

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

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

For the quarterly period ended June 29, 2002

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 NO

As of August 9, 2002, the number of shares outstanding of the registrant's no par value common stock was 2,321,890 shares.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

INDEX

PART I.	FINANCIAL INFORMATION	Page No. -----
Item 1:	Financial Statements:	
	Consolidated Balance Sheets as of June 29, 2002 and December 29, 2001.....	3
	Consolidated Statements of Operations for the Three and Six Months Ended June 29, 2002 and June 30, 2001.....	4
	Consolidated Statements of Cash Flows for the Six Months Ended June 29, 2002 and June 30, 2001.....	5
	Notes to Consolidated Financial Statements.....	6
Item 2:	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	8
Item 3:	Quantitative and Qualitative Disclosure about Market Risk	14
PART II.	OTHER INFORMATION	14

<TABLE>
<CAPTION>

	June 29, 2002 (Unaudited)	December 29, 2001
<S>	<C>	<C>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 782,000	\$ 506,000
Accounts receivable, net of allowance of \$27,000 and \$100,000, respectively	5,134,000	4,375,000
Inventories, net of reserves of \$680,000 and \$464,000, respectively	7,183,000	6,748,000
Deferred income taxes	576,000	576,000
Other current assets	359,000	174,000
Total current assets	14,034,000	12,379,000
Property and Equipment, at cost		
Land	2,050,000	2,050,000
Buildings and improvements	3,875,000	3,779,000
Equipment	4,807,000	4,689,000
	10,732,000	10,518,000
Less accumulated depreciation	4,538,000	4,291,000
Net property and equipment	6,194,000	6,227,000
Other Assets		
Goodwill, net of amortization of \$152,000 (Note 4)	258,000	292,000
	38,000	38,000
Total assets	\$ 20,524,000	\$ 18,936,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Line of credit	\$ 4,573,000	\$ 4,708,000
Current maturities of long-term obligations	964,000	401,000
Accounts payable	2,999,000	1,960,000
Accrued expenses (Note 2)	1,014,000	1,365,000
Income taxes payable	1,204,000	757,000
Total current liabilities	10,754,000	9,191,000
Long-Term Obligations, less current maturities	3,527,000	4,280,000
Deferred income tax liabilities	68,000	68,000
Total liabilities	14,349,000	13,539,000
Shareholders' Equity		
Common stock, no par value; authorized 10,000,000 shares; issued and outstanding 2,322,000 and 2,297,000 shares, respectively	11,364,000	11,360,000
Accumulated deficit	(5,189,000)	(5,963,000)
Total shareholders' equity	6,175,000	5,397,000
Total liabilities and shareholders' equity	\$ 20,524,000	\$ 18,936,000

</TABLE>

See Notes to Consolidated Financial Statements

3

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

<TABLE>
<CAPTION>

	Three Months Ended		Six Months Ended	
	June 29,	June 30,	June 29,	June
	2002	2001	2002	
<S>	<C>	<C>	<C>	<C>
Revenues				
Retail	\$ 7,145,000	\$ 4,940,000	\$ 14,482,000	\$ 9,668,000
Recycling	4,204,000	4,885,000	8,304,000	7,751,000
Byproduct	385,000	270,000	647,000	440,000

Total revenues	11,734,000	10,095,000	23,433,000	17,859,000
Cost of Revenues	7,245,000	6,164,000	14,970,000	10,774,000

Gross profit	4,489,000	3,931,000	8,463,000	7,085,000
Selling, General and Administrative Expenses	3,339,000	3,009,000	6,658,000	5,399,000

Operating income	1,150,000	922,000	1,805,000	1,686,000
Other Income (Expense)				
Other income	10,000	26,000	17,000	
47,000				
Interest expense	(263,000)	(270,000)	(528,000)	
(510,000)				

Income before provision for income taxes	897,000	678,000	1,294,000	1,223,000
Provision for Income Taxes	360,000	285,000	519,000	514,000

Net income	\$ 537,000	\$ 393,000	\$ 775,000	\$ 709,000

Basic Earnings per Common Share	\$ 0.23	\$ 0.17	\$ 0.33	\$ 0.31
Diluted Earnings per Common Share	\$ 0.16	\$ 0.13	\$ 0.23	\$ 0.24

Weighted Average Number of Common Shares Outstanding:

Basic	2,320,000	2,287,000	2,316,000	2,287,000
Diluted	3,291,000	2,957,000	3,303,000	2,910,000

</TABLE>

See Notes to Consolidated Financial Statements.

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

<TABLE>
<CAPTION>

	Six Months Ended	
	June 29, 2002	June 30, 2001

<S>	<C>	<C>
Cash Flows from Operating Activities		
Net income	\$ 775,000	\$ 709,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	269,000	215,000
Accretion of long-term debt discount	22,000	22,000
Deferred gain on building sale recognized	--	(36,000)
Changes in assets and liabilities:		
Receivables	(759,000)	(2,881,000)
Inventories	(435,000)	(794,000)
Other assets	(174,000)	(201,000)
Accounts payable	1,039,000	1,511,000
Accrued expenses	(351,000)	(65,000)
Income taxes payable	447,000	(295,000)

Net cash provided by (used in) operating activities	833,000	(1,815,000)

Cash Flows from Investing Activities		
Purchase of property and equipment	(214,000)	(515,000)

Cash Flows from Financing Activities		
Net borrowings (payments) under line of credit	(135,000)	2,597,000
Proceeds from long-term obligations	--	142,000
Proceeds from issuance of common stock	4,000	--
Payments on long-term obligations	(212,000)	(165,000)

Net cash provided by (used in) financing activities	(343,000)	2,574,000

Increase in cash and cash equivalents	276,000	244,000

Cash and Cash Equivalents			
Beginning		506,000	302,000
=====			
Ending		\$ 782,000	\$ 546,000
=====			
Supplemental Disclosures of Cash Flow Information			
Cash payments for:			
Interest		\$ 505,000	\$ 489,000
Income taxes		\$ 194,000	\$ 808,000
=====			

</TABLE>

See Notes to Consolidated Financial Statements.

5

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 June 29, 2002, and the results of operations for the three-month and six-month periods ended June 29, 2002 and June 30, 2001 and its cash flows for the six-month periods ended June 29, 2002 and June 30, 2001. 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 29, 2001.

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

2. Accrued Expenses

Accrued expenses were as follows:

	June 29, 2002	December 29, 2001
	-----	-----
Compensation	\$ 384,000	\$ 493,000
Warranty	132,000	225,000
Other	498,000	647,000
	-----	-----
	\$1,014,000	\$1,365,000
	=====	=====

3. 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 six months ended June 29, 2002 and June 30, 2001, 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.

4. Accounting Standards Recently Adopted and Not Yet Adopted

Recently Adopted:
Effective December 30, 2001, the Company adopted FASB Statement No. 141, Business Combinations which eliminates the pooling method of accounting for business combinations and Statement No. 142, Goodwill and Other

6

Intangible Assets which 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 adoption of these new standards resulted in no amortization of the Company's goodwill (\$38,000) for the six months ended June 29, 2002.

Effective December 30, 2001, the Company adopted 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 adoption of this statement had no impact on the Company's financial statements.

Not Yet Adopted:

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.

5. Critical Accounting Policies

As a matter of policy, the Company reviews its major assets for impairment. The Company's major operating assets are accounts receivable, inventories, and property and equipment. The reserve for doubtful accounts of \$27,000 should be adequate for any exposure to loss in the Company's June 29, 2002 accounts receivable. The Company has also established reserves for slow moving and obsolete inventories and believes the reserve of \$680,000 is adequate. The Company depreciates its property and equipment over their estimated useful lives and has not identified any items that are impaired as of June 29, 2002. The Company has established an accrual for warranty expense for future service expense and believes that the accrual of \$132,000 is adequate. The Company evaluated the realizability of its deferred tax assets and tax attributes and has provided a valuation allowance primarily for net operating loss and tax credit carryovers for which the use is subject to limitation. The Company has significant options and warrants outstanding and utilizes relevant market and other valuation information relative to accounting for and reporting equity transactions.

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 six months ended June 29, 2002 were \$11,734,000 and \$23,433,000, respectively, compared to \$10,095,000 and \$17,859,000 for the same periods in the prior year, increases of 16% and 31%, respectively.

Retail sales accounted for approximately 61% of revenues in the second quarter of 2002. Retail revenues for the three and six months ended June 29, 2002 increased by \$2,205,000 or 45% and \$4,814,000 or 50%, respectively, from the same periods in the prior year. Second quarter same-store retail sales increased 10% (a sales comparison of seven stores that were open the entire second quarters of both 2002 and 2001). The increase in retail sales was primarily due to an increase in sales of new in the box product due to additional purchases of new product and an increase in special buy sales as a result of operating two additional stores during the three and six months ended June 29, 2002 compared to the same periods in the previous year. Special buy appliances include manufacturer closeouts, factory over-runs, floor samples, returned or exchanged items and scratch and dent appliances. The Company continues

to purchase appliances from three manufacturers, Whirlpool Corporation, Maytag Corporation and Frigidaire. There are no minimum purchase requirements with any of these manufacturers. The Company believes purchases from these three manufacturers will provide an adequate supply of high-quality appliances for its retail outlets; however, there is a risk that one or more of these sources could be lost.

In July 2002, the Company signed an agreement with Whirlpool Corporation. The terms of the agreement are basically unchanged from the previous agreement.

8

RESULTS OF OPERATIONS - continued

Currently, the Company has ten retail locations. The Company plans to open one or two additional stores later this year in existing markets. 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 six months ended June 29, 2002 decreased by \$681,000 or 14% and increased by \$553,000 or 7%, respectively, from the same periods in the prior year. The decrease in the second quarter of 2002 in recycling revenues was primarily due to a decrease in refrigerator recycling volumes related to the contract with Southern California Edison Company ("Edison") offset by an increase in the recycling volume related to the Company's contract ("the Appliance Early Retirement and Recycling Program") with the California Public Utilities Commission ("CPUC"). The slight increase in the six months ended June 29, 2002 in recycling revenues was primarily due to an increase in total recycling volumes from all the various recycling contracts in California. The Company had been recycling appliances for Edison under an extension of Edison's 2001 Residential Recycling Program. In July 2002, the Company signed a contract in support of California's Statewide Residential Recycling Program for 2002 to be administered by Edison. This contract was effective April 1, 2002 and continues to December 31, 2002. Recycling services for this statewide program include customers of Edison, Pacific Gas and Electric ("PG&E") and San Diego Gas and Electric ("SDG&E"). The Company is responsible for advertising in the PG&E and SDG&E areas only. Edison is responsible for advertising in the Edison area.

The Appliance Early Retirement and Recycling Program is a refrigerator/freezer/room air conditioner recycling program that operates 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 San Francisco. The program began in June 2001 and will be completed in August 2002. The Company is responsible for advertising the program.

The 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 or the CPUC is unable to perform under the terms of its contracts with the Company.

Byproduct revenues for the three and six months ended June 29, 2002 increased to \$385,000 and \$647,000 from \$270,000 and \$440,000, respectively, from the same periods of 2001. The increases were primarily due to an increase in the volume of CFCs and an increase in scrap metal prices offset by a decrease in CFC prices.

9

RESULTS OF OPERATIONS - continued

Gross profit as a percentage of total revenues for the three and six months ended June 29, 2002 decreased slightly to 38% and 36%, respectively, from 39% and 40%, respectively, for the three and six months ended June 30, 2001. The slight decreases were primarily due to higher recycling costs related to the recycling programs offset by higher gross margin in sales of special buy appliances. Gross profit as a percentage of total revenues for future periods can be affected favorably or unfavorably by numerous factors, including the volume of appliances recycled from the Edison contracts 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 will be slightly less than the gross profit as a percentage of total revenues for the first six months

of this year.

Selling, general and administrative expenses for the three and six months ended June 29, 2002 increased by \$330,000 or 11% and \$1,259,000 or 23%, respectively, from the same periods in 2001. Selling expenses for the three and six months ended June 29, 2002 increased by \$479,000 or 34% and \$1,074,000 or 40%, respectively, from the same periods in 2001. The increases in selling expenses were primarily due to the expenses of opening one store during the first quarter of 2002 and operating two additional stores in 2002 as compared to the same periods in the previous year. General and administrative expenses for the three and six months ended June 29, 2002 decreased by \$149,000 or 9% and increased by \$185,000 or 7%, respectively, from the same periods in 2001. The decrease in general and administrative expenses for the second quarter of 2002 was primarily due to a decrease in customer service related costs related to the recycling programs. The increase in general and administrative expenses for the six months ended June 29, 2002 was primarily due to personnel costs related to the Company's retail growth.

Interest expense was \$263,000 for the three months and \$528,000 for the six months ended June 29, 2002 compared to \$270,000 and \$510,000 for the same periods in 2001. The decrease in interest expense for the second quarter of 2002 compared to the same period in the prior year was due to a lower average borrowed amount and a lower effective interest rate on the line of credit offset by a higher minimum interest amount. The increase in interest expense for the six months ended June 29, 2002 compared to the prior year was due to higher minimum interest amount.

The Company recorded a provision for income taxes for the three and six months ended June 29, 2002 of \$360,000 and \$519,000, respectively, compared to \$285,000 and \$514,000 in same periods in 2001. The increase was due to greater pre-tax income partially offset by a lower effective tax rate for the three and six months ended June 29, 2002 compared to the same periods in the prior year.

10

RESULTS OF OPERATIONS - continued

The Company has net operating loss carryovers and credit carryforwards of approximately \$7 million at June 29, 2002, 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 significant 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 is limited to approximately \$56,000 per year or less than \$1 million through 2018.

At June 29, 2002, the Company had recorded cumulative valuation allowances of approximately \$2,998,000 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 \$537,000 or \$.16 per diluted share and \$775,000 or \$.23 per diluted share for the three months and six months ended June 29, 2002, respectively, compared to net income of \$393,000 or \$.13 per diluted share and \$709,000 or \$.24 per diluted share in the same periods of 2001. The increases in net income for the three and six months ended June 29, 2002 compared to the same periods in the previous year were primarily due to higher revenues and gross profit percentage decreasing slightly offset by selling, general and administrative expenses as a percentage of revenues decreasing slightly for the three and six months ended June 29, 2002 compared to the same periods in the previous year.

LIQUIDITY AND CAPITAL RESOURCES

At June 29, 2002, the Company had working capital of \$3,280,000 compared to \$3,188,000 at December 29, 2001. Cash and cash equivalents increased to \$782,000 at June 29, 2002 from \$506,000 at December 29, 2001. Net cash provided by operating activities was \$833,000 for the six months ended June 29, 2002 compared to net cash used in operating activities of \$1,815,000 in the same period of 2001. The cash provided by operating

activities was primarily due to a decrease in accounts receivable and an increase in accounts payable for the period.

The Company's capital expenditures for the six months ended June 29, 2002 and June 30, 2001 were approximately \$214,000 and \$515,000, respectively. The 2002 capital expenditures were primarily related to leasehold improvements for the retail store opened in March 2002. The 2001 capital expenditures were primarily related to the continued

LIQUIDITY AND CAPITAL RESOURCES - continued

upgrade of computer systems and the purchase of equipment related to the refrigerator recycling operation.

As of June 29, 2002, the Company had a \$10.0 million line of credit with a lender. The interest rate on the line as of June 29, 2002 was 5.75%. 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, 2004 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 \$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 June 29, 2002, the Company had unused borrowing capacity of \$697,000.

A summary of our contractual cash obligations at June 29, 2002 is as follows:

<TABLE>
<CAPTION>

(in thousands)	PAYMENTS DUE BY PERIOD						
	TOTAL	2002 3RD & 4TH QTR	2003	2004	2005	2006	2007
CONTRACTUAL OBLIGATIONS							
Long-term debt, including interest	\$ 6,043	\$ 546	\$1,460	\$1,250	\$2,784	\$ 3	\$ --
Operating leases	\$ 5,938	\$1,039	\$1,510	\$1,309	\$1,317	\$585	\$178
Total contractual Cash obligations	\$11,981	\$1,585	\$2,970	\$2,559	\$4,101	\$588	\$178

</TABLE>

We also have a commercial commitment as described below:

<TABLE>
<CAPTION>

OTHER COMMERCIAL COMMITMENT	TOTAL AMOUNT COMMITTED	OUTSTANDING AT 6/29/02	DATE OF EXPIRATION
Line of credit	\$10,000,000	\$4,573,000	August 30, 2004

</TABLE>

We believe that our cash balance, availability under our line of credit, if needed, and anticipated cash flows from operations will be adequate to fund our cash requirements for fiscal 2002.

In July 2002, the Company signed a contract in support of California's Statewide Residential Recycling Program for 2002 to be administered by Edison. This contract is effective April 1, 2002 and continues to December 31, 2002. Recycling services for this statewide program include customers of Edison, Pacific Gas and Electric ("PG&E") and San Diego Gas and Electric ("SDG&E"). The Company is responsible for advertising in the PG&E and SDG&E areas only. Edison is responsible for advertising in the Edison area.

The 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 or the CPUC is unable to perform under the terms of its contracts with the Company.

The Company believes, based on the anticipated revenues from the Statewide Residential Recycling Program contract and the current CPUC 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, will be sufficient to finance its operations and capital expenditures through December 2002. The Company's total capital requirements for 2002 will depend on, among other things as discussed below, the recycling volumes generated from the Statewide Residential Recycling Program and the current CPUC program in 2002 and the number and size of retail stores operating during the fiscal year. Currently, the Company has three recycling centers and ten retail 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 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, Maytag and Frigidaire at acceptable prices and the ability and timing of Edison to deliver units under the Statewide Residential Recycling Program 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 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.

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 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 three and six-month periods ended June 29, 2002. However, there can be no assurance that future inflation will not have an adverse impact on the Company's operating results and financial condition.

PART II. OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

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

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

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES - None

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

 On April 25, 2002 the Annual Meeting of Shareholders of Appliance Recycling Centers of America, Inc. was held to obtain the approval of shareholders of record as of March 15, 2002 in connection with the three matters indicated below. Proxies were mailed to the holders of 2,316,971 shares. Following is a brief description of each matter voted on at the meeting and the number of votes cast for, against or withheld, as well as the number of abstentions and broker nonvotes, as to each matter:

14

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS - continued

Matter	Vote	
	For	Withhold Authority
-----	---	-----
1. Election of Directors:		
Edward R. Cameron	2,160,580	8,578
George B. Bonniwell	2,133,520	35,638
Duane S. Carlson	2,133,345	35,813
Harry W. Spell	2,133,195	35,963
Marvin Goldstein	2,160,063	9,095

2. Approval and adoption of the Amendment to the 1997 Stock Option Plan.

Matter	Vote			
	For	Against	Abstain	Not Voted
-----	---	-----	-----	-----
	1,518,732	74,915	3,775	571,736

3. Ratification of McGladrey & Pullen, LLP as independent public accountants for fiscal year ending December 28, 2002.

Matter	Vote			
	For	Against	Abstain	Not Voted
-----	---	-----	-----	-----
	2,159,463	7,075	2,620	0

ITEM 5 - EXHIBITS AND REPORTS ON FORM 8-K

- (a) (i) Exhibit 10.1 - Agreement dated June 18, 2002 between Southern California Edison Company and Appliance Recycling Centers of America, Inc.
- (ii) Exhibit 99.1 - Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (iii) Exhibit 99.2 - Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (b) (i) The Company filed a Form 8-K on April 10, 2002 announcing the its ApplianceSmart operation has joined the MARTA Cooperative, a national purchasing cooperative servicing 110 household appliance retailers.
- (ii) The Company filed a Form 8-K on April 24, 2002 announcing it 1st Quarter 2002 operating results.

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: August 9, 2002

/s/ Edward R. Cameron

Edward R. Cameron
President

Date: August 9, 2002

/s/ Linda Koenig

Linda Koenig
Controller

2002 STATEWIDE RESIDENTIAL APPLIANCE RECYCLING
PROGRAM AGREEMENT

BETWEEN

ARCA CALIFORNIA, 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.

2002 STATEWIDE RESIDENTIAL APPLIANCE RECYCLING PROGRAM AGREEMENT

TABLE OF CONTENTS

	Page	
1	DEFINITIONS	2
2	GENERAL TERMS	5
3	CONTRACT DOCUMENTS	5
4	CONTRACTOR RECYCLING SERVICES	6
5	CONTRACTOR REPORTS	10
6	CONTRACTOR CUSTOMER COMPLAINT AND DISPUTE RESOLUTION PROCESS	12
7	ELIGIBLE CUSTOMERS AND REFRIGERATORS AND FREEZERS	12
8	INELIGIBLE CUSTOMERS AND REFRIGERATORS AND FREEZERS	13
9	CONTRACTOR'S COMPENSATION	14
10	CONTRACTOR BILLING	16
11	SCE RESPONSIBILITIES	17
12	OWNERSHIP AND CUSTOMER CONFIDENTIALITY REQUIREMENTS	17
13	CONFLICT OF INTEREST	19
14	RIGHT TO AUDIT	20
15	CHANGES	20
16	PERMITS, CODES AND STATUTES	20
17	WARRANTY	21
18	TITLE	21
19	INSURANCE	21
20	INDEMNITY	23
21	TERM AND TERMINATION	24
22	WRITTEN NOTICES	25

-i-

2002 STATEWIDE RESIDENTIAL APPLIANCE RECYCLING PROGRAM AGREEMENT

TABLE OF CONTENTS

	Page	
23	SUBCONTRACTS	26
24	INDEPENDENT CONTRACTOR NON-DISCRIMINATION CLAUSE	26
25	NON-DISCRIMINATION CLAUSE	26
26	CPUC AUTHORITY TO MODIFY	27

27	NON-WAIVER	27
28	ASSIGNMENT	27
29	FORCE MAJEURE	27
30	DISPUTE RESOLUTION	27
31	SEVERABILITY	28
32	GOVERNING LAW	28
33	SECTION HEADINGS	29
34	SURVIVAL	29
35	NONRELIANCE	29
36	ATTORNEYS' FEES	29
37	COOPERATION	29
38	ENTIRE AGREEMENT	29
39	COUNTERPARTS	30

-ii-

2002 STATEWIDE RESIDENTIAL APPLIANCE RECYCLING PROGRAM
AGREEMENT

THIS AGREEMENT ("Agreement") is made and entered into as of the 1st day of April, 2002, by and between SOUTHERN CALIFORNIA EDISON COMPANY, a California corporation ("SCE") and ARCA CALIFORNIA, INC., a California corporation and wholly owned subsidiary of Appliance Recycling Centers of America, Inc. ("Contractor"). SCE and Contractor are also each individually referred to herein as "Party" and collectively as "Parties."

RECITALS

WHEREAS the Parties desire to implement an appliance recycling program in 2002 under the terms and conditions required by the California Public Utilities Commission and as set forth herein, for the removal of older, working inefficient refrigerators and freezers ("Eligible Refrigerators and Freezers") from customer residences in the separate service territories of SCE, Pacific Gas & Electric ("PG&E"), and San Diego Gas & Electric ("SDG&E") ("the 2002 Statewide Residential Appliance Recycling Program" or "Program").

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

WHEREAS, in furtherance thereof, SCE desires to contract with Contractor for comprehensive management of the 2002 Statewide Residential Appliance Recycling Program.

WHEREAS, Contractor desires to contract with SCE for the comprehensive management of the 2002 Statewide Residential Appliance Recycling Program, said management to include, but is not limited to, collection and dismantling of primary and secondary working Eligible Refrigerators and Freezers; removal of CFCs, HCFCs, HFCS, PCBs and other Hazardous Materials from collected Eligible Refrigerators and Freezers; handling storage and legal disposal of compressor oil, PCBs and other Hazardous Materials; recycling of metal, sulfur dioxide, CFCs, HCFCs, HFCS and oil; providing incentives to participating Utility customers who relinquish Eligible Refrigerators and Freezers, performance of a Program Participant survey, and providing reports and data to assist SCE in tracking program goals and expenditures and evaluating the program.

-1-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

WHEREAS, Contractor represents (i) that it has knowledge of the federal Clean Air Act, the Resource Conservation and Recovery Act, and Toxic Substances Control Act as well as the California Health and Safety Act (Article 10.1, commencing with Section 25211 of Chapter 6.5 of Division 20), the California Public Resources Code (Chapter 3.5, commencing with Section 42160 of Part 3 of Division 30), and all other applicable federal, state, and local regulations regarding the proper processing and recycling of refrigerators and freezers and hazardous materials contained within the 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 established and will continue to operate and maintain its recycling center in the City of Compton or other areas 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, 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 Amendment: Future document signed by the authorized representatives of both Parties which changes or modifies the terms of this Agreement.
- 1.3 Business Day: The period from one midnight to the following midnight, excluding Saturdays, Sundays, and holidays.
- 1.4 Calendar Day: The period from one midnight to the following midnight, including Saturdays, Sundays, and holidays.

-2-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

- 1.5 CFCs: Chlorofluorocarbons. (See also HCFCs and HFCS.)
- 1.6 CFC-11: Chlorofluorocarbons used as the blowing agent in the refrigerator and freezer polyurethane foam insulation.
- 1.7 Change Order: Document issued by SCE to Contractor and accepted by Contractor that changes or modifies the terms of this Agreement.
- 1.8 Contract Period: APRIL 1, 2002 TO DECEMBER 31, 2002 for completion of the Work. Contractor's final report shall be submitted to SCE on or before January 31, 2003, or as extended by order of the CPUC. (See also Section 21 - "Term and Termination.")
- 1.9 CPUC: the California Public Utilities Commission.
- 1.10 Disposition Code: Code assigned to each customer appliance turn-in order form (ATO) that identifies whether a working or non-working Refrigerator or Freezer was collected, or disabled with the customer's permission, if the order was cancelled by the customer, which incentive was selected, and other similar details regarding each order.
- 1.11 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.
- 1.12 Eligible Customer: A resident in a participating Utility service territory who occupies an existing single-family residential (Domestic Rate) or multi-unit dwelling or mobile home, or is the owner or authorized representative of existing multifamily housing and who may qualify for the 2002 Statewide Residential Appliance Recycling Program. Eligible Customers include customers who reside in a participating Utility service territory but who take distribution services from an entity other than a participating Utility. (See Section 7 of this Agreement.)
- 1.13 Eligible Refrigerators and Freezers: Refrigerators and freezers that meet the 2002 Statewide Residential Appliance Recycling Program refrigerator and freezer eligibility criteria as set forth in Section 7 of this Agreement.

-3-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

- 1.14 Hard-to-Reach: Eligible Customers who are residents of areas other than the Los Angeles basin, San Francisco Bay Area, San Diego Area or Sacramento and/or are moderate income and/or multifamily or mobile home tenants and are within the zip codes.
- 1.15 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 or other applicable code, rule or regulation, which is contained in or is derived from the Eligible Refrigerators or Freezers.
- 1.16 HCFCs and HFCs: hydrochlorofluorocarbons, and hydrofluorocarbons. (See also CFCs.)
- 1.17 PCB: Polychlorinated Biphenyl.
- 1.18 PGC funds: Public Goods Charge Funds. The source of the funds used to pay Contractor for work performed pursuant to this Agreement.
- 1.19 Primary Refrigerator or Freezer: Refrigerator or freezer currently in use by customer as the main refrigerator or freezer.
- 1.20 Program Participants: Eligible Customers who turn in Eligible Refrigerators or Freezers during the Contract Period.
- 1.21 Purchase Order: Document issued by SCE to facilitate payment to Contractor for the Work described herein.
- 1.22 Recycling Center: The site at which Contractor will process Eligible Refrigerators and Freezers, remove CFCs, HCFCs, HFCs, PCBs and other Hazardous Materials, and recycle or legally dispose of Hazardous materials.
- 1.23 Recycling Charge: Per-unit price paid by SCE for services performed by Contractor for the Work. The Recycling Charge does not include marketing, incentive or handling fee charges.

-4-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING AGREEMENT

- 1.24 Remote Area: A city or town that, because of its population and distance from the Contractor's base of operations, justifies the use of an extended timeframe (up to 25 Business Days from the initial customer contact) to complete collection when mutually agreed to by the Parties.
- 1.25 Secondary Refrigerator or Freezer: Surplus refrigerator or freezer currently in use and utilized by customer concurrently with primary refrigerator or freezer.
- 1.26 2002 Statewide Residential Appliance Recycling Program: 2002 Program implemented in the separate service territories of SCE, PG&E, and SDG&E. Contractor's specific authorized activities to be performed in the Utilities' respective service territories.
- 1.27 Subcontractor: An entity contracting directly or indirectly with Contractor to furnish services or materials as part of or directly related to Contractor's Work.
- 1.28 Utility or Utilities: SCE, PG&E, and/or SDG&E.
- 1.29 Work: Any and all obligations of Contractor to be performed for SCE, PG&E and SDG&E and Eligible Customers of SCE, PG&E and SDG&E pursuant to this Agreement, any Amendment to this Agreement, or a subsequent Purchase Order or Change Order incorporating this Agreement. The Work shall include the services described in Sections 4, 5, 6, and 10 of this Agreement, but is not limited to, Eligible Refrigerator and Freezer collection, Eligible Refrigerator and Freezer processing, handling, storing, recycling, and legal disposal of Hazardous Materials and Documentation preparation, customer complaint resolution and other related activities.

2. GENERAL TERMS

Contractor shall perform the Work and its associated obligations described below as an independent contractor.

3. CONTRACT DOCUMENTS

This Agreement shall consist of the following documents: this Agreement, any amendments to this Agreement, Purchase Orders, and Change Orders.

-5-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

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:

- (i) Amendments to the Agreement in chronological order from the most recent to the earliest;
- (ii) Change Orders incorporating and reflecting any Amendments to the Agreement in chronological order from the most recent to the earliest;
- (iii) This Agreement including all attachments; and
- (iv) Purchase Order incorporating this Agreement.

Each Party shall notify the other immediately upon the identification of any such conflict or inconsistency.

4. CONTRACTOR RECYCLING SERVICES

4.1 Contractor shall be responsible for Program participant service activities, including providing an inbound 800 telephone number for customers to access in English or Spanish, a web page which allows statewide customer access for inquiries and/or qualification and to signup for appointments 24 hours a day, seven days a week, all communication services, verification of customer and refrigerator or freezer eligibility, scheduling Eligible Refrigerator and Freezer collection appointments, documentation of Program Participant data, and other activities. The web site content shall be approved by SCE. Any changes to the content must be reviewed and approved by SCE prior to implementation.

4.2 Contractor shall be responsible for the following collection services in the service territory of each Utility:

- (i) Collect all Eligible Refrigerators and Freezers from Eligible Customers' residences within 20 Business Days from the date the Refrigerator or Freezer was scheduled for pickup (unless otherwise requested by the Eligible Customer). In Remote Areas of the service territory, or as approved by SCE's Program Manager, collection shall be no later than 25 Business Days from the date the Eligible Refrigerator or Freezer was scheduled for pickup, unless otherwise requested by the Eligible Customer. In the event of

-6-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

unanticipated high demand (beyond the projected monthly participation estimates) for Program services, Contractor and the SCE Program Manager shall, by mutual agreement, establish other appropriate time limitations as necessary.

A twenty-five percent (25%) reduction in the Recycling Charge shall be made by SCE if Eligible Refrigerators and Freezers are collected later than 20 Business Days after the Eligible Refrigerator or Freezer was scheduled for pickup and 25 Business Days in Remote Areas of each Utility's service territory after the Eligible Refrigerator or Freezer was scheduled for pickup or unless the Eligible Customer

requested the later collection date or unless the Contractor and the SCE Program Manager shall, by mutual agreement, establish other appropriate time limitations as necessary.

- (ii) Ensure that the Eligible Refrigerator or Freezer is a working unit before removing it from a residence;
 - (iii) Disable the Eligible Refrigerator or Freezer prior to leaving pick-up location; and
 - (iv) Transport and process the Eligible Refrigerator or Freezer at its Recycling Center.
- 4.3 Contractor shall be solely responsible for all methods, techniques, sequences, and procedures for the dismantling of Eligible Refrigerators and Freezers, processing of metal panels and components, recycling of recovered scrap metal, removal and management including, but not limited to, 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 Refrigerators and Freezers, and the removal and disposal of compressor oil, CFCs, HCFCs, HFCS, PCBS, and other Hazardous Materials from the time Contractor collects Eligible Refrigerators and Freezers pursuant to this Agreement.
- 4.5 For each Utility, Contractor and SCE shall establish and implement a financial incentive service as follows:

-7-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING AGREEMENT

- 4.5.1 Each Program Participant will be entitled to receive a check in the amount of Thirty-five Dollars (\$35.00) or a 5-pack set of compact fluorescent lamps (CFL Pack) which will be provided to Contractor by SCE. The check and the CFL Pack are each referred to individually as the "Incentive".
- 4.5.2 SCE shall arrange for the CFL Packs to be delivered to Contractor at a location to be mutually agreed upon by the Parties. SCE shall require the manufacturer to deliver the CFL Pack in packages designed to diminish the possibility of damage to the units during transit.
- 4.5.3 Upon receipt of each shipment of CFL Packs, Contractor shall inspect the shipment for any damaged or defective CFL Packs. Contractor shall contact the SCE Program Manager for instructions regarding the disposition of any damaged and/or defective CFL Pack. SCE shall reimburse Contractor for all costs associated with the return of any such damaged and/or defective CFL Pack.
- 4.5.4 Contractor shall deliver CFL Pack to Program Participants at the time the Eligible Refrigerator or Freezer is picked up. Each Program Participant who receives a CFL Pack must sign a receipt acknowledging that he/she received the CFL Pack.
- 4.5.5 If, after a CFL Pack is delivered by Contractor, a Program Participant alleges that a CFL Pack is damaged or defective, SCE shall replace such defective and/or damaged CFL Pack. SCE shall be responsible for the replacement of the damaged and/or defective CFL Pack, including, but not limited to, the Program Participant's receipt of a new CFL Pack. If the damage to a CFL Pack is the result of any action by Contractor, SCE shall be relieved of any obligation to pay Contractor a Handling Fee in connection with the damaged CFL Pack.
- 4.5.6 Contractor shall process and mail Incentive checks via the U.S. Postal System within 15 Business Days of the date the Eligible Refrigerator or Freezer was picked up.
- 4.5.7 As required under Section 10, Contractor shall provide SCE with a weekly listing of Program Participants qualifying for an Incentive check or CFL Pack for SCE's approval. The weekly listing shall include the date of pickup and date the Incentive check was mailed or date the CFL Pack was provided to Program Participants.

-8-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

- 4.5.8 Upon SCE's reimbursement of Contractor for the Incentives described in Section 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 Program Participants entitled to receive 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 Program Participants 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.
- 4.6 Contractor Exceptions List. Contractor shall provide SCE with its Customer Exceptions list within five (5) Business Days of receipt of the relevant customer records information from SCE.
- 4.7 Contractor services documentation and record maintenance services. Contractor shall document and maintain records for services performed under this Agreement on a Utility-specific basis, as follows:
- 4.7.1 Appliance Turn-in Order Form (ATO) to collect data such as (a) customer name, address, home and work phone numbers, (b) Utility account number, (c) Eligible Refrigerator or Freezer manufacturer's name model and style, (d) defrost type, color, size, amperage, and estimated age of unit; (e) location of Eligible Refrigerator or Freezer within the residence, (f) disposition code for each Program Participant indicating which Incentive was selected, (g) disposition code which indicates operating condition of Eligible Refrigerator or Freezer, (h) identification of units containing CFC-11, HCFCs and HFCS, (i) special pick-up instructions (if applicable), and j) in all cases each participating Eligible Customer's signature, when Contractor picks up an Eligible Refrigerator or Freezer. Contractor shall obtain the signature of customer in the event refrigerator or freezer is discovered not to be an Eligible Refrigerator or Freezer.

-9-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

ATO data shall be compiled in electronic mode, employing a software program suitable for exchange of information with SCE, subject to the approval of SCE's Program Manager.

Contractor shall utilize a computer software program designed to assign a Disposition Code to each ATO for each Program Participant.

ATO originals shall be maintained at the Contractor's Recycling Center and made available to SCE in accordance with Section 14 of this Agreement.

- 4.8 Contractor Survey. Contractor shall conduct a Program Participant telephone survey throughout the year using a stratified purposeful sample of 5% to 20% of the total number of 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 refrigerator or freezer use, customer demographics and customer satisfaction. Survey questions, stratification and frequency of survey may be modified periodically as determined by SCE.

5. CONTRACTOR REPORTS

- 5.1 Contractor shall provide SCE with separate reports for each

participating Utility for the services performed under this Agreement. Required data shall be compiled in electronic mode, employing a software suitable to exchange information with SCE, subject to approval of SCE's Program Manager. SCE may request that Contractor submit program documentation, including invoices, electronically.

- 5.1.1 A weekly invoice report as described below in Section 10;
- 5.1.2 A monthly report, provided no later than the 15th Calendar Day of the preceding month's activity which shall contain the following:

-10-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

- (i) Number of Eligible Refrigerators and Freezers processed through the Recycling Center during the previous month and the size in cubic feet, year of manufacture, style, and defrost type.
 - (ii) Environmental data such as an estimated breakdown of amount of CFCs/HCFCs/HFCs recovered; number of pounds of PCB articles removed; number of pounds of mercury articles removed, number and size of recycled Eligible Refrigerators and Freezers containing CFC-11; amount of compressor oil recycled; and weight of metals materials sold for recycling; and the weight of non-recyclable materials disposed.
 - (iii) An unaudited accounting of CFL packs remaining in Contractor's inventory of CFL packs. At the end of the program year, Contractor shall complete and provide SCE with a reconciliation to account for the CFL packs that were defective, damaged, or stolen. Contractor shall reimburse SCE for any and all CFL Packs stolen from Contractor after delivery to Contractor.
- 5.1.3 A final Program report summarizing year-to-date Program information, if required, shall be submitted to SCE no later than thirty (30) Calendar Days after the termination of this Agreement.
 - 5.1.4 Customer Comments and Complaints Report. Contractor shall provide SCE with a monthly status report on customer comments and status of customer complaints (on a cumulative basis) as described below in Section 6.
 - 5.1.5 Aging Reports. A report indicating the number of Eligible Refrigerators and Freezers that were collected during the preceding month and that were scheduled for collection from Eligible Customers during that month, the date of the initial contact with the Eligible Customer, any subsequent rescheduled dates initiated by Eligible Customer, the date or dates the Eligible Refrigerator or Freezer was scheduled for collection, and the actual collection date.

-11-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

- 5.1.6 Upon reasonable written request from an authorized representative of SCE, special and nonrecurring reports during the course of the 2002 Statewide Residential Appliance Recycling Program. Such report content will be developed by the Parties in anticipation of or response to requests from the CPUC, SCE internal audits, or compilation of data relevant to the 2002 Statewide Residential Appliance Recycling Program 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.

6. CONTRACTOR CUSTOMER COMPLAINT AND DISPUTE RESOLUTION PROCESS.

- 6.1 Contractor shall be responsible, to the complete satisfaction

of SCE, for developing and implementing a process for the management of customer complaints. Contractor shall undertake activities to resolve customer complaints in an expedited manner including, but not limited to: (a) ensuring adequate levels of professional customer service staff, (b) direct access of customer complaints to supervisory and/or management personnel, and (c) ensuring sufficient levels of delivery personnel expected during times of high volume.

6.2 For each Utility, a Customer Comment Tracking System for recording customer inquiries, complaints, and positive feedback. This Customer Comment Tracking System is to include, but is not limited to, dates of customer complaints, information on the number, characterization, resolution of customer complaints, date of each complaint resolution, and tracking of the total number of telephone calls, duration of calls, number of calls placed on hold, duration of time calls are on hold, and number of cancelled calls (hang-ups).

7. ELIGIBLE CUSTOMERS AND REFRIGERATORS AND FREEZERS

7.1 ELIGIBLE CUSTOMERS for the 2002 Statewide Residential Appliance Recycling Program shall include the following:

7.1.1 Customer is a resident in a participating Utility service territory and occupies an existing single-family residential (Domestic

-12-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING AGREEMENT

Rate) or multi-unit dwelling or mobile home, or is the owner or authorized representative of existing multifamily housing and who may qualify for the 2002 Statewide Residential Appliance Recycling Program. Eligible customers include customers who reside in a participating Utility service territory but who take distribution services from an entity other than a participating Utility.

(i) Contractor shall determine a customer's eligibility status BEFORE Contractor picks up a unit from a customer.

(ii) Failure to verify customer eligibility shall result in nonpayment of fees.

7.1.2 Customer is the owner of the Eligible Refrigerator or Freezer or possesses written consent from the actual owner to turn in the Eligible Refrigerator or Freezer.

7.1.3 Customer turns in no more than two Eligible Refrigerators or Freezers or one each Eligible Refrigerator and Freezer per year unless written SCE approval is obtained for any additional Eligible Refrigerator or Freezer. SCE shall not be obligated to pay Contractor the Incentive check amount or Handling Fee nor Recycling Charge for Eligible Refrigerators or Freezers picked up from an Eligible Customer that exceeds the limit of two Eligible Refrigerators or Freezers.

7.2 ELIGIBLE REFRIGERATORS AND FREEZERS for the 2002 Statewide Residential Appliance Recycling Program shall depend on the following:

7.2.1 Refrigerator or freezer must be capable of cooling or freezing, or both, as applicable, at time of collection.

7.2.2 Refrigerator or freezer minimum size is 10 cubic feet and maximum size is 27 cubic feet.

8. INELIGIBLE CUSTOMERS AND REFRIGERATORS AND FREEZERS

8.1 Ineligible Customers

-13-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

- 8.1.2 Low income customers who participate in a Utility's refrigerator replacement program for low-income customers in 2002.
- 8.1.3 Commercial customers who are on commercial Utility rates 8.1.4 A resident in a non-participating utility service territory.
- 8.2 Ineligible Refrigerators and Freezers
 - 8.2.1 Refrigerators or freezers sizes less than 10 cubic feet or greater than 27 cubic feet.
 - 8.2.2 Commercial refrigerators or freezers, ammonia-containing gas refrigerators, commercial freezers, and room air conditioners
 - 8.2.3 Refrigerators or freezers not capable of cooling or freezing or both, as applicable.

9. CONTRACTOR'S COMPENSATION

9.1 Summary of Fees Payable to Contractor

SCE shall pay to Contractor, as full compensation for completing the Work at the prices set forth. The total amount to be paid to Contractor for work performed in each Utility's service territory shall not exceed the amounts included.

- 9.1.1 Recycling Charge (All Utilities). For the Contract Period, 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.
- 9.1.2 Incentive Cost (All Utilities). For the Contract Period, SCE shall reimburse Contractor \$35 for each Incentive check payment distributed to Program Participants under the terms and conditions set forth in this Agreement.
- 9.1.3 Handling Fee (All Utilities). For the Contract Period, SCE shall pay Contractor a fee of Two Dollars (\$2.00) ("Handling Fee") per CFL Pack for each CFL Pack distributed to Program. Participants under the terms and conditions set forth in this Agreement. The Handling Fee shall compensate Contractor for

-14-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

the storage, handling and delivery of the CFL Pack, additional labor, and any and all other costs and expenses in connection with the CFL Pack Incentive, including any additional documentation and reports that may be necessary or required as a result of the CFL Pack Incentive. SCE shall not be responsible for any other compensation or reimbursement to Contractor as a result of the CFL Pack Incentive except for the Handling Fee.

- 9.1.4 Marketing and Advertising Costs (PG&E and SDG&E only). During the Contract period, SCE shall pay Contractor per unit recycled (pick-up and properly disposed of) in the service territories of PG&E and SDG&E respectively, as full compensation for approved marketing activities conducted by Contractor in the service territories of PG&E and SDG&E. Contractor must submit all marketing materials to the SCE Program Manager for review and approval before using the materials. SCE will be responsible for obtaining the approvals of PG&E and SDG&E as needed.
- 9.2 Payment schedule.

SCE shall transmit payments to Contractor for the Work (subject to offset by SCE for any amount that is unsubstantiated or found to be incorrect) as follows:

- (i) For Incentive check reimbursement, within thirty (30) Calendar Days of receipt of Contractor's weekly

invoice and approval by SCE;

- (ii) For Recycling Charges incurred, within thirty (30) Calendar Days of receipt of Contractor's weekly invoice and approval by SCE;
- (iii) For CFL Pack Handling Fees incurred, within thirty (30) Calendar Days of receipt of Contractor's weekly invoice and approval by SCE.

SCE shall attempt to review and approve all weekly invoices within 5 Business Days of receipt of a properly documented invoice.

-15-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

10. CONTRACTOR BILLING

10.1 On a weekly basis, in arrears, Contractor shall prepare and submit a weekly invoice to SCE to substantiate the Recycling Charges, Advertising Costs, Handling Fees, and Incentive check amounts due for Contractor's payments to Program Participants for the prior week. Contractor shall provide SCE with a weekly listing of prospective Program Participants who have been qualified as eligible for an Incentive check or CFL Pack for SCE's approval. The weekly listing shall include the date of unit pickup, the date the Incentive check was mailed, and the date the CFL Pack was provided to a Program Participant.

The weekly invoice shall also include the applicable ATO number, per-unit Recycling Charge for the Eligible Refrigerators and Freezers collected, processed, and recycled, and the total Handling Fee due for the CFL Packs distributed during the invoice period.

- 10.2 SCE will not pay any invoice which does not contain all required documentation and information.
- 10.3 SCE will not pay any invoice that includes charges (Recycling Charges, marketing/advertising costs, Incentive check amounts, or CFL Pack Handling Fees) for Work performed or services rendered more than 60 days prior to the date the invoice is received by SCE unless the delay is solely attributable to SCE's failure to timely furnish the information referenced in Section 11.
- 10.4 Contractor shall apply a per-unit Recycling Charge on units that have been disabled, and only for the following transactions:
 - 10.4.1 Collection of an Eligible Refrigerator or Freezer.
 - 10.4.2 Collection contact made for Eligible Refrigerator or Freezer 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.
- 10.5 Contractor shall apply a 25% per unit discount to the Recycling Charge to any additional units when two, or more in the case of multifamily, Eligible Refrigerators or Freezers are removed during a single collection appointment from Customer's residence or multifamily site.

-16-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

Said discount shall be clearly documented and identified in Contractor's invoice and accompanying report.

- 10.6 Contractor shall submit a final invoice for the Contract Period within 15 Calendar Days after the termination of this Agreement or final Eligible Refrigerator or Freezer pickup, whichever occurs later, in hard copy and in electronic format acceptable to SCE. Failure to submit the invoice and required documentation to SCE within 15 Calendar Days may result in

nonpayment of the invoice by SCE.

11. SCE RESPONSIBILITIES

- 11.1 SCE shall provide to Contractor the following services:
 - 11.1.1 Bi-weekly updates of Customer Records for purposes of identifying Eligible Customers.
 - 11.1.2 Customer exceptions lookups within five (5) Business Days of receipt of Contractor's customer's exceptions list.
 - 11.1.3 If SCE fails to provide Contractor the required data within the time frames specified above in this section, then the reporting time frames stipulated in Section 5 shall be extended by the number of Business Days the information is delayed.

12. OWNERSHIP AND CUSTOMER CONFIDENTIALITY REQUIREMENTS

- 12.1 Contractor, its employees, and any Subcontractors shall not disclose any Confidential 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.
 - 12.1.1 Confidential Customer Information includes, but is not limited to, the customer's name, address and all billing and usage information. If Contractor is uncertain whether any information concerning a customer should be considered Confidential Customer Information, Contractor shall contact SCE prior to disclosing the customer information.

-17-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

- 12.1.2 Prior to any approved disclosure of Confidential Customer Information, 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.
- 12.1.3 This provision does not prohibit Contractor from disclosing non-confidential information concerning the 2002 Statewide Residential Appliance Recycling Program to the CPUC in any CPUC proceeding, or any CPUC-sanctioned meeting or proceeding or other public forum.
- 12.2 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.
- 12.3 All new, original information, material, and documents prepared or caused to be prepared under this Agreement by Contractor using PGC funds shall become the property of the CPUC. Such information, or derivative information, materials, and documents, shall be used by Contractor only for work performed pursuant to this Agreement, 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.
- 12.4 All information disclosed by Contractor to SCE during meetings or negotiations with regard to the 2002 Statewide Residential Appliance 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.
- 12.5 Confidential Contractor Information
 - 12.5.1 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

-18-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

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 and HCFC and HCF 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.

12.5.2 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:

- (i) Is not generally known to the public or in the industry;
- (ii) Has been treated by Contractor or any of its subsidiaries as confidential or proprietary; and
- (iii) 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.

12.5.3 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 12.

13. CONFLICT OF INTEREST

Contractor agrees that time is of the essence for the services described herein. Contractor further agrees that any agreement it has, or in which it may enter with other parties (e.g., utilities or government agencies) for a

-19-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

recycling program, shall not detrimentally affect the quality or timeliness of Contractor's performance of the services required under this Agreement.

14. RIGHT TO AUDIT

SCE or its designated representatives shall have the right to periodically review and copy during normal business hours, the records and documents in Contractor's possession or under its control, relating to the Work, upon reasonable advance written notice to Contractor. This right to audit shall extend for a period of three (3) years beyond the termination or cancellation of this Agreement. Contractor agrees to allow the auditor(s) reasonable access to such records during normal business hours and to allow interviews of any employees who might reasonably have information related to such records. Further, Contractor agrees to contractually require all Subcontractors to provide access to relevant records and staff of all Subcontractors concerning the Work.

15. 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.

16. PERMITS, CODES, AND STATUTES

- 16.1 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.
- 16.2 Contractor shall comply with all applicable local, state, and federal safety and health laws in effect on the date of this Agreement,

-20-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
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.

17. WARRANTY

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 Eligible 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.

18. TITLE

- 18.1 Title to the Hazardous Materials shall pass to Contractor when Contractor collects Eligible Refrigerators and Freezers from customers.
- 18.2 Title of collected Eligible Refrigerators and Freezers shall pass to Contractor.

19. INSURANCE

- 19.1 Without limiting Contractor's liability to SCE, including the requirements of Section 20, Indemnity, Contractor shall maintain for the Work, and shall require that each Subcontractor 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 (30) Calendar Days prior written notice to SCE. Contractor shall furnish SCE with certificates of insurance and forms acceptable to SCE and shall require each Subcontractor 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 Program Manager by Contractor WITHIN 30 DAYS OF EXECUTION OF THIS AGREEMENT, and by Subcontractor upon receipt of its subcontract, but in any event prior to start of its portion of the Work. Any other

-21-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

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; and (e) 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

-22-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING AGREEMENT

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 19, 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 19.

20. INDEMNITY

20.1 Contractor shall, at its own cost, indemnify, defend, reimburse, and hold harmless SCE, PG&E, and SDG&E, their

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,

-23-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

SCE, PG&E, or SDG&E, shall be indemnified by Contractor for any and all liability except to the extent such death or injury results from the negligence of SCE, PG&E, or SDG&E.

20.2 Contractor shall, at its own cost, indemnify, defend, reimburse, and hold harmless SCE, PG&E, and SDG&E, their 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 PG&E, or SDG&E as applicable, 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.

20.3 The indemnities set forth in this Section 20 shall not be limited by the insurance requirements set forth in Section 19.

21. TERM AND TERMINATION

21.1 This Agreement shall commence on April 1, 2002 and continue in effect until one of the following occurs: (a) December 31, 2002; (b) SCE determines that Contractor has picked up all units called in prior to December 31, 2002; (c) SCE determines that Contractor has exhausted all available funding; (d) SCE learns that Contractor has filed a petition in bankruptcy or that an involuntary petition has been filed against Contractor and said petition(s); OR (e) the CPUC discontinues funding for the 2002 Statewide Residential Appliance Recycling Program or this Agreement.

21.2 Either Party may terminate the Agreement for any reason by providing thirty (30) Calendar Days advance written notice to the other Party. The termination shall become effective on the last day of said notice period ("Termination Date"). Contractor shall be paid for all Work performed prior to the Termination Date. In such event, SCE shall only be obligated to pay contractor for such Eligible 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.

21.3 In the event of termination pursuant to this Section 21, Contractor and SCE shall work cooperatively to facilitate the termination of the 2002 Statewide Residential Appliance Recycling Program.

-24-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

21.4 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 affect the 2002 Statewide Residential Appliance Recycling Program or which addresses it in any manner.

22. WRITTEN NOTICES

22.1 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/Freezer Recycling Program Manager
2244 Walnut Grove Avenue - Quad 2A
Rosemead, CA 91770
(626) 302-8626 telephone
(626) 302-1834 facsimile

CONTRACTOR: ARCA, Inc.
Attention: Mr. Jack Cameron, President
7400 Excelsior Boulevard
Minneapolis, MN 55426
(952) 930-1717 telephone
(952) 930-1800 facsimile

22.2 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 (3) 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.

-25-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

23. SUBCONTRACTS

23.1 Contractor shall contractually require each Subcontractor to be bound by general terms and conditions protecting each participating Utility which are equivalent to the terms and conditions of this Agreement.

23.2 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. This Agreement shall not constitute a contractual relationship between any Subcontractor and SCE nor any obligation for payment by SCE to any Subcontractor.

24. INDEPENDENT CONTRACTOR

The Contractor, and its employees, Subcontractors, and agents of Contractor in the performance of this Agreement, shall act in an independent capacity and not as officers or employees or agents of SCE.

25. NON-DISCRIMINATION CLAUSE

Contractor and its Subcontractors shall not unlawfully discriminate, harass, or allow harassment against any employee or applicant for employment because of sex, race, color, ancestry, religious creed, national origin, physical disability (including HIV and AIDS), mental disability, medical condition (cancer), age (over 40), marital status, and denial of family care leave. Contractor and Subcontractors shall insure that the evaluation and treatment of their employees and applicants for employment are free from such discrimination and harassment. Contractor and its Subcontractors shall comply with the provisions of the Fair Employment and Housing Act (Government Code Section 12990 (a-f) et seq.) and the applicable regulations promulgated thereunder (California Code of Regulations, Title 2, Section 7285 et seq.). The applicable regulations of the Fair Employment and Housing Commission implementing Government Code Section 12990 (a-f), set forth

in Chapter 5 of Division 4 of Title 2 of the California Code of Regulations, are incorporated into this Agreement by reference and made a part hereof as if set forth in full. Contractor and its Subcontractors shall give written notice of their obligations under this clause to labor organizations with which they have a collective bargaining or other Agreement.

-26-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

Contractor shall include the nondiscrimination and compliance provisions of this clause in all subcontracts for the Work.

26. CPUC AUTHORITY TO MODIFY

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.

27. NON-WAIVER

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

28. 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 the aforementioned assignment, 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.

29. 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.

30. DISPUTE RESOLUTION

30.1 Should any dispute arise between the Parties regarding this Agreement, the Parties agree to enter into good faith negotiations as

-27-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

soon as practicable to resolve such disputes within five (5) Business Days of receipt of a written notice describing the dispute. If the Parties are unable to resolve the dispute, the Parties agree to refer the matter to the Energy Division for resolution by the CPUC.

30.2 All negotiations, mediation and/or arbitration conducted pursuant to this clause are confidential and shall be treated as compromise and settlement negotiations, to which Section 1119 of the California Evidence Code shall apply, and Section 1119 is incorporated herein by reference.

30.3 Notwithstanding the foregoing provisions, a Party may seek a preliminary injunction or other provisional judicial remedy if in its judgment such action is necessary to avoid irreparable damage or to preserve the status quo.

30.4 Each Party is required to continue to perform their obligations under this Agreement that are not related to the dispute, pending final resolution of a dispute arising out of or relating to this Agreement.

31. SEVERABILITY

In the event that any of the terms, covenants or conditions of this Agreement, or the application of any such term, covenant or condition, shall be held invalid as to any person or circumstance by any court, regulatory agency, or other regulatory body having jurisdiction, all other terms, covenants, or conditions of this Agreement and their application shall not be affected thereby, but shall remain in full force and effect, unless a court, regulatory agency, or other regulatory body holds that the provisions are not separable from all other provisions of this Agreement.

32. GOVERNING LAW

This Agreement 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.

-28-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

33. SECTION HEADINGS

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

34. SURVIVAL

Notwithstanding completion or of this Agreement, the Parties shall continue to be bound by the provisions of this Agreement which by their nature survive such completion or termination. Such provisions shall include, but not be limited to, Contractor's indemnity protecting SCE, PG&E, and SDG&E from any liability for environmental clean up arising out of Contractor's Work.

35. NONRELIANCE

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

36. 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.

37. COOPERATION

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

38. ENTIRE AGREEMENT

This Agreement contains the entire agreement and understanding between the Parties and merges and supersedes all prior representations and discussions

-29-

2002 STATEWIDE RESIDENTIAL REFRIGERATOR RECYCLING
AGREEMENT

pertaining to this 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.

39. COUNTERPARTS

This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall be deemed to be one and the same instrument.

ARCA CALIFORNIA INC.

SOUTHERN CALIFORNIA
EDISON COMPANY

By: /s/ Jack Cameron

By: /s/ Pamela Bass

Its: President
Date: June 18, 2002

Its: Sr. Vice President
Date: July 10, 2002

CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), I, the undersigned Chief Executive Officer of Appliance Recycling Centers of America, Inc. (the "Company"), hereby certify that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 29, 2002 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2002 /s/ Edward R. Cameron

Edward R. Cameron, President and Chief Executive Officer
Principal Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), I, the undersigned Controller of Appliance Recycling Centers of America, Inc. (the "Company"), hereby certify that the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 29, 2002 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2002

/s/ Linda Koenig

Linda Koenig, Controller
Principal Financial Officer