APPENDIX B

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
AMENDMENT TO
RESTATED 1997 STOCK OPTION PLAN
("1997 PLAN")

I. Section 2 of the 1997 Plan was amended, effective May 1, 2000 subject to shareholder approval, to add 200,000 shares to the 1997 Plan, bringing the total number of shares of Common Stock subject to the 1997 Plan to 400,000. To the extent that this amendment is not approved by the shareholders of the Company prior to April 30, 2001, these additional 200,000 shares may only be used for the grant of nonqualified options (whether pursuant to Section 4 or Section 6 of the 1997 Plan).

II. Section 6 of the 1997 Plan was amended to read in its entirety as follows:

"6. GRANT OF INDEPENDENT DIRECTOR OPTIONS. Each Independent Director who is an Independent Director on May 1, 2000 [the effective date of the amendment to the Plan] shall be granted, in addition to the options to purchase shares under the Plan currently outstanding, a stock option under the Plan to purchase 2,500 shares of Common Stock effective on May 1, 2000.

Each Independent Director, upon his or her initial election to a first term on the Board of Directors, shall, on the date of such initial election, automatically be granted an option to purchase 7,500 shares of Common Stock. In addition, on the date of each annual meeting of shareholders of the Company, beginning with the annual meeting to be held in 2001, each Independent Director shall automatically be granted options to purchase 7,500 shares of Common Stock upon the re-election of such Independent Director to the Board by the shareholders of the Company."