

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 September 29, 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.)

(952) 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 9, 2001, the number of shares outstanding of the registrant's no par value common stock was 2,297,137 shares.

APPLIANCE RECYCLING CENTERS of AMERICA, INC.

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(Unaudited)

<TABLE>
<CAPTION>

	September 29, 2001 (Unaudited)	December 30, 2000
<S>	<C>	<C>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 313,000	\$ 302,000
Accounts receivable, net of allowance of \$150,000 and \$25,000, respectively	8,394,000	1,731,000
Inventories, net of reserves of \$671,000 and \$375,000, respectively	5,102,000	4,233,000
Deferred income taxes and other assets	960,000	386,000
Total current assets	14,769,000	6,652,000
Property and Equipment, at cost		
Land	2,050,000	2,050,000
Buildings and improvements	3,725,000	3,550,000
Equipment	4,600,000	4,046,000
	10,375,000	9,646,000
Less accumulated depreciation	4,164,000	3,930,000
Net property and equipment	6,211,000	5,716,000
Deferred income taxes and other assets	454,000	207,000
Goodwill, net of amortization of \$105,000 and \$76,000, respectively	47,000	76,000
Total assets	\$ 21,481,000	\$ 12,651,000
=====		
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Line of credit	\$ 5,967,000	\$ 2,402,000
Note payable	1,000,000	--
Current maturities of long-term obligations	384,000	275,000
Accounts payable	2,162,000	1,279,000
Accrued expenses (Note 2)	1,467,000	936,000
Deferred gain on building sale	6,000	60,000
Income taxes payable	1,074,000	517,000
Total current liabilities	12,060,000	5,469,000
Long-Term Obligations, less current maturities	4,384,000	4,431,000
Total liabilities	16,444,000	9,900,000
Shareholders' Equity		
Common stock, no par value; authorized 10,000,000 shares; issued and outstanding 2,297,000 shares	11,360,000	11,360,000
Accumulated deficit	(6,323,000)	(8,609,000)
Total shareholders' equity	5,037,000	2,751,000
Total liabilities and shareholders' equity	\$ 21,481,000	\$ 12,651,000

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See Notes to Consolidated Financial Statements.

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

<TABLE>
<CAPTION>

Ended	Three Months Ended		Nine Months	
	September 29, 2001	September 30, 2000	September 29, 2001	
September 30, 2000	<C>	<C>	<C>	<C>
Revenues				
Retail	\$ 5,784,000	\$ 3,681,000	\$ 15,452,000	\$

8,908,000				
Recycling	7,380,000	2,287,000	15,131,000	
6,516,000				
Byproduct	481,000	220,000	921,000	
757,000				

Total revenues	13,645,000	6,188,000	31,504,000	
16,181,000				
Cost of revenues	8,053,000	3,782,000	18,827,000	
9,232,000				

Gross profit	5,592,000	2,406,000	12,677,000	
6,949,000				
Selling, general and administrative expenses	3,307,000	1,997,000	8,706,000	
5,162,000				

Operating income	2,285,000	409,000	3,971,000	
1,787,000				
Other income (expense)				
Other income	24,000	281,000	71,000	
289,000				
Interest expense	(280,000)	(222,000)	(790,000)	
(634,000)				

Income before provision for income taxes	2,029,000	468,000	3,252,000	
1,442,000)				
Provision for income taxes	452,000	211,000	966,000	
554,000				

Net income	\$ 1,577,000	\$ 257,000	\$ 2,286,000	\$
888,000				

Basic Earnings per Common Share \$ 0.69 \$ 0.11 \$ 1.00 \$

Diluted Earnings per Common Share \$ 0.50 \$ 0.09 \$ 0.76 \$

Weighted Average Number of Common Shares Outstanding				
Basic	2,292,000	2,287,000	2,289,000	
2,287,000				
Diluted	3,147,000	2,948,000	2,989,000	
2,893,000				

</TABLE>

See Notes to Consolidated Financial Statements.

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

<TABLE>
<CAPTION>

	Nine Months Ended	
	September 29, 2001	September 30, 2000
<S>	<C>	<C>
Cash Flows from Operating Activities		
Net income	\$ 2,286,000	\$ 888,000
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	334,000	278,000
Gain on sale of property and equipment	--	(253,000)

Accretion of long-term debt discount	32,000	29,000
Deferred gain on building sale recognized	(54,000)	--
Changes in assets and liabilities:		
Receivables	(6,663,000)	(754,000)
Inventories	(869,000)	(1,569,000)
Other assets	(857,000)	(327,000)
Accounts payable	883,000	306,000
Accrued expenses	531,000	382,000
Income Taxes Payable	557,000	381,000

Net cash used in operating activities	(3,820,000)	(639,000)

Cash Flows from Investing Activities		
Purchases of property and equipment	(768,000)	(391,000)
Proceeds from disposal of property and equipment	6,000	667,000

Net cash provided by (used in) investing activities	(762,000)	276,000

Cash Flows from Financing Activities		
Net borrowings under line of credit	3,565,000	1,016,000
Payments on long-term obligations	(255,000)	(286,000)
Proceeds from current debt obligations	1,000,000	--
Proceeds from long-term debt obligations	283,000	77,000

Net cash provided by financing activities	4,593,000	807,000

Increase in cash and cash equivalents	11,000	404,000
Cash and Cash Equivalents		
Beginning	302,000	220,000

Ending	\$ 313,000	\$ 664,000

Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	\$ 758,000	\$ 605,000
Cash payments for income taxes	\$ 808,000	\$ 177,000
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See Notes to Consolidated Financial Statements.

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Appliance Recycling Centers of America, Inc. and Subsidiaries

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 29, 2001, and the results of their operations for the three-month and nine-month periods ended September 29, 2001 and September 30, 2000 and their cash flows for the nine-month periods ended September 29, 2001 and September 30, 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 year ended December 30, 2000.

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

2. Accrued Expenses

Accrued expenses were as follows:

	September 29, 2001	December 30, 2000
	-----	-----
Compensation	\$678,000	\$330,000
Warranty	215,000	188,000
Other	574,000	418,000
	-----	-----
	\$1,467,000	\$936,000
	=====	=====

3. Reporting of Revenue

In prior years, the Company reported consolidated recycling revenues and byproduct revenues together as recycling revenues. In the current year, the Company 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.

4. Line of Credit

In August 2001, the Company secured an expanded \$10,000,000 line of credit with its current lender that replaced the previous \$6,300,000 line of credit. The expanded line of credit has a lower interest rate. The new line of credit will be used primarily to finance inventories of the Company's ApplianceSmart retail operation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - continued

At September 30, 2001, the Company had a short-term \$1,000,000 note with a lender. In October 2001, the note was paid in full.

5. Maytag Agreement

On October 12, 2001, the Company entered into an agreement with Maytag Corporation for the acquisition of distressed appliances ("Maytag Agreement"). Under the Maytag Agreement, the Company has become the primary national provider of reverse logistics services for Maytag, enabling ARCA to purchase special-buy Maytag appliances through its growing network of ApplianceSmart factory outlets. Under the Maytag agreement, there are no minimum purchase requirements. The Maytag Agreement may be terminated by either party upon 60 days' written notice or may be terminated immediately if a default is not cured within ten (10) days after notice of default. In addition, the Company has agreed to indemnify Maytag for all claims, losses, liability and expenses with respect to Maytag appliances sold by the Company. The Agreement is expected to supply the Company's retail stores with a significant supply of Maytag appliances.

6. Income Taxes

The Company recorded a provision for income taxes for the three and nine months ended September 29, 2001 of \$452,000 and \$966,000, respectively. During the three months ended September 29, 2001 the deferred tax valuation allowance was reduced by approximately \$400,000. This reduction resulted from the determination that certain deferred tax assets were more likely than not to be realized.

7. Earnings per Share

Basic per share amounts are computed, generally, by dividing net income or loss by the weighted-average number of common shares outstanding. Diluted per share amounts assume the conversion, exercise, or issuance of all potential common stock instruments unless their effect is antidilutive, thereby reducing the loss or increasing the income per common share.

In arriving at diluted weighted-average shares and per share amounts for the three and nine months ending September 29, 2001 and September 30, 2000, options and warrants with exercise prices below average market prices for the respective fiscal quarters in which they were dilutive were included using the treasury stock method.

8. Accounting Standards Issued Not Yet Adopted

In July 2001, the Financial Accounting Standards Board issued two new statements. Statement No. 141, Business Combinations, eliminates the pooling method of accounting for business combinations. Statement No. 142, Goodwill and Other Intangible Assets, eliminates the amortization of goodwill and other intangibles that are determined to have an indefinite life and requires, at a minimum, annual impairment tests of goodwill and other intangible assets that are determined to have an indefinite life. The Company has not yet completed its full assessment of the effect of these new standards on its consolidated

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financial statements, but believes their impact will not be significant. The standards generally are required to be implemented by the Company in its 2002 financial statements.

In September 2001, the FASB issued Statement 143, Asset Retirement Obligations. This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Statement will be effective for the Company's fiscal year ending December 2003. The Company does not believe that the adoption of this pronouncement will have a material effect on its financial statements.

In August 2001, the FASB issued Statement 144, Accounting for Impairment or Disposal of Long-Lived Assets. This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The Statement will be effective for the Company's fiscal year ending December 2002. The Company does not believe that the adoption of this pronouncement will have a material effect on its financial statements.

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. 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 ("CFCs") 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 and nine months ended September 29, 2001 were \$13,645,000 and \$31,504,000, respectively, compared to \$6,188,000 and \$16,181,000 for the same periods in the prior year.

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RESULTS OF OPERATIONS - continued

Retail sales accounted for approximately 42% of revenues in the third quarter of 2001. Retail revenues for the three and nine months ended September 29, 2001 increased by \$2,103,000 or 57% and by \$6,544,000 or 73%, respectively, from the same periods in the prior year. Third quarter same-store retail sales increased 8% (a sales comparison of 5 stores that were open the entire third quarters of 2001 and 2000). The increase in retail sales was primarily due to an increase in scratch and dent appliance sales as a result of operating three additional stores during the three months ended September 29, 2001 and operating four additional stores during the nine months ended September 29, 2001 compared to the same periods in the previous year.

On October 12, 2001, the Company entered into an agreement with Maytag Corporation for the acquisition of distressed appliances ("Maytag Agreement"). Under the Maytag Agreement, there are no minimum purchase requirements. The Maytag Agreement may be terminated by either party upon 60 days' written notice or may be terminated immediately if a default is not cured within ten (10) days after notice of default. In addition, the Company has agreed to indemnify Maytag for all claims, losses, liability and expenses with respect to Maytag appliances sold by the Company. The Agreement is expected to supply the Company's retail stores with a significant supply of Maytag appliances.

Currently the Company has nine retail locations, including a store opened in the Minneapolis/Saint Paul market in October 2001. 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.

Recycling revenues for the three and nine months ended September 29, 2001 increased by \$5,093,000 or 223% and \$8,615,000 or 132%, respectively, from the same periods in the prior year. The increases in recycling revenues were primarily due to increases in refrigerator recycling volumes principally related to both of the Company's contracts with Southern California Edison Company ("Edison"). The Company is in

the second year of a two-year contract with Edison for its refrigerator recycling program which runs through December 30, 2001. The Company expects the 2001 volume for this contract to be slightly higher than the volume in 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.

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 recycled approximately 36,000 units. The Company began the Summer Initiative in September 2000 and it was completed in the third quarter of 2001. The Company was responsible for advertising for the Summer Initiative.

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RESULTS OF OPERATIONS - continued

In June 2001, the Company signed a contract ("the Appliance Early Retirement and Recycling Program") with the California Public Utilities Commission ("CPUC") to operate a refrigerator/freezer/room air conditioner recycling program in San Diego and surrounding areas; a six-county region in California's Central Valley, including the cities of Fresno and Stockton; and the seven-county Bay Area, including the city of San Francisco. The Company started taking customer orders for the Appliance Early Retirement and Recycling Program in San Diego in June. The program was launched in the Central Valley and Bay Area in September. The CPUC has budgeted \$14 million to fund the recycling program. The budget allocation includes \$50 incentive payments to participants for refrigerators and freezers and \$25 incentive payments for room air conditioners. The program is a one-year contract through May 31, 2002.

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 for the three and nine months ended September 29, 2001 increased to \$481,000 and \$921,000 from \$220,000 and \$757,000, respectively, from the same periods in the prior year. The increase was primarily due to an increase in the volume of CFCs and scrap metal resulting from the increased volume of the Edison contracts.

Gross profit as a percentage of total revenues for the three months ended September 29, 2001 increased to 41% from 39% for the same period in 2000 and decreased to 40% from 43% for the nine month period ended September 29, 2001 compared to the same periods in 2000. The increase for the three months ended September 29, 2001 was primarily due to increased recycling volumes without a corresponding increase in fixed expenses offset by higher sales of scratch and dent appliances which have a lower percentage gross profit. The decrease for the nine months ended September 29, 2001 was primarily due to higher sales of scratch and dent appliances offset by an increase in recycling volumes without a corresponding increase in fixed expenses. 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 CPUC contract, the mix of retail product sold during the period and the price and volume of byproduct revenues. The Company believes that gross profit as a percentage of total revenues for the year 2001 will approximate the gross profit as a percentage of total revenues for the first nine months of this year.

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RESULTS OF OPERATIONS - continued

Selling, general and administrative expenses for the three and nine months ended September 29, 2001 increased by \$1,310,000 or 66% and \$3,544,000 or 69%, respectively, from the same periods in 2000. Selling expenses for the three and nine months ended September 29, 2001 increased by \$544,000 or 62% and \$2,059,000 or 100%, respectively, from the same periods in 2000. The increase in selling expenses was primarily due to opening three retail stores during the first nine months of 2001 compared to opening one during the same time period in 2000 and an increase in advertising and commissions. General and administrative expenses for the three and nine months ended September 29, 2001 increased by \$766,000 or 69% and \$1,485,000 or 48%, respectively, from

the same periods in 2000. The increase in general and administrative expenses was primarily due to an increase in personnel costs as a result of Company growth.

Interest expense was \$280,000 for the three months and \$790,000 for the nine months ended September 29, 2001 compared to \$222,000 and \$634,000 for the same periods in 2000. The increase in interest expense was due to a higher average borrowed amount for the three and nine months ended September 29, 2001 than in the same periods in 2000 offset by a decrease in the effective interest rate on the line of credit.

The Company recorded a provision for income taxes for the three and nine months ended September 29, 2001 of \$452,000 and \$966,000, respectively compared to \$211,000 and \$554,000 in the same periods in 2000. The increase was due to greater pre-tax income offset by a lower effective tax rate for the three and nine months ended September 29, 2001 compared to the same periods in the prior year. The lower effective tax rate in 2001 resulted from a reduction of \$400,000 in the deferred tax valuation allowance during the three months ended September 29, 2001. This reduction resulted from the determination that certain deferred tax assets were more likely than not to be realized.

The Company has net operating loss carryovers of approximately \$8 million at September 29, 2001, 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 29, 2001, the Company had a valuation allowance recorded against its net deferred tax assets of approximately \$3,622,000, 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 \$1,577,000 or \$.50 per diluted share for the three months and \$2,286,000 or \$.76 per diluted share for the nine months ended September 29, 2001, respectively, compared to net income of \$257,000 or \$.09 per diluted share and \$888,000 or \$.31 per diluted share in the same periods of 2000. The increases in net income for the three and nine months ended September 29, 2001 compared to the same periods in the previous year were primarily due to higher revenues together with selling, general and administrative expenses as a percentage of revenues decreasing slightly for the three and nine months ended September 29, 2001 compared to the same periods in the previous year.

LIQUIDITY AND CAPITAL RESOURCES

At September 29, 2001, the Company had working capital of \$2,709,000 compared to working capital of \$1,183,000 at December 30, 2000. Cash and cash equivalents increased to \$313,000 at September 29, 2001 from \$302,000 at December 30, 2000. Net cash used in operating activities was \$3,820,000 for the nine months ended September 29, 2001 compared to \$639,000 in the same period of 2000. The increase in cash used in operating activities was primarily due to an increase in receivables offset by an increase in the net income for the period.

The Company's capital expenditures for the nine months ended September 29, 2001 and September 30, 2000 were approximately \$768,000 and \$391,000, respectively. The 2001 capital expenditures were related to the continued upgrade of computer systems and the purchase of equipment related to the refrigerator recycling program. The 2000 capital expenditures were primarily related to the purchase of computer equipment.

In August 2001, the Company secured an expanded three-year \$10,000,000 line of credit with its current lender that replaced the previous \$6,300,000 line of credit. The expanded line of credit has a lower interest rate. The line of credit was renewed through August 30, 2004. The interest rate as of September 29, 2001 was 7.0%. Borrowings available under the line of credit are 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 \$37,500 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 and prepayment, limits the amount of other debt the Company can incur, limits the amount of spending on fixed assets and limits payments of dividends. At September 29, 2001, the Company had unused borrowing capacity of \$2,002,000.

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LIQUIDITY AND CAPITAL RESOURCES - continued

In June 2001, the Company signed a contract ("the Appliance Early Retirement and Recycling Program") with the California Public Utilities Commission ("CPUC") to operate a refrigerator/freezer/room air conditioner recycling program in San Diego and surrounding areas; a six-county region in California's Central Valley, including the cities of Fresno and Stockton; and the seven-county Bay Area, including the city of San Francisco. The Company started taking customer orders for the Appliance Early Retirement and Recycling Program in San Diego in June. The program was launched in the Central Valley and Bay Area in September. The CPUC has budgeted \$14 million to fund the recycling program. The budget allocation includes \$50 incentive payments to participants for refrigerators and freezers and \$25 incentive payments for room air conditioners. Initial significant revenues from the new program are anticipated in this year's second half. The program is a one-year contract through May 31, 2002.

The recent energy crisis in California has not had a material adverse affect on the Company's operations. However there can be no assurance that it will not have had 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 CPUC 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 2001. The Company's total capital requirements for the remainder of 2001 and for 2002 will depend upon, among other things as discussed below, the recycling volumes generated from the Edison program, if renewed for 2002, and the CPUC program in 2001 and 2002 and the number and size of retail stores operating during the fiscal year. Currently, the Company has three centers and nine stores in operation. If revenues are lower than anticipated or expenses are higher than anticipated, 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.

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FORWARD-LOOKING STATEMENTS

Statements contained in this quarterly report 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, 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 and Maytag at acceptable prices and the ability and timing of Edison to deliver units under its contract with the Company and the ability and timing of the CPUC to deliver units under its contract 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 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 used appliances for resale and the continued availability of the Company's current line of credit.

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 rate 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 29, 2001. However, there can be no assurance that future inflation will not have an adverse impact on the Company's operating results and financial condition.

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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 - None

ITEM 5 - OTHER INFORMATION - None

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

- (a) (i) Exhibit 10.1 - Amendment to the line of credit dated August 24, 2001 between Appliance Recycling Centers of America, Inc. and Spectrum Commercial Services, Amendment to General Credit and Security Agreement and Amended and Restated Revolving Note.
- (ii) Exhibit 10.2 - Retail Dealer Sales Agreement dated October 12, 2001 between Appliance Recycling Centers of America, Inc. and Maytag Corporation.
- (b) (i) The Company filed a Form 8-K on August 1, 2001 announcing the second quarter 2001 operating results.
- (ii) The Company filed a Form 8-K on September 5, 2001 announcing the agreement with Spectrum Commercial Services.
- (iii) The Company filed a Form 8-K on September 27, 2001 announcing the opening of a new retail store in the Minneapolis/Saint Paul market.

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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 9, 2001

/s/Edward R. Cameron

Edward R. Cameron
President

Date: November 9, 2001

/s/Linda Koenig

Linda Koenig
Controller

ELEVENTH AMENDMENT TO
GENERAL CREDIT AND SECURITY AGREEMENT

THIS AGREEMENT, dated and effective as of August 24, 2001 between SPECTRUM Commercial Services Company, 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, 2004, 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. The definition of "Maximum Principal Amount" under paragraph 2 of the Credit Agreement is hereby deleted and replaced with the following:

Maximum Principal Amount shall mean, at any date, Ten Million and No/100ths Dollars (\$10,000,000).

3. 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; provided further, however, that if Borrower terminates this Agreement at any time prior to the then current Maturity Date, then Borrower shall pay to Lender a prepayment charge equal to the following:

* If termination occurs on or prior to August 30, 2002 - 2.5% of the Maximum Principal Amount.

* If termination occurs after August 30, 2002 but on or before August 30, 2003 - 1% of the Maximum Principal Amount.

* If termination occurs after August 30, 2003 but before August 30, 2004 - 1/2% of the Maximum Principal Amount.

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.

4. Paragraph 5 of the Credit Agreement which is entitled "Interest" is hereby deleted and replaced with the following:

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 percent (1%) 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 5.5% per annum; and (ii) interest payable hereunder with respect to each calendar month shall not be less than \$37,500.00 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 10.5% per annum; and (ii) interest payable hereunder with respect to each calendar month shall not be less than \$62,500.00 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.

5. 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) One Million and No/100ths Dollars (\$1,000,000) 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) Six Million and No/100ths Dollars (\$6,000,000) 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 Six Million and No/100ths Dollars (\$6,000,000), or such greater or lesser dollars as Lender, in its sole discretion, shall deem appropriate.

6. The Line Maintenance Fee referred to in paragraph 17 (i) shall be decreased from 1% per annum of the Maximum Principal Amount to 1/2% per annum of the Maximum Principal Amount, effective as of the next anniversary date of the Credit Agreement.

7. The fixed component of the Loan Administration Fee referred to in paragraph 17(g) which was originally specified at \$3,000 per quarter is amended to be \$4,250 per quarter hereafter.

8. As an origination fee Borrower will pay to Lender the sum of \$50,000.

9. Subparagraph 17(1) is hereby deleted and replaced with the following:
17(1). At the end of each fiscal year hereafter beginning with the year ending December 31, 2001, Borrower's financial statements shall reflect a Tangible Net Worth of at least Four Million Dollars (\$4.0 million).

10. The following new subparagraph 17(m) is hereby added as follows:
17(m). At the end of the current fiscal year ending on December 31, 2001, Borrower's financial statements shall reflect a Net Profit of at least One Million Dollars (\$1.0 million). At the end of each subsequent fiscal year, beginning with the year ending December 31, 2002, Borrower's financial statements shall reflect a Net Profit of at least

One Million Five Hundred Thousand Dollars (\$1.5 million) for that year.

11. The following new subparagraph 17(n) is hereby added as follows:
17(n). No later than December 31, 2001 and throughout the term of this Agreement, Borrower shall open and maintain its main operating and payroll accounts at Associated Bank Minnesota, NA.

12. The following definition shall be added to Paragraph 2:
"Tangible Net Worth" of Borrower shall mean the total of all assets appearing on a balance sheet of Borrower, prepared in accordance with GAAP, after deducting all proper reserves (including reserves for depreciation, obsolescence and amortization) minus all Liabilities of Borrower; excluding, however, from the determination of total assets: (i) goodwill, memberships, trademarks, trade names, service marks, copyrights, patents, licenses, organization expenses, research and development expenses and other similar intangibles; (ii) all deferred charges or unamortized debt discount; (iii) treasury stock; (iv) securities that are not readily marketable; (v) any write-up in the book value of any assets resulting from a revaluation thereof subsequent to December 31, 2000; (vi) prepaid expenses; (vii) notes or receivables due from employees, officers, directors or shareholders; (viii) notes or receivables due from any Affiliate; (ix) all other intangible assets in existence on the date of this Agreement and determined by Lender, in its absolute discretion, to be intangible assets; and (x) any asset acquired subsequent to the date of this Agreement which Lender determines, in its reasonable discretion, to be an intangible asset.

13. The following definition shall be added to Paragraph 2:
"Net Profit" or "Net Loss" for any period shall mean after-tax net income or loss for such period, determined in accordance with GAAP excluding, however, (i) extraordinary gains (including but not limited to the conversion of debt to equity, the forgiveness of debt and the like), and (ii) gains (whether or not extraordinary) from sales or other dispositions of assets other than the sale of Inventory in the ordinary course of Borrower's business.

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

SPECTRUM COMMERCIAL SERVICES
COMPANY

APPLIANCE RECYCLING CENTERS
OF AMERICA, INC.

By /s/Steven I. Lowenthal

Steven I. Lowenthal, Principal

By /s/Edward R. Cameron

Edward R. Cameron, President

GUARANTOR ACKNOWLEDGMENT
(ELEVENTH AMENDMENT)

The undersigned (collectively the "Guarantor") has entered into certain Guaranties of various dates (collectively the "Guaranty;" capitalized terms not otherwise defined herein being used herein as therein defined), pursuant to which each Guarantor has guaranteed the payment and performance of certain Indebtedness of Appliance Recycling Centers of America, Inc., a Minnesota corporation ("Borrower") to SPECTRUM Commercial Services Company, a Minnesota corporation, ("SCS"), which Indebtedness includes, without limitation, all obligations of Borrower under that certain Revolving Note dated as of August 30, 1996 between the Borrower and SCS as subsequently amended and/or restated (as so amended the "Original Loan Agreement").

Each Guarantor hereby acknowledges that it has received a copy of: (a) the Eleventh Amendment to General Credit and Security Agreement dated as of the date hereof (the "Loan Agreement") between the Borrower and SCS amending and restating the Original Loan Agreement;

Each Guarantor hereby:

(a) agrees and acknowledges that the Guaranty applicable to each Guarantor shall be of an UNLIMITED AMOUNT, including without limitation all of Lender's fees, costs, expenses and attorneys' fees incurred in enforcing the Guarantee; and

(b) confirms that:

(i) by the Guaranty, the Guarantor continues to guarantee the full payment and performance of all of the Indebtedness owed to SCS, including, without limitation, all obligations of Borrower under the Original Loan Agreement as amended and restated by the Loan Agreement; and

(ii) with respect to each corporate Guarantor, by such Guarantor's Subsidiary Security Agreement, such Guarantor continues to grant a security interest in the "Collateral"

described in such Guarantor's Subsidiary Security Agreement to secure the payment and performance of the "obligations" described therein; and

(iii) the Guaranty remains in full force and effect, enforceable against the Guarantor in accordance with its terms.

Dated: August 24, 2001

ARCA-MARYLAND, INC.

By /s/Edward R. Cameron

Its President

APPLIANCE RECYCLING CENTERS
OF AMERICA-CALIFORNIA, INC.

By /s/Edward R. Cameron

Its President

ARCA OF ST. LOUIS, INC.

By /s/Edward R. Cameron

Its President

EIGHTH AMENDED AND RESTATED REVOLVING NOTE

\$10,000,000.00

August 24, 2001
Bloomington, Minnesota

FOR VALUE RECEIVED, the undersigned, APPLIANCE RECYCLING CENTERS OF AMERICA, INC. promises to pay to the order of SPECTRUM COMMERCIAL SERVICES COMPANY, 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) Ten Million and 00/100 Dollars (\$10,000,000.00), 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 percent (1%) per annum in excess of the Prime Rate of Wells Fargo 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 5.5% per annum; and (ii) interest payable hereunder with respect to each calendar month shall not be less than \$37,500 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 Wells Fargo Bank Minnesota, NA in its sole discretion from time to time as its Prime or Base Rate, and the undersigned acknowledges that Wells Fargo 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 10.5% per annum; and (ii) interest payable hereunder with respect to each calendar month shall not be less than \$62,500 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, 2004 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 Seventh Amended and Restated Revolving Note dated as of July 26, 2001 made by the undersigned payable to the order of Lender in the original principal amount of \$6,300,000.00.

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, Chief Executive Officer

STATE OF MINNESOTA)
) ss.
COUNTY OF Dakota)

On this 24th day of August, 2001, before me, a Notary Public within and for said county, personally appeared Edward R. Cameron who being by me duly sworn did say that he is the Chief Executive Officer of APPLIANCE RECYCLING CENTERS OF AMERICA, INC. and that the foregoing instrument was signed on behalf of the corporation by authority of its Board of Directors and that he acknowledged said instrument to be the free act and deed of said corporation.

Notary Seal: /s/Brian D. Lynch

Notary Signature

RETAIL DEALER SALES AGREEMENT
ADDENDUM

On the 14th day of September 2001 MAYTAG CORPORATION ("MAYTAG"), with its principal place of business located at 403 West 4th Street North, Newton, IA 50208 entered into an Agreement titled "2000-2002 Retail Dealer Sales Agreement" with APPLIANCE RECYCLING CENTERS OF AMERICA, INC. ("ARCA"), with its principal place of business located at 7400 Excelsior Boulevard, Minneapolis, MN 55426.

NOW, THEREFORE, In consideration of the mutual covenants contained herein, the parties agree to the following Addendum, the current year executed "Retail Dealer Sales Agreement", Exhibit A regarding pricing and warranties, and Exhibit B a Letter regarding Maytag's Accurate Disclosure Policy, each are incorporated by reference to and herein made a part of this Addendum.

1. ADDITIONAL PRODUCT TYPES. The following are definitions of product that may be purchased in addition to the new product contemplated by the Retail Dealer Sales Agreement.
 - a. Obsolete Product. Obsolete Product is Product that is new, in box, with factory warranty. ARCA shall pick up said product in accordance with Section 2 below, at the prices and pursuant to the terms set forth in Exhibit A.
 - b. Service Exchanged Product. Service Exchanged Product is Product that is repaired by Maytag Factory Service Reps. ARCA shall pick-up said product in accordance with Section 2 below, at the prices and pursuant to the terms set forth in Exhibit A.
 - c. Scrap Product. Scrap Product is Product that is non-functioning product with no warranty. ARCA shall pick-up said product in accordance with Section 2 below, at the prices and pursuant to the terms set forth in Exhibit A.
 - d. Distressed Product. Distressed Product is Product that is cosmetically damaged but otherwise functions for use as intended. ARCA shall pick-up said product in accordance with Section 2 below, at the prices and pursuant to the terms set forth in Exhibit A.
2. PRODUCT PICK-UP AND RESELL. At the request of Maytag, ARCA shall promptly pick-up and remove, Maytag's Product. ARCA shall take title to said Product at the time ARCA takes possession of said product. ARCA may postpone any request for pick-up of said product until no fewer than a truckload has been accumulated at any one site.
3. PRODUCT DESIGNATION. Both parties recognize that the cost, to ARCA, for the product sold under this Agreement, is determined by the designation of each unit within the categories identified in Section 1, above. Such designation shall, initially, be made by Maytag. If ARCA disagrees with any designation made by Maytag with respect to any particular unit, ARCA shall, within 30 days, notify Maytag. On the first available day, a Maytag field representative shall meet at ARCA's site to discuss the product designations. If agreement cannot be made between ARCA and Maytag, ARCA shall redeliver any such unit to its dock of origin at no cost to Maytag for credit at invoice cost.
4. WARRANTY OBLIGATIONS. Factory warranties shall be offered in accordance with Exhibit A. Additionally, Maytag shall offer extended service plans to be sold through ApplianceSmart locations.
5. ARCA'S WEBSITE AND SERVICE CENTER. ARCA, at its own expense, shall develop and maintain a dedicated business to business website which shall provide easy access, real time customer service and information to Maytag concerning the company's programs with ARCA. This website shall be functional within 60 days following the execution of this Addendum. ARCA shall provide prompt resolution to technical difficulties of this website. Said website shall provide for on-line requests for appliance collection for Maytag's designated sites, which said request shall also be accepted by phone, fax or email by ARCA through ARCA's toll free number system. Further, ARCA shall maintain a National Customer Service Center which will coordinate timely appliance collection and provide proper notification and documentation to Maytag.
6. PRODUCT TRACKING SYSTEM. ARCA shall track each product received by ARCA by its serial number and shall report the progress of each said unit through ARCA's system. Maytag shall be provided access to this system at all times.
7. INSURANCE.
 - a. ARCA shall at its expense purchase and maintain the following

insurance coverage's and shall provide Maytag with copies of all certificates of insurance:

(i) an excess or umbrella policy for an amount not less than U.S. \$10,000,000 that shall protect ARCA and Maytag.

(ii) workers' compensation insurance with statutory limits for all applicable State and Federal regulations and employer's liability insurance with policy limits of not less than one million dollars (\$1,000,000) is required for all ARCA employees performing duties hereunder.

(iii) commercial General Liability Insurance that will protect Maytag and ARCA from all claims for damages due to bodily injury (due to disease and death), personal injury, or property damage arising in connection with the

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performance of this Addendum provided by ARCA, its employees, agents, representatives, subcontractors and/or business invitees. Such insurance coverage shall: (a) be a current based; (b) provide limits of liability coverage in an amount not less than \$2,000,000.00 per occurrence; (c) include at least those coverage's generally designated Premises/Operations, Product/Completed Operations, Contractual Liabilities-, (d) be written with an insurer having a current A. M. Best rating of A-(VIII) or better; and (e) such coverage shall be continuously maintained during the term of this Agreement.

(iv) Automotive Liability Insurance that will protect Maytag from any and all claims for damages due to bodily injury (including death) or property damage arising from or in any way connected with the ownership, possession, operation, use, maintenance, or repair of owned, non-owned, or hired motor vehicles utilized to perform duties hereunder. Such insurance shall: (a) provide limits of liability in an amount not less than \$2,000,000 per accident; (b) be written with a carrier having an A. M. Best rating of A-(VIII) or better.

b. The aforementioned insurance coverage's maintained by ARCA shall be primary insurance with respect to Maytag, its officers, and employees. Any insurance or self-insurance maintained by ARCA shall be in excess and non-contributory to ARCA's insurance.

8. INDEMNITY. Except for defects in design or original manufacture, ARCA shall indemnify and defend Maytag for all claims, losses, liability and expenses, arising from or in connection with any act or omission of ARCA, its agents and employees, including any and all claims arising from ARCA's marketing of products.

9. COMPLIANCE WITH APPLICABLE LAW. ARCA shall comply with all applicable local, state, federal and safety health laws in effect as of the date of this Agreement, including, but not limited to, the Occupational Safety and Health Act of 1970, the Federal Clean Air Act, the Resource, Conservation and Recovery Act, and the Toxic Substances Control Act as well as all other applicable federal, state, and local regulations regarding the proper processing and recycling of appliances and Hazardous Materials contained within said appliances.

10. TERM. This Addendum, shall remain in effect as long as there is a current executed Retail Dealer Sales Agreement.

IN WITNESS WHEREOF, the parties have caused this Addendum to be duly executed in their respective corporate names by their duly authorized officer, as of the date below.

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MAYTAG CORPORATION

By /s/John J. Nolan

Print: John J. Nolan

Title: V.P. Logistics

Date: 10/12/01

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

By /s/Jack Cameron

Print: Jack Cameron

Title: President

Date: 10/12/01

MAYTAG

2000-2002 RETAIL DEALER SALES AGREEMENT

Maytag Appliances Sales Company, a Delaware corporation (Company), and the Retail Dealer identified below, (Dealer) mutually agree as follows:

Name ARCA, Inc. Phone No. (952) 930-9000
DBA APPLIANCESMART Fax No. (952) 930-1821
Address 7400 Excelsior Blvd.
City MPLS. State MN ZIP 55426

1. Appointment/Term. By this Agreement Company appoints Dealer as an Authorized Dealer on a nonexclusive basis for the retail sales of home appliance (Products) offered for sale by Company.

Dealer is authorized to sell Products to retail customers located in Dealer's trade area (in the U.S. only) at the location listed above or on the attached Dealer Location Exhibit. Unless specifically authorized to do so in writing by Company, Dealer agrees to refrain from the sale of Products through: any on-line or other computer information service such as the Internet; the export of any Products outside the 50 states of the U.S., or the sale of Products to any purchaser who in turn exports any such Products outside the 50 states of the U.S.

Company reserves the right to: sell to Dealer only those Products it deems appropriate to market through Dealer, allocate available Product among its customers, improve, modify, discontinue or replace Product without incurring any obligation or liability to Dealer, including any obligation to replace or modify any Products previously shipped to Dealer.

This Agreement shall become effective as of the date of execution by Company and shall remain in effect until March 31, 2002, unless terminated as provided in Paragraph 9 or extended by mutual written agreement of the parties.

2. Merchandising Obligations.

Dealer agrees to diligently devote its efforts to maximize the sales potential for all Products at each of its Locations and to aggressively merchandise and support all Products. Specifically Dealer agrees to:

- [] Purchase and have available Products in sufficient in model mix and quantities to satisfy demand,
- [] Maintain attractive displays in models and quantities needed to effectively merchandise Products,
- [] Promote the sale of Products through advertising and other sales promotion activities,
- [] Provide appropriate training for its sales personnel,
- [] Assure that its sales efforts are as intensive and effective with regard to Products as they are toward other brands of appliances Dealer carries.

3. Orders/Payment.

All Dealer orders are subject to acceptance by Company at its home office at the prices, terms and conditions established by Company and in effect at the time of shipment. All prices, terms and conditions are subject to change by Company without notice. Dealer agrees to pay for all Products in accordance with the terms of payment established by Company. In the event Company is forced to bring legal action to collect on such payments, Company shall be entitled to reimbursement for all reasonable costs, including attorney fees.

4. Service/Warranty.

Dealer agrees to provide, or have provided, prompt and competent service on Products, whether or not sold by Dealer, in accordance with procedures established by Company.

Dealer agrees to participate in the fulfillment of the written express warranty provided by Company with each Product under warranty procedures and policies established by Company. The express warranty provided by Company is given in lieu of any other warranty, express or implied, and states the extent of Company's warranty obligation to Dealer and its retail customers. Company disclaims any obligation for incidental or consequential damages caused by Products.

5. Records/Reports.

Dealer agrees to fulfill all sales and credit reporting requirements requested by Company and to maintain sufficient records of Customer sales to facilitate the location of Products in the event of retrofit or recall programs involving Products.

6. Trademarks.

Dealer acknowledges that Company sells Products under several brand names, associated logos and secondary identifiers (collectively "Trademarks"), that the Trademarks are used on Products, in advertisements for the sale of Products and in point of purchase materials for Products, and that Company is the owner of those Trademarks. Company hereby authorizes Dealer to use the Trademarks in the advertisement and promotion (including store signage, vehicle signage, and radio, television, print and Internet or any other electronic directory listings and advertising) of Products and repair services (if so authorized) in strict accordance with this Agreement and standards established by Company. Dealer may not use any of the Trademarks as part of its trade name unless authorized in writing by Company. Dealer may not use any of the Trademarks as part of an Internet domain name. Upon request by Company or termination of this Agreement, Dealer shall immediately discontinue any and all uses of the Trademarks authorized by this Agreement. In the event Company is forced to bring legal action to compel discontinuance of the Trademarks, Company shall be entitled to reimbursement for all costs, including attorney fees, in addition to any other remedies.,

7. Not an Agent or Franchisee.

Dealer is not in any respect an agent, representative or employee of the Company. Dealer has no authority to bind company on any obligation or undertaking. It is specifically understood that the relationship between Company and Dealer is that of vendor and vendee, and Dealer is not a franchisee of Company.

8. Inability to Perform.

Neither Company nor Dealer shall be held in default for failure of performance under this Agreement, due to strikes, riots, insurrections, fire, acts of God, inability to obtain labor, machinery, materials, or merchandise, or for any cause beyond their reasonable control.

9. Termination.

This Agreement and any addenda made a part of this Agreement may be terminated as to all or any Location(s):

- a. By either party at any time with or without cause upon giving sixty (60) days written notice to the other party, which termination shall be effective sixty (60) days from the date of the notice.
- b. Immediately upon the failure by the other party to promptly perform any of its obligations under this Agreement (a "Default ") which has not been cured by the party within ten (10) days after notice of such Default.
- c. Immediately by Company in the event:
 - i. Dealer fails to promptly pay sums when due to Company; or
 - ii. Dealer shall become insolvent or shall cease or liquidate its business; or
 - iii. Of the sale of the Dealer's business, an assignment or transfer of business assets or, if Dealer is a corporation, a change in majority control of the Corporation without a thirty (30) day written notice to Company and company's written approval of such change, or
 - iv. Dealer, its agents or employees makes any Use, misleading, derogatory or deceptive statements, written or oral, about Company or any of its products or services.

In the event of termination by Company, Dealer may, within thirty (30) days of the date of the notice of termination, make written request for a review

of the decision to terminate to the Vice President Sales of Company setting forth the reasons Dealer believes termination should not take place. This request shall not stay or extend the effective date of termination. 'Me Vice President Sales will promptly reach a decision and notify Dealer of the decision.

10. Option to Repurchase.

For fifteen (15) days after the effective date of termination of this Agreement Company shall have the exclusive option to repurchase from Dealer all or any part of the inventory of all new, unused and current Products owned by Dealer upon that date, at the price for which such Products were sold to Dealer by Company, less any discounts or allowances granted and plus sales tax paid by Dealer and actual freight (or the regular commercial truck rate in the event transported in Dealer's own truck) apportionable to those units for which the option is exercised. Dealer shall not sell or offer the sale any Products to any one else during such option period without written permission from Company or any of its products or services.

11. Notices.

Any notices which the parties are required or permitted to give pursuant to this Agreement shall be sent by first class, certified, or express mail, or by messenger, telex, or facsimile to the other party at the address shown above for Dealer and to Company at 403 W. 4th Street N., Newton, Iowa 50208. The date of mailing, telex, or facsimile or if by messenger, the date of dispatch, shall be the effective date of delivery of such notice.

12. Sole Agreement/Release.

This Agreement supersedes all previous agreements covering Dealer's location. There are no agreements, written or oral, as to the terms and conditions of the dealership except those contained in " Agreement and it is expressly understood by Dealer that no agreement, course of dealing or trade usage modifying or altering these terms and conditions shall bind Company unless agreed to in writing, duly signed by an officer of Company.

In consideration of Company signing this Agreement Dealer releases Company from all claims and liabilities, if any, known or unknown, as of the effective date of this Agreement, except claims arising under a written contract other than a Dealer Sales Agreement or a written merchandising/advertising program issued by Company.

13. Non-enforcement Not Waiver.

The failure of either party to enforce any provision of this Agreement shall not be construed as a waiver of or right to enforce such provision, and not waiver of any breach shall be construed as an agreement to waive any subsequent breach of the same or any other provisions.

14. Governing Law.

This Agreement shall be governed by the domestic laws of the State of Iowa.

DEALER:	MAYTAG APPLIANCES
By: /s/Jack Cameron, Pres.	By: /s/Thomas G. Weber
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Signature	Signature
Jack Cameron	Thomas G. Weber
-----	-----
Print or type Signature	Print or type Signature
9/14/01	9/17/01
-----	-----
Date	Date