

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 28, 2002  
OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 0-19621

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.  
(Exact name of registrant as specified in its charter)

MINNESOTA (State or other jurisdiction of incorporation or organization)	41-1454591 (I.R.S. Employer Identification No.)
7400 EXCELSIOR BOULEVARD, MINNEAPOLIS, MINNESOTA (Address of principal executive offices)	55426-4517 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: NONE  
Securities registered pursuant to Section 12(g) of the Act: COMMON STOCK,  
WITHOUT PAR VALUE  
(Title of class)

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 (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of March 7, 2003, the aggregate market value of the voting stock held by nonaffiliates of the registrant, computed by reference to the average of the high and low prices on such date as reported by the OTC Bulletin Board, was \$1,563,602.

As of March 7, 2003, there were outstanding 2,343,890 shares of the registrant's Common Stock, without par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement dated March 21, 2003, are incorporated by reference into Part III hereof.

TABLE OF CONTENTS

<TABLE>  
<CAPTION>

	PAGE
	----
PART I	
<S>	
Item 1.	
<C> Business .....	3
General.....	3
Industry Background.....	3
Company Background.....	4
Customers and Source of Supply.....	6
Company Operations.....	7
Principal Product and Services.....	8
Sales and Marketing.....	8
Seasonality.....	8
Competition.....	9
Government Regulation.....	9
Employees.....	10
Item 2.	10
Item 3.	10
Item 4.	10

PART II

Item 5.	Market for the Company's Common Equity and Related Shareholder Matters.....	11
Item 6.	Selected Financial Data.....	12
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	13
Item 7A.	Quantitative and Qualitative Disclosure About Market Risk.....	22
Item 8.	Financial Statements and Supplementary Data.....	23
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.....	36

PART III

Item 10.	Directors and Executive Officers of the Company.....	36
Item 11.	Executive Compensation.....	36
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	36
Item 13.	Certain Relationships and Related Transactions.....	36
Item 14.	Controls and Procedures.....	36

PART IV

Item 15.	Exhibits, Financial Statement Schedules and Reports on Form 8-K.....	37
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SIGNATURES	.....	39
INDEX TO EXHIBITS	.....	40

</TABLE>

PART I

ITEM 1. BUSINESS

GENERAL

Appliance Recycling Centers of America, Inc., together with its operating subsidiaries ("ARCA" or the "Company"), is a leading provider of reverse logistics, energy efficiency and appliance recycling services for appliance manufacturers and retailers, utility companies, waste management businesses, vending machine companies, property managers, local governments and the general public. The Company generates revenues from the retail sale of appliances through a chain of Company-owned retail stores under the name ApplianceSmart(R), fees charged for the collection and environmentally sound recycling of unwanted appliances, and sales of byproduct materials generated from processed appliances.

The Company was incorporated in Minnesota in 1983, although through its predecessors it commenced the appliance retail and recycling business in 1976. The Company's principal office is located at 7400 Excelsior Boulevard, Minneapolis, Minnesota 55426-4517. References herein to the Company include its operating subsidiaries. (See Exhibit 21.1.)

INDUSTRY BACKGROUND

There are more than 500 million major household appliances, such as refrigerators, freezers, ranges, dishwashers, microwaves, washers, dryers, room air conditioners, water heaters and dehumidifiers, currently in use in the United States. It is estimated by the Steel Recycling Institute that in 2001, 39 million major household appliances were taken out of use in the United States. The disposal of these appliances is a serious problem as a result of a number of factors including: (i) decreasing landfill capacity in many parts of the country; (ii) the inability of incinerators, composting facilities and other landfill alternatives to process appliances; and (iii) the presence in appliances of certain hazardous and other environmentally harmful materials that require special processing.

Legislation affecting appliance disposal has been adopted in more than 30 states. This legislation includes landfill restrictions, disposal bans, advance disposal fees and other types of regulations. As a result, appliances must be dealt with outside the ordinary municipal solid waste system.

Landfill restrictions arise in part because some appliance components contain certain hazardous and other environmentally harmful materials, including polychlorinated biphenyls (PCBs), mercury, refrigerants such as chlorofluorocarbons (CFCs) and sulfur dioxide, and oils. PCBs are suspected as carcinogens, are resistant to degradation when deposited in landfills and can cause groundwater contamination. The production of PCBs was banned by the EPA in 1979, although businesses were allowed to continue using remaining inventories of components that contained PCBs. Mercury is toxic to humans and can enter the body through inhalation, skin absorption or ingestion, and it vaporizes at high temperatures, forming extremely toxic fumes. CFCs are believed to cause long-term damage to the earth's stratospheric ozone layer and may contribute to global warming when released into the atmosphere. The 1990 Amendments to the Clean Air Act prohibit the venting of CFCs and since July 1, 1992 have required the recovery of CFC refrigerants during the service, repair and disposal of

appliances. See "Government Regulation" below.

In addition to these solid waste management and environmental issues, utility companies, motivated by economic and environmental factors to control energy consumption, sponsor various programs to encourage and assist residential consumers to conserve energy, including programs for turning in surplus, energy-inefficient appliances. Many residential consumers own and operate room air conditioners, freezers or

3

more than one refrigerator, contributing significantly to residential energy use and peak energy demand. In addition, many of the refrigerators manufactured in the 1960s and early 1970s consume up to 1,750 kilowatt-hours of electricity each year. The 1987 National Appliance Energy Conservation Act requires that new refrigerators use less than half of the energy as refrigerators built twelve years ago. As more efficient appliances become available, utility companies have begun to encourage the use of newer models and the disposal of older, less efficient models.

The Federal Energy Policy Act of 1992 gives individual states the option of deregulating their electric utility industry. The potential of deregulation has caused uncertainty about the future and form of energy conservation programs sponsored by electric utilities. The Company believes, however, that energy conservation and efficiency programs will remain a long-term component of the nation's electric utility industry. See "Government Regulation" below.

#### COMPANY BACKGROUND

The Company began business in 1976 as a retailer of reconditioned appliances. Initially, the Company contracted with national and regional retailers of appliances such as Sears, Roebuck & Company, Inc. ("Sears") and Montgomery Ward & Co. ("Montgomery Ward") to collect major appliances in Minneapolis/Saint Paul and two other metropolitan areas. As part of their new appliance sales efforts, these retailers arranged for the removal of old appliances from consumers' residences. The Company collected old appliances on behalf of its customers, reconditioned and sold suitable used appliances through its own retail stores and sold the remaining appliances to scrap metal processors.

In the late 1980s, in response to stricter environmental protection laws, the Company developed and marketed programs to process and dispose of appliances in an environmentally sound manner. These programs were offered to new appliance manufacturers and retailers, waste management companies, property management companies and the general public. See "Customers and Source of Supply" below.

In 1989, the Company expanded its appliance recycling concept to the electric utility industry when it established an appliance processing center in Milwaukee, Wisconsin, pursuant to a contract with a utility company. From 1989 to 1994, the Company focused its resources on the expansion of its business with electric utility companies. During this time period the Company opened nine centers throughout the U.S. and Canada, primarily serving seventeen electric utility customers. The Company's electric utility business has been negatively impacted by the potential of electric utility industry deregulation. The potential of deregulation has caused electric utilities to decrease their sponsorship of energy conservation programs such as the one the Company offers.

During fiscal year 2002, there were two major electric utility customers. Southern California Edison Company ("Edison") accounted for approximately 13% or \$5.9 million of the Company's total revenues and the California Public Utilities Commission accounted for approximately 12% or \$5.4 million of the Company's total revenues. Plans for a 2003 statewide recycling program that would be administered by Edison are currently being reviewed by California regulatory authorities.

In October 2000, the Company signed a contract with Edison to implement a recycling program ("Summer Initiative") in the service areas of Pacific Gas & Electric (the San Francisco Bay area) and San Diego Gas & Electric. This contract was in accordance with a ruling issued by the California Public Utilities Commission ("CPUC"). Under this contract, the Company recycled approximately 36,000 units. The Company began the Summer Initiative in September of 2000 which was completed in the third quarter of 2001. The Company was responsible for advertising the Summer Initiative.

4

In June 2001, the Company began the Appliance Early Retirement and Recycling Program for refrigerators, freezers and air conditioners that operated 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 was completed in August 2002. The Company was responsible for advertising the program.

The Company also is aggressively pursuing new and potentially significant appliance recycling programs in other states, reflecting growing national interest in residential energy conservation programs. Nevertheless, the Company's ability to project recycling revenue for 2003 continues to be limited.

In response to the decrease in demand for services from electric utilities, the Company increased its marketing of services to appliance manufacturers and retailers, waste management companies and property management companies. The Company also had increased its focus on the sale of used/refurbished appliances. In 1995, under the name Encore(R) Recycled Appliances, the Company began operating a chain of Company-owned retail stores. In 1998, the Company began using the name ApplianceSmart(R) for its retail stores. The retail stores now offer special buy appliances to value-conscious individuals and property managers.

A developing market for the Company is in providing fully integrated reverse logistics services-- the handling of product that does not fit into a company's normal distribution channels--for appliance manufacturers and retailers. Manufacturers traditionally disposed of these "special buy" appliances, including manufacturer closeouts, factory over-runs, floor samples, returned or exchanged items, and scratch and dent appliances, through their small dealer network. Large retailers have not wanted to handle these types of appliances because the merchandise is often out of carton, requiring special handling and pricing. In addition, this product often requires some repair or recycling; a function major retailers are unwilling or unable to perform. As small dealers are struggling to compete with large appliance chains (the top 10 retailers control 80 percent of the appliance sales market), manufacturers are seeing their traditional channel for these distressed appliances shrink. It is anticipated that small appliance retailers will also be negatively affected by manufacturers' direct sale of appliances to consumers via the Internet.

In 1997, the Company entered into pilot program agreements with Whirlpool Corporation, the nation's largest manufacturer of major household appliances, to develop a program for handling Whirlpool's returned appliances and new appliances that cannot be handled through the manufacturer's normal distribution channels. Through a subsequent 1998 contract with Whirlpool, the Company purchases these appliances from Whirlpool's distribution centers serving the Midwest and certain western states. This merchandise, which includes manufacturer closeouts, factory over-runs, floor samples, returned or exchanged items, and scratch and dent appliances, is sold through the Company's network of ApplianceSmart retail stores. ApplianceSmart is an authorized factory outlet for Whirlpool, and specializes in the Whirlpool, KitchenAid and Roper brands. With an increased supply of product, the Company began to focus on opening larger factory outlet facilities to offer consumers a wider selection of appliances and began to close its smaller stores. The Company has also decided not to expand its used/refurbished appliance business.

In the latter part of 1998, the Company scaled back its agreement with Whirlpool to a level consistent with its financial resources and purchased inventory mainly from Whirlpool's Ohio distribution center. The Whirlpool agreement for 2003 does not provide for any required or minimum number of units to be offered for sale to the Company. The Whirlpool agreement may be terminated by either party upon thirty (30) days prior written notice. In addition, the Company has agreed to indemnify Whirlpool for certain claims, allegations or losses with respect to Whirlpool appliances sold by the Company. Currently, the Company purchases inventory mainly from Whirlpool's St. Louis, Missouri distribution center.

5

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

In December 2001, the Company announced that all retail stores would be carrying a full line of Frigidaire household appliances.

In January 2003, the Company announced that it had entered into a contract with GE Consumer Products to purchase from GE and sell to consumers special buy GE appliances.

The Company believes purchases from these four manufacturers will provide an adequate supply of high-quality appliances for its retail outlets.

There are no set number of units to be sold to the Company from any of the four manufacturers.

In 2000, the Company closed a smaller store in the Minneapolis/Saint Paul market and opened a 33,000 square foot store in the Dayton, Ohio market. In January 2001, the Company opened a 24,000 square foot store in the Minneapolis/Saint Paul market. The Company opened another 42,000 square foot store in the Dayton, Ohio market in March 2001. In addition, the Company closed a smaller store and opened a 32,000 square foot store in the Columbus, Ohio market in May 2001. The Company opened a 49,000 square foot store in the Minneapolis/Saint Paul market in October 2001. In March 2002, the Company opened another 30,000 square foot store in Columbus, Ohio. In December 2002, the Company closed an under performing store in the Dayton, Ohio market. In February 2003, the Company closed a smaller store and opened a 33,000 square foot store in the Minneapolis/Saint Paul market. In March 2003, the Company closed an underperforming store in the Dayton, Ohio market. The Company currently has three recycling centers, located in Columbus, Ohio; Minneapolis, Minnesota; and Los Angeles, California. Also, the Company currently has eight retail stores: four in Minneapolis/Saint Paul, one in Los Angeles and three in Columbus.

#### CUSTOMERS AND SOURCE OF SUPPLY

The Company offers its services to entities that, as part of their operations, become responsible for disposing of large quantities of new, distressed and unwanted appliances. These entities include new appliance manufacturers and retailers, waste management businesses, vending machine companies, property management companies and utility companies.

**NEW APPLIANCE MANUFACTURERS AND RETAILERS.** The Company began its business by offering appliance recycling programs to Sears, Montgomery Ward and other new appliance retailers by collecting appliances from either the retailers' facilities or from their customers. Recently the Company has focused its marketing efforts on new appliance manufacturers, including Whirlpool Corporation, Maytag Corporation, Frigidaire and GE, the primary sources of products sold in the Company's stores.

The Company believes its current sources for appliances are adequate to supply its retail stores and allow the Company to grow its retail sales; however there is a risk that one or more of these sources could be lost.

6

**WASTE MANAGEMENT COMPANIES.** The Company provides services to waste management companies and the general public for the collection and recycling of appliances for specified fees.

**VENDING MACHINE COMPANIES.** The Company provides services to vending machine companies for the recycling of vending machines for specified fees.

**PROPERTY MANAGEMENT COMPANIES.** The Company provides comprehensive appliance exchange and recycling services for property managers of apartment complexes as well as local housing authorities.

**UTILITY COMPANIES.** The Company contracts with utility companies to provide comprehensive appliance recycling services tailored to the needs of the particular utility. The contracts historically have had terms of one to four years, with provisions for renewal at the option of the utility company. Under some contracts the utility retains the Company to manage all aspects of its appliance recycling program, while under other contracts the Company provides only specified services. Pricing for the Company's services is on a per-appliance basis and depends upon several factors, including the total number of appliances processed, the length of the contract term and the specific services selected by the utility. Contracts with electric utility customers require that the Company does not recondition for resale appliances received from utility company energy conservation programs. Plans for a 2003 statewide recycling program that would be administered by a major electric utility customer are currently being reviewed by California regulatory authorities.

#### COMPANY OPERATIONS

The Company provides an integrated range of reverse logistics, energy efficiency and appliance recycling services. Appliances are acquired from a wide range of sources, including appliance manufacturers and retailers, utility companies, waste management businesses, vending machine companies, property managers, local governments and the general public.

Appliances deemed suitable for sale are repaired, if necessary, before being tested and distributed to the Company's ApplianceSmart retail outlets. Every appliance is under warranty and carries a 100 percent money-back guarantee. The Company also offers consumers extended warranties, delivery, factory-trained technician service and recycling of old appliances.

Appliances that do not meet quality standards for the Company's retail

operations and appliances collected through utility customers' energy conservation programs are processed and recycled in an environmentally sound manner. Appliances are inspected and categorized according to the types of hazardous materials they may contain, and processed according to all applicable federal, state and local regulations by company-trained technicians. When processing at the Company's recycling center is complete and the appliances are free of all environmentally hazardous substances, the appliances are delivered to a local metal processing facility for shredding. The shredded materials are then sold to steel mini-mills or other metal recovery facilities for reuse.

Management believes that the uncertainties in the electric utility industry regarding deregulation will persist at least through 2003. The reaction to deregulation among states and utilities has been varied. The Company believes, however, that energy conservation and efficiency programs will remain a long-term component of the nation's electric utility industry.

In 2002, the Company focused on a carefully managed growth plan of opening showroom outlet stores, located in heavily trafficked, conveniently located retail malls. The Company believes that the growth of its retail business in the near future will likely occur primarily through the expansion of revenues from the Company's current and proposed retail stores.

PRINCIPAL PRODUCTS AND SERVICES

The Company generates revenues from three sources: retailing, recycling and byproduct. The table below reflects the percentage of total revenues from each source. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Revenues:	2002	2001	2000
-----	-----	-----	-----
Retail	65.4%	50.3%	57.6%
Recycling	32.0%	46.8%	37.9%
Byproduct	2.6%	2.9%	4.5%
	-----	-----	-----
	100.0%	100.0%	100.0%
	=====	=====	=====

Although the Company has two main sources of revenues, management believes that the Company has only one operating segment. That is, even though certain separate financial information by retail store or retail store and recycling center is available to management, the Company is managed as a single unit. Specifically, the Company does not measure profit or loss or maintain asset information separately for its revenue sources. Recycling and byproduct revenues are the result of both retail revenues and recycling contracts. Retail includes the free removal and recycling of the customer's existing appliance. Recycling includes the recycling of appliances per a contract or agreement.

SALES AND MARKETING

The Company uses various means to promote awareness of its products and services and believes it is recognized as a leader in the retailing of appliances on a reverse logistics basis and in the recycling industry.

ApplianceSmart's outlet store concept includes establishing large factory showrooms in convenient metropolitan locations to offer consumers a selection of hundreds of appliances. In keeping with ApplianceSmart's branding, both the exterior and interior of ApplianceSmart's stores display Whirlpool, Maytag, Frigidaire and GE signage along with custom-designed ApplianceSmart materials. In every market, the Company actively promotes its stores through various forms of print advertising, including daily classified ads in major newspapers, telephone yellow pages ads and direct mail. In addition, the Company uses radio and television advertisements in some markets, along with other types of promotions. Through the Company's website at [www.ApplianceSmart.com](http://www.ApplianceSmart.com), consumers can also access appliance-specific and general Company information.

SEASONALITY

The Company experiences seasonal fluctuations in operating results, with revenues generally higher during the second and third calendar quarters than in the first and fourth calendar quarters. The lower levels in the first and fourth quarters reflect consumer purchasing cycles, which result in lower sales of major household appliances during such quarters and corresponding reductions in the demand for appliance recycling services. Furthermore, utility companies that sponsor appliance turn-in programs generally reduce their promotional efforts for such programs during the first and fourth calendar quarters. The Company expects that it will continue to experience lower revenues in the first and fourth quarters of future years as compared to the second and third quarters of such years.

## COMPETITION

Competition for the Company's retail stores comes from new appliance manufacturers and retailers and other special buy retailers. Each retail location will compete not only with local and national chains of new appliance retailers, many of whom have been in business longer than the Company and may have significantly greater assets than the Company, but will also compete with numerous independently owned retailers of new and special buy appliances.

Many factors, including existing and proposed governmental regulation, may affect competition in the waste management and environmental services industry. The Company generally competes with two or three other companies which are based in the geographic area to be served under appliance recycling contracts and which generally offer only some of the services provided by the Company.

The Company expects its primary competition for appliance recycling contracts with existing or new customers to come from entrepreneurs entering the appliance recycling business, energy management consultants, current recycling companies, major waste hauling companies and scrap metal processors. In addition, customers such as utility companies and local governments may operate appliance recycling programs internally rather than contracting with the Company or other third parties. There can be no assurance that the Company will be able to compete profitably in any of its chosen markets.

## GOVERNMENT REGULATION

The business of recycling major appliances is subject to certain governmental laws and regulations. These laws and regulations include landfill disposal restrictions, hazardous waste management requirements and air quality standards, as well as special permit and license conditions for the recycling of appliances. In some instances, there are bonding, insurance and other conditions for bidding on appliance recycling contracts.

The Company's appliance recycling centers are subject to various federal, state and local laws, regulations and licensing requirements relating to the collection, processing and recycling of household appliances. Requirements for registrations, permits and licenses vary among the Company's market areas. The Company's centers are registered with the EPA as hazardous waste generators and are licensed, where required, by appropriate state and local authorities. The Company has agreements with approved and licensed hazardous waste companies for transportation and disposal of PCBs from its centers.

The 1990 Amendments to the Clean Air Act provide for the phaseout of the production of CFCs over a period of years. Effective July 1, 1992, the act prohibited the venting of CFCs in the course of maintaining, servicing, repairing or disposing of an appliance. The act also requires the recovery of CFC refrigerants from appliances prior to their disposal or delivery for recycling. In 1995, the venting of CFC substitute refrigerants was also prohibited.

In 1992, Congress adopted the Energy Policy Act of 1992 to encourage energy efficiency. Requirements under this act establish, among other things, mandatory energy performance standards that affect the manufacture and sale of major household appliances. Another component of this act allows for deregulation of the nation's energy providers, including the electric utility industry. The ultimate impact of deregulation on the electric utility industry is yet unknown; therefore, there can be no assurance that the Company will be able to continue certain of its current operations in a deregulated environment.

Company management believes that further government regulation of the appliance recycling industry could have a positive effect on the Company's business; however, there can be no assurance what course

future regulation may have. Under some circumstances, further regulation could materially increase the costs of the Company's operations and have an adverse effect on the Company's business. In addition, as is the case with all companies handling hazardous materials, under some circumstances the Company may be subject to contingent liabilities.

## EMPLOYEES

At March 1, 2003, the Company had 230 full-time employees, approximately 49% of who were involved in the collection, transportation and processing of appliances at the Company's centers and approximately 51% of whom were in sales, administration and management. The Company has not experienced any work stoppages and believes its employee relations are good.

## ITEM 2. PROPERTIES

The Company's executive offices are located in Minneapolis, Minnesota, in a Company-owned facility that includes approximately 11 acres of land. The building contains approximately 122,000 square feet, including 27,000 square feet of office space, 24,000 square feet of retail space and 71,000 square feet of operations and processing space. The southern California center building, which also is owned by the Company, is located in Compton, California, and consists of 46,000 square feet: 6,000 square feet of office space and 40,000 square feet of warehouse space. All properties and equipment owned by the Company currently secure outstanding loans of the Company.

The Company generally leases the other facilities it operates. The Company usually attempts to negotiate lease terms for a recycling center that correspond to the term of the principal contract or contracts in connection with which the center is to be operated. The Company's recycling centers typically range in size from 25,000 to 40,000 square feet. The Company usually attempts to negotiate lease terms of two to five years for retail stores with 25,000 to 35,000 square feet. However, the retail stores may be larger depending on favorable demographics, availability and other business factors.

The Company believes that the facilities and equipment at each of its centers are adequate to meet its anticipated needs for the near term and that alternate facilities will readily be available to the Company to meet its future needs.

## ITEM 3. 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company did not submit any matters to a vote of security holders during the last quarter of the fiscal year covered by this report.

10

## PART II

## ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

### MARKET FOR COMMON STOCK

The Common Stock trades under the symbol "ARCI." The Company's Common Stock began trading on the OTC Bulletin Board on September 8, 1998. Prior to that time, the Common Stock traded as follows: on the Nasdaq SmallCap Market from February 26, 1997 to September 7, 1998; on the Nasdaq National Market from January 8, 1993 to February 25, 1997; on the Nasdaq SmallCap Market from January 7, 1991 to January 7, 1993; and on the local over-the-counter market prior thereto. The following table sets forth, for the periods indicated, the high and low closing bid quotations for the Common Stock, as reported by the OTC Bulletin Board.

	High	Low
	----	---
2001		
First Quarter.....	\$ 2.38	\$ 1.00
Second Quarter.....	2.80	1.13
Third Quarter.....	3.55	2.40
Fourth Quarter.....	5.70	2.75
2002		
First Quarter.....	\$ 5.30	\$ 3.70
Second Quarter.....	4.35	3.60
Third Quarter.....	3.90	2.30
Fourth Quarter.....	2.65	1.63

On March 7, 2003, the last reported sale price of the Common Stock on the OTC Bulletin Board was \$1.20 per share. As of March 7, 2003, there were approximately 960 beneficial holders of the Company's Common Stock.

The Company's line of credit limits the Company's ability to pay dividends.

During 1999, the Company privately placed 1,050,000 unregistered shares and 138,000 warrants to purchase shares. In 2000, the Company registered 1,030,000 of such shares for resale by the holders.



In February 1999, the Company sold in a private placement 1,030,000 shares of Common Stock at a price of \$0.50 per share. The sale represented approximately 45% of the Common Stock outstanding after such sale. The Company paid \$31,500 of the proceeds and issued warrants to purchase 83,000 shares of Common Stock at \$0.50 per share, subject to adjustment, to an investment banker as a placement fee. The remaining proceeds were used to repay certain indebtedness, to purchase inventory and for other general corporate purposes.

11

In March 1999, the Company issued to a board member at that time, as payment for certain consulting services, 5,000 warrants to purchase the Company's Common Stock at \$0.625 per share, the market value of the Company's stock at the date of grant. The warrants are currently exercisable and expire March 1, 2009.

In April 1999, the Company issued to a vendor 50,000 warrants to purchase the Company's Common Stock at \$0.625 per share. The warrants expire March 31, 2004.

#### ITEM 6. SELECTED FINANCIAL DATA

The selected financial information set forth below should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data."

Fiscal Years Ended	2002	2001	2000	1999	1998
(In thousands, except per share data)					
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS					
Total revenues	\$ 45,720	\$ 43,810	\$ 21,479	\$ 15,582	\$ 13,612
Gross profit	\$ 15,774	\$ 17,329	\$ 8,921	\$ 6,666	\$ 3,981
Operating income (loss)	\$ 1,742	\$ 4,749	\$ 1,963	\$ 1,139	\$ (2,744)
Net income (loss)	\$ 332	\$ 2,646	\$ 927	\$ 505	\$ (3,056)
Basic earnings (loss) per common share	\$ 0.14	\$ 1.15	\$ 0.41	\$ 0.24	\$ (2.55)
Diluted earnings (loss) per common share	\$ 0.11	\$ 0.86	\$ 0.32	\$ 0.22	\$ (2.55)
Basic weighted average number of common shares outstanding	2,320	2,291	2,287	2,142	1,200
Diluted weighted average number of common - shares outstanding	3,025	3,068	2,889	2,274	1,200
BALANCE SHEET					
Working capital (deficit)	\$ 5,003	\$ 3,188	\$ 1,183	\$ 545	\$ (471)
Total assets	\$ 20,239	\$ 18,936	\$ 12,651	\$ 9,517	\$ 8,843
Long-term liabilities	\$ 5,797	\$ 4,348	\$ 4,431	\$ 4,831	\$ 4,965
Shareholders' equity	\$ 5,737	\$ 5,397	\$ 2,751	\$ 1,809	\$ 816

12

#### QUARTERLY FINANCIAL DATA

The following table sets forth certain unaudited quarterly financial data for the eight quarters ended December 28, 2002. In the Company's opinion, the unaudited information set forth below has been prepared on the same basis as the audited information and includes all adjustments necessary to present fairly

the information set forth herein. The operating results for any quarter are not indicative of results for any future period. All data is in thousands except per common share data.

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Fiscal 2002					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	
Total revenues	\$ 11,699	\$ 11,734	\$ 13,079	\$ 9,208	
Net income (loss)	\$ 238	\$ 537	\$ 274	\$ (717)	
Basic income (loss) per common share	\$ 0.10	\$ 0.23	\$ 0.12	\$ (0.31)	
Diluted income (loss) per common share	\$ 0.07	\$ 0.16	\$ 0.09	\$ (0.31)	
Basic weighted average number of common shares outstanding	2,311	2,320	2,324	2,324	
Diluted weighted average number of common shares outstanding	3,310	3,291	3,176	2,324	

Fiscal 2001					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	
Total revenues	\$ 7,764	\$ 10,095	\$ 13,645	\$ 12,306	
Net income	\$ 316	\$ 393	\$ 1,577	\$ 360	
Basic income per common share	\$ 0.14	\$ 0.17	\$ 0.69	\$ 0.16	
Diluted income per common share	\$ 0.11	\$ 0.13	\$ 0.50	\$ 0.11	
Basic weighted average number of common shares outstanding	2,287	2,287	2,292	2,297	
Diluted weighted average number of common shares outstanding	2,863	2,957	3,147	3,307	

</TABLE>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS FOR THE FISCAL YEARS 2002, 2001 AND 2000

OVERVIEW

The Company's 2002 fiscal year (2002) ended December 28, 2002, its 2001 fiscal year (2001) ended December 29, 2001 and its 2000 fiscal year (2000) ended December 30, 2000.

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 experiences seasonal fluctuations in operating results, with revenues generally higher during the second and third calendar quarters than in the first and fourth quarters. The lower levels in the first and fourth quarters reflect consumer purchasing cycles, which result in lower demand for appliances and recycling services.

In 2002, the Company focused on a carefully managed growth plan of opening large showroom outlet stores, located in heavily trafficked, conveniently located retail malls. During 2002, the Company opened one retail

store in the Columbus, Ohio market. The Company also closed an underperforming retail store in the Dayton, Ohio market. Retail revenues accounted for 65.4% of total revenues in 2002.

#### CRITICAL ACCOUNTING POLICIES

The Company's significant accounting policies are summarized in the footnotes to the financial statements. Some of the most critical policies are also discussed below.

**REVENUE RECOGNITION:** The Company recognizes revenue from appliance sales in the period the appliances are sold. Revenue from appliance recycling is recognized when a unit is collected and processed. Byproduct revenue is recognized upon shipment.

The Company defers revenue under certain appliance extended warranty arrangements it services and recognizes the revenue over the related terms of the warranty contracts. On extended warranty arrangements sold by the Company but serviced by others for a fixed portion of the warranty sales price, the Company recognizes revenue for the net amount retained at the time of sale.

Shipping and handling charges to customers are included in the revenues. Shipping and handling costs incurred by the Company are included in cost of revenues.

**PRODUCT WARRANTY:** The Company provides a warranty for the replacement or repair of certain defective units. The Company's standard warranty policy requires the Company to repair or replace certain defective units at no cost to its customers. The Company estimates the costs that may be incurred under its warranty and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability for covered units include the number of units sold, historical and anticipated rates of warranty claims on these units, and the cost of these claims. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary. The Company believes the warranty liability of \$82,000 is adequate.

**TRADE RECEIVABLES:** Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. A trade receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. The reserve for doubtful accounts of \$26,000 should be adequate for any exposure to loss in the Company's December 28, 2002 accounts receivable.

**INVENTORIES:** Inventories, consisting principally of appliances, are stated at the lower of cost, first-in, first-out (FIFO), or market. The Company provides estimated reserves for the realizability of its appliance inventories, including adjustments to market, based on various factors including the age of such inventory and management's assessment of the need for such allowances. Management looks at historical inventory agings and margin analysis in determining its reserve estimate. The Company believes the reserve of \$548,000 is adequate.

**PROPERTY AND EQUIPMENT:** Depreciation is computed using straight-line and accelerated methods over the following estimated useful lives:

	Years
Buildings and improvements	18 - 30
Equipment	3 - 8

The Company did not identify any items that were impaired as of December 28, 2002.

**INCOME TAXES:** Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws

and rates on the date of enactment. Realization of deferred tax assets is dependent upon sufficient future taxable income during the periods when deductible temporary differences and carryforwards are expected to be available to reduce taxable income. The valuation allowance at December 28, 2002 principally relates to net operating loss and tax credit carryforwards whose use is limited under Section 382 of the Internal Revenue Code.

**STOCK-BASED COMPENSATION:** The Company regularly grants options to its employees under various plans as described in Note 8 to the financial statements. As permitted under accounting principles generally accepted in the United States of America, these grants are accounted for following APB Opinion No. 25 and related interpretations. Accordingly, compensation cost would be recognized for those grants whose exercise price is less than the fair market value of the stock on the date of grant. There was no compensation expense recorded for employee grants for the fiscal years of 2002, 2001 and 2000.

The Company also grants options and warrants to nonemployees for goods and services and in conjunction with certain agreements. These grants are accounted for under FASB Statement No. 123 based on the grant date fair values.

#### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement No. 146, ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES. This statement requires the recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred versus the date the Company commits to an exit plan. In addition, this statement states the liability should be initially measured at fair value. The statement is effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not believe that the adoption of this pronouncement will have a material effect on its consolidated financial statements.

In January 2003, the FASB issued Statement No. 148, ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE. This statement provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, this statement also amends the disclosure requirements of SFAS No. 123 to require more prominent and frequent disclosures in the financial statements about the effects of stock-based compensation. The transitional guidance and annual disclosure provisions of this statement are effective for the December 28, 2002, consolidated financial statements. The interim reporting disclosure requirements will be effective for the Company's March 29, 2003, 10-Q. Because the Company continues to account for employee stock-based compensation under APB Opinion No. 25, the transitional guidance of Statement No. 148 had no effect on the Company's consolidated financial statements. However, the December 28, 2002, consolidated financial statements have incorporated the enhanced disclosure requirements of Statement No. 148.

In January 2003, the FASB issued Interpretation No. 45 ("FIN 45"), GUARANTOR'S ACCOUNTING AND DISCLOSURE REQUIREMENTS FOR GUARANTEES, INCLUDING INDIRECT GUARANTEES OF INDEBTEDNESS OF OTHERS. FIN 45 clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing certain guarantees. It also elaborates on the disclosures in FASB Statement No. 5, ACCOUNTING FOR CONTINGENCIES, which are to be made by a guarantor in its interim

15

and annual financial statements about its obligations under certain guarantees that it has issued, even when the likelihood of making any payments under the guarantees is remote. The December 28, 2002, consolidated financial statements have incorporated the enhanced disclosure requirements of FIN 45, as presented in Note 1 to the financial statements under the caption "Product warranty."

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), CONSOLIDATION OF VARIABLE INTEREST ENTITIES. This interpretation establishes standards for identifying a variable interest entity and for determining under what circumstances a variable interest entity should be consolidated with its primary beneficiary. Until now, a company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. The disclosure requirements of FIN 46 currently apply to the Company and the balance of the requirements will apply to the Company as of the 3rd Quarter of 2003. The Company does not believe that the adoption of this pronouncement will have a material effect on its consolidated financial statements.

#### REVENUES

The Company's total revenues for 2002 were \$45,720,000 compared to \$43,810,000 in 2001.

Retail revenues increased to \$29,893,000 in 2002 from \$22,037,000 in 2001, an increase of 35.6%. Same-store sales for 2002 (a sales comparison of five stores open the full year in both 2002 and 2001) increased 12%. The increase in retail revenues 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 three additional stores during 2002 compared to the same period 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 Whirlpool Corporation, Maytag Corporation and Frigidaire. The agreements with these manufacturers do not provide for any required or minimum number of units to be sold to the Company.

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

In December 2001, the Company announced that it will be purchasing appliances from Frigidaire. There are no minimum purchase requirements.

In January 2003, the Company announced that it had entered into a contract with GE Consumer Products to purchase from GE and sell to consumers special buy GE appliances. There are no minimum purchase requirements.

The Company believes purchases from these four 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.

The Company operated nine retail stores at the end of the current fiscal year and at the end of the previous fiscal year. During the first quarter of 2001, the Company opened a 24,000 square foot store in

16

the Minneapolis/Saint Paul market and a 42,000 square foot store in the Dayton, Ohio market. In the second quarter of 2001, the Company closed a smaller store and opened a 32,000 square foot store in the Columbus, Ohio market. In the fourth quarter of 2001, the Company opened a 49,000 square foot store in the Minneapolis/Saint Paul market. In March 2002, the Company opened a 30,000 square foot store in the Columbus, Ohio market. In December 2002, the Company closed an underperforming store in the Dayton, Ohio market. In February 2003, the Company closed a smaller store and opened a 33,000 square foot store in the Minneapolis/Saint Paul market. In March 2003, the Company closed an underperforming store in the Dayton, Ohio market.

Recycling revenues decreased to \$14,625,000 in 2002 from \$20,506,000 in 2001. The decrease was primarily due to an overall decrease in total recycling volumes from all the various recycling contracts in California. Southern California Edison Company ("Edison") accounted for approximately 13% of the Company's total revenues for 2002 and 29% for 2001. In the first quarter of 2002, the Company recycled 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 ended December 31, 2002. Recycling services for this statewide program included customers of Edison, Pacific Gas and Electric ("PG&E") and San Diego Gas and Electric ("SDG&E"). The Company was responsible for advertising in the PG&E and SDG&E areas only. Edison was responsible for advertising in the Edison area. Plans for a 2003 statewide recycling program that would be administered by Edison are currently being reviewed by California regulatory authorities. The Company is also aggressively pursuing new and potentially significant appliance recycling programs in other states. Nevertheless, the Company's ability to project recycling revenue for 2003 continues to be limited.

In June 2001, the Company signed a contract ("the Appliance Early Retirement and Recycling Program") with the California Public Utilities Commission ("CPUC") to operate a refrigerator/freezer/room air conditioner recycling program in San Diego and surrounding areas; a six-county region in California's Central Valley, including the cities of Fresno and Stockton; and the seven-county Bay Area, including the city of San Francisco. The Company started taking customer orders for the Appliance Early Retirement and Recycling Program in San Diego in June 2001. The CPUC budgeted \$14 million to fund the recycling program. The budget allocation included \$50 incentive payments to participants for refrigerators and freezers and \$25 incentive payments for room air conditioners. The program was completed August 31, 2002. The CPUC accounted for approximately 12% of the Company's total revenues in 2002 and 9% in 2001.

Byproduct revenues decreased to \$1,202,000 in 2002 from \$1,267,000 in 2001. The decrease was primarily due to a decrease in the volume and price of CFCs offset by an increase in scrap metal revenues.

The Company's total revenues for 2001 were \$43,810,000 compared to \$21,479,000 in 2000.

Retail revenues increased to \$22,037,000 in 2001 from \$12,379,000 in 2000, an increase of 78.0%. The increase in retail revenues was primarily due to an increase in special buy appliance sales offset by a slight decrease in reconditioned appliance sales. Same-store retail sales for 2001 increased 25% (a sales comparison of four stores open for full years in both 2001 and 2000). The increase in special buy appliance sales was primarily due to three additional stores operating in 2001. The Company purchased a majority of the special buy appliances sold from Whirlpool Corporation. The Company operated nine retail stores at the end of 2001 compared to six retail stores at the end of 2000. However, during the second quarter of 2000, the Company closed a smaller store in the Minneapolis/Saint Paul market and opened a 33,000 square foot store in the Dayton, Ohio market.

17

Recycling revenues increased to \$20,506,000 in 2001 from \$8,140,000 in 2000. The increase was primarily due to increases in refrigerator recycling volumes principally related to both of the contracts with Edison. Edison accounted for approximately 29% of the Company's total revenues for 2001 and 30% for 2000. In June 2000, the Company signed a two-year contract with Edison to continue its refrigerator recycling program through December 30, 2001. The two-year contract did not provide for a minimum number of refrigerators to be recycled in either 2000 or 2001. The Company recycled approximately 36,000 units in 2000 and approximately 50,000 units in 2001. The timing and amount of revenues was dependent on advertising by Edison.

The Company had another contract with Edison, ("Summer Initiative"), a recycling program in the service areas of Pacific Gas & Electric (the San Francisco Bay area) and San Diego Gas & Electric. Under this contract, the Company recycled approximately 36,000 units. The Company began the Summer Initiative in September of 2000 and it was completed in the third quarter of 2001. The Company was responsible for advertising the Summer Initiative.

Byproduct revenues increased to \$1,267,000 in 2001 from \$960,000 in 2000. The increase was primarily due to an increase in the volume of CFCs and scrap revenue resulting from the increased volume of Edison contracts.

#### GROSS PROFIT

The Company's overall gross profit decreased to 34.5% in 2002 from 39.6% in 2001. The decrease was primarily due to lower recycling revenues and higher recycling costs related to the recycling programs offset by slightly improved gross margins 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 included the mix of retail products sold during the period, the volume of appliances recycled from the expected Statewide contract and the price and volume of byproduct revenues. The Company expects gross profit percentages to decrease slightly as retail revenues continue to become a higher percentage of total revenues.

The Company's overall gross profit decreased slightly to 39.6% in 2001 from 41.5% in 2000. The decrease was primarily due to higher sales of special buy appliances that have a lower margin than reconditioned appliances, offset by higher recycling revenues from the initial Edison contract and the Summer Initiative contract without a corresponding increase in expenses.

#### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were 30.7% of total revenues in 2002 compared to 28.7% in 2001. Selling, general and administrative expenses increased to \$14,032,000 in 2002 from \$12,580,000 in 2001, an 11.5% increase. Selling expenses increased to \$8,007,000 in 2002 from \$5,959,000 in 2001. The increase was primarily due to the expenses of opening an additional retail store during 2002 and operating three additional stores in 2002 compared to the previous year, which also increased advertising by \$273,000 and commissions by \$201,000. General and administrative expenses decreased to \$6,025,000 in 2002 from \$6,621,000 in 2001. The decrease was primarily due to a decrease in administrative costs as a result of an overall decrease in recycling volumes and a decrease in bad debt expense.

Selling, general and administrative expenses were 28.7% of total revenues in 2001 compared to 32.4% in 2000. Selling, general and administrative expenses increased to \$12,580,000 in 2001 from \$6,958,000 in 2000, an 80.8% increase. Selling expenses increased to \$5,959,000 in 2001 from \$2,858,000 in 2000. The increase was primarily due to opening three additional retail stores during 2001 which

increased advertising by \$598,000 and commission by \$271,000. General and administrative expenses increased to \$6,621,000 in 2001 from \$4,100,000 in 2000. The increase was primarily due to an increase in personnel costs as a result of Company growth and an increase in bad debt expense.

#### INTEREST EXPENSE

Interest expense increased to \$1,236,000 in 2002 from \$1,074,000 in 2001. The increase was primarily due to a one-time write-off of deferred financing fees and debt discount related to a pay down of long-term debt and a higher effective interest rate as a result of a higher minimum interest amount on the line of credit offset by a lower average borrowed amount.

Interest expense increased to \$1,074,000 in 2001 from \$841,000 in 2000. The increase was primarily due to a higher average borrowed amount in 2001 compared to 2000 offset by a decrease in the effective interest rate on the line of credit.

#### INCOME TAXES AND NET OPERATING LOSSES

The Company recorded a provision for income taxes of \$221,000 for 2002 compared to \$1,117,000 in 2001. The decrease was due to less pre-tax income. A lower effective tax rate in 2001 resulted from a reduction of \$370,000 in the deferred tax valuation allowance, net of effect of a net operating loss (NOL) attribute reduction during 2001 resulting from the determination that certain deferred tax assets were more likely than not to be realized.

The Company has NOL carryovers of approximately \$7 million at December 28, 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 may be limited to approximately \$56,000 per year, or less than \$1 million through 2018.

As of its 2002 and 2001 year-ends, the Company had recorded cumulative valuation allowances of \$2,998,000 against its net deferred tax assets due to the uncertainty of their realization. The reduction in the valuation allowance during 2001 was due to the aforementioned determination that certain deferred tax assets are more likely than not to be realized and to the effect of an NOL attribute reduction. 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 be available to reduce taxable income. At December 28, 2002, the remaining valuation allowance is principally due to the Section 382 limitation of its NOL's and tax credits.

#### LIQUIDITY AND CAPITAL RESOURCES

At December 28, 2002, the Company had working capital of \$5,003,000 compared to \$3,188,000 at December 29, 2001. Cash and cash equivalents increased to \$2,802,000 at December 28, 2002 from \$506,000 at December 29, 2001. Net cash provided by operating activities was \$3,307,000 in 2002 compared to net cash used in operating activities of \$1,124,000 in 2001. The cash provided by operating activities was primarily due to a decrease in receivables, an increase in accounts payable, and net income plus non-cash expenses offset by an increase in inventories. During 2002, inventories increased by \$1,568,000 principally due to more and larger stores and receivables decreased \$3,246,000 principally due to the overall decrease in volume related to the California recycling contracts.

Net cash used in investing activities was \$498,000 in 2002 compared to \$910,000 in 2001. The cash used in investing activities in 2002 was primarily related to leasehold improvements for new stores offset by the proceeds of disposal of certain equipment. The cash used in investing activities in 2001 was primarily due to the continued upgrade of computer systems and the purchase of equipment related to the refrigerator recycling program. The Company did not have any material purchase commitments for assets as of December 28, 2002.

Net cash used in financing activities was \$513,000 in 2002 compared to net cash provided by financing activities of \$2,238,000 in 2001. The cash used in financing activities was primarily due to decreased borrowings under the line of credit in 2002 and payments on long-term liabilities offset by proceeds from long-term obligations.

As of December 28, 2002, the Company had a \$10,000,000 line of credit with a lender. The interest rate as of December 28, 2002 was 5.50%. 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 for purchases from Whirlpool only 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. The Company's unused borrowing capacity was \$367,000 at December 28, 2002 and \$193,000 at February 28, 2003.

20

A summary of the Company's contractual cash obligations at December 28, 2002 is as follows:

CASH PAYMENTS DUE BY PERIOD						
CONTRACTUAL CASH OBLIGATIONS 2008 AND THEREAFTER	TOTAL	2003	2004	2005	2006	2007
Long-term debt, \$5,686,000 including interest	\$ 8,135,000	\$ 502,000	\$ 502,000	\$ 546,000	\$ 451,000	\$448,000
Operating leases \$107,000	\$ 6,127,000	\$1,813,000	\$1,529,000	\$1,478,000	\$ 795,000	\$405,000
Total \$5,793,000 contractual cash obligations	\$14,262,000	\$2,315,000	\$2,031,000	\$2,024,000	\$1,246,000	\$853,000

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We also have a commercial commitment as described below:

OTHER COMMERCIAL COMMITMENT	TOTAL AMOUNT COMMITTED	OUTSTANDING AT 12/28/02	DATE OF EXPIRATION
Line of credit	\$10,000,000	\$3,515,000	August 30, 2004

We believe that the Company's cash balance, availability under the Company's line of credit, if needed, and anticipated cash flows from operations will be adequate to fund the Company's cash requirements for fiscal 2003.

During 2000, the Company recognized a gain of \$275,000 from the sale of the ApplianceSmart outlet property in Saint Paul, Minnesota and recognized the remaining deferred gain of \$60,000 in 2001 when the original lease expired. The Company operated this outlet under an operating lease until February 2003.

In June 2001, the Company signed a contract ("the Appliance Early Retirement and Recycling Program") with the California Public Utilities Commission ("CPUC") to operate a refrigerator/freezer/room air conditioner



recycling program in San Diego and surrounding areas; a six-county region in California's Central Valley, including the cities of Fresno and Stockton; and the seven-county Bay Area, including the city of San Francisco. The Company started taking customer orders for the Appliance Early Retirement and Recycling Program in San Diego in June. The CPUC budgeted \$14 million to fund the recycling program. The budget allocation included \$50 incentive payments to participants for refrigerators and freezers and \$25 incentive payments for room air conditioners. The program was completed August 31, 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 was effective April 1, 2002 and continued until December 31, 2002. Recycling services for this statewide program included customers of Edison, Pacific Gas and Electric ("PG&E") and San Diego Gas and Electric ("SDG&E"). The Company was responsible for advertising in the PG&E and SDG&E areas only. Edison was responsible for advertising in the Edison area.

In September 2002, the Company refinanced its building in St. Louis Park, Minnesota and used the proceeds to pay down long-term debt. The new long-term debt is for \$3,470,000. The terms include a 20

21

year amortization, a 10 year balloon and a variable interest rate based on 30-day LIBOR. The interest rate as of December 28, 2002 was 4.5191%.

In December 2002, the Company refinanced its building in Compton, California. Currently, the proceeds are included in the cash and cash equivalents. The new long-term debt is for \$2,000,000. The terms include a 20 year amortization, a 10 year balloon and an interest rate of 6.85%.

The Company believes, based on the anticipated revenues from the expected Statewide Residential Recycling Program contract, the anticipated sales per retail store and its anticipated gross profit, that its cash balance, anticipated funds generated from operations and its current line of credit will be sufficient to finance its operations and capital expenditures through December 2003. The Company's total capital requirements for 2003 will depend upon, among other things as discussed below, the recycling volumes generated from the expected Statewide Residential Recycling Program in 2003 and the number and size of retail stores operating during the fiscal year. Currently, the Company has three centers and eight 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 on terms satisfactory to the Company or permitted by the Company's current lender.

#### FORWARD-LOOKING STATEMENTS

Statements contained in this annual report regarding the Company's future operations, performance and results, and anticipated liquidity discussed herein are forward-looking and therefore are subject to certain risks and uncertainties, including, but not limited to, those discussed herein. Any forward-looking information regarding the operations of the Company will be affected primarily by the Company's continued ability to purchase product from Whirlpool, Maytag, Frigidaire and GE at acceptable prices and the ability and timing of Edison to deliver units under the expected Statewide Residential Recycling Program contract, currently being reviewed by California regulatory authorities, 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 appliances for resale and the continued availability of the Company's current line of credit.

#### ITEM 7A. 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 the long-term debt with fixed rates. However, there is interest rate risk on the line of credit since its interest rate floats with the prime rate and on approximately \$3,500,000 in long-term debt entered into in September 2002 since its interest rate is based on LIBOR. Also, the Company believes that inflation has not had a material impact on the results of operations for each of the fiscal years in the three-year period ended December 28, 2002. However, there can be no assurances that future inflation will not have an adverse impact on the Company's operating results and financial conditions.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

<TABLE>  
<CAPTION>

Description -----	Page ----
<S>	<C>
Independent Auditor's Report.....	24
Consolidated Balance Sheet as of December 28, 2002 and December 29, 2001.....	25
Consolidated Statement of Operations for the three years ended December 28, 2002.....	26
Consolidated Statement of Shareholders' Equity for the three years ended December 28, 2002.....	27
Consolidated Statement of Cash Flows for the three years ended December 28, 2002.....	28
Notes to Consolidated Financial Statements.....	29

</TABLE>

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders  
Appliance Recycling Centers of America, Inc.  
Minneapolis, Minnesota

We have audited the accompanying consolidated balance sheet of Appliance Recycling Centers of America, Inc. and Subsidiaries as of December 28, 2002 and December 29, 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three year period ended December 28, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Appliance Recycling Centers of America, Inc. and Subsidiaries as of December 28, 2002 and December 29, 2001, and the results of their operations and their cash flows for each of the years in the three year period ended December 28, 2002, in conformity with accounting principles generally accepted in the United States of America.

McGLADREY & PULLEN, LLP  
  
Minneapolis, Minnesota  
February 17, 2003

APPLIANCE RECYCLING CENTERS OF AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET

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-----	DECEMBER 28, 2002	December 29, 2001
<S>	<C>	<C>
ASSETS (NOTE 3)		

CURRENT ASSETS		
Cash and cash equivalents	\$ 2,802,000	\$ 506,000
Accounts receivable, net of allowances of \$26,000 and \$100,000, respectively (Note 9)	1,129,000	4,375,000
Inventories, net of reserves of \$548,000 and \$464,000, respectively	8,316,000	6,748,000
Refundable income taxes	523,000	--
Deferred income taxes (Note 7)	490,000	576,000
Other current assets	448,000	174,000
	-----	-----
Total current assets	13,708,000	12,379,000
	-----	-----
PROPERTY AND EQUIPMENT, at cost (Notes 2 and 4)		
Land	2,050,000	2,050,000
Buildings and improvements	3,945,000	3,779,000
Equipment	4,979,000	4,689,000
	-----	-----
	10,974,000	10,518,000
Less accumulated depreciation	4,763,000	4,291,000
	-----	-----
Net property and equipment	6,211,000	6,227,000
	-----	-----
OTHER ASSETS	320,000	330,000
	-----	-----
Total assets	\$ 20,239,000	\$ 18,936,000
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Line of credit (Note 3)	\$ 3,515,000	\$ 4,708,000
Current maturities of long-term obligations	259,000	401,000
Accounts payable	2,929,000	1,960,000
Accrued expenses (Note 5)	1,273,000	1,365,000
Income taxes payable	729,000	757,000
	-----	-----
Total current liabilities	8,705,000	9,191,000
LONG-TERM OBLIGATIONS, less current maturities (Note 4)	5,424,000	4,280,000
DEFERRED INCOME TAX LIABILITIES (Note 7)	373,000	68,000
	-----	-----
Total liabilities	14,502,000	13,539,000
	-----	-----
COMMITMENTS (Note 6)		
SHAREHOLDERS' EQUITY (Notes 3 and 8)		
Common Stock, no par value; authorized 10,000,000 shares; issued and outstanding 2,324,000 and 2,297,000 shares in 2002 and 2001, respectively	11,368,000	11,360,000
Accumulated deficit	(5,631,000)	(5,963,000)
	-----	-----
Total shareholders' equity	5,737,000	5,397,000
	-----	-----
Total liabilities and shareholders' equity	\$ 20,239,000	\$ 18,936,000
	=====	=====

</TABLE>

See Notes to Consolidated Financial Statements.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF OPERATIONS

<TABLE>  
<CAPTION>

	For the fiscal year ended		
	DECEMBER 28, 2002	December 29, 2001	December 30, 2000
	-----	-----	-----
<S>	<C>	<C>	<C>
REVENUES (Note 9)			
Retail	\$ 29,893,000	\$ 22,037,000	\$ 12,379,000
Recycling	14,625,000	20,506,000	8,140,000
Byproduct	1,202,000	1,267,000	960,000
	-----	-----	-----
Total revenues	45,720,000	43,810,000	21,479,000
COST OF REVENUES (Note 9)	29,946,000	26,481,000	12,558,000
	-----	-----	-----
Gross profit	15,774,000	17,329,000	8,921,000

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 2)	14,032,000	12,580,000	6,958,000
Operating income	1,742,000	4,749,000	1,963,000
OTHER INCOME (EXPENSE)			
Other income	47,000	88,000	385,000
Interest expense	(1,236,000)	(1,074,000)	(841,000)
Income before provision for income taxes	553,000	3,763,000	1,507,000
PROVISION FOR INCOME TAXES (Note 7)	221,000	1,117,000	580,000
Net income	\$ 332,000	\$ 2,646,000	\$ 927,000
BASIC EARNINGS PER COMMON SHARE	\$ 0.14	\$ 1.15	\$ 0.41
DILUTED EARNINGS PER COMMON SHARE	\$ 0.11	\$ 0.86	\$ 0.32
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
Basic	2,320,000	2,291,000	2,287,000
Diluted	3,025,000	3,068,000	2,889,000

</TABLE>

See Notes to Consolidated Financial Statements

26

APPLIANCE RECYCLING CENTERS OF AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

<TABLE>  
<CAPTION>

	Common Stock	Accumulated Deficit	Total
BALANCE, JANUARY 1, 2000	\$11,345,000	\$ (9,536,000)	\$1,809,000
Warrants issued to vendor (Note 8)	15,000	-	15,000
Net income	-	927,000	927,000
BALANCE, DECEMBER 30, 2000	11,360,000	(8,609,000)	2,751,000
Net income	-	2,646,000	2,646,000
BALANCE, DECEMBER 29, 2001	11,360,000	(5,963,000)	5,397,000
Exercise of stock options (Note 8)	8,000	-	8,000
Net income	-	332,000	332,000
BALANCE, DECEMBER 28, 2002	\$11,368,000	\$ (5,631,000)	\$5,737,000

</TABLE>

See Notes to Consolidated Financial Statements.

27

APPLIANCE RECYCLING CENTERS OF AMERICA, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>  
<CAPTION>

	For the fiscal year ended		
	DECEMBER 28, 2002	December 29, 2001	December 30, 2000
<S>	<C>	<C>	<C>

CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 332,000	\$ 2,646,000	\$ 927,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	507,000	483,000	385,000
Write-off of deferred financing fees and debt discount	258,000	--	--
(Gain) loss on sale of property and equipment	7,000	(60,000)	(271,000)
Accretion of long-term debt discount	46,000	43,000	39,000
Deferred income taxes	391,000	(400,000)	(33,000)
Change in current assets and liabilities:			
Receivables	3,246,000	(2,644,000)	(279,000)
Inventories	(1,568,000)	(2,515,000)	(2,647,000)
Other assets	(238,000)	(27,000)	(189,000)
Accounts payable and accrued expenses	877,000	1,110,000	436,000
Current Income taxes	(551,000)	240,000	442,000
	-----	-----	-----
Net cash provided by (used in) operating activities	3,307,000	(1,124,000)	(1,190,000)
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(598,000)	(910,000)	(609,000)
Proceeds from disposals of property and equipment	100,000	--	667,000
	-----	-----	-----
Net cash provided by (used in) investing activities	(498,000)	(910,000)	58,000
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES			
Net borrowings (payments) under line of credit	(1,193,000)	2,306,000	1,514,000
Payments on long-term obligations	(4,648,000)	(350,000)	(377,000)
Proceeds from long-term obligations	5,470,000	282,000	77,000
Payments of deferred financing fees	(150,000)	--	--
Proceeds from issuance of common stock	8,000	--	--
	-----	-----	-----
Net cash provided by (used in) financing activities	(513,000)	2,238,000	1,214,000
	-----	-----	-----
Increase in cash and cash equivalents	2,296,000	204,000	82,000
CASH AND CASH EQUIVALENTS			
Beginning	506,000	302,000	220,000
	-----	-----	-----
Ending	\$ 2,802,000	\$ 506,000	\$ 302,000
	=====	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest	\$ 1,056,000	\$ 1,031,000	\$ 802,000
Income taxes, net	439,000	279,000	177,000
	=====	=====	=====

</TABLE>

See Notes to Consolidated Financial Statements.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF BUSINESS: Appliance Recycling Centers of America, Inc. and subsidiaries (the "Company") are in the business of providing reverse logistics, energy conservation and recycling services for major household appliances. The Company sells appliances through a chain of Company-owned factory outlet stores under the name ApplianceSmart(R). The Company provides recycling services on a credit basis to appliance retailers, electric utilities, waste management companies and local governments.

A SUMMARY OF THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES IS AS FOLLOWS:

PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of Appliance Recycling Centers of America, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

FAIR VALUE OF FINANCIAL INSTRUMENTS: The following methods and assumptions are used to estimate the fair value of each class of financial instrument:

CASH EQUIVALENTS, ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE: Due to their nature and short-term maturities, the carrying amounts approximate fair value.

SHORT- AND LONG-TERM DEBT: The fair value of short- and long-term debt has been estimated based on discounted cash flows using interest rates being offered for similar debt having the same or similar remaining maturities and collateral requirements.

No separate comparison of fair values versus carrying values is presented for the aforementioned financial instruments since their fair values are not significantly different than their balance sheet carrying amounts. In addition, the aggregate fair values of the financial instruments would not represent the underlying value of the Company.

FISCAL YEAR: The Company uses a 52-53 week fiscal year. The Company's 2002 fiscal year (2002) ended December 28, 2002, its 2001 fiscal year (2001) ended December 29, 2001 and its 2000 fiscal year (2000) ended December 30, 2000. All such fiscal years contain 52 weeks.

REVENUE RECOGNITION: The Company recognizes revenue from appliance sales in the period the appliances are sold. Revenue from appliance recycling is recognized when a unit is collected and processed. Byproduct revenue is recognized upon shipment.

The Company defers revenue under certain appliance extended warranty arrangements it services and recognizes the revenue over the related terms of the warranty contracts. On extended warranty arrangements sold by the Company but serviced by others for a fixed portion of the warranty sales price, the Company recognizes revenue for the net amount retained at the time of sale.

Shipping and handling charges to customers are included in the revenues. Shipping and handling costs incurred by the Company are included in cost of revenues.

PRODUCT WARRANTY: The Company provides a warranty for the replacement or repair of certain defective units. The Company's standard warranty policy requires the Company to repair or replace certain defective units at no cost to its customers. The Company estimates the costs that may be incurred under its warranty and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Company's warranty liability for covered units include the number of units sold, historical and anticipated rates of warranty claims on these units, and the cost of these claims. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Changes in the Company's warranty liability are as follows:

	2002	2001	2000
Balance, beginning	\$187,000	\$106,000	\$ 57,000
Standard accrual based on units sold	203,000	301,000	197,000
Actual costs incurred	(134,000)	(253,000)	(167,000)
Periodic accrual adjustments	(174,000)	33,000	19,000
Balance, ending	\$ 82,000	\$187,000	\$106,000

TRADE RECEIVABLES: Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are

recorded when received. A trade receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days.

CASH AND CASH EQUIVALENTS: For purposes of reporting cash flows, the Company considers all cash and money-market funds with an initial maturity of three months or less to be cash equivalents. The Company maintains its cash in bank deposit and money-market accounts which, at times, exceed federally insured limits. The Company has not experienced any losses in such accounts.

INVENTORIES: Inventories, consisting principally of appliances, are stated at the lower of cost, first-in, first-out (FIFO), or market and consist of:

	2002	2001
Finished goods	\$8,596,000	\$6,957,000
Work-in-process-		

unrefurbished units	268,000	255,000
Less reserves	(548,000)	(464,000)
	-----	-----
	\$8,316,000	\$6,748,000

The Company provides estimated reserves for the realizability of its appliance inventories, including adjustments to market, based on various factors including the age of such inventory and management's assessment of the need for such allowances.

DEFERRED GAIN: In the third quarter of 2000, the Company sold its ApplianceSmart(R) outlet property in Saint Paul, Minnesota. The Company operated this outlet until February 2003 under this lease. The Company recognized \$275,000 of the gain on this transaction in 2000 and the remaining \$60,000 gain in 2001 when the original lease term expired.

PROPERTY AND EQUIPMENT: Depreciation is computed using straight-line and accelerated methods over the following estimated useful lives:

	Years
Buildings and improvements	18 - 30
Equipment	3 - 8

SOFTWARE DEVELOPMENT COSTS: The Company capitalizes software developed for internal use in accordance with Statement of Position 98-1 and is amortizing such costs over their estimated useful life of five years. Costs capitalized were \$221,000, \$225,000, and \$215,000 for the fiscal years of 2002, 2001 and 2000, respectively.

ACCOUNTING FOR LONG-LIVED ASSETS: The Company reviews its property, equipment and goodwill periodically to determine potential impairment by comparing the carrying value of the long-lived assets with the estimated future net undiscounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, the Company recognizes an impairment loss at that time. An impairment loss is measured by comparing the amount by which the carrying value exceeds the fair value (estimated discounted future cash flows or appraisal of assets) of the long-lived assets. Also see Note 2.

DEFERRED FINANCING FEES: Deferred financing fees are presented in the consolidated balance sheet as a component of other assets and are reported net of accumulated amortization. Amortization expense is determined on a straight-line basis over the term of the underlying debt.

ADVERTISING EXPENSE: Advertising is expensed as incurred, and was \$1,823,000, \$1,487,000 and \$884,000 for the fiscal years of 2002, 2001 and 2000, respectively.

INCOME TAXES: Deferred taxes are provided on an asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

BASIC AND DILUTED NET 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, options and warrants (see Note 8) with exercise prices below average market prices, for the respective fiscal quarters in which they were dilutive, were included using the treasury stock method. The number of additional shares is calculated by assuming the outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the year. The dilutive effect of these additional shares for the fiscal years of 2002, 2001 and 2000 was to increase the weighted average shares outstanding by 705,000, 777,000 and 602,000, respectively.

STOCK-BASED COMPENSATION: The Company regularly grants options to its employees under various plans as described in Note 8. As permitted under accounting principles generally accepted in the United States of America, these grants are accounted for following APB Opinion No. 25 and related interpretations. Accordingly, compensation cost would be recognized for those grants whose

exercise price is less than the fair market value of the stock on the date of grant. There was no compensation expense recorded for employee grants for the fiscal years of 2002, 2001 and 2000.

The Company also grants options and warrants to nonemployees for goods and services and in conjunction with certain agreements. These grants are accounted for under FASB Statement No. 123 based on the grant date fair values.

Had compensation cost for all of the employee stock-based compensation grants and warrants issued been determined based on the fair values at the grant date consistent with the provisions of Statement No. 123, the Company's net income and net income per basic and diluted common share would have been as indicated below.

	2002	2001	2000
-----			
Net income:			
As reported	\$ 332,000	\$ 2,646,000	\$ 927,000
Deduct pro forma stock-based compensation, net of the related tax effects	(80,000)	(58,000)	(68,000)
	-----	-----	-----
Pro forma	\$ 252,000	\$ 2,588,000	\$ 859,000
	=====	=====	=====
Basic earnings per share:			
As reported	\$ 0.14	\$ 1.15	\$ 0.41
Pro forma	\$ 0.11	\$ 1.13	\$ 0.38
Diluted earnings per share:			
As reported	\$ 0.11	\$ 0.86	\$ 0.32
Pro forma	\$ 0.08	\$ 0.84	\$ 0.30

The above pro forma effects on net income and net income per basic and diluted common share are not likely to be representative of the effects on reported net income or net income per common share for future years because options vest over several years and additional awards generally are made each year.

COMPREHENSIVE INCOME: Comprehensive income is equivalent to net income in the statement of operations.

SEGMENT INFORMATION: The Company has one operating segment. Although certain separate financial information by retail store, or retail store and recycling center, is available to management, the Company is managed as a unit. Specifically, the Company does not measure profit or loss or maintain assets separately for its products or revenue sources (retail appliance sales, appliance recycling including recycling services for utilities, and byproduct sales).

ESTIMATES: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ACCOUNTING PRONOUNCEMENTS ISSUED NOT YET ADOPTED: The following items represent accounting standards that have been recently issued but not yet adopted by the Company.

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement No. 146, ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES. This statement requires the recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred versus the date the Company commits to an exit plan. In addition, this statement states the liability should be initially measured at fair value. The statement is effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not believe that the adoption of this pronouncement will have a material effect on its consolidated financial statements.

In January 2003, the FASB issued Statement No. 148, ACCOUNTING FOR STOCK-BASED COMPENSATION - TRANSITION AND DISCLOSURE. This statement provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In addition, this statement also amends the disclosure requirements of Statement No. 123 to require more prominent and frequent disclosures in the financial statements about the effects of stock-based compensation. The transitional guidance and annual disclosure provisions of this statement are effective for the December 28, 2002, consolidated financial statements. The interim reporting disclosure requirements will be effective for the Company's March 29, 2003, 10-Q. Because the Company continues to account for employee stock-based compensation under APB Opinion No. 25, the transitional guidance of Statement No. 148 had no effect on the



Company's consolidated financial statements. However, the December 28, 2002, consolidated financial statements have incorporated the enhanced disclosure requirements of Statement No. 148.

In January 2003, the FASB issued Interpretation No. 45 ("FIN 45"), GUARANTOR'S ACCOUNTING AND DISCLOSURE

REQUIREMENTS FOR GUARANTEES, INCLUDING INDIRECT GUARANTEES OF INDEBTEDNESS OF OTHERS. FIN 45 clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing certain guarantees. It also elaborates on the disclosures in FASB Statement No. 5, ACCOUNTING FOR CONTINGENCIES, which are to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued, even when the likelihood of making any payments under the guarantees is remote. The December 28, 2002, consolidated financial statements have incorporated the enhanced disclosure requirements of FIN 45, as presented in Note 1 to the financial statements under the caption "Product warranty."

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), CONSOLIDATION OF VARIABLE INTEREST ENTITIES. This interpretation establishes standards for identifying a variable interest entity and for determining under what circumstances a variable interest entity should be consolidated with its primary beneficiary. Until now, a company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 changes that by requiring a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. The disclosure requirements of FIN 46 currently apply to the Company and the balance of the requirements will apply to the Company as of the 3rd Quarter of 2003. The Company does not believe that the adoption of this pronouncement will have a material effect on its consolidated financial statements.

NOTE 2. MARKET CLOSINGS AND LOSS ON IMPAIRED ASSETS

In April 2000, the Company closed a retail store in the Minneapolis market. In connection therewith, the Company wrote off leasehold improvements of approximately \$71,000.

In December 2002, the Company closed a retail store in the Dayton, Ohio market and incurred expenses of \$108,000 for the remaining lease payments and write off of leasehold improvements.

In February 2003, the Company closed a retail store in the Minneapolis market which resulted in no closing costs.

NOTE 3. LINE OF CREDIT

At December 28, 2002, the Company had a \$10 million line of credit with a lender. The interest rate as of December 28, 2002 was 5.50%. 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, if not renewed, and provides that the lender may demand payment in full of the entire outstanding balance of the loan at any time. The line of credit is secured by substantially all the Company's assets, and requires minimum monthly interest payments of \$37,500 regardless of the outstanding principal balance. The lender is also secured by an inventory repurchase agreement with Whirlpool Corporation for purchases from Whirlpool only. The loan requires that the Company meet certain covenants, provides payment penalties for noncompliance, limits the amount of other debt the Company can incur, limits the amount of spending on fixed assets and limits payments of dividends. At December 28, 2002 the Company's unused borrowing capacity under this line was \$367,000.

NOTE 4. LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following:

	2002	2001
13.00% note payable, due in monthly interest payments of \$541 with balance due September 2005, secured by equipment	\$ 50,000	\$3,072,000

Adjustable rate mortgage  
based on a 30 day LIBOR  
rate plus 2.7%, adjusted  
yearly, monthly payments  
include interest and principal,

and are based on a 20 year amortization, due October 2012, secured by land and building	3,452,000	-
6.85% mortgage, due in monthly installments of \$15,326, including interest, due January 2013, secured by land and building	2,000,000	-
Other	181,000	1,609,000
	-----	-----
	5,683,000	4,681,000
Less current maturities	259,000	401,000
	-----	-----
	\$5,424,000	\$4,280,000
	=====	=====

32

The future annual maturities of long-term obligations are as follows:

Fiscal year	
2003	\$ 259,000
2004	216,000
2005	206,000
2006	238,000
2007	196,000
2008 and thereafter	4,568,000
	-----
	\$ 5,683,000
	=====

NOTE 5. ACCRUED EXPENSES

Accrued expenses were as follows:

	2002	2001
- -----		
Compensation and benefits	\$ 813,000	\$ 936,000
Warranty expense	82,000	187,000
Other	378,000	242,000
	-----	-----
	\$1,273,000	\$1,365,000
	=====	=====

NOTE 6. COMMITMENTS

OPERATING LEASES: The Company leases certain of its retail stores and recycling center facilities and equipment under noncancelable operating leases. The leases require the payment of taxes, maintenance, utilities and insurance.

Minimum future rental commitments under noncancelable operating leases as of December 28, 2002 are as follows:

Fiscal Year	
2003	\$ 1,813,000
2004	1,529,000
2005	1,478,000
2006	795,000
2007	405,000
2008 and thereafter	107,000
	-----
	\$ 6,127,000
	=====

Rent expense for fiscal years of 2002, 2001 and 2000 was \$1,973,000, \$1,519,000 and \$420,000, respectively.

CONTRACTS: The Company has entered into contracts with three of its appliance vendors. Under the agreements there are no minimum purchase commitments, however, the Company has agreed to indemnify the vendors for certain claims, allegations or losses with respect to appliances sold by the Company. Also see Note 9.

NOTE 7. INCOME TAXES

The provision for income taxes consisted of the following:

	2002	2001	2000
- -----			
Current:			

Federal	\$ (170,000)	\$1,289,000	\$496,000
State	-	228,000	117,000
Deferred	391,000	(400,000)	(33,000)
	-----	-----	-----
	\$ 221,000	\$1,117,000	\$580,000
	=====	=====	=====

A reconciliation of the Company's income tax expense with the federal statutory tax rate is shown below:

	2002	2001	2000
Income tax expense at statutory rate	\$ 188,000	\$ 1,278,000	\$ 511,000
State taxes net of federal tax effect	25,000	189,000	99,000
Permanent differences and other	8,000	20,000	33,000
Change in valuation allowance, net of effect of NOL attribute reduction	-	(370,000)	(63,000)
	-----	-----	-----
	\$ 221,000	\$ 1,117,000	\$ 580,000
	=====	=====	=====

The components of net deferred tax assets are as follows:

	2002	2001
Deferred tax assets:		
Net operating loss carryforwards	\$ 2,834,000	\$ 2,834,000
Federal and state tax credits	199,000	199,000
Reserves	362,000	409,000
Accrued expenses	93,000	132,000
	-----	-----
Gross deferred tax assets	\$ 3,488,000	\$ 3,574,000
Valuation allowance	(2,998,000)	(2,998,000)
	-----	-----
	\$ 490,000	\$ 576,000
	=====	=====
Deferred tax liabilities:		
Property and equipment	\$ 373,000	\$ 68,000
	=====	=====

At December 28, 2002, the Company had a valuation allowance against deferred tax assets to reduce the total to an amount management believes is appropriate. Realization of deferred tax assets is dependent upon sufficient future taxable income during the periods when deductible temporary differences and carryforwards are expected to be available to reduce taxable income. The reduction in the valuation allowance during 2001 was due to the determination that certain deferred tax assets are more likely than not to be realized and to the effect of an NOL attribute reduction.

33

At December 28, 2002, the Company had net operating loss ("NOL") carryforwards expiring as follows:

Expiration	Amount
-----	-----
2011	\$3,296,000
2012	\$1,144,000
2018	\$2,645,000

Future utilization of NOL and tax credit carryforwards is subject to certain limitations under provisions of Section 382 of the Internal Revenue Code. This Section relates to a 50 percent change in control over a three-year period. 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 NOL and tax credit carryforwards generated prior to February 1999 may be limited to approximately \$56,000 per year.

#### NOTE 8. SHAREHOLDERS' EQUITY

STOCK OPTIONS: The Company has two Stock Option Plans (the "Plans") that permit the granting of "incentive stock options" meeting the requirements of Section

422 of the Internal Revenue Code of 1986, as amended, and nonqualified options that do not meet the requirements of Section 422. The Plans have 150,000 and 600,000 shares, respectively, available for grant. The options that have been granted under the Plans are exercisable for a period of five to ten years from the date of grant and vest over a period of six months to five years from the date of grant.

The pro forma fair value of each option grant as presented in Note 1 to the financial statements is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2002	2001	2000
Expected dividend yield	-	-	-
Expected stock price volatility	79.7%	82.3%	79.7%
Risk-free interest rate	1.4%	6.2%	6.0%
Expected life of options (years)	3	3	3

Additional information relating to all outstanding options is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2000	237,000	\$ 3.36
Granted	180,000	\$ 2.22
Cancelled	(44,000)	\$ 5.20
Outstanding at December 30, 2000	373,000	\$ 2.59
Granted	56,000	\$ 1.82
Cancelled	(21,000)	\$ 17.52
Outstanding at December 29, 2001	408,000	\$ 1.98
Granted	57,000	\$ 3.77
Exercised	(8,000)	\$ 0.96
Cancelled	(20,000)	\$ 3.60
Outstanding at December 28, 2002	437,000	\$ 2.16

The weighted average fair value per option of options granted during fiscal years 2002, 2001 and 2000 was \$1.65, \$0.86 and \$0.90, respectively.

The following tables summarize information about stock options outstanding as of December 28, 2002:

Range of Exercise Prices	Number of Options Outstanding	OPTIONS OUTSTANDING	
		Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price
\$10.52	8,000	0.5	\$10.52
\$4.05 to \$4.30	39,000	8.0	\$4.15
\$2.38 to \$3.50	48,000	4.1	\$2.55
\$0.75 to \$2.20	259,000	3.5	\$1.93
\$0.59 to \$0.65	83,000	3.4	\$0.63
	437,000		\$2.13

Range of Exercise Prices	Number of Options Exercisable	OPTIONS EXERCISABLE	
		Weighted Average Exercise Price	Weighted Average Exercise Price
\$10.52	8,000	\$10.52	
\$4.05 to \$4.30	23,000	\$4.05	
\$2.38 to \$3.50	48,000	\$2.55	
\$0.75 to \$2.20	163,000	\$1.78	
\$0.59 to \$0.65	83,000	\$0.62	
	325,000	\$2.01	

The following table summarizes options exercisable for stock options outstanding

as of December 29, 2001 and December 30, 2000:

	December 29, 2001	December 30, 2000
Number of options exercisable	275,000	188,000
Weighted average exercise price	\$1.77	\$3.34

WARRANTS: The Company has adopted the provisions of SFAS No. 123 in accounting for its warrants issued for financing or services. Accordingly, the expense, if any, applicable to the value of such warrants is recognized as of the date of grant. Such warrants are generally issued to non-employees.

In September 1998, the Company entered into a loan agreement with a lender resulting in gross proceeds to the Company of \$3.5 million. In connection with this loan, the Company issued the lender a warrant to purchase 700,000 shares of Common Stock at an adjustable exercise price, which is currently \$0.60 per share. The Company also issued to an investment banker associated with this transaction a warrant to purchase 125,000 shares of Common Stock at \$2.50 per share. The portion of the gross loan proceeds ascribed to the aforementioned warrants issued in conjunction with this debt financing was \$307,000 as determined using the Black-Scholes method. During 2002, 32,136 warrants were exercised resulting in the issuance of 14,872 shares of common stock.

During 2001, 53,750 warrants related to a 1998 financing transaction were exercised resulting in the issuance of 9,768 shares of common stock and 15,000 of warrants from the same financing transaction expired.

In February 1999, in connection with a private placement, the Company issued warrants to purchase 83,000 shares of Common stock at \$0.50 per share, subject to adjustment. During 2002, 4,000 warrants were exercised resulting in the issuance of 3,506 shares of Common Stock.

In March 1999, the Company issued to a board member at that time, 5,000 warrants to purchase the Company's Common Stock at \$0.625 per share, the market value of the Company's stock at the date of grant.

In April 1999, the Company issued to a vendor 50,000 warrants to purchase common stock at \$0.625 per share. In February 2003, 20,000 warrants were exercised resulting in the issuance of 20,000 shares of Common Stock.

All issued warrants are exercisable and expire as follows: 92,874 in 2003; 129,000 in 2004; 700,000 in 2007 and 5,000 in 2009.

PREFERRED STOCK: The Company's amended Articles of Incorporation authorize two million shares of Preferred Stock of the Company ("Preferred Stock") which may be issued from time to time in one or more series having such rights, powers, preferences and designations as the Board of Directors may determine. To date no such preferred shares have been issued.

#### NOTE 9. MAJOR CUSTOMERS AND SUPPLIERS

Revenues from two major recycling customers as a percentage of total revenues are as follows:

	2002	2001	2000
Revenue percentage:			
Customer A	13%	29%	30%
Customer B	12%	9%	-

As of December 28, 2002, the Company had a receivable from Customer A of \$399,000 and Customer B of \$49,000.

During the three year period ended December 28, 2002, the Company purchased a vast majority of appliances for resale from three suppliers. The Company has and is continuing to secure other vendors from which to purchase appliances. However, the loss of one of these suppliers or any appliance supplier could adversely affect Company's operations.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No changes in or disagreements with accountants have occurred within the two-year period ended December 28, 2002 that required reporting on Form 8-K.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Information regarding directors and executive officers of the Company is set forth under the headings "Nominees and Information Concerning Officers and Key Employees who are not Directors" and "Section 16 (a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement for its 2003 Annual Meeting of Shareholders to be held April 24, 2003, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding Executive Compensation is set forth under the heading "Executive Compensation and Stock Options Granted and Exercised in Last Fiscal Year" in the Company's definitive Proxy Statement for its 2003 Annual Meeting of Shareholders to be held April 24, 2003, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management is set forth under the heading "Common Stock Ownership" in the Company's definitive Proxy Statement for its 2003 Annual Meeting of Shareholders to be held April 24, 2003, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions is set forth under the heading "Nominees and Information Concerning Officers and Key Employees who are not Directors" in the Company's definitive Proxy Statement for its 2003 Annual Meeting of Shareholders to be held April 24, 2003, and is incorporated herein by reference.

ITEM 14. CONTROLS AND PROCEDURES

Within 90 days prior to the date of this annual report, the Company carried out an evaluation, under the supervision and participation of management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of disclosure controls and procedures. Based upon the evaluation, the chief executive officer and chief financial officer concluded that the disclosure controls and procedures are effective in timely alerting them to material information required to be included in periodic SEC filings. There were no significant changes to internal controls or in other factors that could significantly affect such internal controls subsequent to the date that the evaluation was conducted.

36

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES AND EXHIBITS

1. FINANCIAL STATEMENTS

See Index to Financial Statements under Item 8 of this report.

2. FINANCIAL STATEMENT SCHEDULE

To the Board of Directors  
Appliance Recycling Centers of America, Inc.  
Minneapolis, Minnesota

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements of Appliance Recycling Centers of America, Inc. and Subsidiaries taken as a whole. The supplemental Schedule II is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

McGLADREY & PULLEN, LLP

Minneapolis, Minnesota  
February 17, 2003

Schedule II - Valuation and Qualifying Accounts

<TABLE>  
<CAPTION>

	Accounts Receivable Allowance	Inventory Allowance
<S>	<C>	<C>
Balance, January 1, 2000	\$ 25,000	\$ 275,000
Additional allowance/adjustments	(5,000)	205,000
Write-offs	-	(105,000)
Balance, December 30, 2000	\$ 20,000	\$ 375,000
Additional allowance/adjustments	578,000	359,000
Write-offs	(498,000)	(270,000)
Balance, December 29, 2001	\$ 100,000	\$ 464,000
Additional allowance/adjustments	(35,000)	265,000
Write-offs	(39,000)	(181,000)
BALANCE, DECEMBER 28, 2002	\$ 26,000	\$ 548,000

</TABLE>

3. EXHIBITS

See Index to Exhibits on page 40 of this report.

37

(b) REPORTS ON FORM 8-K

The Company filed Form 8-K on November 7, 2002 announcing its third quarter 2002 results.

The Company filed Form 8-K on December 19, 2002 announcing that it had been awarded two, three-year appliance recycling contracts by the Department of Water and Power of the City of Los Angeles.

38

SIGNATURES

Pursuant to the requirements of Section 13 or Section 15(d) 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.

Dated: March 18, 2003

APPLIANCE RECYCLING CENTERS OF  
AMERICA, INC.  
(Registrant)

By /s/ Edward R. Cameron  
-----  
Edward R. Cameron  
President and Chief Executive Officer

By /s/ Linda A. Koenig  
-----  
Linda A. Koenig  
Vice President of Finance

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<TABLE>  
<CAPTION>

SIGNATURE	TITLE	DATE
-----------	-------	------

<S> /s/ Edward R. Cameron ----- Edward R. Cameron	<C> Chairman of the Board, President and Chief Executive Officer	<C> March 18, 2003
/s/ Linda A. Koenig ----- Linda A. Koenig	Vice President of Finance	March 18, 2003
/s/ Duane S. Carlson ----- Duane S. Carlson	Director	March 18, 2003
/s/ Harry W. Spell ----- Harry W. Spell </TABLE>	Director	March 18, 2003

39

INDEX TO EXHIBITS

Exhibit No. -----	Description -----
3.1	Restated Articles of Incorporation of Appliance Recycling Centers of America, Inc. [filed as Exhibit 3.1 to the Company's Form 10-K for the year ended January 2, 1999 (File No. 0-19621) and incorporated herein by reference].
3.2	Amended and Restated Bylaws of Appliance Recycling Centers of America, Inc. [filed as Exhibit 3.2 to the Company's Form 10-K for the year ended January 2, 1999 (File No. 0-19621) and incorporated herein by reference].
*10.1	Amended Appliance Recycling Centers of America, Inc. Restated 1989 Stock Option Plan [filed as Exhibit 19.3 to the Company's Form 10-Q for the quarter ended June 30, 1993 (File No. 0-19621) and incorporated herein by reference].
10.2	Agreement dated December 17, 1992, between Appliance Recycling Centers of America, Inc. and TCF Savings Bank [filed with the Company's Form 8-K, dated December 17, 1992 (File No. 0-19621) and incorporated herein by reference]. This agreement has been paid in full. Debt replaced with Exhibit 10.31 in this report.
10.3	Agreement dated January 19, 1994, between Appliance Recycling Centers of America, Inc. and Standard Insurance Corporation [filed as Exhibit 10.29 to the Company's Form 10-K for the year ended December 31, 1993 (File No.0-19621) and incorporated herein by reference]. This agreement has been paid in full. Debt replaced with Exhibit 10.33 in this report.
10.4	Line of credit dated August 30, 1996, between Appliance Recycling Centers of America, Inc. and Spectrum Commercial Services, a division of Lyons Financial Services, Inc. [filed as exhibit 10.15 to the Company's Form 10-Q for the quarter ended September 28, 1996 (File No. 0-19621) and incorporated herein by reference].
10.5	Amended line of credit dated November 8, 1996, between Appliance Recycling Centers of America, Inc. and Spectrum Commercial Services, a division of Lyons Financial Services, Inc. [filed as exhibit 10.16 to the Company's Form 10-Q for the quarter ended September 28, 1996 (File No. 0-19621) and incorporated herein by reference].
*10.6	1997 Stock Option Plan and Amendment [filed as Exhibits 28.1 and 28.2 to the Company's Registration Statement on Form S-8 (Registration No. 333-28571) and incorporated herein by reference].
10.7	Amended line of credit dated February 12, 1998 between Appliance Recycling Centers of America, Inc. and Spectrum Commercial Services, a division of Lyons Financial Services, Inc., Amended Revolving Note and Amended Guarantor Acknowledgments [filed as Exhibit 10.10 to the Company's Form 10-K for year ended January 3, 1998 (File No. 0-19621) and incorporated herein by reference].

40



- \*10.8 Amendment, effective April 24, 1997, to 1989 Stock Option Plan [filed as Exhibit 28.2 to the Company's Post-Effective Amendment No. 1 (June 5, 1997) to Registration Statement on Form S-8 (Registration No. 33-68890) and incorporated herein by reference].
- 10.9 Reverse Logistics Master Service Agreement between Whirlpool Corporation and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10 to the Company's Form 10-Q for the quarter ended July 4, 1998 (File No. 0-19621) and incorporated herein by reference].
- 10.10 Loan Agreement between Medallion Capital, Inc. and Appliance Recycling Centers of America, Inc. dated September 10, 1998 [filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended October 3, 1998 (File No. 0-19621) and incorporated herein by reference].
- 10.11 Promissory note of the Company to Medallion Capital, Inc. in the principal amount of \$3,500,000 due September 30, 2005 [filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended October 3, 1998 (File No. 0-19621) and incorporated herein by reference].
- 10.12 Security Agreement of the Company [filed as Exhibit 10.3 to the Company's Form 10-Q for the quarter ended October 3, 1998 (File No. 0-19621) and incorporated herein by reference].
- 10.13 Warrant of the Company in favor of Medallion Capital, Inc. for 700,000 shares of the Company's Stock [corrected copy]. [filed as Exhibit 10.14 to the Company's Form 10-K for the year ended January 2, 1999 (File No. 0-19621) and incorporated herein by reference].
- 10.14 Amendment to the line of credit dated September 10, 1998 between Appliance Recycling Centers of America, Inc. and Spectrum Commercial Services, a division of Lyons Financial Services, Inc., Amendment to General Credit and Security Agreement and Amended Guarantor Acknowledgement. [filed as Exhibit 10.15 to the Company's Form 10-K for the year ended January 2, 1999 (File No. 0-19621) and incorporated herein by reference].
- 10.15 Amendment to the line of credit dated September 17, 1998 between Appliance Recycling Centers of America, Inc. and Spectrum Commercial Services, a division of Lyons Financial Services, Inc., Amendment to General Credit and Security Agreement, Amended Guarantor Acknowledgement and Amended and Restated Revolving Note. [filed as Exhibit 10.16 to the Company's Form 10-K for the year ended January 2, 1999 (File No. 0-19621) and incorporated herein by reference].
- \*10.16 Amendment effective April 29, 1999 to 1997 Stock Option Plan [filed as Exhibit 10 to the Company's Form 10-Q for the quarter ended July 3, 1999 (File No. 0-19621) and incorporated herein by reference].
- 10.17 Agreement dated June 12, 2000 between Southern California Edison Company and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10 to the Company's Form 10-Q for the quarter ended July 1, 2000 (File No. 0-19621) and incorporated herein by reference].
- 10.18 Agreement dated August 21, 2000 between Southern California Edison Company and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended September 30, 2000 (File No. 0-19621) and incorporated herein by reference].
- 10.19 Amendment to the line of credit dated August 30, 2000 between Appliance Recycling Centers of America, Inc. and Spectrum Commercial Services, a division of Lyons Financial Services, Inc., Amendment to General Credit and Security Agreement and Amended and Restated Revolving Note.

[filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 30, 2000 (File No. 0-19621) and incorporated herein by reference].

- 10.20 Updated contract dated January 1, 2001 between Southern California Edison Company and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter

ended March 31, 2001 (File No. 0-19621) and incorporated herein by reference].

- \*10.21 Amendment effective April 26, 2001 to 1997 Stock Option Plan [filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended March 31, 2001 (File No. 0-19621) and incorporated herein by reference].
- 10.22 Agreement dated June 12, 2001 between the California Public Utilities Commission and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10.1 to the Company Form 10-Q for the quarter ended June 30, 2001 (File No. 0-19621) and incorporated herein by reference].
- 10.23 Agreement dated June 18, 2001 between Spectrum Commercial Services Company and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended June 30, 2001 (File No. 0-19621) and incorporated herein by reference].
- 10.24 Agreement dated July 26, 2001 between Spectrum Commercial Services Company and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10.3 to the Company's Form 10-Q for the quarter ended June 30, 2001 (File No. 0-19621) and incorporated herein by reference].
- 10.25 Amendment to the line of credit dated August 24, 2001 between Appliance Recycling Centers of America, Inc. and Spectrum Commercial Services, Amendment to General Credit and Security Agreement and Amended and Restated Revolving Note [files as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 29, 2001 (File No. 0-19621) and incorporated herein by reference].
- 10.26 Retail Dealer Sales Agreement dated October 12, 2001 between Appliance Recycling Centers of America, Inc. and Maytag Corporation [filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended September 29, 2001 (File No. 0-19621) and incorporated herein by reference].
- 10.27 Amendment dated March 7, 2002 to the Agreement between the California Public Utilities Commission and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10.29 to the Company's Form 10-K for the year ended December 20, 2001 (File No. 0-19621) and incorporated herein by reference].
- 10.28 Amendment to the line of credit dated April 11, 2002 between Appliance Recycling Centers of America, Inc. and Spectrum Commercial Services, Amendment to General Credit and Security Agreement and Amended Guarantor Acknowledgement. [filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 30, 2002 (File No. 0-19621) and incorporated herein by reference].
- \*10.29 Amendment effective April 25, 2002 to 1997 Stock Option Plan [filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended March 30, 2002 (File No. 0-19621) and incorporated herein by reference].
- 10.30 Agreement dated June 18, 2002 between Southern California Edison Company and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended June 29, 2002 (File No. 0-19621) and incorporated herein by reference].

42

- 10.31 Loan agreement dated September 19, 2002 between Appliance Recycling Centers of America, Inc. and General Electric Capital Business Asset Funding Corp. [filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 28, 2002 (File No. 0-19621) and incorporated herein by reference].
- +10.32 Agreements dated September 24, 2002 between Appliance Recycling Centers of America, Inc. and the Department of Water and Power of the City of Los Angeles.
- +10.33 Loan agreement dated December 28, 2002 between Appliance Recycling Centers of America, Inc. and General Electric Capital Business Asset Funding Corp.
- +10.34 Amendment to the line of credit dated January 23, 2003 between Appliance Recycling Centers of America, Inc. and Spectrum Commercial Services, Amendment to General Credit and Security Agreements.
- +21.1 Subsidiaries of Appliance Recycling Centers of America, Inc.

+23.1 Consent of McGladrey & Pullen, LLP, Independent Public Accountants.

- \* Items that are management contracts or compensatory plans or arrangements required to be filed as an exhibit pursuant to Item 14(a)3 of this Form 10-K.
- + Filed herewith.

43

FORM 10-K CEO CERTIFICATION

CERTIFICATIONS:

I, Edward R. Cameron, certify that:

1. I have reviewed this annual report on Form 10-K of Appliance Recycling Centers of America, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements are made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 18, 2003  
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By: /s/ Edward R. Cameron  
-----  
Edward R. Cameron, President

44

FORM 10-K CFO CERTIFICATION

CERTIFICATIONS:

I, Linda Koenig, certify that:

1. I have reviewed this annual report on Form 10-K of Appliance Recycling Centers of America, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements are made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 18, 2003  
-----

By: /s/ Linda Koenig

-----  
Linda Koenig, Vice President of Finance

AGREEMENT NO. 47189-3

BETWEEN

THE DEPARTMENT OF WATER AND POWER  
OF THE CITY OF LOS ANGELES

AND

APPLIANCE RECYCLING  
CENTERS OF AMERICA - CALIFORNIA INC.

SEPTEMBER 24, 2002

APPLIANCE RECYCLING AGREEMENT  
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Table of Contents  
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Section	Title	Page
-----	-----	----
1.0	AGREEMENT.....	2
2.0	RECITALS.....	2
3.0	DEFINITIONS.....	3
4.0	STATEMENT OF WORK.....	5
5.0	GENERAL CONDITIONS.....	8
6.0	COMPENSATION.....	14
7.0	BUSINESS POLICIES.....	15
8.0	INSURANCE REQUIREMENTS.....	19
9.0	INVOICES.....	23
10.0	CONFLICTS.....	24
11.0	MONITORING OF WORK.....	24
12.0	TITLE TO WORK.....	25
13.0	SECTION HEADINGS.....	27
14.0	SIGNATURE OF AUTHORIZING AGREEMENT.....	28

APPLIANCE RECYCLING AGREEMENT

- 1.0 AGREEMENT
- 1.1 PARTIES

This Agreement is made and entered into by and between APPLIANCE RECYCLING CENTERS OF AMERICA - CALIFORNIA (ARCA), INC. 1920 Acadia Avenue, Compton, California 90020, (hereinafter referred to as "Contractor") and the Department of Water and Power of the City of Los Angeles (hereinafter referred to as "Department"); Contractor and the Department are sometimes hereinafter referred to individually as "Party" and collectively as "Parties".

- 2.0 RECITALS

The Agreement is entered into with reference to the following facts, among others:

- 2.1 The Department desires to promote energy efficient refrigerators to its customers through its Low Income Refrigerator Exchange Program (LIREP), which provides free

super efficient refrigerators (New Refrigerators) to qualifying customers in exchange for their older, working refrigerators, which will be recycled.

- 2.2 The Department also desires to remove older working inefficient second Refrigerators and Freezers (Second Refrigerators and Freezers) through its Refrigerator Turn-In and Recycling Program (RETIRE) that qualifying Customers turn-in for recycling and disposal.
- 2.3 The Department envisions implementing the LIREP and RETIRE Programs for the purpose of saving energy, reducing peak demand, lowering Department customers' energy bills, transforming the market for energy-efficient appliances and providing additional public environmental benefits.
- 2.4 The Department desires that the Contractor provide services to ensure the safe, effective, and lawful recovery and recycling or lawful disposal, as necessary, of HCFC/CFC refrigerants, CFC-11 foam insulation blowing agent, PCBs, mercury, used oils and any other Hazardous Materials found in older inefficient Refrigerators and Freezers, as well as the recycling of all scrap metals.
- 2.5 The Department has solicited responses from potentially qualified vendors through a Request for Proposals and has determined that the Contractor is the party best qualified to provide the Department with the required appliance recycling services in support of the above programs and is qualified to provide other related services described in this agreement.

2

### 3.0 DEFINITIONS

The following terms, whether in the singular or in the plural, when used in this Agreement, shall have the meanings specified:

- 3.1 Agreement: This document, the terms and condition contained in this agreement as may be amended and supplemented.
- 3.2 Appliance Delivery and Removal Contractor: The entity contracted by the Department to deliver New Refrigerators and pick-up replaced Primary or Second Refrigerators and Freezers from Program Participants.
- 3.3 Approved Customers: Those entities approved to participate in the LIREP or RETIRE programs based on established eligibility criteria set by the Department. Such entities may include residential, multi-family residential and low-income customers of the Department.
- 3.4 CFCs/HCFCs: Chlorofluorocarbon and Hydrochlorofluorocarbon refrigerants found in Refrigerator and Freezer cooling systems.
- 3.5 CFC-11: Chlorofluorocarbons contained in Refrigerator and Freezer insulating foam.
- 3.6 Change Order: document issued by the Department to Contractor to change the Agreement.
- 3.7 Contract Administrator: The Department's authorized representative for this Agreement as specified in Section 5.5.
- 3.8 Contract Period: The period beginning with the time of effectiveness date as defined in Section 5.1.4, and extending through October 31, 2005, or as extended by mutual agreement of the Parties.
- 3.9 Documentation: Specifications, procedures, instructions, reports, test results, analyses, calculations, manuals, and other data specified in this Agreement, and any amendment to this Agreement, as required by any legal entity having jurisdiction over the Work.
- 3.10 Freezer: A freezer which provides supplementary cold storage to a primary freezer or to the freezer section located within the Primary Refrigerator in a residential household.

3.11 Hazardous Materials: Any substance or material which has been designated as hazardous or toxic by the U.S. Environmental Protection Agency or the California Department of Toxic Substances Control 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 and the California Health and Safety Code, which is contained in or is derived from the Refrigerators or Freezers.

3

- 3.12 "Low-Income Refrigerator Exchange Program": Department Program that is supported by Work covered by this Agreement, also referred to as LIREP Program.
- 3.13 Mercury: Mercury-containing Components such as lid tilt-switches found in Freezers.
- 3.14 PCBs: Polychlorinated Biphenyls.
- 3.15 Primary Freezer: Freezer utilized by the Customer as the principal means of storing frozen foods in the residence.
- 3.16 Primary Refrigerator: Refrigerator utilized as the principal means of storing frozen foods in the residence.
- 3.17 Programs: Incentive Programs such as the LIREP and RETIRE Programs or other Programs that may be implemented by the Department for the purpose of promoting energy efficient appliances to its customers and the removal and environmentally sound recycling of replaced older, inefficient appliances from the Department Customers' residences.
- 3.18 Program Participants: Approved Customers selected by the Department to participate in the Program who agree to turn in old Primary Refrigerators and/or Second Refrigerators or Freezers.
- 3.19 Recycling Center: The site at which Refrigerators and Freezers are processed in an environmentally sound manner to legally remove, dispose of and/or recycle CFCs, CFC Foam Insulation, HCFCs, CFC 11, PCBs, mercury, used oils, and other Hazardous Materials.
- 3.20 Refrigerator Turn-In and Recycling Program (RETIRE): Department Program that is supported by Work covered by this Agreement, also referred to as RETIRE Program.
- 3.21 Second Freezer: Surplus or spare freezer utilized by Approved Customer concurrently with primary refrigerator and/or freezer.
- 3.22 Second Refrigerator: Surplus or spare refrigerator utilized by Approved Customer concurrently with primary refrigerator.
- 3.23 Subcontractor: An entity contracting directly with Contractor to furnish services or materials as part of, or directly related to, the Work.
- 3.24 Work: Any and all obligations of Contractor to be performed pursuant to this Agreement which includes but is not limited to: (1) Proper removal

4

and management of CFC/HCFC refrigerants, CFC-11 found in foam insulation blowing agent, PCBs, mercury, and used oils from collected Refrigerators and Freezers; 2) handling, storage and legal disposal of removed Hazardous Materials; 3) recycling of metals, CFCs, /HCFCs, CFC 11, mercury, used oils and all other materials that can be recycled and 4) proper disposal of all materials that cannot be recycled in an environmentally sound

manner and in accordance with all applicable laws.

#### 4.0 STATEMENT OF WORK

##### 4.1 Services to be Performed

The Contractor hereby agrees to provide the following services to the Department pursuant to the terms and conditions of this Agreement:

- 4.1.1 Assist the Department in developing and implementing Program protocols, procedures and coordination activities for: 1) Contractor's employees and subcontractors and 2) Department employees and subcontractors;
- 4.1.2 Receive from the Department's Appliance Delivery and Removal Contractor Primary Refrigerators and/or Second Refrigerator or Freezers turned-in by Program Participants for recycling and/or disposal;
- 4.1.3 Recycle all removed Refrigerators and Freezers including: 1) Proper removal and management of CFC/HCFC refrigerants, CFC-11 found in foam insulation blowing agent, PCBs, mercury, and used oils from collected Refrigerators and Freezers; 2) handling, storage and legal disposal of removed Hazardous Materials; 3) recycling of metals, CFCs, HCFCs, CFC 11, mercury, used oils and all other materials that can be recycled and 4) proper disposal of all materials that cannot be recycled in an environmentally sound manner and in accordance with all applicable laws; and

4.1.4 Provide reporting to the Department as specified herein.

##### 4.2 Program Mechanics

- 4.2.1 The Department's Appliance Delivery and Removal Contractor shall collect and transport to the Recycling Center all Primary and Second Refrigerators and Freezers turned-in by Program Participants.
- 4.2.2 The Contractor shall receive and accept all Primary Refrigerators and/or Second Refrigerator or Freezers turned-in for proper disposal and/or recycling as specified in this Agreement.

5

- 4.2.3 Documentation and records of all refrigerators and freezers received, services provided and work performed shall be maintained by the contractor and included in the monthly reports to the Department as specified herein.

##### 4.3 Contractor's Responsibilities

###### 4.3.1 Warranty

Contractor warrants to the Department that the Work shall be performed in a competent manner, in accordance with this Agreement, and that the that the handling, storage, recycling, and disposal of the Primary/Second Refrigerators and Freezers and Hazardous Materials shall be in accordance with (a) the requirements of this Agreement and (b) applicable local, state, and federal laws and regulations in effect at the time the work is performed.

- 4.3.2 Contractor shall be solely responsible for all methods, techniques, sequences, and procedures for the recovery, storage and disposal and/or recycling of all CFCs/HCFCs, CFC-11, PCBs, mercury, used oil, scrap metals, and hazardous materials found in Refrigerators and Freezers turned-in by Program Participants.

- 4.3.3 Contractor shall document and maintain records for services under this Agreement as follows:



- a) A monthly Reporting System for recording, documenting and reconciling Refrigerator/Freezer deliveries made by the Department's Appliance Delivery and Removal Contractor.
  - b) Program Work Order Form to collect data such as:
    - i) Primary/Second Refrigerator or Freezer manufacturer's name and quantities;
    - ii) Primary/Second Refrigerator or Freezer style, defrost type, size and estimated age;
    - iii) Identification of Primary/Second Refrigerators and Freezers containing CFC-11 foam insulation;
- 4.3.4 Compilation of data in Section 4.3.3 shall be in electronic mode, employing the Contractor's Database software program with online and real-time access capability. Data shall be provided to

6

the Department in both hard copy and electronic format (e.g. Microsoft Excel) acceptable to the Department.

#### 4.4 Reporting Requirements

Contractor shall provide the Department with reports for the services performed under this Agreement as follows:

- 4.4.1 A monthly report, provided no later than the fifteen (15) days following the end of the previous month, listing the number of Primary and Second Refrigerators or Freezers processed through the Recycling Center during the previous month and containing size in cubic feet, year of manufacture, style, age and defrost type of each Primary/Second Refrigerator or Freezer.
- 4.4.2 A quarterly report, presented within fifteen (15) days of the new quarter, which shall include, but not limited to:
  - a) An estimated breakdown of the amount of refrigerant recovered (in pounds by type);
  - b) An estimated breakdown of the number of pounds of capacitors recovered;
  - c) A breakdown of the number and size of polyurethane- foam containing refrigerators or freezers which were processed for CFC-11 recovery (in pounds of CFC-11 recovered);
  - d) An estimated weight of metals and recyclable materials;
  - e) An estimate of the Monthly subtotal and cumulative annual energy consumption for all refrigerators recycled under this Contract to date; and
- 4.4.3 Program summary reports provided no later than fifteen (15) working days following the end of a twelve month period specified by the Department, covering all the activities requested in the monthly reports plus information from any incomplete month.
- 4.4.4 Special and Non-recurring Reports

Upon reasonable written request from an authorized representative of the Department, Contractor may be asked to prepare special and nonrecurring reports

during course of the Program. Such report content may be developed by the parties in anticipation of requests from the Board, internal Department audits, or compilation of data relevant to program activities.

7

## 5.0 GENERAL CONDITIONS

### 5.1 Integrated Agreement

This Agreement sets forth all of the rights and duties of the parties with respect to the subject matter hereof, and replaces any and all previous agreements, or understandings, whether written or oral, relating thereto.

This Agreement may be amended only as provided for in paragraph 5.1.1 hereof.

5.1.1 Amendment. All amendments hereto shall be in writing and signed by the persons authorized to bind the parties thereto.

#### 5.1.2 Prohibition Against Assignment or Delegation

The Contractor may not, unless it has first obtained the written permission of the Department, which may be withheld for any reason:

- a) assign or otherwise alienate any of its rights hereunder, including the right to payment, or
- b) delegate, subcontract, or otherwise transfer any of its duties hereunder.

#### 5.1.3 Non-Waiver of Agreement

The Department's failure to enforce any provision of this Agreement or the waiver thereof in a particular instance shall not be construed as a general waiver of any part of such provision. The provision shall remain in full force and effect.

#### 5.1.4 Time of Effectiveness

Unless otherwise provided, this Agreement shall take effect when all the following events have occurred:

- a) this Agreement has been signed on behalf of the Contractor by the person(s) authorized to bind the Contractor hereto;
- b) this Agreement has been signed on behalf of the Department by the person designated by the Board, officer or employee authorized to enter into this Agreement;
- c) the Office of the City Attorney has indicated in writing its approval of this Agreement as to form and legality; and

8

- d) this Agreement has been approved by the City's Councilor by the Board, officer, or employee authorized to give such approval.

#### 5.1.5 Independent Contractor

The Contractor is acting hereunder as an independent contractor and not as an agent or employee of the Department. The Contractor shall not represent or otherwise hold out itself or any of its directors, officers, partners, employees, or agents to be an agent or employee of the Department.

5.1.6 Applicable Law, Interpretation, Enforcement and Severability.

Each party's performance hereunder shall comply with all applicable laws of the United States of America, the State of California, and the City of Los Angeles. This Agreement shall be enforced and interpreted under the laws of the State of California and the City of Los Angeles with venue for any litigation in Los Angeles, California.

If any part, term or provision of this Agreement shall be held void, illegal, unenforceable, or in conflict with any law of a Federal, State, or Local Government having jurisdiction over this Agreement, the validity of the remaining portions or provisions shall not be affected thereby.

5.2 Personnel

5.2.1 Staff Size

The size of the staff employed by the contractor in the performance of the services shall be kept consistent with the services and schedules as described in this Agreement.

5.2.2 Identification of Key Personnel

The Contractor shall furnish the Department the names, titles, and qualifications of its key project personnel.

5.2.3 Approval of Key Personnel

The Contract Administrator will have the right to interview and approve personnel. Resumes of individual personnel will be reviewed and approved by the Department's Contract Administrator before the individual can be assigned work.

5.2.4 Changes in Key Personnel

9

The Contractor shall minimize changes to key project personnel. The Department shall have the right to request key personnel changes and to review and approve key project personnel changes proposed by the Contractor. The Department's approval of key personnel assignments and changes shall not be unreasonably withheld.

5.3 Subcontractors

5.3.1 Subcontracts/Joint Participation Agreement

With prior approval of the Department, the Contractor may enter into subcontracts and joint participation agreements with others for the performance of portions of this Agreement. The Contractor shall at all times be responsible for the acts and errors or omissions of its subcontractors or joint participants and persons directly or indirectly employed by them. Nothing in this Agreement shall constitute any contractual relationship between any others and the Department or any obligation on the part of the Department to pay, or to be responsible for the payment of, any sums to any subcontractors.

5.3.2 Copies of Subcontractor Agreement

Upon written request from the Contract Administrator, the contractor shall supply the Department with all subcontractor agreements.

5.3.3 Provisions Binding on Subcontractors

The provisions of this Agreement shall apply to all Subcontractors providing service in connection with the Work to be bound by general terms and conditions

protecting the Department which are equivalent to the terms and conditions of this Agreement. In particular the Department will not pay, even indirectly, the fees and expenses of a subcontractor which do not conform to the limitations and documentation requirements of this Agreement.

5.4 Contractor's Quality Assurance Program

The Contractor shall perform the work in accordance with the Contractor's Quality Assurance Program, which shall be subject to review, approval, and audit by the Department. The Contractor's work shall reflect competent professional knowledge, judgment, and accepted industry practice. The Contractor shall promptly correct, or remedy any work, errors or omissions, at its sole expense, which do not conform to the provisions of this Agreement.

10

5.5 Representatives and Notices

Any notice, demand, or request directed to the Department shall be delivered to:

DEPARTMENT OF WATER AND POWER  
CITY OF LOS ANGELES  
Reynaldo D. Reyes  
Contract Administrator  
111 North Hope Street, Room 1063  
Los Angeles, California 90012-2194

Any notice, demand, or request directed to the Contractor shall be delivered to:

APPLIANCE RECYCLING CENTERS OF AMERICA -  
CALIFORNIA, INC.  
Jim Kirwan  
General Manager - ARCA California  
1920 Acacia Avenue  
Compton, CA 90220

Such correspondence shall be in writing, except as specified elsewhere in this Agreement. General correspondence will be deemed complete upon receipt.

5.5.1 Change of Address or Representatives

Either party, by written notice, may designate different or additional person(s) or different addresses.

5.5.2 Excusable Delays

In the event that performance on the part of any party hereto shall be delayed or suspended as a result of circumstances beyond the reasonable control and without the fault and negligence of said party, none of the parties shall incur any liability to the other parties as a result of such delay or suspension. Circumstances deemed to be beyond the control of the parties hereunder shall include, but not be limited to acts of God or the public enemy; insurrection; acts of the Federal Government or any unit of State or Local Government in either sovereign or contractual capacity; earthquakes, fires; floods; epidemics; quarantine restrictions; strikes; freight embargoes or delays in transportation; to the extent that they are not caused by the party's willful or negligent acts or omissions, and to the extent that they are beyond the party's reasonable control.

11

5.5.3 Breach

Except for excusable delays, if any party fails to

perform, in whole or in part, any promise, covenant, or agreement set forth herein, or should any representation made by it to be untrue, any aggrieved party may avail itself of all rights and remedies, at law or equity, in the courts of law. Said rights and remedies are cumulative of those provided for herein except that in no event shall any party recover more than once, suffer a penalty or forfeiture, or be unjustly compensated.

## 5.6 Permits, Codes, And Statutes

5.6.1 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, regulations, and ordinance, or any of them, to engage in the activities required in connection with this transaction.

5.6.2 Contractor shall comply with all applicable local, state, and federal safety and health laws in effect in the date of this agreement, including, but not limited to EPA, California EPA, RCRA, the Occupational Safety and Health Act of 1970 (OSHA), and all standards, rules, regulations, and orders issued pursuant to such local, state, and federal safety and health laws. Should any such law, rule, or regulation be enacted or promulgated subsequent to the date of this Agreement, which renders Contractor's performance impractical, Contractor and the Department shall amend this Agreement to reasonably compensate Contractor for its additional costs.

## 5.7 Suspension and Termination

### 5.7.1 Suspension of Work

The Contract Administrator may orally direct the Contractor to suspend, and to subsequently resume performance of all or any part of the work. Such direction shall be confirmed by a Change Order or a revision to a task assignment if such suspension impacts the cost of the work and/or work completion schedule. The Department shall complete the payments due for the suspended work up to the effective date of suspension notice and shall resume payments effective as of the work resumption date.

12

### 5.7.2 Termination of Agreement

#### 5.7.2.1 Cancellation Without Cause

This Agreement may be canceled by the Department, without cause, on 30 calendar days' written notice or at any time by mutual agreement of the parties. Said notice, on the Department's behalf, will be given by the Contract Administrator. Upon receipt of such notice, the Contractor shall immediately stop all work under this agreement. The Contractor shall be entitled to payment for all services performed to date of cancellation and shall be compensated at the established rates for completing all task assignments and work in progress as of the date of receipt of the written cancellation notice. The Contractor shall then deliver to the Department, in an organized and usable form, all work done prior to the date of cancellation.

#### 5.7.2.2 Termination Due to Expenditure Limit

This Agreement will automatically terminate if expenditures reach the limit of \$1,750,000.00

5.7.2.3 Expiration of Agreement

Unless amended by mutual agreement of the Parties, this Agreement expires on October 31, 2005.

5.7.2.4 Termination of the Services of any Person.

If the Department no longer requires the services of a particular person(s) supplied by the Contractor, the Department may terminate the services immediately upon written notice to the contractor.

5.8 Patents, Copyrights and Trademarks

The Contractor shall fully indemnify the Department against any and all liability whatsoever by reason of any alleged infringement of any patent, copyright, or trademark on any hardware, software, firmware, equipment or instrumentation used by the Contractor in the construction of the work, or by reason of any intended use under these specifications by the Department of any hardware, software, firmware, equipment or instrumentation furnished under this contract; provided, however, that the contractor shall have no liability to the Department under any provision of this Article with respect to any claim of patent, copyright, or trademark infringement which is based upon the combination or utilization of the Contractor's hardware, software, firmware, equipment or instrumentation

13

with hardware, software, firmware, equipment or instrumentation not made by the Contractor; or the modification by the Department of hardware, software, firmware, equipment or instrumentation furnished hereunder.

The Contractor shall have the sole control of the defense and all negotiations for settlement or compromise of any action or claim of any alleged infringement of any patent, copyright, or trademark on hardware, software, firmware, equipment or instrumentation used by the Contractor in the designing, fabrication, and delivery of the deliverables as specified herein to the extent that such control is not consistent with the provisions of Article IV, Section 42 of the Los Angeles City Charter, but in any event the Contractor shall have the right to participate fully in such defense. The Department and the Contractor shall mutually agree to any settlement or compromise of such action.

5.9 Express Warranty Provision

Contractor warrants that the software furnished hereunder shall be free from significant programming errors and form defects in workmanship and materials and shall operate in conformity with the performance capabilities, specifications, functions and other descriptions and standards applicable thereto as set forth in this Agreement; and that the software shall conform to standards generally observed in the industry for similar software (including source code) so long as Contractor can discharge any warranty obligations notwithstanding such modifications or following their removal by the Department.

6.0 COMPENSATION

6.1 Specific Rates of Compensation

Upon satisfactory performance of the services required herein, the Department agrees to pay and the contractor agrees to accept in full satisfaction thereof the actual cost of services rendered payable at the rates set forth. The prices shall remain in effect through October 31, 2005, unless amended by mutual agreement of the Parties.

6.2 Payment - Additional Services

Payment for additional services and expenses not identified but related to and required in the implementation of the Programs, shall be negotiated between the parties and implemented by an amendment to the Agreement.

14

6.3 Expenditure Limits

The total amount of this Agreement shall not exceed \$ 1,750,000.00 without further appropriation to this Agreement by the Board of Water and Power Commissioners of the City of Los Angeles.

7.0 BUSINESS POLICIES

7.1 LADWP Recycling Policy

LADWP supports the use of recycled-content products of all types. Recycled-content products help conserve natural resources, including water and energy, and reduce demands upon landfills.

The Contractor shall submit all written documents on paper with a minimum of 30 percent post-consumer recycled content. Existing company/corporate letterhead/stationery that accompanies these documents is exempt from this requirement. Documents of two or more pages in length shall be duplex-copied (double-sided pages). Neon or fluorescent paper shall not be used in any written documents submitted to the Department.

7.2 Affirmative Action

During the performance of any contract, the Contractor shall not discriminate in its employment practices against any employee or applicant for employment because of race, religion, national origin, ancestry, sex, age or physical handicap. All subcontracts awarded under such contract shall contain a like nondiscrimination provision. The applicable provisions of Executive Order NO. 11246 of September 24, 1965; Part 60-741 of 41 CFR pertaining to handicapped workers, including 60-741.4 Affirmative Action Clause; and Section 10.8 to 10.13 of the Los Angeles Administrative Code pertaining to nondiscrimination in employment in the performance of City contracts are incorporated herein by reference and made a part hereof as if they were fully set forth herein.

7.3 Minority and Women Business Enterprise (MBE/WBE) Outreach Program

It is the policy of the Department to provide Minority Business Enterprises (MBEs), Women Business Enterprises (WBEs) and all other business enterprises an equal opportunity to participate in the performance of all Department contracts. The Contractor shall assist the Department in implementing this policy and shall use its best effort to attain MBE and WBE participation of 15 percent and 7 percent, respectively, and to ensure that all available business enterprises, including MBEs and WBEs, have an equal opportunity to compete for and participate in the work of this agreement.

15

7.3.1 MBE/WBE Defined

"Minority Business Enterprise" (MBE) or "Women Business Enterprise" (WBE), as used herein means a business enterprise that meets both of the following criteria:

- a) A business that is at least 51 percent owned by one or more minority person(s) or women or, in the case of any business whose stock is publicly held, at least 51 percent of the stock is owned by one or more minority person(s) or women.

- b) A business whose management and daily business operations are controlled by one or more minority person(s) or women.

### 7.3.2 Efforts to Obtain Participation

Efforts to obtain participation of MBEs, WBEs, and other business enterprises could reasonably be expected to produce a level of participation by interested subcontractors, including 15 percent MBEs and 7 percent WBEs. Good faith efforts to reach out to MBEs, WBEs, and all other business enterprises shall be determined by the following factors:

1. Meetings with MBEs, WBEs, associations representing MBEs, WBEs and other groups.
2. Identification of selected portions of the work to be performed by subcontractors in order to provide participation by MBEs, WBEs, and other business enterprises. The contractor shall, when economically feasible, divide total contract requirements into small portions or quantities to permit maximum participation of MBEs, WBEs, and other business enterprises.
3. Requests for proposals from interested business enterprises or proposals in newspapers, trade association publications, minority or trade-oriented publications, trade journals, or other appropriate media.
4. Providing written notice to those business enterprises, including MBEs and WBEs, having an interest in participating in this Agreement. The contractor shall document that invitations were sent to available MBEs, WBEs, and other business enterprises for each portion of the work.
5. Documenting efforts to follow up initial solicitations of interest by contacting the business enterprises to determine

16

whether the enterprises are interested in participating in the work.

6. Providing interested enterprises with information about the plans, specifications, and requirements for the selected subcontracting work.
7. Requesting assistance from organizations that provide assistance in the recruitment and placement of MBEs, WBEs, and other business enterprises.
8. Negotiating in good faith with interested MBEs, WBEs, and other business enterprises and not unjustifiably rejecting proposals prepared by any enterprise. As documentation, the bidder shall submit a list of all documentation, the bidder shall submit a list of all sub bidders for each portion of potential work for MBEs, WBEs, and other business enterprises.
9. Documenting efforts to advise and assist interested MBEs, WBEs and other business enterprises in obtaining bonds, lines of credit, or required insurance.

### 7.3.3 Program Documentation

The Contractor shall submit quarterly reports to the Contract Administrator demonstrating compliance with the Department's Outreach Program, and make related records available to the



Department upon request. The Reports shall be submitted on Department forms which can be obtained from the Contract Administrator, and show the following:

- a) the name of each participating subcontractor;
- b) description of the work each subcontractor has contracted to perform;
- c) the percentage of completion for the work under each subcontract;
- d) the compensation contracted to be paid to each subcontractor (attach a copy of subcontractor's invoice);
- e) the cumulative compensation earned by each subcontractor; and
- f) the cumulative compensation paid to each subcontractor.

17

#### 7.4 Service Contract Worker Retention and Living Wage Policy

##### 7.4.1 General Provisions

This contract is subject to the Service Contract Worker Retention Ordinance (SCWRO), Section 10.36 et seq, and the Living Wage Ordinance (LWO), Section 10.37 et seq of the Los Angeles Administrative Code. The Ordinances require that, unless specific exemptions apply, all employers who are awarded service contracts that involve expenditures in excess of \$25,000 and have a duration of at least three months; and any persons who receive City financial assistance of one million dollars or more in any 12-month period, shall comply with the following provisions of the ordinance:

- (a) Retention for a 90-day transition period, the employees who were employed for the preceding 12 months or more by the terminated contractor or subcontractor, if any, as provided for in the SCWRO;
- (b) Payment of a minimum initial wage rate to employees as defined in the LWO, of \$7.99 per hour, with health benefits of at least \$1.25 per hour, or otherwise \$9.24 per hour without benefits.

##### 7.4.2 Termination Provisions

Under the provisions of Section 10.36.3 (c) and Section 10.37.5 (c) of the Los Angeles Administrative Code, the Department of Water and Power, shall have the authority, under appropriate circumstances, to terminate this contract and otherwise pursue legal remedies that may be available, if the Department of Water and Power determines that the subject Contractor or financial assistance recipient violated the provisions of the referenced Code Section.

##### 7.4.3 Invoice Provisions

All invoices related to SCWRO and LWO Contracts shall contain the following statement:

"The Contractor fully complies with Section 10.36 et. seq. And Section 10.37 et. seq., SCWRO and LWO, respectively, of the Los Angeles Administrative Code."

#### 7.5 Child Support Policy

The Contractor and any Subcontractor(s) must fully comply with all applicable State and Federal employment reporting

the Contractor's and any Subcontractor(s)' employees. The contractor and any Subcontractor(s) must fully comply with all lawfully served Wage and Earnings Assignment Orders and Notices of Assignment in accordance with the California Family Code. The Contractor and any Subcontractor(s) must certify that the principal owner(s) thereof (any person who owns an interest of 10 percent or more) are in compliance with any Wage and Earnings Assignment Orders or Notices of Assignment applicable to them personally. The Contractor and any Subcontractor(s) must certify that such compliance will be maintained throughout the term of the Contract.

Failure of the Contractor and/or any Subcontractor(s) to fully comply with all applicable reporting requirements or to implement lawfully served Wage and Earnings Assignments or Notices of Assignment or failure of the principal owner(s) to comply with any Wage and Earnings Assignments or Notices of Assignment applicable to them personally shall constitute a default under the Contract. Failure of the Contractor and/or any Subcontractor(s) or principal owner(s) thereof to cure the default within 90 days of notice of such default by the City shall subject the Contract to termination.

## 8.0 INSURANCE REQUIREMENTS

### 8.1 General Insurance Coverage

Prior to the start of work, but not later than 30 days after the date of award of contract, the Contractor shall furnish the Department evidence of coverage from insurers acceptable to the Department and in a form acceptable to the Risk Management Section and the Office of the City Attorney. Such insurance shall be maintained by the Contractor at the Contractor's sole cost and expense.

Such insurance shall not limit or qualify the liabilities and obligations of the Contractor assumed under the contract. The Department shall not by reason of its inclusion under these policies incur liability to the insurance carrier for payment of premium for these policies.

Any insurance carried by the Department which may be applicable shall be deemed to be excess insurance and the Contractor's insurance is primary for all purposes despite any conflicting provision in the Contractor's policies to the contrary.

Said evidence of insurance shall contain a provision that the policy cannot be canceled or reduced in coverage or amount without first giving 30 calendar days' notice thereof (10 days for non-payment of premium) by registered mail to The Office of the City Attorney, Water and Power Division, Post Office Box 51111, JFB Room 340, Los Angeles, California 90051-0100.

Should any portion of the required insurance be on a "Claims Made" policy, the Contractor shall, at the policy expiration date following completion of work, provide evidence that the "Claims Made" policy has been renewed or replaced with the same limits, terms and conditions of the expiring policy, or that an extended discovery period has been purchased on the expiring policy at least for the contract under which the work was performed.

Failure to maintain and provide acceptable evidence of the required insurance for the required period of coverage shall constitute a breach of contract, upon which the Department may immediately terminate or suspend the agreement.

Contractor shall be responsible for all subcontractors' compliance with the insurance requirements.

8.2 Specific Coverage

8.2.1 Workers' Compensation Insurance

The Contractor shall provide Workers' Compensation insurance covering all of the Contractor's employees in accordance with the laws of any state in which the work is to be performed and including Employer's Liability insurance and a Waiver of Subrogation in favor the Department of Water and Power. The limit for Employer's Liability coverage shall be not less than \$2,000,000.00 each accident and shall be a separate policy if not included with Workers' Compensation coverage. Evidence of such insurance shall be in the form of a special endorsement of insurance. Workers' Compensation/Employer's Liability exposure may be self-insured provided that the Department is furnished with a copy of the certificate issued by the state authorizing the Contractor to self-insure. Contractor shall notify the Risk Management Section by receipted delivery as soon as possible of the state withdrawing authority to self-insure.

8.2.2 Commercial General Liability Insurance

The Contractor shall provide Commercial General Liability insurance with Blanket Contractual Liability, Independent Contractors, Broad Form Property Damage, Premises and Operations, Products and Completed Operations, and Personal Injury coverages included. Such insurance shall provide coverage for total limits actually arranged by the contractor, but not less than \$3,000,000.00 combined single limit per occurrence. Should the policy have an aggregate limit, such aggregate limits should not be less than double the Combined Single Limit and be specific for this contract. Umbrella or Excess Liability coverages may be used to supplement primary coverages to meet the required limits.

20

Evidence of such coverage shall be on the Department's additional insured endorsement form or on an endorsement to the policy acceptable to the Risk Management Section and provide for the following:

- 1) Include the Department and its officers, agents, and employees as additional insureds with the Named Insured for the activities and operations under the contract.
- 2) Severability-of-Interest or Cross-Liability Clause such as: "The policy to which this endorsement is attached shall apply separately to each insured against whom a claim is made or suit is brought, except with respect to the limits of the company's liability."
- 3) A description of the coverages included under the policy. 8.2.3 Commercial Automobile Liability Insurance

The Contractor shall provide Commercial Automobile Liability insurance which shall include coverage's for liability arising out of the use of owned, non-owned, and hired vehicles for performance of the work as required to be licensed under the California or any other applicable state vehicle code. The Commercial Automobile Liability insurance shall have not less than \$2,000,000.00 combined single limit per occurrence and shall apply to all operations of the Contractor.

The Commercial Automobile Liability policy shall name the City of Los Angeles, the Board of Water and Power Commissioners of the City of Los Angeles, the

Department of Water and Power of the City of Los Angeles, and their officers, agents, and employees while acting within the scope of their employment, as additional insureds with the Contractor, and shall insure against liability for death, bodily injury, or property damage resulting from the performance of this Agreement.

### 8.3 Excess Liability

The Contractor may use an Umbrella or Excess Liability Coverage to meet coverage limits specified in the contract. Evidence of Excess Liability shall be in the form of the Department's Excess Liability-Additional Insured Endorsement form or equivalent. The Contractor shall require the carrier for Excess Liability to properly schedule and to identify the underlying policies as provided for on the Additional Insured Endorsement form, including, as appropriate, Commercial General

21

Liability, Commercial Automobile Liability, Employer's Liability, or other applicable insurance coverages.

### 8.4 Pollution Legal Liability

Pollution Legal Liability insurance with minimum limits of \$3,000,000 per occurrence shall be furnished by the Contractor, and shall provide coverage for death, bodily injury, or property damage to third parties, as well as for environmental remediation of sites damaged by pollution resulting directly or indirectly from the Contractor's operations under this Agreement. Such policy shall be maintained for not less than (3) years after the date of final acceptance and completion of the work performed under this Agreement. The Department of Water and Power General Liability endorsement form is the preferred means of submitting evidence of insurance for this coverage.

If the Contractor will subcontract out hazardous waste treatment, storage, and/or disposal work, Contractor shall identify to the Department, the name of subcontractor(s), and require the subcontractor(s) to procure insurance, and provide evidence of insurance, with all terms and conditions as specified above, naming the City of Los Angeles, the Board of Water and Power Commissioners of the City of Los Angeles, and their officers, agents, and employees and the Contractor, as additional insureds.

### 8.5 Professional Liability Insurance

The Contractor shall provide Professional Liability insurance covering liability arising from errors and omissions made during the executing of this contract for the total limits actually arranged by the contractor, but not less than \$1,000,000.00, per occurrence. The coverage shall include Contractual Liability, and should the policy be of a claims-made form, such policy shall be maintained for not less than three (3) years after the date of final acceptance of completion of all work performed under this agreement.

### 8.6 Indemnification Clause

The Contractor undertakes and agrees to indemnify and hold harmless the City of Los Angeles, the Department of Water and Power, the Board of Water and Power Commissioners of the City of Los Angeles, the Department, and their officers, agents, representatives, employees, assigns and successors in interest from and against any and all suits and causes of action, claims, charges, damages, demands, judgments, civil fines and penalties, or losses of any kind or nature whatsoever for death, bodily injury or personal injury to any person, including Contractor's employees and agents, or damage or destruction to any property of either party hereto, or third person in any manner arising by reason of negligent acts, errors,

22

omissions or willful misconduct incident to the performance of this contract on the part of the Contractor, or the Contractor's officers, agents, employees, or subcontractors of any tier, except for the sole negligence or willful misconduct of the Department, its Board, officers, agents, representatives or employees.

## 9.0 INVOICES

The Contractor shall be authorized to submit an itemized payment request for services performed on a monthly basis. Such request shall be submitted to:

Los Angeles Department of Water and Power  
Mr. Reynaldo D. Reyes  
Contract Administrator  
P.O. Box 51111, Room 1063  
Los Angeles, CA 90051-0100

### 9.1 Invoice Detail

The invoice shall be submitted by the Contractor in the form of one original and three copies. The detailed invoice shall include itemized charges for Contractor services that have been pre-approved by the Department and completed during the invoice period.

The Payment Request will be certified, audited, and paid by the Department within 45 days following receipt of a complete and accurate invoice. Invoice payments will not be made if the invoice is received more than six months after the billing period.

Each invoice shall show the contract/purchase order number, the vendor code number, the City of Los Angeles Business Tax Registration Certificate Number, and the identification of services covered by the invoices.

### 9.2 Current Los Angeles City Business Tax Registration Certificate Required

The Contractor shall obtain and keep in full force and effect during the term of the contract all Business Tax Registration Certificates required by the City of Los Angeles Business Tax Ordinance, Article 1, Chapter II, Section 21.00 and following, of the Los Angeles Municipal Code.

### 9.3 Taxpayer Identification Number (TIN)

Contractor declares that its authorized TIN is 36-3893973. No payment will be made under this agreement without a valid TIN number.

23

## 10.0 CONFLICTS

### 10.1 Errors and Omissions

The contractor will be responsible for correcting or remedying any errors or omissions which occur in performance of the services under this Agreement and which are the result of the contractor's negligence or action. The cost of correcting or remedying any error or omission shall be borne by the contractor. Revising contractor-prepared documents at the request of the Department to incorporate comments by the public or by agencies having jurisdiction in matters of the particular task assignment is not considered to be a remedy of errors or omissions, but is considered an integral part of document preparation which may be called for by a task assignment.

### 10.2 Priority of Documents

In the event of any conflicting provisions between the documents referenced or included in this Agreement, the priority shall be as follows:

- a. Amendments to the Agreement, incorporating change orders, in chronological order from the most recent to the earliest.

- b. Written Change Orders to the Agreement in chronological order from most recent to earliest.
- c. Agreement.
- d. Task Assignments.
- e. Other Referenced Documents.

Each party shall notify the other immediately upon the determination of any such conflict or inconsistency.

## 11.0 MONITORING OF WORK

### 11.1 Records and Audits

The Contractor shall maintain records and books of accounts showing all costs and expenses incurred by the Contractor for this Agreement. The Department shall have the right, upon reasonable notice, to audit the books, records, documents, and other evidence and the accounting procedures and practices, where needed, to verify the costs and expenses claimed. The Department retains this right for at least three years after final payment and until all disputes, appeals, litigation, or claims have been resolved. This right to audit shall also include inspection at

24

reasonable times of the Contractor's office or facilities which are engaged in the performance of the Agreement. In addition, the Contractor shall, at no expense to the Department, furnish reasonable facilities and assistance for such an audit. Upon request, Contractor shall also provide copies of documents applicable to this Agreement. The audit findings shall, to the extent allowed by law, be treated by the Department as confidential.

### 11.2 Right to Review Services, Facilities, and Records

The Department reserves the right to review any portion of the services performed by the contractor under this Agreement, and the contractor agrees to cooperate to the fullest extent possible. Contractor shall furnish to the Department such reports, statistical data, and other information pertaining to the contractor's services as shall be reasonably required by the Department to carry out its rights and responsibilities under its agreements with its bondholders or noteholders and any other agreement relating to the development of the project(s) and in connection with the issuance of its official statements and other prospectuses with respect to the offering, sale, and issuance of its bond and other obligations.

The right of the Department to review or approve drawings, specifications, procedures, instructions, reports, test results, calculations, schedules, or other data that are developed by the contractor shall not relieve the contractor of any obligation set forth herein.

### 11.3 Department's Quality Assurance Program

Work performed under this agreement will be subject to review by the Department's personnel.

## 12.0 TITLE TO WORK

### 12.1 Confidentiality of Department Information

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

Contractor, its employees, and any subcontractors shall not disclose any program or customer information to any person other than the Department's personnel, or the Department's

designated agent, either during the term of this Agreement or after its completion, without Contractor having obtained the prior written consent of the Department, except as provided by lawful court order or subpoena and provided contractor gives the Department advance written notice of such order or subpoena.

25

#### 12.1.1 Department Property

The Contractor shall not copy any drawing, specification, technical report, or data provided by the Department. The Contractor shall return all materials provided by the Department. All materials shall be returned no later than the closing date of the Agreement.

#### 12.2 Right to Documentation Developed by Contractor

All information, material, and documents prepared or caused to be prepared under this Agreement by Contractor shall become the property of the Department. Such information, or derivative information, materials, and documents, shall be used by Contractor only for work done directly for the Department and shall neither be disclosed nor revealed in any way to a third party without the prior express consent of the Department.

##### 12.2.1 Nondisclosure

The contractor shall not disclose to others any information developed by contractor under this Agreement without prior written approval by the Contract Administrator.

#### 12.3 Confidentiality of Contractor Information

The Department, its employees and any agents or subcontractors of the Department shall not disclose any confidential or proprietary information of Contractor ("Contractor's Confidential Information") to any person other than Contractor's personnel, either during the term of the Agreement, or after its completion, without having obtained their prior written consent of Contractor. By way of example, Contractor's Confidential Information shall include, without limitation, Contractor's system for oil degassing, CFC/HCFC recovery, CFC-11 Recovery and Contractor's computer software.

12.3.1 The Department 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:

- a) Is not generally known to the public or in the industry;
- b) Has been treated by Contractor or any of its subsidiaries as confidential or proprietary; and

26

- c) 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.

12.3.2 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 Paragraph.

12.4 Title of Collected Refrigerators and Freezers

12.4.1 Title to the Hazardous Material shall pass to Contractor when Contractor receives Primary or Second Refrigerator and Freezers from the Appliance Delivery and Removal Contractor.

12.4.2 Title of received Primary or Second Refrigerators and Freezers shall pass to Contractor.

13.0 SECTION HEADINGS

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

14.0 SIGNATURE OF AUTHORIZING AGREEMENT

Each party was represented by counsel in the negotiations and execution of this agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their authorized representatives on the day and year written below.

APPLIANCE RECYCLING CENTERS OF AMERICA- CALIFORNIA, INC.

By: /s/ Jack Cameron  
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Title: President  
-----

Dated: 9/26/02  
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DEPARTMENT OF WATER AND POWER  
OF THE CITY OF LOS ANGELES  
BY  
BOARD OF WATER AND POWER COMMISSIONERS  
OF THE CITY OF LOS ANGELES

By: /s/David H. Wiggs, General Manager  
-----

And /s/Secretary  
-----

APPROVED AS TO FORM AND LEGALITY  
ROCHARD J. DELGABILLO, CITY ATTORNEY  
OCT 08 2002  
BY MARCIA HABER KAMINE  
Assistant City Attorney



AGREEMENT NO. 47190-3

BETWEEN

THE DEPARTMENT OF WATER AND POWER  
OF THE CITY OF LOS ANGELES

AND

APPLIANCE RECYCLING  
CENTERS OF AMERICA - CALIFORNIA INC.

SEPTEMBER 24, 2002

APPLIANCE DELIVERY SERVICES AGREEMENT

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Table of Contents  
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Section -----	Title -----	Page -----
1.0	AGREEMENT.....	2
2.0	RECITALS .....	2
3.0	DEFINITIONS .....	2
4.0	STATEMENT OF WORK .....	5
5.0	CUSTOMER AND REFRIGERATOR/FREEZER QUALIFICATION.....	13
6.0	GENERAL CONDITIONS .....	14
7.0	COMPENSATION.....	20
8.0	BUSINESS POLICIES.....	21
9.0	INSURANCE REQUIREMENTS.....	25
10.0	INVOICES .....	29
11.0	CONFLICTS .....	30
12.0	MONITORING OF WORK. ....	30
13.0	TITLE TO WORK .....	31

14.0	SECTION HEADINGS.....	33
15.0	SIGNATURE OF AUTHORIZING AGREEMENT.....	34

APPLIANCE DELIVERY SERVICES AGREEMENT

1.0 AGREEMENT

1.1 PARTIES

This Agreement is made and entered into by and between APPLIANCE RECYCLING CENTERS OF AMERICA - CALIFORNIA (ARCA), INC. 1920 Acadia Avenue, Compton, California 90020, (hereinafter referred to as "Contractor") and the Department of Water and Power of the City of Los Angeles (hereinafter referred to as "Department"); Contractor and the Department are sometimes hereinafter referred to individually as "Party" and collectively as "Parties".

2.0 RECITALS

The Agreement is entered into with reference to the following facts, among others:

- 2.1 The Department desires to promote energy efficient refrigerators to its customers through its Low Income Refrigerator Exchange Program (LIREP), which provides free super efficient refrigerators (New Refrigerators) to qualifying customers in exchange for their older, working refrigerators, which will be recycled.
- 2.2 The Department also desires to remove older working inefficient second Refrigerators and Freezers (Second Refrigerators and Freezers) through its Refrigerator Turn-In and Recycling Program (RETIRE) that qualifying Customers turn-in for recycling and disposal.
- 2.3 The Department envisions implementing the LIREP and RETIRE Programs for the purpose of saving energy, reducing peak demand, lowering Department customers' energy bills, transforming the market for energy-efficient appliances and providing additional public environmental benefits.
- 2.4 The Department has solicited responses from potentially qualified vendors through a Request for Proposals and has determined that the Contractor is the party best qualified to provide the Department with the required appliance delivery services in support of the above programs and is qualified to provide other related services described in this agreement.

3.0 DEFINITIONS

The following terms, whether in the singular or in the plural, when used in this Agreement, shall have the meanings specified:

- 3.1 Agreement: This document, the terms and conditions contained in this agreement as may be amended and supplemented.

- 3.2 Appliance Delivery Warehouse: The site at which Contractor will store New Refrigerators prior to delivery to Program Participants or location that may be utilized for temporary storage of Refrigerators and Freezers Eligible for Recycling that are collected from Program Participants.
- 3.3 Approved Customers: Those entities approved by the Department to participate in the LIREP or RETIRE programs based on established eligibility criteria described in this agreement. Such entities may include residential, multi-family residential and low-income customers of the Department. The

solicitation, evaluation and approval of such customers for participation in the programs shall be conducted based upon guidelines established by the Department.

- 3.4 Change Order: document issued by the Department to Contractor to change the Agreement.
  - 3.5 Contract Administrator: The Department's authorized representative for this Agreement as specified in Section 6.5.
  - 3.6 Contract Period: The period beginning with the time of effectiveness date as defined in Section 6.1.4, and extending through October 31, 2005, or as extended by mutual agreement of the Parties.
  - 3.7 Documentation: Specifications, procedures, instructions, reports, test results, analyses, calculations, manuals, and other data specified in this Agreement, and any amendment to this Agreement, as required by any legal entity having jurisdiction over the Work.
  - 3.8 Freezer: A freezer which provides supplementary cold storage to a primary freezer or to the freezer section located within the Primary Refrigerator in a residential household.
  - 3.9 Freezers Eligible for Recycling: Freezers that meet the Program appliance eligibility criteria as referenced in Section 5.
  - 3.10 Incentives: Customer giveaways in the form of cash, monetary amounts and/or products such as compact fluorescent lamps as inducement to Department customers to participate in the Programs.
  - 3.11 "Low-Income Refrigerator Exchange Program": Department Program that is supported by Work covered by this Agreement, also referred to as LIREP Program.
  - 3.12 New Refrigerator: Energy efficient Refrigerator, purchased by the Department which replaces the Primary Refrigerator utilized by the Customer prior to the installation of a New Refrigerator.
- 3
- 3.13 Primary Freezer: Freezer utilized by the Customer as the principal means of storing frozen foods in the residence.
  - 3.14 Primary Refrigerator: Refrigerator utilized by the Customer as the principal means of storing frozen foods in the residence.
  - 3.15 Programs: Incentive Programs such as the LIREP and RETIRE Programs or other Programs that may be implemented by the Department for the purpose of promoting energy efficient appliances to its customers and the removal and environmentally sound recycling of replaced older, inefficient appliances from the Department Customers' residences.
  - 3.16 Program Participants: Approved Customers as determined by the Department, who participate in the Programs and agree to the installation of New Refrigerators and, if applicable, turn in old Primary/Second Refrigerators or Freezers.
  - 3.17 Recycling Center: The site at which Refrigerators and Freezers are processed in an environmentally sound manner to legally remove, dispose of and/or recycle CFCs, CFC Foam Insulation, HCFCs, CFC 11, PCBs, mercury, used oils, and other Hazardous Materials.
  - 3.18 Refrigerator Turn-In and Recycling Program (RETIRE): Department Program that is supported by Work covered by this Agreement, also referred to as RETIRE Program.
  - 3.19 Refrigerators Eligible for Recycling: Refrigerators that meet the Program appliance eligibility criteria as referenced in Section 5.
  - 3.20 Second Freezer: Surplus or spare freezer utilized by approved customer concurrently with Primary Refrigerator and/ or Freezer.
  - 3.21 Second Refrigerator: Surplus or spare refrigerator utilized by Approved Customer concurrently with Primary Refrigerator.

- 3.22 Subcontractor: An entity contracting directly with Contractor to furnish services or materials as part of, or directly related to, the Work.
- 3.23 Suitable for Replacement: An approved customer's Primary Refrigerator which the Department has determined is eligible, as referenced in Section 5 and where a properly working grounded electrical outlet, sound flooring, access and adequate clearance will allow the installation of a New Refrigerator.

4

- 3.24 Task Assignment: Duly authorized request for contractor services submitted either in written form or through electronic media for the sole purpose of performing specific Work for the Department.
- 3.25 Work: Any and all obligations of Contractor to be performed pursuant to this Agreement, which includes but is not limited to the following: a) New Refrigerator warehouse/ inventory services; b) New Refrigerator delivery/uncrate/setup/installation services; c) Customer Services; d) Primary or Second Refrigerator or Freezer removal/pick-up and delivery to Recycling Center; e) Documentation, Report preparation, Program tracking and Database administration.

#### 4.0 STATEMENT OF WORK

##### 4.1 Services to be Performed

The Contractor hereby agrees to provide the following services to the Department pursuant to the terms and conditions of this Agreement:

- 4.1.1 Assisting the Department in developing and implementing Program protocols, procedures and coordination activities for: 1) Contractor's employees and subcontractors and 2) Department employees and its subcontractors;
- 4.1.2 Assisting the Department in developing and implementing Program protocols, and procedures pertaining to issuance of Incentives to Program Participants as determined by the Department;
- 4.1.3 Providing Customer Services as applicable in support of Programs implemented by the Department. Such Customer Services shall include but not limited to the following:
- (a) Providing a toll-free telephone number dedicated exclusively for Department customers with incoming lines adequate for receiving inquiries and application requests for the Department Programs;
  - (b) Providing adequate staff to receive and answer customer calls made on the toll-free lines as follows: Monday through Friday (except Department holidays): 8:00 a.m. to 8:00 p.m. (pacific Standard Time) and 8:00 a.m. to 6:00 p.m. (pacific Standard Time) on Saturdays; At all other times, the Contractor shall provide a recorded message with pertinent Program information and the capability for the customer to leave a message for call back by the Contractor. Such messages shall be returned the next business day and daily thereafter until customer has been contacted. All contacts

5

and contact attempts shall be recorded in the Contractor's Internet-based program database and will be made available to the Department for review on a real time basis.

- (c) Providing all necessary training to Program staff that will directly respond to and handle routine customer service issues as described in this Agreement;
- (d) Responding to general telephone inquiries about the Programs as necessary and resolving problems with customers to the satisfaction of the Department. If there are any reported damages to a customer's home or property as a result of appliance delivery and/or removal services, the Contractor shall inspect the damages incurred within five (5) working days and will be satisfactorily repaired or adjustments made within three weeks. Repairs will be made at no charge to the customer or the Department. The Department reserves the right to be the final arbiter in dispute resolution;
- (e) Receiving customer calls and checking customer eligibility and other program requirements specified by the Department, scheduling appointments and dispatching New Refrigerator deliveries, Primary/Second Refrigerator and Freezer pick-ups for Approved Customers;
- (f) Sending written notices three (3) days in advance of actual Primary/Second Refrigerator and Freezer pick-ups for Approved Customers informing them of Program requirements as specified in section 5.2.5.;
- (g) Making 24-hour ahead reminder calls to customers with appointments and reminding them of the Program requirements to facilitate delivery of New Refrigerators and removal of Second Refrigerators and Freezers as applicable;
- (h) Responding to customer inquiries regarding status of applications and requests for services;
- (i) Maintaining appropriate records (electronic and hard copy) on all customer calls, applications and inquiries and forwarding those records to the LADWP on an as-requested basis;
- (j) Working with the Department to ensure exemplary customer service by conducting Quality Assurance surveys and customer follow-ups.

6

- 4.1.4 Receiving, warehousing and inventorying the Department's stock of New Refrigerators as required in the implementation of the LIREP program;
- 4.1.5 Making deliveries, uncrating, setting up and installing New Refrigerators at Approved Customers' residences;
- 4.1.6 Providing Customers with New Refrigerator manufacturers' ownership/operation manual, warranty registration information and other required documentation;
- 4.1.7 Removing, disabling, collecting and transporting or warehousing and transporting replaced Primary and any Second Refrigerators or Freezers turned-in by the Department's customers, directly to the Recycling Center;
- 4.1.8 Removing and transporting all New Refrigerator crates

and packing materials from the Customers' residence for disposal and/or recycling;

4.1.9 Provide reporting, Documentation and program tracking information to the Department as specified herein.

#### 4.2 Program Mechanics - LIREP Program

The Department and the Contractor hereby agree to the following program specific provisions, pursuant to the terms and conditions of this Agreement. Contractor shall provide services under the LIREP Program as follows:

- 4.2.1 The Department will provide the Contractor, in writing, or through electronic media authorized task assignments for specific LIREP Program services to be performed. Such authorizations shall be forwarded to the Contractor from time to time on an as needed basis, and shall include specific information as to the approved customers address, phone number, specific services to be provided, and the desired time frame for performance of said services. Task assignments may include one or multiple customers, based on actual Program requirements. Under no circumstances shall the Contractor engage in any work related to this Contract without the prior authorized task assignment issued by the Department.
- 4.2.2 Upon receipt and acceptance of an authorized task assignment, the Contractor shall contact the Approved Customer and make arrangements for the performance of the specified services within five (5) working days.
- 4.2.3 Records of all services provided and work performed shall be maintained by the contractor and included in the monthly reports to the Department as specified herein.

7

The Department shall manage the following aspects of the LIREP Program:

- 4.2.4 Marketing and advertising the Program to potentially eligible and qualified customers and participants;
- 4.2.5 Assisting customers and other potential participants in requesting applications for the Program services;
- 4.2.6 Determining customer and participant eligibility (low-income and other criteria) and suitability for refrigerator replacement and/or removal services;
- 4.2.7 Submitting, to the Contractor, Task Assignments authorizing the performance of specific services;
- 4.2.8 Reviewing and approving invoices and reports; and
- 4.2.9 Developing and implementing Program protocols, procedures, training and coordination activities between the Department and Contractor as maybe necessary.

#### 4.3 Program Mechanics - RETIRE Program

Contractor shall provide services under the RETIRE Program as follows:

- 4.3.1 The Contractor will manage and administer the Department's RETIRE Program in accordance with guidelines approved by the Department. Such guidelines and any other Program guidelines, protocols and procedures not identified in this Agreement and subsequently developed between the Department and the Contractor shall be incorporated into this Agreement through amendment provisions as referenced in Section 6.1.1. The RETIRE Program is available to all eligible Department customers. The Contractor will be responsible for the determination of eligibility, issuance of Program Incentives as specified by the Department, customer service and program database management. These tasks will be

performed as specified in Section 4.1 under Statement of Work.

- 4.3.2 The Contractor shall provide, develop and maintain a program database as required in the implementation of the RETIRE Program. On-line database access shall be made available to the Department in real-time. Contractor shall also provide and turn-over the complete Program database in a single-user format to the Department at the termination of this Agreement.

8

The Department shall provide monthly updates of its residential customer database to the Contractor in ASCII format. The Contractor shall use this data to confirm applicant eligibility and will update the Program database within five days of receipt of the Department data. The Contractor shall be responsible for maintaining the Program database, and ensuring data integrity/security and nightly database back up.

- 4.3.3 Records of all services provided and work performed shall be maintained by the contractor and included in the monthly reports to the Department as specified herein.

#### 4.4 Contractor's Responsibilities

##### 4.4.1 Warranty

Contractor warrants to the Department that the Work shall be performed in a competent manner acceptable to the Department, in accordance with this Agreement, and that the acceptance, removal collection, warehousing, inventorying, delivery, uncrating, set up and installation of all New and Second Refrigerators and Freezers, as applicable, shall be in accordance with (a) the requirements of this Agreement and (b) applicable local, state, and federal laws and regulations in effect at the time the work is performed.

##### 4.4.2 Contractor shall be responsible for:

- a) Receiving, maintaining and executing task assignments issued to the Contractor by the Department;
- b) Contractor services as specified in Section 4.1 and all other Program services performed in the Approved Customer's premises in connection with either the RETIRE or LIREP programs;
- c) Complete accounting of all New Refrigerator deliveries and Primary and/or Second Refrigerators and Freezers collected and delivered to the Department's Recycling Center;
- d) Issuance, inventory, computerized tracking/monitoring and real-time reporting of Incentives given to Program Participants as required in the implementation of the RETIRE program;
- e) Determining and ensuring that the best methods and practices will be used in appliance delivery, removal and collection services as required in the implementation of the

9

prevent personal injury;

- e) Producing required Documentation, reports and other necessary program implementation documents;
- f) Providing uniforms and photo-identification badges, approved by the Department to all Program representatives authorized to visit customer homes and property or Department facilities;
- g) Verifying and certifying on a monthly basis that all delivery/pick-up personnel have valid California driver's licenses and auto insurance as required by law.

4.4.3 Contractor shall be solely responsible for all methods, techniques, sequences, and procedures for the:

- a) Warehousing and inventory of New Refrigerators;
- b) Delivery, uncrating, setup and installation of New Refrigerators in accordance with the manufacturer's specifications;
- c) Removal and immediate disabling by cutting the electrical supply cord of replaced Primary and Second Refrigerators and Freezers turned-in by Program Participants and transporting or warehousing and transporting of said refrigerators and freezers to the Recycling Center; and
- d) Recycling of Refrigerator corrugated cardboard packaging.

4.4.4 Contractor shall document and maintain records for services under this Agreement as follows:

- a) A bi-weekly Customer Comment Tracking Report for customer inquires, complaints, resolution of complaints, problems and positive feedback.
  - b) Provisions to collect and report data such as:
    - i) Date of each contact with customer;
    - ii) Customer name, address, home and work phone numbers;
    - iii) Department customer account number;
- 10
- iv) New Refrigerator, model serial number and size;
  - v) Any incentives given to customer;
  - vi) Scheduled delivery and/or collection date and any reschedules or cancellations;
  - vii) Primary/Second Refrigerator or Freezer manufacturer's name;
  - viii) Primary/Second Refrigerator or Freezer style, defrost type, size and estimated age;
  - ix) Location of Primary/Second Refrigerator or Freezer within the residence;
  - x) Primary/Second Refrigerator or Freezer final disposition code (which indicates operating



condition of the Primary/Second Refrigerator or Freezer);

- xi) Special instructions (if applicable); and
- xii) Signature of Customer following Customer certification that Customer owns the removed Primary/Second Refrigerator or Freezer, or has the owner's written permission (for example, multi-family property owner/manager), that the New Refrigerator has been properly installed and meets with the Customers' satisfaction.

4.4.5 Compilation of data in Section 4.4.4 shall be in electronic mode, employing the Contractor's Database software program. Data shall be provided to the Department in both hard copy and electronic format (e.g. Microsoft Excel) acceptable to the Department and available for review on a real-time basis through an Internet-based database program.

#### 4.5 Reporting Requirements

Contractor shall provide the Department with reports for the services performed under this Agreement as follows:

4.4.1 A monthly report provided no later than the fifteen (15) working days following the end of the previous month, listing the number of New Refrigerators installed, the number of Primary Refrigerators removed and the number of Second Refrigerators or Freezers removed and delivered to

11

the Recycling Center during the previous month and containing size in cubic feet, year of manufacture, style, and defrost type of each Primary/Second Refrigerator or Freezer, any Incentives given to Approved Customers and corresponding ending balances and/or remaining inventory as applicable.

4.5.2 Program summary reports provided no later than fifteen (15) working days following the end of a twelve month period specified by the Department, covering all the activities requested in the monthly reports plus information from any incomplete month.

4.5.3 Special and Non-recurring Reports

4.5.3.1 Upon written request from an authorized representative of the Department, Contractor may be asked to prepare special and nonrecurring reports during course of the Program. Such report content may be developed by the parties in anticipation of requests from the Board, internal Department audits, or compilation of data relevant to program activities.

#### 4.6 New Refrigerator Inspection, Handling and Accounting

4.6.1 Upon uncrating, setting up and installing each New Refrigerator at the Approved Customer's residence, Contractor shall inspect the unit for any defects. Contractor shall notify the Department of any defective units and, upon instruction from the Department, return any defective units directly to the manufacturer for a replacement. The Department shall pay the contractor a handling charge for the return of any such defective Refrigerators.

4.6.2 On a monthly and/or on an as needed basis, Contractor shall provide the Department with an unaudited accounting of New Refrigerators remaining in Contractor's inventory.

- 4.6.3 On a quarterly basis, Contractor shall complete and provide the Department with reconciliation to account for the New Refrigerators that were defective, damaged, or stolen. Contractor shall reimburse the Department for any and all New Refrigerators that are either stolen from the Contractor or damaged by the Contractor, the Contractor's employees or subcontractors of the Contractor. For each unit stolen or so damaged, reimbursement shall be the Department's purchase price, subject to the provisions of Section 4.6.4.
- 4.6.4 Should the total cumulative number of units stolen from, or damaged by, the Contractor, as stipulated in Section 4.6.3, exceed 2% of the total cumulative number of units accepted into inventory by the Contractor, reimbursement shall be the Department's

12

purchase price plus \$75 for each such unit in excess of the stated 2% threshold.

- 4.6.5 If, after a New Refrigerator is delivered by Contractor, any Program Participant alleges that the Refrigerator is damaged or defective, the Department shall inspect the Refrigerator and, at its discretion authorize replacement of such defective and/or damaged Refrigerator by Contractor. If the damage to a Refrigerator is the result of any action by Contractor, the Department shall be relieved of any obligation to pay Contractor a Delivery/Installation Charge for the damaged Refrigerator, and the Contractor shall submit payment to the Department for the damaged refrigerator in accordance with paragraph 4.6.3 herein. If a refrigerator has been determined to contain a manufacturer defect, the customer will be advised to call the appropriate phone number per manufacturer warranty.

#### 5.0 CUSTOMER AND REFRIGERATOR/FREEZER QUALIFICATION

- 5.1 The Department shall perform Customer qualification in connection with the LIREP Program implementation. After a customer has been approved for participation, the Department will forward a task assignment authorizing the Contractor to carry out the specified services contained within said task assignment. Under no circumstances shall the contractor engage in any work related to the LIREP Program Work without the prior authorized task assignment issued by the Department.
- 5.2 The Department intends to execute the Retire Program subject to the following conditions:
- 5.2.1 Customer owns the Eligible Refrigerator or Freezer or possesses written consent from the Refrigerator or Freezer owner to turn in a Primary or Second Refrigerator or Freezer.
- 5.2.2 Primary or Second Refrigerator or Freezer must be capable of cooling or freezing, or both, as applicable, at time of collection.
- 5.2.3 Primary or Second Refrigerator or Freezer minimum size is 10 cubic feet and maximum size is 25 cubic feet.
- 5.2.4 Primary or Second Refrigerator or Freezer is certified by the customer to have been in use as such.
- 5.2.5 Customer will properly prepare the Primary Refrigerator or Freezer for Removal by:
- a) boxing/bagging food items;

13

- b) clearing a path for safe removal;

- c) disconnecting the water supply if the Primary/Second Refrigerator or Freezer contains an icemaker;

5.2.6 Commercial refrigerators, ammonia-containing gas refrigerators, commercial freezers, and room air conditioner do not qualify for the Program.

## 6.0 GENERAL CONDITIONS

### 6.1 Integrated Agreement

This Agreement sets forth all of the rights and duties of the parties with respect to the subject matter hereof, and replaces any and all previous agreements, or understandings, whether written or oral, relating thereto. This Agreement may be amended only as provided for in paragraph 6.1.1 hereof.

6.1.1 Amendment. All amendments hereto shall be in writing and signed by the persons authorized to bind the parties thereto.

#### 6.1.2 Prohibition Against Assignment or Delegation

The Contractor may not, unless it has first obtained the written permission of the Department, which may be withheld for any reason:

- a) assign or otherwise alienate any of its rights hereunder, including the right to payment, or
- b) delegate, subcontract, or otherwise transfer any of its duties hereunder.

#### 6.1.3 Non-Waiver of Agreement

The Department's failure to enforce any provision of this Agreement or the waiver thereof in a particular instance shall not be construed as a general waiver of any part of such provision. The provision shall remain in full force and effect.

#### 6.1.4 Time of Effectiveness

Unless otherwise provided, this Agreement shall take effect when all the following events have occurred:

- a) this Agreement has been signed on behalf of the Contractor by the person(s) authorized to bind the Contractor hereto;

14

- b) this Agreement has been signed on behalf of the Department by the person designated by the Board, officer or employee authorized to enter into this Agreement;

- c) the Office of the City Attorney has indicated in writing its approval of this Agreement as to form and legality; and

- d) this Agreement has been approved by the City's Councilor by the Board, officer, or employee authorized to give such approval.

#### 6.1.5 Independent Contractor

The Contractor is acting hereunder as an independent contractor and not as an agent or employee of the Department. The Contractor shall not represent or otherwise hold out itself or any of its directors, officers, partners, employees, or agents to be an agent or employee of the Department.

#### 6.1.6 Applicable Law, Interpretation, Enforcement and Severability.

Each party's performance hereunder shall comply with

all applicable laws of the United States of America, the State of California, and the City of Los Angeles. This Agreement shall be enforced and interpreted under the laws of the State of California and the City of Los Angeles with venue for any litigation in Los Angeles, California.

If any part, term or provision of this Agreement shall be held void, illegal, unenforceable, or in conflict with any law of a Federal, State, or Local Government having jurisdiction over this Agreement, the validity of the remaining portions or provisions shall not be affected thereby.

## 6.2 Personnel

### 6.2.1 Staff Size

The size of the staff employed by the contractor in the performance of the services shall be kept consistent with the services and schedules as described in this Agreement.

### 6.2.2 Identification of Key Personnel

The Contractor shall furnish the Department the names, titles, and qualifications of its key project personnel.

15

### 6.2.3 Approval of Key Personnel

The Contract Administrator will have the right to interview and approve personnel. Resumes of individual personnel will be reviewed and approved by the Department's Contract Administrator before the individual can be assigned work.

### 6.2.4 Changes in Key Personnel

The Contractor shall minimize changes to key project personnel. The Department shall have the right to request key personnel changes and to review and approve key project personnel changes proposed by the Contractor. The Department's approval of key personnel assignments and changes shall not be unreasonably withheld.

## 6.3 Subcontractors

### 6.3.1 Subcontracts/Joint Participation Agreement

With prior approval of the Department, the Contractor may enter into subcontracts and joint participation agreements with others for the performance of portions of this Agreement. The Contractor shall at all times be responsible for the acts and errors or omissions of its subcontractors or joint participants and persons directly or indirectly employed by them. Nothing in this Agreement shall constitute any contractual relationship between any others and the Department or any obligation on the part of the Department to pay, or to be responsible for the payment of, any sums to any subcontractors.

### 6.3.2 Copies of Subcontractor Agreement

Upon written request from the Contract Administrator, the contractor shall supply the Department with all subcontractor agreements.

### 6.3.3 Provisions Binding on Subcontractors

The provisions of this Agreement shall apply to all Subcontractors providing service in connection with the Work to be bound by general terms and conditions protecting the Department which are equivalent to the terms and conditions of this Agreement. In particular the Department will not pay, even indirectly, the

fees and expenses of a subcontractor which do not conform to the limitations and documentation requirements of this Agreement.

16

6.4 Contractor's Quality Assurance Program

The Contractor shall perform the work in accordance with the Contractor's Quality Assurance Program, which shall be subject to review, approval, and audit by the Department. The Contractor's work shall reflect competent professional knowledge, judgment, and accepted industry practice. The Contractor shall promptly correct, or remedy any work, errors or omissions, at its sole expense, which do not conform to the provisions of this Agreement.

6.5 Representatives and Notices

Any notice, demand, or request directed to the Department shall be delivered to:

DEPARTMENT OF WATER AND POWER  
CITY OF LOS ANGELES  
Reynaldo D. Reyes  
Contract Administrator  
111 North Hope Street, Room 1063  
Los Angeles, California 90012-2194

Any notice, demand, or request directed to the Contractor shall be delivered to:

APPLIANCE RECYCLING CENTERS OF AMERICA -  
CALIFORNIA, INC.  
Jim Kirwan  
General Manager - ARCA California  
1920 Acacia Avenue  
Compton, CA 90220

Such correspondence shall be in writing, except as specified elsewhere in this Agreement. General correspondence will be deemed complete upon receipt.

6.5.1 Change of Address or Representatives

Either party, by written notice, may designate different or additional person(s) or different addresses.

6.5.2 Excusable Delays

In the event that performance on the part of any party hereto shall be delayed or suspended as a result of circumstances beyond the reasonable control and without the fault and negligence of said party, none of the parties shall incur any liability to the other parties as a result of such delay or suspension. Circumstances deemed to be beyond the control of the parties hereunder shall

17

include, but not be limited to acts of God or the public enemy; insurrection; acts of the Federal Government or any unit of State or Local Government in either sovereign or contractual capacity; earthquakes, fires; floods; epidemics; quarantine restrictions; strikes; freight embargoes or delays in transportation; to the extent that they are not caused by the party's willful or negligent acts or omissions, and to the extent that they are beyond the party's reasonable control.

6.5.3 Breach

Except for excusable delays, if any party fails to perform, in whole or in part, any promise, covenant, or agreement set forth herein, or should any representation made by it to be untrue, any aggrieved party may avail itself of all rights and remedies, at law or equity, in the courts of law. Said rights and remedies are cumulative of those provided for herein except that in no event shall any party recover more than once, suffer a penalty or forfeiture, or be unjustly compensated.

6.6 Permits, Codes, And Statutes

6.6.1 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, regulations, and ordinance, or any of them, to engage in the activities required in connection with this transaction.

6.6.2 Contractor shall comply with all applicable local, state, and federal safety and health laws in effect in the date of this agreement, including, but not limited to EPA, California EPA, RCRA, the Occupational Safety and Health Act of 1970 (OSHA), and all standards, rules, regulations, and orders issued pursuant to such local, state, and federal safety and health laws. Should any such law, rule, or regulation be enacted or promulgated subsequent to the date of this Agreement, which renders Contractor's performance impractical, Contractor and the Department shall amend this Agreement to reasonably compensate Contractor for its additional costs.

6.7 Suspension and Termination

6.7.1 Suspension of Work

The Contract Administrator may orally direct the Contractor to suspend, and to subsequently resume performance of all or any

18

part of the work. Such direction shall be confirmed by a Change Order or a revision to a task assignment if such suspension impacts the cost of the work and/or work completion schedule. The Department shall complete the payments due for the suspended work up to the effective date of suspension notice and shall resume payments effective as of the work resumption date.

6.7.2 Termination of Agreement

6.7.2.1 Cancellation Without Cause

This Agreement may be canceled by the Department, without cause, on 30 calendar days' written notice or at any time by mutual agreement of the parties. Said notice, on the Department's behalf, will be given by the Contract Administrator. Upon receipt of such notice, the Contractor shall immediately stop all work under this agreement. The Contractor shall be entitled to payment for all services performed to date of cancellation and shall be compensated at the established rates for completing all task assignments and work in progress as of the date of receipt of the written cancellation notice. The Contractor shall then deliver to the Department, in an organized and usable form, all work done prior to the date of cancellation.

6.7.2.2 Termination Due to Expenditure Limit

This Agreement will automatically terminate if expenditures reach the limit of \$2,100,000.00

6.7.2.3 Expiration of Agreement

Unless amended by mutual agreement of the Parties, this Agreement expires on October 31, 2005.

6.7.2.4 Termination of the Services of any Person.

If the Department no longer requires the services of a particular person(s) supplied by the Contractor, the Department may terminate the services immediately upon written notice to the contractor.

6.8 Patents, Copyrights and Trademarks

The Contractor shall fully indemnify the Department against any and all liability whatsoever by reason of any alleged infringement of any patent, copyright, or trademark on any hardware, software, firmware, equipment or instrumentation used by the Contractor in the construction of the work, or by reason of any

19

intended use under these specifications by the Department of any hardware, software, firmware, equipment or instrumentation furnished under this contract; provided, however, that the contractor shall have no liability to the Department under any provision of this Article with respect to any claim of patent, copyright, or trademark infringement which is based upon the combination or utilization of the Contractor's hardware, software, firmware, equipment or instrumentation with hardware, software, firmware, equipment or instrumentation not made by the Contractor; or the modification by the Department of hardware, software, firmware, equipment or instrumentation furnished hereunder.

The Contractor shall have the sole control of the defense and all negotiations for settlement or compromise of any action or claim of any alleged infringement of any patent, copyright, or trademark on hardware, software, firmware, equipment or instrumentation used by the Contractor in the designing, fabrication, and delivery of the deliverables as specified herein to the extent that such control is not consistent with the provisions of Article IV, Section 42 of the Los Angeles City Charter, but in any event the Contractor shall have the right to participate fully in such defense. The Department and the Contractor shall mutually agree to any settlement or compromise of such action.

6.9 Express Warranty Provision

Contractor warrants that the software furnished hereunder shall be free from significant programming errors and form defects in workmanship and materials and shall operate in conformity with the performance capabilities, specifications, functions and other descriptions and standards applicable thereto as set forth in this Agreement; and that the software shall conform to standards generally observed in the industry for similar software (including source code) so long as Contractor can discharge any warranty obligations notwithstanding such modifications or following their removal by the Department.

7.0 COMPENSATION

7.1 Specific Rates of Compensation

Upon satisfactory performance of the services required herein, the Department agrees to pay and the contractor agrees to accept in full satisfaction thereof the actual cost of services rendered payable. The prices shall remain in effect

through October 31, 2005, unless amended by mutual agreement of the Parties.

20

7.2 Payment - Additional Services

Payment for additional services and expenses but related to and required in the implementation of the Programs, shall be negotiated between the parties and implemented by an amendment to the Agreement.

7.3 Expenditure Limits

The total amount of this Agreement shall not exceed \$2,100,000 without further appropriation to this Agreement by the Board of Water and Power Commissioners of the City of Los Angeles.

8.0 BUSINESS POLICIES

8.1 LADWP Recycling Policy

LADWP supports the use of recycled-content products of all types. Recycled-content products help conserve natural resources, including water and energy, and reduce demands upon landfills.

The Contractor shall submit all written documents on paper with a minimum of 30 percent post-consumer recycled content. Existing company/corporate letterhead/stationery that accompanies these documents is exempt from this requirement. Documents of two or more pages in length shall be duplex -copied (double-sided pages). Neon or fluorescent paper shall not be used in any written documents submitted to the Department.

8.2 Affirmative Action

During the performance of any contract, the Contractor shall not discriminate in its employment practices against any employee or applicant for employment because of race, religion, national origin, ancestry, sex, age or physical handicap. All subcontracts awarded under such contract shall contain a like nondiscrimination provision. The applicable provisions of Executive Order NO. 11246 of September 24, 1965; Part 60-741 of 41 CFR pertaining to handicapped workers, including 60-741.4 Affirmative Action Clause; and Section 10.8 to 10.13 of the Los Angeles Administrative Code pertaining to nondiscrimination in employment in the performance of City contracts are incorporated herein by reference and made a part hereof as if they were fully set forth herein.

8.3 Minority and Women Business Enterprise (MBE/WBE) Outreach Program

It is the policy of the Department to provide Minority Business Enterprises (MBEs), Women Business Enterprises (WBEs) and all other business enterprises an equal opportunity to participate in the performance of all Department contracts.

21

The Contractor shall assist the Department in implementing this policy and shall use its best effort to attain MBE and WBE participation of 15 percent and 7 percent, respectively, and to ensure that all available business enterprises, including MBEs and WBEs, have an equal opportunity to compete for and participate in the work of this agreement.

8.3.1 MBE/WBE Defined

"Minority Business Enterprise" (MBE) or "Women Business Enterprise" (WBE), as used herein means a business enterprise that meets both of the following criteria:



- a) A business that is at least 51 percent owned by one or more minority person(s) or women or, in the case of any business whose stock is publicly held, at least 51 percent of the stock is owned by one or more minority person(s) or women.
- b) A business whose management and daily business operations are controlled by one or more minority person(s) or women.

#### 8.3.2 Efforts to Obtain Participation

Efforts to obtain participation of MBEs, WBEs, and other business enterprises could reasonably be expected to produce a level of participation by interested subcontractors, including 15 percent MBEs and 7 percent WBEs. Good faith efforts to reach out to MBEs, WBEs, and all other business enterprises shall be determined by the following factors:

- 1. Meetings with MBEs, WBEs, associations representing MBEs, WBEs and other groups.
- 2. Identification of selected portions of the work to be performed by subcontractors in order to provide participation by MBEs, WBEs, and other business enterprises. The contractor shall, when economically feasible, divide total contract requirements into small portions or quantities to permit maximum participation of MBEs, WBEs, and other business enterprises.
- 3. Requests for proposals from interested business enterprises or proposals in newspapers, trade association publications, minority or trade-oriented publications, trade journals, or other appropriate media.
- 4. Providing written notice to those business enterprises, including MBEs and WBEs, having an interest in participating in this Agreement. The contractor shall document that invitations were sent to available MBEs, WBEs, and other business enterprises for each portion of the work.

22

- 5. Documenting efforts to follow up initial solicitations of interest by contacting the business enterprises to determine whether the enterprises are interested in participating in the work.
- 6. Providing interested enterprises with information about the plans, specifications, and requirements for the selected subcontracting work.
- 7. Requesting assistance from organizations that provide assistance in the recruitment and placement of MBEs, WBEs, and other business enterprises.
- 8. Negotiating in good faith with interested MBEs, WBEs, and other business enterprises and not unjustifiably rejecting proposals prepared by any enterprise. As documentation, the bidder shall submit a list of all documentation, the bidder shall submit a list of all sub bidders for each portion of potential work for MBEs, WBEs, and other business enterprises.
- 9. Documenting efforts to advise and assist interested MBEs, WBEs and other business enterprises in obtaining bonds, lines of credit, or required insurance.

#### 8.3.3 Program Documentation

The Contractor shall submit quarterly reports to the

Contract Administrator demonstrating compliance with the Department's Outreach Program, and make related records available to the Department upon request. The Reports shall be submitted on Department forms which can be obtained from the Contract Administrator, and show the following:

- a) the name of each participating subcontractor;
- b) description of the work each subcontractor has contracted to perform;
- c) the percentage of completion for the work under each subcontract;
- d) the compensation contracted to be paid to each subcontractor (attach a copy of subcontractor's invoice);
- e) the cumulative compensation earned by each subcontractor; and
- f) the cumulative compensation paid to each subcontractor.

23

#### 8.4 Service Contract Worker Retention and Living Wage Policy

##### 8.4.1 General Provisions

This contract is subject to the Service Contract Worker Retention Ordinance (SCWRO), Section 10.36 et seq, and the Living Wage Ordinance (LWO), Section 10.37 et seq of the Los Angeles Administrative Code. The Ordinances require that, unless specific exemptions apply, all employers who are awarded service contracts that involve expenditures in excess of \$25,000 and have a duration of at least three months; and any persons who receive City financial assistance of one million dollars or more in any 12-month period, shall comply with the following provisions of the ordinance:

- (a) Retention for a 90-day transition period, the employees who were employed for the preceding 12 months or more by the terminated contractor or subcontractor, if any, as provided for in the SCWRO;
- (b) Payment of a minimum initial wage rate to employees as defined in the LWO, of \$7.99 per hour, with health benefits of at least \$1.25 per hour, or otherwise \$9.24 per hour without benefits.

##### 8.4.2 Termination Provisions

Under the provisions of Section 10.36.3 (c) and Section 10.37.5 (c) of the Los Angeles Administrative Code, the Department of Water and Power, shall have the authority, under appropriate circumstances, to terminate this contract and otherwise pursue legal remedies that may be available, if the Department of Water and Power determines that the subject Contractor or financial assistance recipient violated the provisions of the referenced Code Section.

##### 8.4.3 Invoice Provisions

All invoices related to SCWRO and LWO Contracts shall contain the following statement:

"The Contractor fully complies with Section 10.36 et. seq. And Section 10.37 et. seq., SCWRO and LWO, respectively, of the Los Angeles Administrative Code."

#### 8.5 Child Support Policy

The Contractor and any Subcontractor(s) must fully comply with all applicable State and Federal employment reporting requirements for

24

the Contractor's and any Subcontractor(s)' employees. The contractor and any Subcontractor(s) must fully comply with all lawfully served Wage and Earnings Assignment Orders and Notices of Assignment in accordance with the California Family Code. The Contractor and any Subcontractor(s) must certify that the principal owner(s) thereof (any person who owns an interest of 10 percent or more) are in compliance with any Wage and Earnings Assignment Orders or Notices of Assignment applicable to them personally. The Contractor and any Subcontractor(s) must certify that such compliance will be maintained throughout the term of the Contract.

Failure of the Contractor and/or any Subcontractor(s) to fully comply with all applicable reporting requirements or to implement lawfully served Wage and Earnings Assignments or Notices of Assignment or failure of the principal owner(s) to comply with any Wage and Earnings Assignments or Notices of Assignment applicable to them personally shall constitute a default under the Contract. Failure of the Contractor and/or any Subcontractor(s) or principal owner(s) thereof to cure the default within 90 days of notice of such default by the City shall subject the Contract to termination.

## 9.0 INSURANCE REQUIREMENTS

### 9.1 General Insurance Coverage

Prior to the start of work, but no later than 30 days after date of award of contract, the Contractor shall furnish the Department, evidence of coverage either on Department forms or in a form which is acceptable to the Department and the Office of the City Attorney for the kinds of insurance as specified herein. Such insurance shall be maintained by the Contractor at the Contractor's sole cost and expense.

Such insurance shall not limit or qualify the liabilities and obligations of the Contractor assumed under the contract. The Department shall not by reason of its inclusion under these policies incur liability to the insurance carrier for payment of premium for these policies.

Any insurance carried by the Department which may be applicable shall be deemed to be excess insurance and the Contractor's insurance is primary for all purposes despite any conflicting provision in the Contractor's policies to the contrary.

Said evidence or endorsement shall contain a provision that the policy cannot be canceled or reduced in coverage or amount without first giving 30 calendar days' notice thereof (10 days for nonpayment of premium) by registered mail to the Office of the City Attorney, Water and Power Division, Post Office Box 51111, 111 N. Hope St., Los Angeles, California 90051-0100.

25

Such evidence shall be subject to the approval of the Risk Management Section and the Office of the City Attorney. Department forms will be supplied at the time of award of contract along with instructions for completion, execution, and submission to the Department.

Should any portion of the required insurance be on a "Claims Made" policy, the Contractor shall, at the policy expiration date following completion of work, provide evidence that the "Claims Made" policy has been renewed or replaced with the same limits, terms and conditions of the expiring policy, or that an extended discovery period has been purchased on the expiring policy at least for the contract under which the work was performed.

Failure to maintain and provide acceptable evidence of the required insurance for the required period of coverage shall constitute a breach of contract, upon which the Department may immediately terminate or suspend the agreement.

Contractor shall be responsible for all subcontractors' compliance with the insurance requirements.

## 9.2 Specific Coverage

### 9.2.1 Workers' Compensation Insurance

The Contractor shall provide Workers' Compensation insurance covering all of the Contractor's employees in accordance with the laws of any state in which the work is to be performed and including Employer's Liability insurance and a Waiver of Subrogation in favor of the Department of Water and Power. The limit for Employer's Liability coverage shall be not less than \$2,000,000.00 each accident and shall be a separate policy if not included with Workers' Compensation coverage. Evidence of such insurance shall be in the form of a special endorsement of insurance. Workers' Compensation/Employer's Liability exposure may be self-insured provided that the Department is furnished with a copy of the certificate issued by the state authorizing the Contractor to self-insure. Contractor shall notify the Risk Management Section by receipted delivery as soon as possible of the state withdrawing authority to self-insure.

### 9.2.2 Commercial General Liability Insurance

The Contractor shall provide Commercial General Liability insurance with Blanket Contractual Liability, Independent Contractors, Broad Form Property Damage, Premises and Operations, Products and Completed Operations, and Personal Injury coverages included. Such insurance shall provide coverage for total limits actually arranged by the contractor, but

26

not less than \$3,000,000.00 combined single limit per occurrence. Should the policy have an aggregate limit, such aggregate limits should not be less than double the Combined Single Limit and be specific for this contract. Umbrella or Excess Liability coverages may be used to supplement primary coverages to meet the required limits.

Evidence of such coverage shall be on the Department's additional insured endorsement form or on an endorsement to the policy acceptable to the Risk Management Section and provide for the following:

- 1) Include the Department and its officers, agents, and employees as additional insureds with the Named Insured for the activities and operations under the contract.
- 2) Severability-of-Interest or Cross-Liability Clause such as: "The policy to which this endorsement is attached shall apply separately to each insured against whom a claim is made or suit is brought, except with respect to the limits of the company's liability."
- 3) A description of the coverages included under the policy.

### 9.2.3 Commercial Automobile Liability Insurance

The Contractor shall provide Commercial Automobile Liability insurance which shall include coverage's for liability arising out of the use of owned, non-owned, and hired vehicles for performance of the work as required to be licensed under the California or any other applicable state vehicle code. The

Commercial Automobile Liability insurance shall have not less than \$2,000,000.00 combined single limit per occurrence and shall apply to all operations of the Contractor.

The Commercial Automobile Liability policy shall name the City of Los Angeles, the Board of Water and Power Commissioners of the City of Los Angeles, the Department of Water and Power of the City of Los Angeles, and their officers, agents, and employees while acting within the scope of their employment, as additional insureds with the Contractor, and shall insure against liability for death, bodily injury, or property damage resulting from the performance of this Agreement.

### 9.3 Excess Liability

The Contractor may use an Umbrella or Excess Liability Coverage to meet coverage limits specified in the contract. Evidence of Excess Liability shall be in the form of the Department's Excess Liability-Additional Insured Endorsement form or equivalent. The Contractor shall require the carrier for Excess Liability to properly schedule and to identify the underlying policies as provided for on the Additional Insured

27

Endorsement form, including, as appropriate, Commercial General Liability, Commercial Automobile Liability, Employer's Liability, or other applicable insurance coverages.

### 9.4 Fidelity Bond

The contractor shall maintain a fidelity bond covering Employee dishonesty in an amount arranged by the Contractor, but not less than \$1,000,000 aggregate, and shall apply to any and all work performed on behalf of the Department. Said bond shall name the City of Los Angeles, the Board of Water and Power Commissioners of the City of Los Angeles, the Department, and their officers, agents and employees, as additional insureds with the Contractor individually and jointly, and shall insure against liability resulting from the Contractor's employees' dishonesty in the performance of this contract. Said bond shall contain a provision that the bond cannot be cancelled, terminated or altered without first giving 30 calendar days' written notice of such cancellation, termination or alteration as previously described under General Insurance Coverage. Evidence of such bond shall be provided to the Department in a form acceptable to the office of the City Attorney.

### 9.5 Professional Liability Insurance

The Contractor shall provide Professional Liability insurance covering liability arising from errors and omissions made during the execution of this contract for the total limits actually arranged by the contractor, but not less than \$1,000,000.00 per occurrence. The coverage shall include Contractual liability, and should the policy be of a claims-made form, such policy shall be maintained for not less than three (3) years after the date of final acceptance or completion of all work performed under this agreement.

### 9.6 Indemnification Clause

The Contractor undertakes and agrees to indemnify and hold harmless the City of Los Angeles, the Department of Water and Power, the Board of Water and Power Commissioners of the City of Los Angeles, the Department, and their officers, agents, representatives, employees, assigns and successors in interest from and against any and all suits and causes of action, claims, charges, damages, demands, judgments, civil fines and penalties, or losses of any kind or nature whatsoever for death, bodily injury or personal injury to any person, including Contractor's employees and agents, or damage or destruction to any property of either party hereto, or third

person in any manner arising by reason of negligent acts, errors, omissions or willful misconduct incident to the performance of this contract on the part of the Contractor, or the Contractor's officers, agents, employees, or subcontractors of any tier, except for the sole negligence or willful misconduct of the Department, its Board, officers, agents, representatives or employees.

28

## 10.0 INVOICES

The Contractor shall be authorized to submit an itemized payment request for services performed on a monthly basis. Such request shall be submitted to:

Los Angeles Department of Water and Power  
Mr. Reynaldo D. Reyes  
Contract Administrator  
P.O. Box 51111, Room 1063  
Los Angeles, CA 90051-0100

### 10.1 Invoice Detail

The invoice shall be submitted by the Contractor in the form of one original and three copies. The detailed invoice shall include the following information:

- (a) Itemized charges, for Contractor services that have been pre-approved by the Department and completed during the invoice period; and
- (b) Itemized charges for task assignments and services as requested by the Department and completed during the invoice period. Charges shall be in accordance with the respective task assignment and price schedule.

The Payment Request will be certified, audited, and paid by the Department within 45 days following receipt of a complete and accurate invoice. Invoice payments will not be made if the invoice is received more than six months after the billing period.

Each invoice shall show the contract/purchase order number, the vendor code number, the City of Los Angeles Business Tax Registration Certificate Number, and the identification of services covered by the invoices.

### 10.2 Current Los Angeles City Business Tax Registration Certificate Required

The Contractor shall obtain and keep in full force and effect during the term of the contract all Business Tax Registration Certificates required by the City of Los Angeles Business Tax Ordinance, Article 1, Chapter II, Section 21.00 and following, of the Los Angeles Municipal Code.

29

### 10.3 Taxpayer Identification Number (TIN)

Contractor declares that its authorized TIN is 36-3893973. No payment will be made under this agreement without a valid TIN number.

## 11.0 CONFLICTS

### 11.1 Errors and Omissions

The contractor will be responsible for correcting or remedying any errors or omissions which occur in performance of the services under this Agreement and which are the result of the contractor's negligence or action. The cost of correcting or remedying any error or omission shall be borne by the contractor. Revising contractor-prepared documents at the

request of the Department to incorporate comments by the public or by agencies having jurisdiction in matters of the particular task assignment is not considered to be a remedy of errors or omissions, but is considered an integral part of document preparation which may be called for by a task assignment.

#### 11.2 Priority of Documents

In the event of any conflicting provisions between the documents referenced or included in this Agreement, the priority shall be as follows:

- a. Amendments to the Agreement, incorporating change orders, in chronological order from the most recent to the earliest.
- b. Written Change Orders to the Agreement in chronological order from most recent to earliest.
- c. Agreement.
- d. Task Assignments.
- e. Other Referenced Documents.

Each party shall notify the other immediately upon the determination of any such conflict or inconsistency.

#### 12.0 MONITORING OF WORK

##### 12.1 Records and Audits

The Contractor shall maintain records and books of accounts showing all costs and expenses incurred by the Contractor for this Agreement. The Department

30

shall have the right, upon reasonable notice, to audit the books, records, documents, and other evidence and the accounting procedures and practices, where needed, to verify the costs and expenses claimed. The Department retains this right for at least three years after final payment and until all disputes, appeals, litigation, or claims have been resolved. This right to audit shall also include inspection at reasonable times of the Contractor's office or facilities which are engaged in the performance of the Agreement. In addition, the Contractor shall, at no expense to the Department, furnish reasonable facilities and assistance for such an audit. Upon request, Contractor shall also provide copies of documents applicable to this Agreement. The audit findings shall, to the extent allowed by law, be treated by the Department as confidential.

##### 12.2 Right to Review Services, Facilities, and Records

The Department reserves the right to review any portion of the services performed by the contractor under this Agreement, and the contractor agrees to cooperate to the fullest extent possible. Contractor shall furnish to the Department such reports, statistical data, and other information pertaining to the contractor's services as shall be reasonably required by the Department to carry out its rights and responsibilities under its agreements with its bondholders or noteholders and any other agreement relating to the development of the project(s) and in connection with the issuance of its official statements and other prospectuses with respect to the offering, sale, and issuance of its bond and other obligations.

The right of the Department to review or approve drawings, specifications, procedures, instructions, reports, test results, calculations, schedules, or other data that are developed by the contractor shall not relieve the contractor of any obligation set forth herein.

##### 12.3 Department's Quality Assurance Program

Work performed under this agreement will be subject to review by the Department's personnel.

13.0 TITLE TO WORK

13.1 Confidentiality of Department Information

All data and information, including that supplied by the Department to the Contractor, that obtained by the Contractor from the Department's customers, and that developed by the Contractor in the course of providing Program management and administration services to the Department shall be held in strict confidence and shall be used solely for the performance of the Work pursuant to this Agreement.

Contractor, its employees, and any subcontractors shall not disclose any Program or customer information to any person other than the

31

Department's personnel, or the Department's designated agent, either during the term of this Agreement or after its completion, without Contractor having obtained the prior written consent of the Department, except as provided by lawful court order or subpoena and provided contractor gives the Department advance written notice of such order or subpoena.

13.1.2 Department Property

The Contractor shall not copy any drawing, specification, technical report, or data provided by the Department. The Contractor shall return all materials provided by the Department. All materials shall be returned no later than the closing date of the Agreement.

13.2 Right to Documentation Developed by Contractor

Documentation, including all reports, drawings, documents, field notes, specifications, and data developed by the contractor and its subcontractors, shall be the property of the Department, and may be used; revised, and distributed by the Department in any manner.

13.2.1 Nondisclosure

The contractor shall not disclose to others any information developed by contractor under this Agreement without prior written approval by the Contract Administrator.

13.2.2 Attorney Fees and Costs

The Parties agree that in any action to enforce the terms of this Agreement that each Party shall be responsible for its own attorney fees and costs.

13.3 Confidentiality of Contractor Information

The Department, its employees and any agents or subcontractors of the Department shall not disclose any confidential or proprietary information of Contractor ("Contractor's Confidential Information") to any person other than Contractor's personnel, either during the term of the Agreement, or after its completion, without having obtained their prior written consent of Contractor

13.3.1 The Department 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:

32



- a) Is not generally known to the public or in the industry;
- b) Has been treated by Contractor or any of its subsidiaries as confidential or proprietary; and
- c) 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.

13.3.2 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 Paragraph.

13.4 Title of Collected Refrigerators and Freezers

13.4.1 Title to the Hazardous Material shall pass to Contractor when Contractor collects Primary or Second Refrigerator and Freezers from customers and said Title shall be held by the Contractor until the Primary or Second Refrigerators and Freezers are transported to the Department's Recycling Center. Subsequently the Title to the Hazardous Material shall pass to the Recycling Contractor.

13.4.2 Title to collected Primary or Second Refrigerators and Freezers shall pass to Contractor until the Primary or Second Refrigerators and Freezers are transported to the Department's Recycling Center. Subsequently, the Title to the collected Primary or Second Refrigerators and Freezers shall pass to the Recycling Contractor.

14.0 SECTION HEADING

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

15 SIGNATURE OF AUTHORIZING AGREEMENT

Each party was represented by counsel in the negotiations and execution of this agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their authorized representatives on the day and year written below.

APPLIANCE RECYCLING CENTERS OF AMERICA- CALIFORNIA, INC.

By: /s/ Jack Cameron  
-----

Title: President  
-----

Dated: 9/26/02  
-----

BOARD OF WATER AND POWER COMMISSIONERS  
OF THE CITY OF LOS ANGELES

By: /s/David H. Wiggs, General Manager  
-----

And /s/Secretary  
-----

APPROVED AS TO FORM AND LEGALITY  
ROCHARD J. DELGABILLO, CITY ATTORNEY  
OCT 08 2002  
BY MARCIA HABER KAMINE  
Assistant City Attorney

BALLOON PROMISSORY NOTE

(1920 Acacia Avenue, Compton, Los Angeles County, California)  
 \$2,000,000.00 December 27 , 2002

FOR VALUE RECEIVED, APPLIANCE RECYCLING CENTERS OF AMERICA, INC., a Minnesota corporation ("Borrower"), promises to pay to the order of GENERAL ELECTRIC CAPITAL BUSINESS ASSET FUNDING CORPORATION ("Payee"; Payee and any subsequent holder of this Note being referred to herein as "Holder") at Payee's office at 10900 NE 4th Street, Suite 500, Bellevue, Washington 98004, attention: Real Estate Department, or at such other address as Holder may from time to time designate in writing, the principal sum of Two Million and no hundredths Dollars (\$2,000,000.00) together with interest from the date the proceeds of the loan (the "LOAN") evidenced by this Promissory Note (this "NOTE") are initially disbursed (including, without limitation, disbursement into an escrow for the benefit of Borrower) until maturity on the principal balance from time to time remaining unpaid hereon at the rate of six and eighty-five hundredths percent (6.85%) per annum (computed on the basis of a 360-day year of twelve (12) consecutive thirty (30)-day months) in installments as follows: (i) interest only in advance at the rate of \$380.56 per day shall be due and payable on the date the proceeds of the Loan are initially disbursed to or for the benefit of Borrower (including, without limitation, disbursement into an escrow for the benefit of Borrower) for the period beginning on the date of such disbursement and ending on the last day of the month during which such disbursement occurs; and (ii) 119 installments of principal and interest in the amount of \$15,326.42 each shall be payable commencing on the first day of the second month following the month in which the proceeds of the loan evidenced by this Note are initially disbursed and continuing on the first day of each and every succeeding month until January 1, 2013 ("Maturity"), at which time all then unpaid principal and interest hereon shall be due and payable. A substantial payment will be due at Maturity, as the monthly payment of principal and interest set forth herein represents an amount which would amortize the principal face amount of this Note in full at the interest rate set forth herein over a period of 240 months.

If any payment shall not be received by Holder within ten (10) days after its due date, Borrower shall pay an additional charge equal to five percent (5.00%) of the delinquent payment or the highest additional charge permitted by law, whichever is less.

Upon not less than fifteen (15) days' advance written notice to Holder and upon payment of a prepayment premium as set forth below (the "Prepayment Premium"), Borrower shall have the right to prepay all, but not less than all, of the outstanding balance of this Note on any regularly scheduled principal and interest payment date. The "Prepayment Premium" shall be equal to the sum of the Base Premium (defined below) and the Variable Premium (defined below).

The "Base Premium" shall be determined by multiplying the following described applicable base premium factor (the "Base Premium Factor") by the principal balance to be prepaid. The "Variable Premium" shall be determined by (i) calculating the decrease (expressed in basis points) in the current weekly average yield of Ten (10)-Year U.S. Dollar Interest Rate Swaps (as published in Federal Reserve Statistical Release H.15 [519]) (the "Index") from Friday, November 15, 2002, to the Friday immediately preceding the week in which the prepayment is made, (ii) dividing the decrease by 100, (iii) multiplying the result by the following described applicable variable premium factor (the "Variable Premium Factor"), and (iv) multiplying the product by the principal balance to be prepaid. If the Index is unchanged or has increased from Friday, November 15, 2002, to the Friday immediately preceding the prepayment date, the Variable Premium Factor shall be equal to Zero Dollars (\$0.00). The Base Premium Factor and the Variable Premium Factor shall be the amounts shown on the following chart for the month in which prepayment occurs:

No. Mos. Remaining	Years Remaining	Base Premium Factor	Variable Premium Factor
120 - 109	10	.05	.070
108 - 97	9	.04	.065
96 - 85	8	.03	.060
84 - 73	7	.02	.054
72 - 61	6	.01	.048

60 - 49	5	0	.042
48 - 37	4	0	.036
36 - 25	3	0	.029
24 - 13	2	0	.022
12 - 1	1	0	.013

If the Federal Reserve Board ceases to publish Statistical Release H.15 [519], then the decrease in the weekly average yield of Ten (10)-Year U.S. Dollar Interest Rate Swaps will be determined from another source designated by Holder.

If Holder at any time accelerates this Note after an Event of Default (defined below), then Borrower shall be obligated to pay the Prepayment Premium in accordance with the foregoing schedule. The Prepayment Premium shall not be payable in the case of an assumption of the Loan (if permitted by Holder pursuant to the terms of the Security Instrument (as hereinafter defined)), nor with respect to condemnation awards or insurance proceeds from fire or other casualty which Holder applies to prepayment, nor with respect to Borrower's prepayment of the Note in full during the last three (3) months of the term of this Note unless an Event of Default has occurred and is continuing. Borrower expressly acknowledges that such Prepayment Premium is not a penalty but is intended solely to compensate Holder for the loss of its bargain and the reimbursement of internal expenses and administrative fees and expenses incurred by Holder.

Holder shall have full recourse against Borrower for all sums due under this Note and for all the representations, warranties, indemnities and covenants in the Commercial Deed of Trust,

2

Financing Statement, Security Agreement, Assignment of Leases and Rents and Fixture Filing ("Security Instrument") covering the property (the "Property") securing this Note and all other documents executed or delivered in connection herewith (the "Loan Documents").

Each of the following shall constitute an Event of Default ("Event of Default") hereunder and under the Security Instrument:

(a) Failure of Holder to receive any payment of principal, interest, or Prepayment Premium upon this Note when due, and such failure shall continue for ten (10) days after written notice is given by Holder to Borrower of the same; or

(b) Failure of Borrower to observe or perform any other obligation under any Loan Document (other than this Note) when such observance or performance is due, and such failure shall continue beyond the applicable cure period set forth in such Loan Document, or if the default cannot be cured within such applicable cure period, Borrower fails within such time to commence and pursue curative action with reasonable diligence or fails at any time after expiration of such applicable cure period to continue with reasonable diligence all necessary curative actions.

Upon the occurrence of any Event of Default, Holder shall have the option to declare the entire amount of principal and interest due under this Note immediately due and payable without notice or demand, and Holder may exercise any of its rights under this Note and any document executed or delivered herewith. After acceleration or maturity, Borrower shall pay interest on the outstanding principal balance of this Note at the rate of five percent (5.00%) per annum above the prime interest rate as quoted in the Wall Street Journal ("WSJ") in effect from time to time, or fifteen percent (15.00%) per annum, whichever is higher, provided that such interest rate shall not exceed the maximum interest rate permitted by law (the "Default Rate"). If the WSJ Rate is unavailable or no longer quoted, Lender may select such replacement index as Lender in its sole discretion determines most closely approximates the rate quoted in the WSJ.

All payments of the principal and interest on this Note shall be made in coin or currency of the United States of America which at the time shall be the legal tender for the payment of public and private debts.

If this Note is placed in the hands of an attorney for collection, Borrower shall pay reasonable attorneys' fees and costs incurred by Holder in connection therewith, and in the event suit or action is instituted to enforce or interpret this Note (including without limitation efforts to modify or vacate any automatic stay or injunction), the prevailing party shall be entitled to recover all expenses reasonably incurred at, before or after trial and on appeal,

whether or not taxable as costs, or in any bankruptcy proceeding, or in connection with post-judgment collection efforts, including, without limitation, reasonable attorneys' fees, witness fees (expert and otherwise), deposition costs, copying charges and other expenses.

This Note shall be governed and construed in accordance with the laws of the State of California applicable to contracts made and to be performed therein (excluding choice-of-law principles). Borrower hereby irrevocably submits to the jurisdiction of any state or federal court

3

sitting in California in any action or proceeding brought to enforce or otherwise arising out of or relating to this Note, and hereby waives any objection to venue in any such court and any claim that such forum is an inconvenient forum.

This Note is given in a commercial transaction for business purposes.

This Note may be declared due prior to its expressed maturity date, all in the events, on the terms, and in the manner provided for in the Security Instrument.

Borrower and all sureties, endorsers, guarantors and other parties now or hereafter liable for the payment of this Note, in whole or in part, hereby severally (i) waive demand, notice of demand, presentment for payment, notice of nonpayment, notice of default, protest, notice of protest, notice of intent to accelerate, notice of acceleration and all other notices except those for which the Loan Documents expressly provide, and further waive diligence in collecting this Note or in enforcing any of the security for this Note; (ii) agree to any substitution, subordination, exchange or release of any security for this Note or the release of any party primarily or secondarily liable for the payment of this Note; (iii) agree that Holder shall not be required to first institute suit or exhaust its remedies hereon against Borrower or others liable or to become liable for the payment of this Note or to enforce its rights against any security for the payment of this Note; and (iv) consent to any extension of time for the payment of this Note, or any installment hereof, made by agreement by Holder with any person now or hereafter liable for the payment of this Note, even if Borrower is not a party to such agreement.

Borrower authorizes Holder or its agent to insert in the spaces provided herein the appropriate interest rate and the payment amounts as of the date of the initial advance hereunder.

All agreements between Borrower and Holder, whether now existing or hereafter arising and whether written or oral, are hereby limited so that in no contingency, whether by reason of demand or acceleration of the final maturity of this Note or otherwise, shall the interest contracted for, charged, received, paid or agreed to be paid to Holder exceed the maximum amount permissible under the applicable law. If, from any circumstance whatsoever, interest would otherwise be payable to Holder in excess of the maximum amount permissible under applicable law, the interest payable to Holder shall be reduced to the maximum amount permissible under applicable law; and if from any circumstance Holder shall ever receive anything of value deemed interest by applicable law in excess of the maximum amount permissible under applicable law, an amount equal to the excessive interest shall be applied to the outstanding principal balance hereof, or if such excessive amount of interest exceeds the unpaid balance of principal hereof, such excess shall be refunded to Borrower. All interest paid or agreed to be paid to Holder shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full period (including any renewal or extension) until payment in full of the principal so that the interest hereon for such full period shall not exceed the maximum amount permissible under applicable law. Holder expressly disavows any intent to contract for, charge or receive interest in an amount which exceeds the maximum amount permissible under applicable law. This paragraph shall control all agreements between Borrower and Holder.

4

WAIVER OF JURY TRIAL. BORROWER HEREBY KNOWINGLY, VOLUNTARILY AND INTELLIGENTLY WAIVES ANY AND ALL RIGHTS THAT EACH PARTY TO THIS NOTE MAY NOW OR HEREAFTER HAVE UNDER THE LAWS OF THE UNITED STATES OF AMERICA OR THE STATE OF CALIFORNIA, TO A TRIAL BY JURY OF ANY AND ALL ISSUES ARISING DIRECTLY OR INDIRECTLY IN ANY ACTION OR PROCEEDING RELATING TO THIS NOTE, THE LOAN DOCUMENTS OR ANY TRANSACTIONS CONTEMPLATED THEREBY OR RELATED THERETO. IT IS INTENDED THAT THIS WAIVER SHALL APPLY TO ANY AND ALL DEFENSES, RIGHTS, CLAIMS AND/OR COUNTERCLAIMS IN ANY SUCH ACTION OR PROCEEDING.

BORROWER UNDERSTANDS THAT THIS WAIVER IS A WAIVER OF A CONSTITUTIONAL

SAFEGUARD, AND EACH PARTY INDIVIDUALLY BELIEVES THAT THERE ARE SUFFICIENT ALTERNATE PROCEDURAL AND SUBSTANTIVE SAFEGUARDS, INCLUDING, A TRIAL BY AN IMPARTIAL JUDGE, THAT ADEQUATELY OFFSET THE WAIVER CONTAINED HEREIN.

[REMAINDER OF PAGE INTENTIONALLY BLANK;  
EXECUTION PAGE FOLLOWS]

5

IMPORTANT: READ BEFORE SIGNING. THE TERMS OF THIS AGREEMENT SHOULD BE READ CAREFULLY BECAUSE ONLY THOSE TERMS IN WRITING ARE ENFORCEABLE. NO OTHER TERMS OR ORAL PROMISES NOT CONTAINED IN THIS WRITTEN CONTRACT MAY BE LEGALLY ENFORCED. YOU MAY CHANGE THE TERMS OF THIS AGREEMENT ONLY BY ANOTHER WRITTEN AGREEMENT.

TIME IS OF THE ESSENCE HEREOF.

BORROWER HEREBY EXPRESSLY (1) WAIVES ANY RIGHTS IT MAY HAVE UNDER CALIFORNIA CIVIL CODE SECTION 2954.10 TO PREPAY THIS NOTE, IN WHOLE OR IN PART, WITHOUT PENALTY, UPON ACCELERATION OF THE MATURITY DATE OF THIS NOTE, AND (2) AGREES THAT IF, FOR ANY REASON, A PREPAYMENT OF ANY OR ALL OF THIS NOTE IS MADE, WHETHER VOLUNTARY OR UPON OR FOLLOWING ANY ACCELERATION OF THE MATURITY DATE OF THIS NOTE BY HOLDER ON ACCOUNT OF ANY DEFAULT BY BORROWER UNDER THIS NOTE, THE DEED OF TRUST OR ANY OTHER DOCUMENT EVIDENCING OR SECURING THE LOAN, INCLUDING, BUT NOT LIMITED TO, ANY TRANSFER OR DISPOSITION AS PROHIBITED OR RESTRICTED BY THE PROVISIONS OF THE DEED OF TRUST, THEN BORROWER SHALL BE OBLIGATED TO PAY, CONCURRENTLY THEREWITH, THE PREPAYMENT PREMIUM. BY SIGNING THIS PROVISION IN THE SPACE PROVIDED BELOW, BORROWER AGREES THAT HOLDER'S AGREEMENT TO MAKE THE LOAN EVIDENCED BY THIS NOTE AT THE INTEREST RATE AND FOR THE TERM SET FORTH IN THIS NOTE CONSTITUTES ADEQUATE CONSIDERATION, GIVEN INDIVIDUAL WEIGHT BY BORROWER FOR THIS WAIVER AND AGREEMENT.

BORROWER: / s / E d w a r d R . C a m e r o n

IN WITNESS WHEREOF, Borrower has executed or caused this Note to be executed by its duly authorized representative as of the year and day first written above.

BORROWER:

APPLIANCE RECYCLING CENTERS OF  
AMERICA, INC., a Minnesota corporation

By: /s/Edward R. Cameron  
Print: Edward R. Cameron  
Its: President

[EXECUTION PAGE OF PROMISSORY NOTE]

6

THIS SECURITY INSTRUMENT WAS  
PREPARED BY, AND UPON RECORDING  
SHOULD BE RETURNED TO:

Beth M. Ascher, Esq.  
Kutak Rock LLP  
1650 Farnam St.  
Omaha, NE 68102-2186

Index this document as  
(1) deed of trust and  
(2) fixture filing  
ASSESSOR'S PARCEL NO. 7318-013-033

-----  
(SPACE ABOVE LINE FOR RECORDER'S USE)

COMMERCIAL DEED OF TRUST,  
FINANCING STATEMENT, SECURITY AGREEMENT,  
ASSIGNMENT OF LEASES AND RENTS  
AND FIXTURE FILING

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.,  
a Minnesota corporation

(Grantor)

to

COMMONWEALTH LAND TITLE

(Trustee)

in favor of

GENERAL ELECTRIC CAPITAL BUSINESS ASSET FUNDING CORPORATION,  
a Delaware corporation

(Beneficiary)

Dated: December 27, 2002

(1920 Acacia Avenue, Compton, Los Angeles County, California)

NOTICE: DO NOT DESTROY THIS DEED OF TRUST OR THE NOTE (IF IT IS IN YOUR POSSESSION) WHICH IT SECURES AS THESE MUST BE PRESENTED TO THE TRUSTEE FOR CANCELLATION IN ORDER TO OBTAIN A RECONVEYANCE. THE RECONVEYANCE MUST BE RECORDED IN THE OFFICE OF THE COUNTY RECORDER.

THIS DEED OF TRUST (herein "INSTRUMENT") is made as of December 27, 2002, among the Grantor, APPLIANCE RECYCLING CENTERS OF AMERICA, INC., a Minnesota corporation, whose address is 7400 Excelsior Boulevard, St. Louis Park, Minnesota 55426 (herein "BORROWER"), in favor of COMMONWEALTH LAND TITLE, whose address is 655 North Central Avenue Suite 2200, Glendale, California 91203 (herein "TRUSTEE"), for the benefit of the Beneficiary, GENERAL ELECTRIC CAPITAL BUSINESS ASSET FUNDING CORPORATION, a Delaware corporation, whose address is Real Estate Department, 10900 NE 4th Street, Suite 500, Bellevue, Washington, 98004 (herein "GE CAPITAL").

THIS INSTRUMENT COVERS REAL PROPERTY AND PERSONAL PROPERTY AND GOODS WHICH ARE OR ARE TO BECOME FIXTURES ON THE REAL PROPERTY DESCRIBED HEREIN AND IS TO BE FILED FOR RECORD IN THE RECORDS WHERE DEEDS OF TRUST ON REAL ESTATE ARE RECORDED. IN ADDITION, THIS INSTRUMENT SHOULD BE APPROPRIATELY INDEXED NOT ONLY AS A DEED OF TRUST, BUT ALSO AS A FINANCING STATEMENT COVERING PERSONAL PROPERTY AND GOODS THAT ARE TO BECOME FIXTURES ON THE REAL PROPERTY DESCRIBED HEREIN. THE MAILING ADDRESS OF THE GRANTOR (DEBTOR) AND BENEFICIARY (SECURED PARTY) ARE SET FORTH IN THIS INSTRUMENT.

Borrower, in consideration of the indebtedness herein recited and the trust herein created, irrevocably grants, conveys and assigns to Trustee, in trust, WITH POWER OF SALE, all of Borrower's estate, right, title and interest, now owned or hereafter acquired, including any reversion or remainder interest, in the real property located in the City of Compton, County of Los Angeles, State of California, commonly known as 1920 Acacia Avenue and more particularly described on Exhibit A attached hereto and incorporated herein including all heretofore or hereafter vacated alleys and streets abutting the property, and all easements, rights, appurtenances, tenements, hereditaments, rents, royalties, mineral, oil and gas rights and profits, water, water rights, and water stock appurtenant to the property (collectively "PREMISES");

TOGETHER with all of Borrower's estate, right, title and interest, now owned or hereafter acquired, in:

(a) all buildings, structures, improvements, parking areas,

landscaping, equipment, fixtures and articles of property now or hereafter erected on, attached to, or used or adapted for use in the operation of the Premises; including but without being limited to, all heating, air conditioning and incinerating apparatus and equipment; all

2

boilers, engines, motors, dynamos, generating equipment, piping and plumbing fixtures, water heaters, ranges, cooking apparatus and mechanical kitchen equipment, refrigerators, freezers, cooling, ventilating, sprinkling and vacuum cleaning systems, fire extinguishing apparatus, gas and electric fixtures, carpeting, floor coverings, underpadding, elevators, escalators, partitions, mantels, built-in mirrors, window shades, blinds, draperies, screens, storm sash, awnings, signs, furnishings of public spaces, halls and lobbies, and shrubbery and plants, and including also all interest of any owner of the Premises in any of such items hereafter at any time acquired under conditional sale contract, chattel mortgage or other title retaining or security instrument, all of which property mentioned in this clause (a) shall be deemed part of the realty covered by this Instrument and not severable wholly or in part without material injury to the freehold of the Premises (all of the foregoing together with replacements and additions thereto are referred to herein as "IMPROVEMENTS");

(b) all compensation, awards, damages, rights of action and proceeds, including interest thereon and/or the proceeds of any policies of insurance therefor, arising out of or relating to a (i) taking or damaging of the Premises or Improvements thereon by reason of any public or private improvement, condemnation proceeding (including change of grade), sale or transfer in lieu of condemnation, or fire, earthquake or other casualty, or (ii) any injury to or decrease in the value of the Premises or the Improvements for any reason whatsoever;

(c) return premiums or other payments upon any insurance any time provided with respect to the Premises, Improvements, and other collateral described herein for the benefit of or naming GE Capital, and refunds or rebates of taxes or assessments on the Premises;

(d) all written and oral leases and rental agreements (including extensions, renewals and subleases; all of the foregoing shall be referred to collectively herein as the "LEASES") now or hereafter affecting the Premises including, without limitation, all rents, issues, income, profits and other revenues and income therefrom and from the renting, leasing or bailment of Improvements and equipment ("RENTS"), all guaranties of tenants' performance under the Leases, and all rights and claims of any kind that Borrower may have against any tenant under the Leases or in connection with the termination or rejection of the Leases in a bankruptcy or insolvency proceeding;

(e) plans, specifications, contracts and agreements relating to the design or construction of the Improvements; Borrower's rights under any payment, performance, or other bond in connection with the design or construction of the Improvements; all landscaping and construction materials, supplies, and equipment used or to be used or consumed in connection with construction of the Improvements, whether stored on the Premises or at some other location; and contracts, agreements, and purchase orders with contractors, subcontractors, suppliers, and materialmen incidental to the design or construction of the Improvements;

3

(f) all contracts, accounts, rights, claims or causes of action pertaining to or affecting the Premises or the Improvements, including, without limitation, all options or contracts to acquire other property for use in connection with operation or development of the Premises or Improvements, management contracts, service or supply contracts, deposits, bank accounts, general intangibles (including without limitation trademarks, trade names and symbols), permits, licenses, franchises and certificates, and all commitments or agreements, now or hereafter in existence, intended by the obligor thereof to provide Borrower with proceeds to satisfy the loan evidenced hereby or improve the Premises or Improvements, and the right to receive all proceeds due under such commitments or agreements including refundable deposits and fees;

(g) all books, records, surveys, reports and other documents related to the Premises, the Improvements, the Leases, or other items of collateral described herein; and

(h) all additions, accessions, replacements, substitutions, proceeds and products of the real and personal property, tangible and intangible,



described herein. All of the foregoing described collateral is exclusive of any equipment, inventory, furniture, furnishings or trade fixtures owned and supplied by tenants of the Premises. The Premises, the Improvements, the Leases and all of the rest of the foregoing property are herein referred to as the "PROPERTY." TO HAVE AND TO HOLD the Property and all parts, rights, members and appurtenances thereof to the use, benefit and behoof of GE Capital and its successors and assigns in fee simple forever.

TO SECURE TO GE Capital (a) the repayment of the indebtedness evidenced by Borrower's Balloon Promissory Note dated of even date herewith in the principal sum of Two Million and no hundredths Dollars (\$2,000,000.00), with interest thereon as set forth therein, and having a final scheduled maturity date of January 1, 2013, and all renewals, extensions and modifications thereof (herein "NOTE"); (b) the repayment of any future advances, with interest thereon, made by GE Capital to Borrower pursuant to Section 30 hereof (herein "FUTURE ADVANCES"); (c) the payment of all other sums, with interest thereon, advanced in accordance herewith to protect the security of this Instrument or to fulfill any of Borrower's obligations hereunder or under the other Loan Documents (as defined below); (d) the performance of the covenants and agreements of Borrower contained herein or in the other Loan Documents; and (e) the repayment of all sums now or hereafter owing to GE Capital by Borrower pursuant to any instrument which recites that it is secured hereby. The indebtedness and obligations described in clauses (a)-(e) above are collectively referred to herein as the "INDEBTEDNESS". The Note, this Instrument, and all other documents evidencing, securing or guaranteeing the Indebtedness, including, without limitation that certain Environmental Indemnity Agreement being executed as of the date hereof, as the same may be modified or amended from time to time, are referred to herein as the "LOAN DOCUMENTS". The terms of the Note secured hereby may provide that the interest rate or payment terms or balance due may be indexed, adjusted, renewed, or renegotiated from time to time, and this Instrument shall continue to secure the Note notwithstanding any such indexing, adjustment, renewal or renegotiation.

4

PROVIDED, ALWAYS, that if Borrower shall pay unto GE Capital the Indebtedness and if Borrower shall duly, promptly and fully perform, discharge, execute, effect, complete and comply with and abide by each and every of the stipulations, agreements, conditions and covenants of the Note and this Instrument, then this Instrument and all assignments contained herein and liens created hereby shall cease and be null and void; otherwise to remain in full force and effect.

Borrower represents and warrants that Borrower has good, marketable and insurable title to, and has the right to grant, convey and assign an indefeasible fee simple estate in, the Premises, Improvements, Rents and Leases, and the right to convey the other Property, that the Property is unencumbered except as disclosed in writing to and approved by GE Capital prior to the date hereof, and that Borrower will warrant and forever defend unto Trustee the title to the Property against all claims and demands, subject only to the permitted exceptions set forth in Schedule 1 attached hereto.

Borrower represents, warrants, covenants and agrees for the benefit of GE Capital as follows:

SECTION 1. PAYMENT OF PRINCIPAL AND INTEREST. Borrower shall promptly pay when due the principal of and interest on the Indebtedness, any prepayment and other charges provided in the Loan Documents and all other sums secured by this Instrument.

SECTION 2. FUNDS FOR TAXES, INSURANCE AND OTHER CHARGES. Except as is hereinafter provided with respect to the impounding of such payments by GE Capital following the occurrence of an Event of Default, Borrower shall pay or cause to be paid when due, prior to delinquency, all annual real estate taxes, insurance premiums, assessments, water and sewer rates, ground rents and other charges (herein "IMPOSITIONS") payable with respect to the Property. Upon the occurrence of an Event of Default (hereinafter defined), and at GE Capital's sole option at any time thereafter, Borrower shall pay in addition to each monthly payment on the Note, one-twelfth of the annual Impositions (as estimated by GE Capital in its sole discretion), to be held by GE Capital without interest to Borrower, for the payment of such Impositions.

If the amount of such additional payments held by GE Capital ("FUNDS") at the time of the annual accounting thereof shall exceed the amount deemed necessary by GE Capital to provide for the payment of Impositions as they fall due, such excess shall be at Borrower's option, either repaid to Borrower or credited to Borrower on the next monthly installment or installments of Funds due. If at any time the amount of the Funds held by GE Capital shall be less than the amount deemed necessary by GE Capital to pay Impositions as they fall due, Borrower shall pay to GE Capital any amount necessary to make up the deficiency within thirty (30) days after notice from GE Capital to Borrower

requesting payment thereof.

GE Capital may apply, in any amount and in any order as GE Capital shall determine in GE Capital's sole discretion, any Funds held by GE Capital at the time of application (i) to pay Impositions which are now or will hereafter become due, or (ii) as a credit against sums secured

5

by this Instrument. Upon payment in full of all sums secured by this Instrument, GE Capital shall refund to Borrower any Funds held by GE Capital.

SECTION 3. APPLICATION OF PAYMENTS. Unless applicable law provides otherwise, each complete installment payment received by GE Capital from Borrower under the Note or this Instrument shall be applied by GE Capital first in payment of amounts payable to GE Capital by Borrower under Section 2 hereof, then to interest payable on the Note, then to principal of the Note, then to interest and principal on any Future Advances in such order as GE Capital, at GE Capital's sole discretion, shall determine. Upon the occurrence of an Event of Default, GE Capital may apply, in any amount and in any order as GE Capital shall determine in GE Capital's sole discretion, any payments received by GE Capital under the Note or this Instrument. Any partial payment received by GE Capital shall, at GE Capital's option, be held in a non-interest bearing account until GE Capital receives funds sufficient to equal a complete installment payment. If requested by GE Capital, Borrower shall promptly furnish to GE Capital all notices of Impositions which become due under this Section 4, and in the event Borrower shall make payment directly, Borrower shall promptly furnish to GE Capital receipts evidencing such payments.

SECTION 4. CHARGES, LIENS. Borrower shall promptly discharge or bond off any lien which has, or may have, priority over or equality with, the lien of this Instrument, and Borrower shall pay, when due, the claims of all persons supplying labor or materials to or in connection with the Property. Without GE Capital's prior written permission, Borrower shall not allow any lien inferior to this Instrument to be perfected against the Property. If any lien inferior to this Instrument is filed against the Property without GE Capital's prior written permission and without the consent of Borrower, Borrower shall, within thirty (30) days after receiving notice of the filing of such lien, cause such lien to be released of record or bonded off and deliver evidence of such release or bonding to GE Capital. Borrower may contest any such lien by appropriate proceedings in good faith, timely filed, provided that enforcement of the lien is stayed pending such contest. Mortgage may require that Borrower post security for payment of such lien.

SECTION 5. INSURANCE. Borrower shall obtain and maintain the following types of insurance upon and relating to the Property:

(a) "All Risk" property and fire insurance (with extended coverage endorsement including malicious mischief and vandalism) in an amount not less than the full replacement value of the Property (with a deductible not to exceed \$10,000), naming GE Capital under a lender's loss payable endorsement (form 438BFU or equivalent) naming GE Capital as mortgagee and loss payee and including agreed amount, inflation guard, replacement cost and waiver of subrogation endorsements;

(b) Commercial general liability insurance in an amount not less than \$2,000,000 per occurrence and on an occurrence basis, insuring against personal injury, death and property damage and naming GE Capital as additional insured;

6

(c) Business interruption insurance or rent-loss insurance, as applicable, covering loss of rental or other income (including all expenses payable by tenants) for up to twelve (12) months;

(d) Boiler and machinery coverage for mechanical and electrical failure;

(e) Flood hazard insurance if the Property is located in an area designated by the Federal Emergency Management Act if and to the extent that the Property is located within an area that has been or is hereafter designated or identified as an area having special flood hazards by the Department of Housing and Urban Development or such other official as shall from time to time be authorized by federal or state law to make such designation pursuant to any national or state program of flood insurance, Borrower shall carry flood insurance with respect to the Property in amounts not less than the maximum limit of coverage then available with

respect to the Property or the amount of the Indebtedness, whichever is less; and

(f) Such other types of insurance or endorsements to existing insurance as may be required from time to time by GE Capital in accordance with its standard commercial lending practices.

Upon the request of GE Capital, Borrower shall increase the coverages under any of the insurance policies required to be maintained hereunder or otherwise modify such policies in accordance with GE Capital's standard commercial lending practices. All of the insurance policies required hereunder shall be issued by corporate insurers licensed to do business in the state in which the Property is located and rated A:VIII or better by A.M. Best Company, and shall be in form acceptable to GE Capital. Certificates of all insurance required to be maintained hereunder shall be delivered to GE Capital, along with evidence of payment in full of all premiums required thereunder, contemporaneously with Borrower's execution of this Instrument. All such certificates shall be in form acceptable to GE Capital and shall require the insurance company to give to GE Capital at least thirty (30) days' prior written notice before canceling the policy for any reason or materially amending it. Certificates evidencing all renewal and substitute policies of insurance shall be delivered to GE Capital, along with evidence of the payment in full of all premiums required thereunder, at least fifteen (15) days before termination of the policies being renewed or substituted. If any loss shall occur at any time when Borrower shall be in default hereunder, GE Capital shall be entitled to the benefit of all insurance policies held or maintained by Borrower, to the same extent as if same had been made payable to GE Capital, and upon foreclosure hereunder, GE Capital shall become the owner thereof. GE Capital shall have the right, but not the obligation, to make premium payments, at Borrower's expense, to prevent any cancellation, endorsement, alteration or reissuance of any policy of insurance maintained by Borrower, and such payments shall be accepted by the insurer to prevent same.

If any act or occurrence of any kind or nature (including any casualty for which insurance was not obtained or obtainable) shall result in damage to or destruction of the Property (such event being called a "LOSS"), Borrower will give prompt written notice thereof to GE Capital. If the insurance proceeds paid or payable in connection with any Loss are reasonably expected to

7

exceed \$10,000 and if an Event of Default has not occurred hereunder and is not continuing, GE Capital shall apply all such insurance proceeds to the restoration, replacement and rebuilding of the damaged portion of the Property, and such restoration, replacement and rebuilding shall be accomplished, upon satisfaction of each and all of the following conditions: (i) except as provided in (ii) below, GE Capital shall be satisfied that by the expenditure of such insurance proceeds the Property will be fully restored within a reasonable period of time to its value immediately preceding the loss or damage, free and clear of all liens, except the lien of this Instrument, the permitted exceptions set forth in Schedule 1 attached hereto, and such other liens as are specifically approved by GE Capital in writing under this Instrument; (ii) in the event such proceeds shall be insufficient to restore or rebuild the Property, Borrower shall deposit promptly with GE Capital funds which, together with the insurance proceeds, shall be sufficient in GE Capital's judgment to restore and rebuild the Property; (iii) Borrower shall make reasonable efforts to obtain a waiver of the right of subrogation from any insurer under such policies of insurance who, at that time, claims that no liability exists as to Borrower or the then owner or the assured under such policies; (iv) the excess of such insurance proceeds above the amount necessary to complete such restoration and compensate Borrower for all other insured losses shall be applied on account of the Indebtedness (first to interest, then to expenses reimbursable to GE Capital and then to principal amounts falling due under the Note without prepayment premium); (v) GE Capital reviews and approves in writing the plans and specifications for the restoration work and GE Capital receives written evidence satisfactory to GE Capital that the same have been approved by all governmental authorities having jurisdiction; (vi) Borrower shall have furnished to GE Capital, for GE Capital's approval, a detailed budget and cost breakdown for said restoration work signed by Borrower and describing the nature and type of expenses and amounts thereof estimated by Borrower for said restoration work including, but not limited to, the cost of material and supplies, architect and designer fees, general contractor's fees, and the anticipated monthly disbursement schedule, and GE Capital shall have given to Borrower written approval of such budget and cost breakdown (if Borrower determines at any time that its actual expenses differ or will differ from its estimated budget, it will so advise GE Capital promptly); (vii) Borrower has delivered to GE Capital evidence satisfactory to GE Capital that all Leases existing at the time of the Loss will remain in full force and effect subject only to abatement of rent in accordance with the terms of the Leases until completion of such repair and restoration; and (viii) in GE Capital's reasonable judgment, such restoration work can be completed at least six (6) months prior to the maturity of the Note.

In the event any of such conditions are not or cannot be satisfied, then all of the insurance proceeds payable with respect to such Loss will be applied to the payment of the Indebtedness in such order as GE Capital may elect.

Under no circumstances shall GE Capital become obligated to take any action to restore the Property; all proceeds released or applied by GE Capital to the restoration of the Property pursuant to the provisions of this Section 5 shall be released and/or applied to the cost of restoration (including within the term "RESTORATION" any repair, reconstruction or alteration) as such restoration progresses, in amounts which shall equal ninety percent (90%) of the amounts from time to time certified by an architect approved by GE Capital to have been incurred in such restoration of any and all of the Property (i.e., 90% of the total amount expended by the contractor for the project under a contract approved by GE Capital and billed by the contractor to

8

Borrower) and performed by a contractor reasonably satisfactory to GE Capital and who shall furnish such corporate surety bond, if any, as may be reasonably required by GE Capital in accordance with the plans and specifications therefor approved by GE Capital and the remaining ten percent (10%) upon completion of such restoration and delivery to GE Capital of evidence reasonably satisfactory to GE Capital that no mechanics' lien exists with respect to the work of such restoration; that the restoration work has been completed and fully paid for in accordance with plans and specifications for said work approved by GE Capital; and that all Leases existing at the time the Loss occurred are in full force and effect with all tenants in possession and paying full Lease rental; and that all governmental approvals required for the completion of said restoration work and occupancy of the Property have been obtained and the same are in form and substance satisfactory to GE Capital.

If within a reasonable period of time after the occurrence of any Loss, Borrower shall not have submitted to GE Capital and received GE Capital's approval of plans and specifications for the repair, restoration or rebuilding of such Loss or shall not have obtained approval of such plans and specifications from all governmental authorities whose approval is required, or if, after such plans and specifications are approved by GE Capital and by all such governmental authorities, Borrower shall fail to commence promptly such repair, restoration or rebuilding, or if thereafter Borrower fails to carry out diligently such repair, restoration or rebuilding or is delinquent in the payment to mechanics, materialmen or others of the costs incurred in connection with such work, or if any other condition of this Section 5 is not satisfied within a reasonable period of time after the occurrence of any such Loss, then GE Capital may, in addition to all other rights herein set forth, at GE Capital's option, (A) declare that an Event of Default has occurred and/or apply all of the insurance proceeds payable with respect to such Loss to the payment of the Indebtedness in such order as GE Capital may elect, and/or (B) GE Capital, or any lawfully appointed receiver of the Property may at their respective options, perform or cause to be performed such repair, restoration or rebuilding, and may take such other steps as they deem advisable to carry out such repair, restoration or rebuilding, and may enter upon the Property for any of the foregoing purposes, and Borrower hereby waives, for itself and all others holding under it, any claim against GE Capital and such receiver (other than a claim based upon the alleged gross negligence or intentional misconduct of GE Capital or any such receiver) arising out of anything done by them or any of them pursuant to this Section 5 and GE Capital may in its discretion apply any proceeds held by it to reimburse itself and/or such receiver for all amounts expended or incurred by it in connection with the performance of such work, including attorneys' fees, and any excess costs shall be paid by Borrower to GE Capital and Borrower's obligation to pay such excess costs shall be secured by the lien of this Instrument and shall bear interest at the default rate set forth in the Note, until paid.

Nothing herein, and no authority given to Borrower to repair, rebuild or restore the Property or any portion thereof, shall be deemed to constitute Borrower the agent of GE Capital for any purpose, or to create, either expressly or by implication, any liens or claims or rights on behalf of laborers, mechanics, materialmen or other lien holders which could in any way be superior to the lien or claim of GE Capital, or which could be construed as creating any third party rights of any kind or nature to the insurance funds. At reasonable times during the work of restoration, and upon reasonable notice, GE Capital, either personally or by duly authorized agents, shall have the right to enter upon the Property for inspection of the work. Borrower

9

expressly assumes all risk of loss, including a decrease in the use, enjoyment

or value of the Property from any casualty whatsoever, whether or not insurable or insured against.

SECTION 6. PRESERVATION AND MAINTENANCE OF PROPERTY; LEASEHOLDS. Borrower (a) shall not commit waste or permit impairment or deterioration of the Property, (b) shall not abandon the Property, (c) shall restore or repair promptly and in a good and workmanlike manner all or any part of the Property to the equivalent of its original condition, or such other condition as GE Capital may approve in writing, in the event of any damage, injury or loss thereto, whether or not insurance proceeds are available to cover in whole or in part the costs of such restoration or repair, (d) shall keep the Property, including all Improvements thereon, in good repair and shall replace fixtures, equipment, machinery and appliances on the Property when necessary to keep such items in good repair, (e) shall comply with all laws, ordinances, regulations and requirements of any governmental body applicable to the Property, (f) if all or part of the Property is for rent or lease, then GE Capital, at its option after the occurrence of an Event of Default, may require Borrower to provide for professional management of the Property by a property manager satisfactory to GE Capital pursuant to a contract approved by GE Capital in writing, unless such requirement shall be waived by GE Capital in writing, (g) shall give notice in writing to GE Capital of and, unless otherwise directed in writing by GE Capital, appear in and defend any action or proceeding purporting to affect the Property, the security of this Instrument or the rights or powers of GE Capital hereunder. Neither Borrower nor any tenant or other person, without the written approval of GE Capital, shall remove, demolish or alter any Improvement now existing or hereafter erected on the Premises or any Property except when incident to the replacement of fixtures, equipment, machinery and appliances with items of like kind.

Borrower represents, warrants and covenants that the Property is and shall be in substantial compliance with the Americans with Disabilities Act of 1990 and all of the regulations promulgated thereunder, as the same may be amended from time to time.

SECTION 7. USE OF PROPERTY. Unless required by applicable law or unless GE Capital has otherwise agreed in writing, Borrower shall not allow changes in the use for which all or any part of the Property was intended at the time this Instrument was executed. Borrower shall not, without GE Capital's prior written consent, (i) initiate or acquiesce in a change in the zoning classification (including any variance under any existing zoning ordinance applicable to the Property), (ii) permit the use of the Property to become a non-conforming use under applicable zoning ordinances, (iii) file any subdivision or parcel map affecting the Property, or (iv) amend, modify or consent to any easement or covenants, conditions and restrictions pertaining to the Property.

SECTION 8. PROTECTION OF GE CAPITAL'S SECURITY. If Borrower fails to perform any of the covenants and agreements contained in this Instrument, or if any action or proceeding is commenced which affects the Property or title thereto or the interest of GE Capital therein, including, but not limited to, eminent domain, insolvency, code enforcement, or arrangements or proceedings involving a bankrupt or decedent, then GE Capital at GE Capital's option may make such appearances, disburse such sums and take such action as GE Capital deems necessary, in its sole discretion, to protect GE Capital's interest, including, but not limited to, (i) disbursement of

10

attorneys' fees, (ii) entry upon the Property to make repairs, (iii) procurement of satisfactory insurance as provided in Section 5 hereof, and (iv) if this Instrument is on a leasehold, exercise of any option to renew or extend the Ground Lease on behalf of Borrower and the curing of any default of Borrower in the terms and conditions of the Ground Lease.

Any amounts disbursed by GE Capital pursuant to this Section 8, with interest thereon, shall become additional Indebtedness of Borrower secured by this Instrument. Unless Borrower and GE Capital agree to other terms of payment, such amounts shall be immediately due and payable and shall bear interest from the date of disbursement at the Default Rate (as defined in the Note). Borrower hereby covenants and agrees that GE Capital shall be subrogated to the lien of any mortgage or other lien discharged, in whole or in part, by the Indebtedness. Nothing contained in this Section 8 shall require GE Capital to incur any expense or take any action hereunder.

SECTION 9. INSPECTION. GE Capital may make or cause to be made reasonable entries upon the Property to inspect the interior and exterior thereof. Except in case of emergency, such inspection shall be with reasonable prior notice and shall in any case be with due regard to rights of tenants.

SECTION 10. FINANCIAL DATA. Borrower will furnish to GE Capital and will cause any guarantor of the Indebtedness to furnish GE Capital on request, within ninety (90) days after the close of its fiscal year (i) annual balance sheet and

profit and loss statements prepared in accordance with generally accepted accounting principles and practices consistently applied and, if GE Capital so requires, accompanied by the annual audit report of an independent certified public accountant reasonably acceptable to GE Capital, (ii) an annual operating statement, together with a complete rent roll and other supporting data reflecting all material information with respect to the operation of the Property and Improvements, and (iii) all other financial information and reports that GE Capital may from time to time reasonably request, including, if GE Capital so requires, income tax returns of Borrower and any guarantor of any portion of the Indebtedness, and financial statements of any tenants designated by GE Capital.

SECTION 11. CONDEMNATION. If the Property, or any part thereof, shall be condemned for any reason, including without limitation fire or earthquake damage, or otherwise taken for public or quasi-public use under the power of eminent domain, or be transferred in lieu thereof, (such event being called a "TAKING") and if the damages or other amounts awarded for the Taking are reasonably expected to exceed \$10,000 and if an Event of Default has not occurred hereunder and is not continuing, GE Capital shall apply all such proceeds to the restoration, replacement and rebuilding of the Property, and such restoration, replacement and rebuilding shall be accomplished, upon satisfaction of each and all of the following conditions: (i) except as provided in (ii) below, GE Capital shall be satisfied that by the expenditure of such proceeds the Property will be fully restored within a reasonable period of time to its value immediately preceding the Taking, free and clear of all liens, except the lien of this Instrument, the permitted exceptions set forth in Schedule 1 attached hereto, and such other liens as are specifically approved by GE Capital in writing under this Instrument; (ii) in the event such proceeds shall be insufficient to restore or rebuild the Property, Borrower shall deposit promptly with GE Capital funds which, together with the proceeds, shall be sufficient in GE Capital's judgment to restore

11

and rebuild the Property; (iii) the excess of such proceeds above the amount necessary to complete such restoration and compensate Borrower for all other losses shall be applied on account of the Indebtedness (first to interest, then to expenses reimbursable to GE Capital and then to principal amounts falling due under the Note without prepayment premium); (iv) GE Capital reviews and approves in writing the plans and specifications for the restoration work and GE Capital receives written evidence satisfactory to GE Capital that the same have been approved by all governmental authorities having jurisdiction; (v) Borrower shall have furnished to GE Capital, for GE Capital's approval, a detailed budget and cost breakdown for said restoration work signed by Borrower and describing the nature and type of expenses and amounts thereof estimated by Borrower for said restoration work including, but not limited to, the cost of material and supplies, architect and designer fees, general contractor's fees, and the anticipated monthly disbursement schedule, and GE Capital shall have given to Borrower written approval of such budget and cost breakdown (if Borrower determines at any time that its actual expenses differ or will differ from its estimated budget, it will so advise GE Capital promptly); (vi) Borrower has delivered to GE Capital evidence satisfactory to GE Capital that all Leases existing at the time of the Taking will remain in full force and effect subject only to abatement of rent in accordance with the terms of the Leases until completion of such repair and restoration; and (vii) in GE Capital's reasonable judgment, such restoration work can be completed at least six (6) months prior to the maturity of the Note.

In the event any of such conditions are not or cannot be satisfied, then all of the proceeds payable with respect to such Taking will be applied to the payment of the Indebtedness in such order as GE Capital may elect.

Under no circumstances shall GE Capital become obligated to take any action to restore the Property; all proceeds released or applied by GE Capital to the restoration of the Property pursuant to the provisions of this Section 11 shall be released and/or applied on the cost of restoration (including within the term "RESTORATION" any repair, reconstruction or alteration) as such restoration progresses, in amounts which shall equal ninety percent (90%) of the amounts from time to time certified by an architect approved by GE Capital to have been incurred in such restoration of any and all of the Property (i.e., 90% of the total amount expended by the contractor for the project under a contract approved by GE Capital and billed by the contractor to Borrower) and performed by a contractor reasonably satisfactory to GE Capital and who shall furnish such corporate surety bond, if any, as may be reasonably required by GE Capital in accordance with the plans and specifications therefor approved by GE Capital and the remaining ten percent (10%) upon completion of such restoration and delivery to GE Capital of evidence reasonably satisfactory to GE Capital that no mechanics' lien exists with respect to the work of such restoration; that the restoration work has been completed and fully paid for in accordance with plans and specifications for said work approved by GE Capital; and that all Leases existing at the time the Taking occurred are in full force and effect with all tenants in possession and paying full Lease rental; and that all governmental

approvals required for the completion of said restoration work and occupancy of the Property have been obtained and the same are in form and substance satisfactory to GE Capital.

If within a reasonable period of time after the occurrence of any Taking, Borrower shall not have submitted to GE Capital and received GE Capital's approval of plans and specifications

12

for the repair, restoration or rebuilding of the Property or shall not have obtained approval of such plans and specifications from all governmental authorities whose approval is required, or if, after such plans and specifications are approved by GE Capital and by all such governmental authorities, Borrower shall fail to commence promptly such repair, restoration or rebuilding, or if thereafter Borrower fails to carry out diligently such repair, restoration or rebuilding or is delinquent in the payment to mechanics, materialmen or others of the costs incurred in connection with such work, or if any other condition of this Section 11 is not satisfied within a reasonable period of time after the occurrence of any such Taking, then GE Capital may, in addition to all other rights herein set forth, at GE Capital's option, (A) declare that an Event of Default has occurred and/or apply all of the proceeds of the Taking to the payment of the Indebtedness in such order as GE Capital may elect, and/or (B) GE Capital, or any lawfully appointed receiver of the Property may at their respective options, perform or cause to be performed such repair, restoration or rebuilding, and may take such other steps as they deem advisable to carry out such repair, restoration or rebuilding, and may enter upon the Property for any of the foregoing purposes, and Borrower hereby waives, for itself and all others holding under it, any claim against GE Capital and such receiver (other than a claim based upon the alleged gross negligence or intentional misconduct of GE Capital or any such receiver) arising out of anything done by them or any of them pursuant to this Section 11 and GE Capital may in its discretion apply any proceeds held by it to reimburse itself and/or such receiver for all amounts expended or incurred by it in connection with the performance of such work, including attorneys' fees, and any excess costs shall be paid by Borrower to GE Capital and Borrower's obligation to pay such excess costs shall be secured by the lien of this Instrument and shall bear interest at the default rate set forth in the Note, until paid.

Nothing herein, and no authority given to Borrower to repair, rebuild or restore the Property or any portion thereof, shall be deemed to constitute Borrower the agent of GE Capital for any purpose, or to create, either expressly or by implication, any liens or claims or rights on behalf of laborers, mechanics, materialmen or other lien holders which could in any way be superior to the lien or claim of GE Capital, or which could be construed as creating any third party rights of any kind or nature to the proceeds. At reasonable times during the work of restoration, and upon reasonable notice, GE Capital, either personally or by duly authorized agents, shall have the right to enter upon the Property for inspection of the work. Borrower expressly assumes all risk of loss, including a decrease in the use, enjoyment or value of the Property from any casualty whatsoever, whether or not insurable or insured against.

SECTION 12. BORROWER AND LIEN NOT RELEASED. From time to time, GE Capital may, at GE Capital's option, without giving notice to or obtaining the consent of Borrower, Borrower's successors or assigns or of any junior lienholder or guarantors, without liability on GE Capital's part and notwithstanding the occurrence of an Event of Default, extend the time for payment of the Indebtedness or any part thereof, reduce the payments thereon, release anyone liable on any of the Indebtedness, accept an extension or modification or renewal note or notes therefor, modify the terms and time of payment of the Indebtedness, release from the lien of this Instrument any part of the Property, take or release other or additional security, reconvey any part of the Property, consent to any map or plan of the Property, consent to the granting of any easement, join in any extension or subordination agreement, and agree in writing with Borrower to modify the rate of interest or period of amortization of the Note or change the amount of the

13

monthly installments payable thereunder. Any actions taken by GE Capital pursuant to the terms of this Section 12 shall not affect the obligation of Borrower or Borrower's successors or assigns to pay the sums secured by this Instrument and to observe the covenants of Borrower contained herein, shall not affect the guaranty of any person, corporation, partnership or other entity for payment of the Indebtedness, and shall not affect the lien or priority of the lien hereof on the Property. Borrower shall pay GE Capital a service charge, together with such title insurance premiums and attorneys' fees as may be incurred at GE Capital's option, for any such action if taken at Borrower's

request.

SECTION 13. FORBEARANCE BY GE CAPITAL NOT A WAIVER. Any forbearance by GE Capital in exercising any right or remedy hereunder, or otherwise afforded by applicable law, shall not be a waiver of or preclude the exercise of any other right or remedy. The acceptance by GE Capital of payment of any sum secured by this Instrument after the due date of such payment shall not be a waiver of GE Capital's right to either require prompt payment when due of all other sums so secured or to declare a default for failure to make prompt payment. The procurement of insurance or the payment of taxes or other liens or charges by GE Capital shall not be a waiver of GE Capital's right to accelerate the maturity of the Indebtedness secured by this Instrument, nor shall GE Capital's receipt of any awards, proceeds or damages under Sections 5 and 11 hereof operate to cure or waive Borrower's default in payment of sums secured by this Instrument.

SECTION 14. UNIFORM COMMERCIAL CODE SECURITY AGREEMENT. This Instrument is intended to be a security agreement pursuant to the California Uniform Commercial Code for any of the items specified above as part of the Property which, under applicable law, may be subject to a security interest pursuant to the California Uniform Commercial Code, and Borrower hereby grants and conveys to GE Capital a first and prior security interest in all of the Property that constitutes personalty, ("Collateral", for purposes of this Section 14), whether now owned or hereafter acquired. Borrower agrees that GE Capital may file this Instrument, or a reproduction thereof, in the real estate records or other appropriate index, as a financing statement for any of the items specified above as part of the Collateral. Any reproduction of this Instrument or of any other security agreement or financing statement shall be sufficient as a financing statement. Borrower hereby authorizes GE Capital to file this Instrument, or a reproduction thereof, as a financing statement for any of the items specified above as part of the collateral, and any financing statements, extensions, renewals, amendments and other records in connection therewith, in the real estate records and/or other appropriate index. Borrower hereby waives any and all rights Borrower may have to file in the real estate records and any other index any financing statement, amendment, termination statement and other record pertaining to the collateral and/or GE Capital's interest therein. Borrower shall execute and deliver to GE Capital, upon GE Capital's request, any financing statements, extensions, renewals, amendments and other records, and reproductions of this Instrument, in such form as GE Capital may require to perfect a security interest with respect to the foregoing items. Borrower shall pay all costs of filing such financing statements and any extensions, renewals, amendments and releases thereof, and shall pay all costs and expenses of any record searches for financing statements GE Capital may require. Without the prior written consent of GE Capital, Borrower shall not create or suffer to be created pursuant to the Uniform Commercial Code any other security interest in said items, including replacements and additions thereto. Upon Borrower's breach of any covenant or

14

agreement of Borrower contained in this Instrument, including the covenants to pay when due all sums secured by this Instrument, GE Capital shall have the remedies of a secured party under the Uniform Commercial Code, and GE Capital may also invoke the remedies provided in Section 25 of this Instrument as to such items. In exercising any of said remedies GE Capital may proceed against the items of real property and any items of personal property specified above separately or together and in any order whatsoever, without in any way affecting the availability of GE Capital's remedies under the Uniform Commercial Code or of the remedies provided in Section 25 of this Instrument. Within ten (10) days following any request therefor by GE Capital, Borrower shall prepare and deliver to GE Capital a written inventory specifically listing all of the personal property covered by the security interest herein granted, which inventory shall be certified by Borrower as being true, correct, and complete.

SECTION 15. LEASES OF THE PROPERTY. Borrower shall comply with and observe Borrower's obligations as landlord under all Leases of the Property or any part thereof. All Leases now or hereafter entered into will be in form and substance subject to the approval of GE Capital. Borrower shall pay all attorneys' fees incurred by GE Capital in reviewing any Lease or proposed Lease. All Leases of the Property shall specifically provide that such Leases are subordinate to this Instrument; that the tenant attorns to GE Capital, such attornment to be effective upon either GE Capital's or any other party's acquisition of the Property, or any portion thereof, either by foreclosure or deed-in-lieu thereof; that the tenant agrees to execute such further evidences of attornment as GE Capital may from time to time request; and that the attornment of the tenant shall not be terminated by foreclosure or a deed-in-lieu thereof; and that GE Capital may, at GE Capital's option, accept or reject such attornments (except as to third-party credit tenants unrelated to Borrower, as to which GE Capital shall grant a non-disturbance provision). Borrower shall not, without GE Capital's written consent, request or consent to the subordination of any Lease of all or any part of the Property to any lien subordinate to this Instrument. If Borrower becomes aware that any tenant proposes to do, or is doing, any act or thing which may give rise to any right of set-off against rent, Borrower



shall (i) take such steps as shall be reasonably calculated to prevent the accrual of any right to a set-off against rent, (ii) immediately notify GE Capital thereof in writing and of the amount of said set-offs, and (iii) within ten (10) days after such accrual, reimburse the tenant who shall have acquired such right to set-off or take such other steps as shall effectively discharge such setoff and as shall assure that Rents thereafter due shall continue to be payable without set-off or deduction. Upon GE Capital's receipt of notice of the occurrence of any default or violation by Borrower of any of its obligations under the Leases, GE Capital shall have the immediate right, but not the duty or obligation, without prior written notice to Borrower or to any third party, to enter upon the Property and to take such actions as GE Capital may deem necessary to cure the default or violation by Borrower under the Leases. The costs incurred by GE Capital in taking any such actions pursuant to this paragraph shall become part of the Indebtedness, shall bear interest at the rate provided in the Note, and shall be payable by Borrower to GE Capital on demand. GE Capital shall have no liability to Borrower or to any third party for any actions taken by GE Capital or not taken pursuant to this paragraph.

SECTION 16. REMEDIES CUMULATIVE. Each remedy provided in this Instrument is distinct and cumulative to all other rights or remedies under this Instrument or afforded by law or equity, and may be exercised concurrently, independently, or successively, in any order whatsoever.

15

SECTION 17. TRANSFERS OF THE PROPERTY OR BENEFICIAL INTERESTS IN BORROWER; SUBORDINATE FINANCING PROHIBITED; ASSUMPTION. GE Capital may, at its option, declare all sums secured by this Instrument to be immediately due and payable, and GE Capital may invoke any remedies permitted by Section 25 of this Instrument, if title to the Property is changed without the prior written consent of GE Capital, which consent shall be at GE Capital's sole discretion. Any transfer of any interest in the Property or in the income therefrom, by sale, lease (except for Leases to tenants in the ordinary course of managing income property which are approved by GE Capital pursuant to Section 15 of this Instrument), contract, mortgage, deed of trust, further encumbrance or otherwise (including any such transfers as security for additional financing of the Property). Leasehold mortgages and collateral assignments of any Lease of the Property given by tenants of the Property are prohibited without the prior written consent of GE Capital, which consent may be withheld in GE Capital's sole discretion. Notwithstanding the foregoing, additional but subordinate deeds of trust may be granted to GE Capital and, subject to the prior written consent of GE Capital, which consent may be withheld in GE Capital's sole discretion, may be granted to entities owned by or under common control with GE Capital.

GE Capital shall have the right to condition its consent to any proposed sale or transfer described in this Section 17 upon, among other things, GE Capital's approval of the transferee's creditworthiness and management ability and the transferee's execution, prior to the sale or transfer, of a written assumption agreement containing such terms as GE Capital may require, including, if required by GE Capital, the imposition of an assumption fee of one percent (1%) of the then outstanding balance of the Indebtedness. Consent by GE Capital to one transfer of the Property shall not constitute consent to subsequent transfers or waiver of the provisions of this Section 17. No transfer by Borrower shall relieve Borrower of liability for payment of the Indebtedness, unless GE Capital shall otherwise agree in writing at the time of such transfer. Borrower shall pay any recording tax, recording cost, title insurance premium, attorneys' fees, or other third-party expenses incurred by GE Capital in connection with any transfer, whether or not consent is required.

The transfer to and assumption by an approved transferee of the Borrower's obligations under the Loan shall not constitute a "prepayment" of the Loan requiring payment of a "Prepayment Premium" (as defined in the Note).

SECTION 18. NOTICE. Except for any notice required under applicable law to be given in another manner, any and all notices, elections, demands, or requests permitted or required to be made under this Instrument or under the Note shall be in writing, signed by the party giving such notice, election, demand or request, and shall be delivered personally, or sent by registered, certified, or Express United States mail, postage prepaid, or by Federal Express or similar service requiring a receipt, to the other party at the address stated above, or to such other party and at such other address within the United States of America as any party may designate in writing as provided herein. The date of receipt of such notice, election, demand or request shall be the earliest of (i) the date of actual receipt, (ii) three (3) business days after the date of mailing by registered or certified mail, (iii) one (1) business day after the date of mailing by Express Mail or the delivery (for redelivery) to Federal Express or another similar service requiring a receipt, or (iv) the date of personal delivery (or refusal upon presentation for delivery).

16

SECTION 19. SUCCESSORS AND ASSIGNS BOUND; JOINT AND SEVERAL LIABILITY; AGENTS; CAPTIONS. The covenants and agreements herein contained shall bind, and the rights hereunder shall inure to, the respective heirs, successors and assigns of GE Capital and Borrower, subject to the provisions of Section 17 hereof. If Borrower is comprised of more than one person or entity, whether as individuals, partners, partnerships, limited liability companies or corporations, each such person or entity shall be jointly and severally liable for Borrower's obligations hereunder. In exercising any rights hereunder or taking any actions provided for herein, GE Capital may act through its employees, agents or independent contractors as authorized by GE Capital. The captions and headings of the sections of this Instrument are for convenience only and are not to be used to interpret or define the provisions hereof.

SECTION 20. WAIVER OF STATUTE OF LIMITATIONS. Borrower hereby waives the right to assert any statute of limitations as a bar to the enforcement of the lien of this Instrument or to any action brought to enforce the Note or any other obligation secured by this Instrument.

SECTION 21. WAIVER OF MARSHALING. Notwithstanding the existence of any other security interests in the Property held by GE Capital or by any other party, GE Capital shall have the right to determine the order in which any or all of the Property shall be subjected to the remedies provided herein. GE Capital shall have the right to determine the order in which any or all portions of the Indebtedness secured hereby are satisfied from the proceeds realized upon the exercise of the remedies provided herein. Borrower, any party who consents to this Instrument and any party who now or hereafter acquires a security interest in the Property and who has actual or constructive notice hereof hereby waives any and all right to require the marshaling of assets in connection with the exercise of any of the remedies permitted by applicable law or provided herein.

SECTION 22. ADVANCES, COSTS AND EXPENSES. Borrower shall pay within ten (10) days after written demand from GE Capital all sums advanced by GE Capital and all costs and expenses incurred by GE Capital in taking any actions pursuant to the Loan Documents including attorneys' fees and disbursements, accountants' fees, appraisal and inspection fees and the costs for title reports and guaranties, together with interest thereon at the rate applicable under the Note after an Event of Default from the date such costs were advanced or incurred. All such costs and expenses incurred by GE Capital, and advances made, shall constitute advances under this Instrument to protect the Property and shall be secured by and have the same priority as the lien of this Instrument. If Borrower fails to pay any such advances, costs and expenses and interest thereon, GE Capital may apply any undisbursed loan proceeds to pay the same, and, without foreclosing the lien of this Instrument, may at its option commence an independent action against Borrower for the recovery of the costs, expenses and/or advances, with interest, together with costs of suit, costs of title reports and guaranty of title, disbursements of counsel and reasonable attorneys' fees incurred therein or in any appeal therefrom.

SECTION 23. ASSIGNMENT OF LEASES AND RENTS. Borrower, for good and valuable consideration, the receipt of which is hereby acknowledged, to secure the Indebtedness, does hereby absolutely and unconditionally grant, bargain, sell, transfer, assign, convey, set over and deliver unto GE Capital all right, title and interest of Borrower in, to and under the Leases of the

17

Property, whether now in existence or hereafter entered into, and all guaranties, amendments, extensions and renewals of said Leases and any of them, and all Rents which may now or hereafter be or become due or owing under the Leases, and any of them, or on account of the use of the Property.

Borrower represents, warrants, covenants and agrees with GE Capital as follows:

(a) The sole ownership of the entire lessor's interest in the Leases is vested in Borrower, and Borrower has not, and shall not, perform any acts or execute any other instruments which might prevent GE Capital from fully exercising its rights with respect to the Leases under any of the terms, covenants and conditions of this Instrument.

(b) The Leases are and shall be valid and enforceable in accordance with their terms and have not been and shall not be altered, modified, amended, terminated, canceled, renewed or surrendered except as approved in writing by GE Capital, which approval shall not be unreasonably withheld.. The terms and conditions of the Leases have not been and shall not be waived in any manner whatsoever except as approved in writing by GE

Capital, which approval shall not be unreasonably withheld.

(c) Borrower shall not decrease the term or the amount of rent payable under any Lease without prior written notice to GE Capital and GE Capital's consent.

(d) There are no defaults now existing under any of the Leases and, to the best of Borrower's knowledge, there exists no state of facts which, with the giving of notice or lapse of time or both, would constitute a default under any of the Leases.

(e) Borrower shall give prompt written notice to GE Capital of any notice received by Borrower claiming that a default has occurred under any of the Leases on the part of Borrower, together with a complete copy of any such notice.

(f) Each of the Leases shall remain in full force and effect irrespective of any merger of the interest of lessor and any lessee under any of the Leases.

(g) Borrower will not permit any Lease to become subordinate to any lien other than the lien of this Instrument.

(h) Borrower shall not permit or consent to the assignment by any tenant of its rights under its Lease without the prior written consent of GE Capital. Without limitation of the foregoing, Borrower shall not permit or consent to the filing of any encumbrance against the tenant's interest under any Lease including, without limitation, any leasehold mortgage.

The assignment made hereunder is an absolute, present assignment from Borrower to GE Capital, effective immediately, and is not merely an assignment for security purposes but is irrevocable by Borrower so long as the Indebtedness remains outstanding. Notwithstanding the foregoing, until a notice is sent to the Borrower in writing that an Event of Default (as defined

18

below) has occurred under the terms and conditions of the Note or any instrument constituting security for the Note (which notice is hereafter called a "Notice"), Borrower is granted a license to receive, collect and enjoy the Rents accruing from the Property.

If an Event of Default shall occur, GE Capital may, at its option, after service of a Notice, receive and collect all such Rents as they become due, from the Property. GE Capital shall thereafter continue to receive and collect all such Rents, until GE Capital shall otherwise agree in writing. All sums received by Borrower after service of such Notice shall be deemed received in trust and shall be immediately turned over to GE Capital.

Borrower hereby irrevocably appoints GE Capital its true and lawful attorney-in-fact with power of substitution and with full power for GE Capital in its own name and capacity or in the name and capacity of Borrower, from and after service of Notice, to demand, collect, receive and give complete acquittances for any and all Rents accruing from the Property, either in its own name or in the name of Borrower or otherwise, which GE Capital may deem necessary or desirable in order to collect and enforce the payment of the Rents and to demand, correct, receive, endorse, and deposit all checks, drafts, money orders or notes given in payment of such Rents. Such appointment is coupled with an interest and is irrevocable. GE Capital shall not be liable for or prejudiced by any loss of any note, checks, drafts, etc., unless such loss shall have been found by a court of competent jurisdiction to have been due to the gross negligence or willful misconduct of GE Capital.

GE Capital shall apply the Rents received from Borrower's lessees, to accrued interest and principal under the Note. If no Event of Default remains uncured, amounts received in excess of the aggregate monthly payment due under the Note shall be remitted to Borrower in a timely manner. Nothing contained herein shall be construed to constitute GE Capital as a mortgagee-in-possession in absence of its physically taking possession of the Property.

Borrower also hereby irrevocably appoints GE Capital as its true and lawful attorney-in-fact to appear in any state or federal bankruptcy, insolvency, or reorganization proceeding in any state or federal court involving any of the tenants of the Leases. Lessees of the Property are hereby expressly authorized and directed, from and after service of a Notice to pay any and all amounts due Borrower pursuant to the Leases to GE Capital or such nominee as GE Capital may designate in writing delivered to and received by such lessees who are expressly relieved of any and all duty, liability or obligation to Borrower in respect of all payments so made.

If an Event of Default shall occur, GE Capital is hereby vested with full power from and after service of a Notice to use all measures, legal and

equitable, deemed by it necessary or proper to enforce the assignment granted hereunder and to collect the Rents assigned hereunder, including the right of GE Capital or its designee, to enter upon the Property, or any part thereof, and take possession of all or any part of the Property together with all personal property, fixtures, documents, books, records, papers and accounts of Borrower relating thereto, and may exclude the Borrower, its agents and servants, wholly therefrom. Borrower hereby grants full power and authority to GE Capital to exercise all rights, privileges and powers herein granted at any and all times after service of a Notice, with full power to use and apply all of the Rents and other income herein assigned to the payment of the costs of managing and operating the Property and of any

19

indebtedness or liability of Borrower to GE Capital, including but not limited to the payment of taxes, special assessments, insurance premiums, damage claims, the costs of maintaining, repairing, rebuilding and restoring the Improvements on the Premises or of making the same rentable, reasonable attorneys' fees incurred in connection with the enforcement of the assignment granted hereunder, and of principal and interest payments due from Borrower to GE Capital on the Note and this Instrument, all in such order as GE Capital may determine. GE Capital shall be under no obligation to exercise or prosecute any of the rights or claims assigned to it hereunder or to perform or carry out any of the obligations of the lessor under any of the Leases and does not assume any of the liabilities in connection with or arising or growing out of the covenants and agreements of Borrower in the leases. It is further understood that the assignment granted hereunder shall not operate to place responsibility for the control, care, management or repair of the Property, or parts thereof, upon GE Capital, nor shall it operate to make GE Capital liable for the performance of any of the terms and conditions of any of the Leases, or for any waste of the Property by any lessee under any of the Leases or any other person, or for any dangerous or defective condition of the Property or for any negligence in the management, upkeep, repair or control of the Property resulting in loss or injury or death to any lessee, licensee, employee or stranger, unless the same shall have been found by a court of competent jurisdiction to have been due to the gross negligence or willful misconduct of GE Capital.

SECTION 24. DEFAULT. The following shall each constitute an event of default ("EVENT OF DEFAULT"):

- (a) The occurrence of an "Event of Default" under the Note;
- (b) Failure of Borrower within the time required by this Instrument to make any payment for taxes, insurance or for reserves for such payments, or any other payment necessary to prevent filing of or discharge of any lien, and such failure shall continue for a period of ten (10) days after written notice is given to Borrower by GE Capital specifying such failure;
- (c) Failure by Borrower to observe or perform any obligations of Borrower to GE Capital on or with respect to any transactions, debts, undertakings or agreements other than the transaction evidenced by the Note, following the giving of any notice required thereunder and/or the expiration of any applicable period of grace provided thereby;
- (d) Failure of Borrower to make any payment or perform any obligation under any superior liens or encumbrances on the Property, within the time required thereunder, or commencement of any suit or other action to foreclose any superior liens or encumbrances;
- (e) Failure by Borrower to observe or perform any of its obligations under any of the Leases, following the giving of any notice required thereunder and/or the expiration of any applicable period of grace provided thereby;

20

(f) The Property is transferred or any agreement to transfer any part or interest in the Property in any manner whatsoever is made or entered into without the prior written consent of GE Capital, except as specifically allowed under this Instrument, including without limitation creating or allowing any liens on the Property or leasing any portion of the Property;

(g) Filing by Borrower of a voluntary petition in bankruptcy or filing by Borrower of any petition or answer seeking or acquiescing in any reorganization, arrangement, composition, readjustment, liquidation, or similar relief for itself under any present or future federal, state or other statute, law or regulation relating to bankruptcy, insolvency or other relief for debtors, or the seeking, consenting to, or acquiescing by

Borrower in the appointment of any trustee, receiver, custodian, conservator or liquidator for Borrower, any part of the Property, or any of the income or rents of the Property, or the making by Borrower of any general assignment for the benefit of creditors, or the inability of or failure by Borrower to pay its debts generally as they become due, or the insolvency on a balance sheet basis or business failure of Borrower, or the making or suffering of a preference within the meaning of federal bankruptcy law or the making of a fraudulent transfer under applicable federal or state law, or concealment by Borrower of any of its property in fraud of creditors, or the imposition of a lien upon any of the property of Borrower which is not discharged in the manner permitted by Section 4 of this Instrument, or the giving of notice by Borrower to any governmental body of insolvency or suspension of operations; or

(h) Filing of a petition against Borrower seeking any reorganization, arrangement, composition, readjustment, liquidation, or similar relief under any present or future federal, state or other law or regulation relating to bankruptcy, insolvency or other relief for debts, or the appointment of any trustee, receiver, custodian, conservator or liquidator of Borrower, of any part of the Property or of any of the income or rents of the Property, unless such petition shall be dismissed within sixty (60) days after such filing, but in any event prior to the entry of an order, judgment or decree approving such petition;

(i) The institution of any proceeding for the dissolution or termination of Borrower voluntarily, involuntarily, or by operation of law, unless such proceeding shall be dismissed within sixty (60) days after such filing, but in any event prior to the entry of an order, judgment or decree for relief, or the death or incompetence of Borrower;

(j) A material adverse change occurs in the assets, liabilities or net worth of Borrower from the assets, liabilities or net worth of Borrower or any of the guarantors of the indebtedness evidenced by the Note previously disclosed to GE Capital;

(k) Any warranty, representation or statement furnished to GE Capital by or on behalf of Borrower under the Note, this Instrument or any of the other Loan Documents shall prove to have been false or misleading in any material respect;

21

(l) Failure of Borrower to observe or perform any other covenant or condition contained herein and such default shall continue for thirty (30) days after notice is given to Borrower specifying the nature of the failure, or if the default cannot be cured within such applicable cure period, Borrower fails within such time to commence and pursue curative action with reasonable diligence or fails at any time after expiration of such applicable cure period to continue with reasonable diligence all necessary curative actions; provided, however, that no notice of default and no opportunity to cure shall be required if during the prior twelve (12) months GE Capital has already sent a notice to Borrower concerning default in performance of the same obligation;

(m) Failure of Borrower to observe or perform any other obligation under this Instrument or any other Loan Document when such observance or performance is due, and such failure shall continue beyond the applicable cure period set forth in such Loan Document, or if the default cannot be cured within such applicable cure period, Borrower fails within such time to commence and pursue curative action with reasonable diligence or fails at any time after expiration of such applicable cure period to continue with reasonable diligence all necessary curative actions. No notice of default and no opportunity to cure shall be required if during the prior twelve (12) months GE Capital has already sent a notice to Borrower concerning default in performance of the same obligation;

(n) Borrower's abandonment of the Property;

(o) Any Event of Default under GE Capital Loan No. 050-0009840-001; or

(p) Any of the events specified in (g) - (j) above shall occur with respect to any tenant of the Property, with respect to any guarantor of any of Borrower's obligations in connection with the Indebtedness or with respect to any guarantor of any tenant's obligations relating to the Property, or such guarantor dies or becomes incompetent.

#### SECTION 25. RIGHTS AND REMEDIES ON DEFAULT.

(a) REMEDIES. Upon the occurrence of any one or more Events of Default, Trustee and/or GE Capital may (but shall not be obligated), in addition to any rights or remedies available to them hereunder or under the other Loan Documents, take such action personally or by their agents or

attorneys, with or without entry, and without notice, demand, presentment or protest (each and all of which are hereby waived to the extent permitted by law) as they deem necessary or advisable to protect and enforce GE Capital's rights and remedies against Borrower and in and to the Property, including the following actions, each of which may be pursued concurrently or otherwise, at such time and in such order as Trustee and/or GE Capital may determine, in their sole discretion, without impairing or otherwise affecting its or their other rights or remedies:

(i) GE Capital may declare all sums secured by this Instrument immediately due and payable, including any prepayment premium which Borrower would be required to pay.

22

(ii) Trustee and GE Capital shall have the right to cause any or all of the Property to be sold under the power of sale granted herein or any of the other documents executed or delivered in connection herewith in any manner permitted by applicable law, or GE Capital shall have the right to foreclose by judicial foreclosure, in either case in accordance with applicable law. For any sale under the power of sale granted by this Instrument, Trustee or GE Capital must record and give all notices required by law and then, upon the expiration of such time as is required by law, may sell the Property, and all estate, right, title, interest, claim and demand of Borrower therein, and all rights of redemption thereof, at one or more sales, as an entirety or in parcels, with such elements of real and/or personal property (and, to the extent permitted by applicable law, may elect to deem all of the Property to be real property for purposes thereof), and at such time or place and upon such terms as Trustee and GE Capital may determine and shall execute and deliver to the purchaser or purchasers thereof a deed or deeds conveying the property sold, but without any covenant or warranty, express or implied, and the recitals in the deed or deeds of any facts affecting the regularity or validity of the sale will be conclusive against all persons. In the event of a sale, by foreclosure or otherwise, of less than all of the Property, this Instrument shall continue as a lien and security interest on the remaining portion of the Property.

(iii) Trustee and GE Capital may institute a proceeding or proceedings for the partial foreclosure of this Instrument under any applicable provision of law for the portion of the Indebtedness then due and payable, subject to the lien of this Instrument continuing unimpaired and without loss of priority so as to secure the balance of the Indebtedness not then due and payable.

(iv) If this Instrument is foreclosed by judicial procedure, GE Capital will be entitled to a judgment which will provide that if the foreclosure sale proceeds are insufficient to satisfy the judgment, execution may issue for any amount by which the unpaid balance of the obligations secured by this Instrument exceeds the net sale proceeds payable to GE Capital.

(v) With respect to all or any part of the Property that constitutes personalty, GE Capital shall have all rights and remedies of secured party under the California Uniform Commercial Code.

(vi) GE Capital may apply (whether by noticed motion or by ex parte application) to a court of competent jurisdiction for the appointment of a receiver designated by GE Capital of and for the Property (including, without limitation, all rents, issues, profits, revenues, earnings and income arising therefrom) in accordance with the provisions below and to which appointment GE Capital shall be entitled as a matter of right, without bond, and without regard to or the necessity to disprove the adequacy of the security for the Indebtedness or the solvency of Borrower or any other person liable for the payment or performance of the Indebtedness; and Borrower, each other person claiming any interest in the

23

Property, or any portion thereof, by or through Borrower and every other person liable for the payment or performance of the Indebtedness hereby waives and consents to, or shall be conclusively deemed to have waived and consented to such appointment, whether such application be made by noticed motion or by an ex parte application.

In every instance when a receiver is appointed with respect to all or any portion of the Property, the receiver may be authorized, among such other duties

and powers as may be ordered or granted by the court, to take possession of the Property; to manage, control and protect the Property; to collect the rents, issues, profits, revenues, earnings and income arising therefrom, and to apply the same toward the payment of expenses, including management and operating expenses, taxes, assessments, utilities, mortgage payments and insurance premiums of or in connection with the Property; to maintain the Property in a reasonable state of repair so that there will be no excessive depreciation or devaluation thereof arising from lack of prudent management; to enter into such lease agreements or rental agreements with new tenants for the Property as such receiver deems reasonable and prudent; to amend, extend or renew existing Leases upon such terms as such receiver deems reasonable and prudent; to, if necessary, retain a property management firm to assist in such duties upon such terms as such receiver deems reasonable and appropriate; and to take such other action as is necessary in order to provide services to the tenants under any existing or future Leases or as is necessary to accomplish any of the foregoing. GE Capital shall also have all rights described in Section 22 above with respect to the Property.

(vii) In the event Borrower remains in possession of the Property after the Property is sold as provided above or GE Capital otherwise becomes entitled to possession of the Property upon default of Borrower, Borrower shall become a tenant at will of GE Capital or the purchaser of the Property and shall pay a reasonable rental for use of the Property while in Borrower's possession.

(viii) Trustee and GE Capital shall have any other right or remedy provided in this Instrument, the Note, or any other Loan Document or instrument delivered by Borrower in connection therewith, or available at law, in equity or otherwise.

(ix) GE Capital may institute an action, suit or proceeding in equity for the specific performance of any of the provisions contained in the Loan Documents.

(x) GE Capital may release any portion of the Property for such consideration as GE Capital may require without, as to the remainder of the Property, in any way impairing or affecting the lien or priority of this Instrument, or improving the position of any subordinate lienholder with respect thereto, except to the extent that the Indebtedness shall have been reduced by the actual monetary consideration, if any, received by Trustee and/or GE Capital for such release, and may accept by assignment, pledge or otherwise any other property in

24

place thereof as Trustee and/or GE Capital may require without being accountable for so doing to any other lienholder.

(xi) GE Capital shall have all the rights and remedies set forth in Sections 22 and 23.

In the event that Trustee and/or GE Capital shall exercise any of the rights or remedies set forth in this Section 25 neither Trustee nor GE Capital shall be deemed to have entered upon or taken possession of the Property except upon the exercise of its option to do so, evidenced by its demand and overt act for such purpose, nor shall it be deemed a beneficiary or mortgagee in possession by reason of such entry or taking possession, unless applicable law requires that it be deemed to be a beneficiary or mortgagee in possession. Neither Trustee nor GE Capital shall be liable to account for any action taken pursuant to any such exercise other than for rents actually received by such party, nor liable for any loss sustained by Borrower resulting from any failure to let the Property, or from any other act or omission of Trustee and/or GE Capital, except to the extent such loss is caused by the willful misconduct or bad faith of such party or such liability may not be waived under applicable law. Borrower hereby consents to, ratifies and confirms the exercise by Trustee and/or GE Capital of said rights and remedies.

(b) RIGHTS PERTAINING TO SALES. Subject to the provisions or other requirements of law, the following provisions shall apply to any sale or sales of the Property under or by virtue of this Section 25, whether made under the power of sale herein granted or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale:

(i) Trustee, at the request of GE Capital, may conduct any number of sales from time to time. The power of sale set forth in this Section 25 hereof shall not be exhausted by any one or more such sales as to any part of the Property which shall not have been sold, nor by any sale which is not completed or is defective in Trustee's or GE Capital's opinion, until the Indebtedness shall have been paid in full.

(ii) Any sale may be postponed or adjourned by public announcement at the time and place appointed for such sale or for such postponed or adjourned sale without further notice.

(iii) After each sale, Trustee, or an officer of any court empowered to do so, shall execute and deliver to the purchaser or purchasers at such sale a good and sufficient instrument or instruments granting, conveying, assigning and transferring all right, title and interest of Borrower in and to the property and rights sold and shall receive the proceeds of said sale or sales and apply the same as herein provided. Trustee is hereby appointed the true and lawful attorney-in-fact of Borrower, which appointment is irrevocable and shall be deemed to be coupled with an interest, in Borrower's name and stead, to make all necessary conveyances, assignments, transfers and deliveries of the property and rights so sold, and for that purpose Trustee may execute all necessary instruments of conveyance, assignment, transfer and delivery, and may substitute one or more

25

persons with like power, Borrower hereby ratifying and confirming all that said attorney or such substitute or substitutes shall lawfully do by virtue thereof. Nevertheless, Borrower, if requested by Trustee or GE Capital, shall ratify and confirm any such sale or sales by executing and delivering to Trustee or such purchaser or purchasers all such instruments as may be advisable, in Trustee's or GE Capital's judgment, for the purposes as may be designated in such request.

(iv) Any and all statements of fact or other recitals made in any of the instruments referred to in this Section 25 given by Trustee and/or GE Capital as to nonpayment of the Indebtedness, or as to the occurrence of any Event of Default, or as to GE Capital having declared all or any of the Indebtedness to be due and payable, or as to the request to sell, or as to notice of time, place and terms of sale and of the property or rights to be sold having been duly given, or as to the refusal, failure or inability to act of Trustee, or as to the appointment of any substitute or successor Trustee, or as to any other act or thing having been duly done by Borrower, GE Capital, or by such Trustee, shall be taken as conclusive and binding against all persons as to evidence of the truth of the facts so stated and recited. Trustee and/or GE Capital may appoint or delegate any one or more persons as agent to perform any act or acts necessary or incident to any sale so held, including the posting of notices and the conduct of sale, but in the name and behalf of Trustee or GE Capital, as applicable.

(v) The receipt of Trustee for the purchase money paid at any such sale, or the receipt of any other person authorized to receive the same, shall be sufficient discharge therefor to any purchaser of any property or rights sold as aforesaid, and no such purchaser, or its representatives, grantees or assigns, after paying such purchase price and receiving such receipt, shall be bound to see to the application of such purchase price of any part thereof upon or for any trust or purpose of this Instrument or, in any manner whatsoever, be answerable for any loss, misapplication or non-application of any such purchase money, or part thereof, or be bound to inquire as to the authorization, necessity, expediency or regularity of any such sale.

(vi) Any such sale or sales shall operate to divest all of the estate, right, title, interest, claim and demand whatsoever, whether at law or in equity, of Borrower in and to the properties and rights so sold, and shall be a perpetual bar both at law and in equity against Borrower and any and all persons claiming or who may claim the same, or any part thereof or any interest therein, by, through or under Borrower to the fullest extent permitted by applicable law.

(vii) Upon any such sale or sales, GE Capital may bid for and acquire the Property and, in lieu of paying cash therefor, may make settlement for the purchase price by crediting against the Indebtedness the amount of the bid made therefor, after deducting therefrom the expenses of the sale, the cost of any enforcement proceeding hereunder and any other sums which Trustee or GE

26

Capital is authorized to deduct under the terms hereof, to the extent necessary to satisfy such bid.



(viii) In the event that Borrower, or any person claiming by, through or under Borrower, shall transfer or refuse or fail to surrender possession of the Property after any sale thereof, then Borrower, or such person shall be deemed a tenant at sufferance of the purchaser at such sale, subject to eviction by means of forcible entry and detainer proceedings, or subject to any other right or remedy available hereunder or under applicable law.

(ix) Upon any such sale, it shall not be necessary for Trustee, GE Capital or any public officer acting under execution or order of court to have present or constructively in its possession any of the Property.

(x) In the event of any sale referred to in this Section 25, the entire Indebtedness, if not previously due and payable, immediately thereupon shall, notwithstanding anything to the contrary herein or in the other Loan Documents, become due and payable.

(xi) In the event a foreclosure hereunder shall be commenced by Trustee at the request of GE Capital, Trustee or GE Capital may at any time before the sale of the Property abandon the sale, and may institute suit for the collection of the Indebtedness and for the foreclosure of this Instrument, or in the event that Trustee or GE Capital should institute a suit for collection of the Indebtedness, and for the foreclosure of this Instrument, GE Capital may at any time before the entry of final judgment in said suit dismiss the same and sell or require Trustee to sell the Property in accordance with the provisions of this Instrument.

(c) APPLICATION OF PROCEEDS. The purchase money, proceeds or avails of any sale referred to in this Section 25(c), together with any other sums which may be held by Trustee or GE Capital hereunder, whether under the provisions of this Section 25 or otherwise, shall except as herein expressly provided to the contrary, be applied as follows:

(i) FIRST: To the payment of the costs and expenses of any such sale, including compensation to Trustee and/or GE Capital, their agents and counsel, and of any judicial proceeding wherein the same may be made, and of all expenses, liabilities and advances made or incurred by Trustee and/or GE Capital hereunder, together with interest thereon as provided herein, and all taxes, assessments and other charges, except any taxes, assessments or other charges subject to which the Property shall have been sold.

(ii) SECOND: To the payment in full of the Indebtedness (including principal, interest, premium and fees) in such order as GE Capital may elect.

27

(iii) THIRD: To the payment of any other sums secured hereunder or required to be paid by Borrower pursuant to any provisions of the Loan Documents.

(iv) FOURTH: To the payment of the surplus, if any, to whomsoever may be lawfully entitled to receive the same.

(d) NOTICE OF SALE. GE Capital shall give Borrower reasonable notice of the time and place of any public sale of any personal property or of the time after which any private sale or other intended disposition of the personal property is to be made. Reasonable notice shall mean notice given in accordance with applicable law, including notices given in the manner and at the times required for notices in a nonjudicial foreclosure.

(e) ADDITIONAL PROVISIONS AS TO REMEDIES.

(i) No right or remedy herein conferred upon or reserved to Trustee or GE Capital is intended to be exclusive of any other right or remedy, and each and every such right or remedy shall be cumulative and continuing, shall be in addition to every other right or remedy given hereunder, or under the other Loan Documents or now or hereafter existing at law or in equity, and may be exercised from time to time and as often as may be deemed expedient by Trustee or GE Capital.

(ii) No delay or omission by Trustee or GE Capital to exercise any right or remedy hereunder upon any Event of Default shall impair such exercise, or be construed to be a waiver of any such Event of Default or an acquiescence therein.

(iii) The failure, refusal or waiver by Trustee or GE Capital of its right to assert any right or remedy hereunder upon any Event of Default or other occurrence shall not be construed as waiving such

right or remedy upon any other or subsequent Event of Default or other occurrence.

(iv) Neither Trustee nor GE Capital shall have any obligation to pursue any rights or remedies they may have under any other agreement prior to pursuing their rights or remedies hereunder or under the other Loan Documents.

(v) No recovery of any judgment by Trustee or GE Capital and no levy of an execution upon the Property or any other property of Borrower shall affect, in any manner or to any extent, the lien of this Instrument upon the Property, or any liens, rights, powers or remedies of Trustee or GE Capital hereunder, and such liens, rights, powers and remedies shall continue unimpaired as before.

(vi) GE Capital may resort or cause Trustee to resort to any security given by this Instrument or any other security now given or hereafter existing to

28

secure the Indebtedness, in whole or in part, in such portions and in such order as GE Capital may deem advisable, and no such action shall be construed as a waiver of any of the liens, rights or benefits granted hereunder.

(vii) Acceptance of any payment after the occurrence of any Event of Default shall not be deemed a waiver or a cure of such Event of Default, and acceptance of any payment less than any amount then due shall be deemed an acceptance on account only.

(viii) In the event that Trustee or GE Capital shall have proceeded to enforce any right or remedy hereunder by foreclosure, sale, entry or otherwise, and such proceeding shall be discontinued, abandoned or determined adversely for any reason, then Borrower, Trustee and GE Capital shall be restored to their former positions and rights hereunder with respect to the Property, subject to the lien hereof.

(f) WAIVER OF RIGHTS AND DEFENSES. To the full extent Borrower may do so, Borrower agrees with GE Capital as follows:

(i) Borrower will not at any time, insist on, plead, claim or take the benefit or advantage of any statute or rule of law now or hereafter in force providing for any appraisal, valuation, stay, extension, moratorium or redemption, or of any statute of limitations, and Borrower, for itself and its heirs, devisees, representatives, successors and assigns, and for any and all persons ever claiming an interest in the Property (other than GE Capital) hereby, to the extent permitted by applicable law, waives and releases all rights of redemption, valuation, appraisal, notice of intention to mature or declare due the whole of the Indebtedness, and all rights to a marshaling of the assets of Borrower, including the Property, or to a sale in inverse order of alienation, in the event of foreclosure of the liens and security interests created hereunder.

(ii) Borrower shall not have or assert any right under any statute or rule of law pertaining to any of the matters set forth in this Section 25, to the administration of estates of decedents or to any other matters whatsoever to defeat, reduce or affect any of the rights or remedies of Trustee and GE Capital hereunder, including the rights of Trustee and/or GE Capital hereunder to a sale of the Property for the collection of the Indebtedness without any prior or different resort for collection, or to the payment of the Indebtedness out of the proceeds of sale of the Property in preference to any other person.

(iii) If any statute or rule of law referred to in this Section 25(f) and now in force, of which Borrower or any of its representatives, successors or assigns and such other persons claiming any interest in the Property might take advantage despite this Section 25(f), shall hereafter be repealed or cease to be in force, such statute or rule of law shall not thereafter be deemed to preclude the application of this Section 25(f).

29

(iv) Borrower shall not be relieved of its obligation to pay the Indebtedness at the time and in the manner provided herein and in the

other Loan Documents, nor shall the lien or priority of this Instrument or any other Loan Documents be impaired by any of the following actions, non-actions or indulgences by Trustee or GE Capital:

(A) any failure or refusal by Trustee or GE Capital to comply with any request by Borrower (X) to consent to any action by Borrower or (Y) to take any action to foreclose this Instrument or otherwise enforce any of the provisions hereof or of the other Loan Documents;

(B) any release, regardless of consideration, of the whole or any part of the Property or any other security for the Indebtedness or any person liable for payment of the Indebtedness;

(C) any waiver by GE Capital of compliance by Borrower with any provision of this Instrument or the other Loan Documents, or consent by GE Capital to the performance by Borrower of any action which would otherwise be prohibited thereunder, or to the failure by Borrower to take any action which would otherwise be required hereunder or thereunder; and

(D) any agreement or stipulation between Trustee or GE Capital and Borrower, or, with or without Borrower's consent, between Trustee or GE Capital and any subsequent owner or owners of the Property or any other security for the Indebtedness, renewing, extending or modifying the time of payment or the terms of this Instrument or any of the other Loan Documents (including a modification of any interest rate), and in any such event Borrower shall continue to be obligated to pay the Indebtedness at the time and in the manner provided herein and in the other Loan Documents, as so renewed, extended or modified, unless expressly released and discharged by GE Capital.

(v) Regardless of consideration, and without the necessity for any notice to or consent by the holder of any subordinate lien, encumbrance, right, title or interest in or to the Property, GE Capital may release any person at any time liable for the payment of the Indebtedness or any portion thereof or any part of the security held for the Indebtedness and may extend the time of payment or otherwise modify the terms of this Instrument or of any of the Loan Documents, including a modification of the interest rate payable on the principal balance of the Note, without in any manner impairing or affecting this Instrument, as so extended and modified, as security for the Indebtedness under any such subordinate lien, encumbrance, right, title or interest. GE Capital may resort for the payment of the Indebtedness to any other security held by GE Capital (or any trustee for the benefit of GE Capital) in such order and manner as GE Capital in its discretion, may elect. GE Capital may take or cause to be taken action to recover the Indebtedness, or

30

any portion thereof, or to enforce any provision hereof or of the other Loan Documents without prejudice to the right of GE Capital thereafter to foreclose or cause to be foreclosed this Instrument. GE Capital shall not be limited exclusively to the right and remedies herein stated but shall be entitled to every additional right and remedy now or hereafter afforded by law or equity. The rights of Trustee and GE Capital under this Instrument shall be separate, distinct and cumulative and none shall be given effect to the exclusion of the others. No act of Trustee and/or GE Capital shall be construed as an election to proceed under any one provision herein to the exclusion of any other provision.

(g) EXERCISE BY TRUSTEE. Notwithstanding anything herein to the contrary, Trustee (a) shall not exercise, or waive the exercise of, any of its rights or remedies under this Section 25 (other than its right to reimbursement) except upon the request of GE Capital, and (b) shall exercise, or waive the exercise of, any or all of such rights or remedies upon the request of GE Capital and at the direction of GE Capital as to the manner of such exercise or waiver, provided that Trustee shall have the right to decline to follow any of such request or direction if Trustee shall be advised by counsel that the action or proceeding, or manner thereof, so directed may not lawfully be taken or waived.

(h) EXPENSES. If any action is commenced to foreclose this Instrument or to enforce any other remedy of Trustee and/or GE Capital under any of the Loan Documents, whether such action is judicial or pursuant to the power of sale contained herein or otherwise, there

shall be added to the Indebtedness secured by this Instrument all costs and expenses, including attorney's fees, plus interest thereon at the default rate as set forth in the Note until paid, in the commencement and prosecution of such action, whether or not such action results in a foreclosure sale, foreclosure or other judicial decree or judgment.

SECTION 26. ENVIRONMENTAL DEFAULT AND REMEDIES. In the event that any portion of the Property is determined to be "environmentally impaired" (as "environmentally impaired" is defined in California Code of Civil Procedure Section 726.5(e)(3)) or to be an "affected parcel" (as "affected parcel" is defined in California Code of Civil Procedure Section 726.5(e)(1)), then, without otherwise limiting or in any way affecting GE Capital's or Trustee's rights and remedies under this Deed of Trust, GE Capital may elect to exercise its right under California Code of Civil Procedure Section 726.5(a) to (1) waive its lien on such environmentally impaired or affected parcel portion of the Property and (2) exercise (i) the rights and remedies of an unsecured creditor, including reduction of its claim against Borrower to judgment, and (ii) any other rights and remedies permitted by law. For purposes of determining GE Capital's right to proceed as an unsecured creditor under California Code of Civil Procedure Section 726.5(a), Borrower shall be deemed to have willfully permitted or acquiesced in a release or threatened release of hazardous materials, within the meaning of California Code of Civil Procedure Section 726.5(d)(1), if the release or threatened release of hazardous materials was knowingly or negligently caused or contributed to by any lessee, occupant or user of any portion of the Property and Borrower knew or should have known of the activity by such lessee, occupant or user which caused or contributed to the release or threatened release. All costs and expenses,

31

including, but not limited to, attorneys' and paralegals' fees and costs and court costs incurred by GE Capital in connection with any action commenced under this Section 26, including any action required by California Code of Civil Procedure Section 726.5(b) to determine the degree to which the Property is environmentally impaired, plus interest thereon at the rate of five percent (5%) per annum above the prime interest rate as quoted in the Wall Street Journal in effect from time to time, or fifteen percent (15%) per annum, whichever is higher, provided that such interest rate shall not exceed the maximum interest rate permitted by law, until paid, shall be added to the Indebtedness secured by this Deed of Trust and shall be due and payable to GE Capital upon its demand made at any time following the conclusion of such action.

SECTION 27. RECONVEYANCE. Upon payment of all sums secured by this Instrument, GE Capital shall request Trustee to reconvey the Property and shall surrender this Instrument and all notes evidencing Indebtedness secured by this Instrument to Trustee. Trustee shall reconvey the Property without warranty to the person or persons legally entitled thereto. Such person or persons shall pay Trustee's costs incurred in so reconveying the Property.

SECTION 28. SUBSTITUTE TRUSTEE. In accordance with applicable law, GE Capital may from time to time appoint a successor trustee to any Trustee appointed hereunder. Without conveyance of the Property, the successor trustee shall succeed to all the title, power and duties conferred upon the Trustee herein and by applicable law.

SECTION 29. USE OF PROPERTY. The Property is not currently used for agricultural, farming, timber or grazing purposes. Borrower warrants that this Instrument is and will at all times constitute a commercial trust deed, as defined under appropriate state law.

SECTION 30. FUTURE ADVANCES. Upon request of Borrower, GE Capital, at GE Capital's option so long as this Instrument secures Indebtedness held by GE Capital, may make Future Advances to Borrower. Such Future Advances, with interest thereon, shall be secured by this Instrument when evidenced by promissory notes stating that said notes are secured hereby.

SECTION 31. IMPOSITION OF TAX BY STATE.

(a) STATE TAXES COVERED. The following constitute state taxes to which this Section applies:

(i) A specific tax upon trust deeds or upon all or any part of the indebtedness secured by a trust deed.

(ii) A specific tax on a grantor which the taxpayer is authorized or required to deduct from payments on the indebtedness secured by a trust deed.

(iii) A tax on a trust deed chargeable against the beneficiary or the holder of the note secured.

(iv) A specific tax on all or any portion of the indebtedness or on payments of principal and interest made by a grantor.

32

(b) REMEDIES. If any state tax to which this Section applies is enacted subsequent to the date of this Instrument, this shall have the same effect as an Event of Default, and GE Capital may exercise any or all of the remedies available to it unless the following conditions are met:

(i) Borrower may lawfully pay the tax or charge imposed by state tax, and

(ii) Borrower pays the tax or charge within thirty (30) days after notice from GE Capital that the tax has been levied.

SECTION 32. ATTORNEYS' FEES. In the event suit or action is instituted to enforce or interpret any of the terms of this Instrument (including without limitation efforts to modify or vacate any automatic stay or injunction), the prevailing party shall be entitled to recover all expenses reasonably incurred at, before and after trial and on appeal whether or not taxable as costs, or in any bankruptcy proceeding including, without limitation, attorneys' fees, witness fees (expert and otherwise), deposition costs, copying charges and other expenses. Whether or not any court action is involved, all reasonable expenses, including but not limited to the costs of searching records, obtaining title reports, surveyor reports, title insurance, trustee fees, and other attorney fees, incurred by GE Capital that are necessary at any time in GE Capital's opinion for the protection of its interest or enforcement of its rights shall become a part of the Indebtedness payable on demand and shall bear interest from the date of expenditure until repaid at the interest rate as provided in the Note. The term "ATTORNEYS' FEES" as used in the Loan Documents shall be deemed to mean such fees as are reasonable and are actually incurred.

SECTION 33. GOVERNING LAW; SEVERABILITY. This Instrument shall be governed by the law of the State of California applicable to contracts made and to be performed therein (excluding choice-of-law principles). In the event that any provision or clause of this Instrument or the Note conflicts with applicable law, such conflict shall not affect other provisions of this Instrument or the Note which can be given effect without the conflicting provision, and to this end the provisions of this Instrument and the Note are declared to be severable.

SECTION 34. TIME OF ESSENCE. Time is of the essence of this Instrument.

SECTION 35. CHANGES IN WRITING. This Instrument and any of its terms may only be changed, waived, discharged or terminated by an instrument in writing signed by the party against which enforcement of the change, waiver, discharge or termination is sought. Any agreement subsequently made by Borrower or GE Capital relating to this Instrument shall be superior to the rights of the holder of any intervening lien or encumbrance.

SECTION 36. NO OFFSET. Borrower's obligation to make payments and perform all obligations, covenants and warranties under this Instrument and under the Note shall be absolute and unconditional and shall not be affected by any circumstance, including without limitation any setoff, counterclaim, abatement, suspension, recoupment, deduction, defense or other right that Borrower or any guarantor may have or claim against GE Capital or any entity participating

33

in making the loan secured hereby. The foregoing provisions of this Section, however, do not constitute a waiver of any claim or demand which Borrower or any guarantor may have in damages or otherwise against GE Capital or any other person, or preclude Borrower from maintaining a separate action thereon; provided, however, that Borrower waives any right it may have at law or in equity to consolidate such separate action with any action or proceeding brought by GE Capital.

SECTION 37. PROVISIONS REGARDING TRUSTEE. Trustee shall not be liable for any error of judgment or act done by Trustee, or be otherwise responsible or accountable under any circumstances whatsoever. Trustee shall not be personally liable in case of entry by it or anyone acting by virtue of the powers herein granted it upon the Property for debts contracted or liability or damages incurred in the management or operation of the Property. All monies received by Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated in any manner from any other monies (except to the extent required by law) and Trustee shall be under no liability for interest on any monies received by it hereunder.

Trustee may resign by giving of notice of such resignation in writing to GE

Capital. If Trustee shall die, resign or become disqualified from acting, or shall fail or refuse to exercise its powers hereunder when requested by GE Capital so to do, or if for any reason and without cause GE Capital shall prefer to appoint a substitute trustee to act instead of the original Trustee named herein, or any prior successor or substitute trustee, GE Capital shall have full power to appoint a substitute trustee and, if preferred, several substitute trustees in succession who shall succeed to all the estate, rights, powers and duties of the forenamed Trustee. Upon appointment by GE Capital, any new Trustee appointed pursuant to any of the provisions hereof shall, without any further act, deed or conveyance, become vested with all the estates, properties, rights, powers and trusts of its predecessor in the rights hereunder with the same effect as if originally named as Trustee herein.

SECTION 38. WAIVER OF JURY TRIAL. BORROWER HEREBY KNOWINGLY, VOLUNTARILY AND INTELLIGENTLY WAIVES ANY AND ALL RIGHTS THAT EACH PARTY TO THIS INSTRUMENT MAY NOW OR HEREAFTER HAVE UNDER THE LAWS OF THE UNITED STATES OF AMERICA OR THE STATE OF CALIFORNIA, TO A TRIAL BY JURY OF ANY AND ALL ISSUES ARISING DIRECTLY OR INDIRECTLY IN ANY ACTION OR PROCEEDING RELATING TO THIS INSTRUMENT, THE LOAN DOCUMENTS OR ANY TRANSACTIONS CONTEMPLATED THEREBY OR RELATED THERETO. IT IS INTENDED THAT THIS WAIVER SHALL APPLY TO ANY AND ALL DEFENSES, RIGHTS, CLAIMS AND/OR COUNTERCLAIMS IN ANY SUCH ACTION OR PROCEEDING.

BORROWER UNDERSTANDS THAT THIS WAIVER IS A WAIVER OF A CONSTITUTIONAL SAFEGUARD, AND EACH PARTY INDIVIDUALLY BELIEVES THAT THERE ARE SUFFICIENT ALTERNATE PROCEDURAL AND SUBSTANTIVE SAFEGUARDS, INCLUDING, A TRIAL BY AN IMPARTIAL JUDGE, THAT ADEQUATELY OFFSET THE WAIVER CONTAINED HEREIN.

34

SECTION 39. MAXIMUM INTEREST CHARGES. Notwithstanding anything contained herein or in any of the Loan Documents to the contrary, in no event shall GE Capital be entitled to receive interest on the loan secured by this Instrument (the "LOAN") in amounts which, when added to all of the other interest charged, paid to or received by GE Capital on the Loan, causes the rate of interest on the Loan to exceed the highest lawful rate. Borrower and GE Capital intend to comply with the applicable law governing the highest lawful rate and the maximum amount of interest payable on or in connection with the Loan. If the applicable law is ever judicially interpreted so as to render usurious any amount called for under the Loan Documents, or contracted for, charged, taken, reserved or received with respect to the Loan, or if acceleration of the final maturity date of the Loan or if any prepayment by Borrower results in Borrower having paid or demand having been made on Borrower to pay, any interest in excess of the amount permitted by applicable law, then all excess amounts theretofore collected by GE Capital shall be credited on the principal balance of the Note (or, if the Note has been or would thereby be paid in full, such excess amounts shall be refunded to Borrower), and the provisions of the Note, this Instrument and any demand on Borrower shall immediately be deemed reformed and the amounts thereafter collectible thereunder and hereunder shall be reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for thereunder and hereunder. The right to accelerate the final maturity date of the Loan does not include the right to accelerate any interest which has not otherwise accrued on the date of such acceleration, and GE Capital does not intend to collect any unearned interest in the event of acceleration. All sums paid or agreed to be paid to GE Capital for the use, forbearance or detention of the Loan shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread through the full term of the Loan until payment in full so that the rate or amount of interest on account of the Loan does not exceed the applicable usury ceiling. By execution of this Instrument, Borrower acknowledges that it believes the Loan to be nonusurious and agrees that if, at any time, Borrower should have reason to believe that the Loan is in fact usurious, it will give GE Capital written notice of its belief and the reasons why Borrower believes the Loan to be usurious, and Borrower agrees that GE Capital shall have ninety (90) days following its receipt of such written notice in which to make appropriate refund or other adjustment in order to correct such condition if it in fact exists.

SECTION 40. REQUEST FOR NOTICE. Pursuant to California Government Code Section 27321.5(b), Borrower hereby requests that a copy of any notice of default and a copy of any notice of sale given pursuant to this Instrument be mailed to Borrower at the address set forth herein above.

35

SECTION 41. FIXTURE FILING. Portions of the Property are goods which are or are to become fixtures relating to the Property, and Borrower covenants and agrees that the filing of this Instrument in the real estate records of the

county where the Property is located shall also operate from the time of filing as a fixture filing in accordance with Section 9313 of the California Uniform Commercial code.

SECTION 42. LOCAL LAW PROVISIONS. In the event of any conflict between the terms and provisions of any other section of this Instrument, the terms and provisions of this section shall govern and continue.

(a) With or without notice, and without releasing Borrower from any obligation hereunder, to cure any default of Borrower and, in connection therewith, GE Capital or its agents, acting by themselves or through a court appointed receiver, may enter upon the Premises or any part thereof and perform such acts and things as GE Capital deems necessary or desirable to inspect, investigate, assess, and protect the security hereof, including without limitation of any of its other rights:

(i) to obtain a court order to enforce GE Capital's right to enter and inspect the Premises under Section 2929.5 of the California Civil Code, to which the decision of GE Capital as to whether there exists a release or threatened release of Hazardous Materials in or onto the Premises shall be deemed reasonable and conclusive as between the parties hereto; and

(ii) to have a receiver appointed under Section 564 of the California Code of Civil Procedure to enforce GE Capital's right to enter and inspect the Premises for Hazardous Materials. All costs and expenses reasonably incurred by Lender with respect to the audits, tests, inspections, and examinations which Lender or its agents or employees may conduct, including the fees of the engineers, laboratories, contractor, consultants, and attorneys, shall be paid by Borrower. All reimbursement costs and expenses incurred by Trustee and GE Capital pursuant to this subparagraph (including, without limitation, court costs, consultant fees and attorneys' fees, whether incurred in litigation or not and whether before or after judgment) shall be added to the Loan Obligations and shall bear interest at the Default Rate from the date they are incurred until said sums have been paid if not paid within 10 days after demand.

(b) GE Capital may seek a judgment that Borrower has breached its covenants, representations and/or warranties with respect to the environmental matters set forth in the Indemnity or herein, by commencing and maintaining an action or actions in any court of competent jurisdiction for breach of contract pursuant to Section 736 of the California Code of Civil Procedure, whether commenced prior to foreclosure of the Premises, and to seek the recovery of any and all costs, damages, expenses, fees, penalties, fines, judgments, indemnification payments to third parties, and other out-of-pocket costs or expenses actually incurred by GE Capital (collectively, the "ENVIRONMENTAL COSTS") incurred or advanced by GE Capital relating to the cleanup, remediation or other response action, required by applicable law or to which Lender believes necessary to protect the Premises, it being conclusively presumed between GE Capital and Borrower that all such Environmental Costs incurred or advanced by GE Capital relating to the cleanup, remediation, or other response action of or to the Premises were made by GE Capital in good faith. All Environmental Costs incurred by GE Capital under this subparagraph (including, without limitation, court costs, consultant fees and attorneys' fees,

36

whether incurred in litigation or not and whether before or after judgment) shall bear interest at the Default Rate from the date of expenditure until said sums have been paid if not paid within 10 days after demand. GE Capital shall be entitled to bid, at the sale of the Premises, the amount of said costs, expenses and interest in addition to the amount of the other obligations hereby secured as a credit bid, the equivalent of cash.

(c) Borrower acknowledges and agrees that notwithstanding any term or provision contained herein or elsewhere, the Environmental Costs shall be exceptions to any limited recourse or exculpatory provision, and Borrower shall be fully and personally liable for the Environmental Costs hereunder, and such liability shall not be limited to the original principal amount of the obligations secured by this Instrument, and Borrower's Premises or this Instrument. For the purposes of any action brought under this subparagraph, Borrower hereby waives the defense of laches and any applicable statute of limitations.

(d) GE Capital may waive its lien against the Premises or any portion thereof, whether fixtures or personal property, to the extent such property is found to be environmentally impaired in accordance with Section 726.5 of the California Code of Civil Procedure and to exercise any and all rights and remedies of an unsecured creditor against Borrower and all of Borrower's assets and property for the recovery of any deficiency and

Environmental Costs, including, but not limited to, seeking an attachment order under Section 483.010 of the California Code of Civil Procedure. As between GE Capital and Borrower, for purposes of Section 726.5 of the California Code of Civil Procedure, Borrower shall have the burden of proving that Borrower or any related party (or any affiliate or agent of Borrower or any related party) was not in any way negligent in permitting the release or threatened release of Hazardous Substances. Borrower acknowledges and agrees that notwithstanding any term or provision contained herein or pursuant to this subsection elsewhere in the Loan Documents, all judgments and awards entered against Borrower shall be exceptions to any nonrecourse or exculpatory provision, and Borrower shall be fully and personally liable for all judgments and awards entered against Borrower hereunder and such liability shall not be limited to the original principal amount of the obligations secured by this Instrument and Borrower's obligations shall survive the foreclosure, deed in lieu of foreclosure, release, reconveyance, or any other transfer of the Premises or this Instrument. For the purposes of any action brought under this subparagraph, Borrower hereby waives the defense of laches and any applicable statute of limitations.

Trustor hereby waives all other rights it may now or hereafter have, whether or not similar to any of the foregoing, by reason of laws of the State of California pertaining to sureties, including without limitation all rights and defenses that are or may become available to Trustor by reason of Sections 2787 to 2855, inclusive, 2899, and 3433 of the California Civil Code.

[REMAINDER OF PAGE INTENTIONALLY BLANK;  
EXECUTION PAGE FOLLOWS]

IMPORTANT: READ BEFORE SIGNING. THE TERMS OF THIS AGREEMENT SHOULD BE READ CAREFULLY BECAUSE ONLY THOSE TERMS IN WRITING ARE ENFORCEABLE. NO OTHER TERMS OR ORAL PROMISES NOT CONTAINED IN THIS WRITTEN CONTRACT MAY BE LEGALLY ENFORCED. YOU MAY CHANGE THE TERMS OF THIS AGREEMENT ONLY BY ANOTHER WRITTEN AGREEMENT.

IN WITNESS WHEREOF, Borrower has executed this Instrument or has caused the same to be executed by its representatives thereunto duly authorized.

BORROWER:

APPLIANCE RECYCLING CENTERS OF  
AMERICA, INC., a Minnesota corporation

By: /s/Edward R. Cameron  
Print: Edward R. Cameron  
Its: President

STATE OF MINNESOTA )  
 ) ss.  
COUNTY OF R a m s e y )

On 12/23/02 , before me, Sara Dammann, Notary Public,  
-----  
Date Name and Title of Officer  
(e.g. "Jane Doe, Notary Public")

personally appeared Edward R. Cameron  
-----  
Name of Signer(s)

X personally known to me - OR - [ ] proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

WITNESS my hand and official seal.

\_\_\_\_\_  
/s/ Sara L. Dammann, Signature of Notary Public



[EXECUTION AND ACKNOWLEDGE PAGE OF COMMERCIAL DEED OF TRUST, FINANCING  
STATEMENT, SECURITY AGREEMENT, ASSIGNMENT OF LEASES AND RENTS AND  
FIXTURE FILING]

General Electric Capital Business  
Asset Funding Corporation  
Loan No.: 001-0010771-001

EXHIBIT A

-----

(1920 Acacia Avenue, Compton, Los Angeles County, California)

Legal Description:

- -----

Parcels 1 and 2 of Parcel Map No. 21013, in the City of Compton, County of Los Angeles, State of California, as per map recorded in Book 233 Pages 7 and 8 of Parcel Maps, in the office of the County Recorder of said County.

EXCEPT therefrom that portion of said Parcel 2 lying Southerly of the following described line:

Commencing at the Northwest corner of said Parcel 1, said point also lying on the Easterly line of Acacia Avenue, as shown on said Parcel Map No. 21013; thence along the Westerly lines of said Parcels 1 and 2, South 2 04' 39" East a distance of 341.09 feet to the point of beginning; thence North 87 55' 21" East 299.26 feet, more or less, to the Easterly line of said Parcel 2.

EXCEPT therefrom all oil, gas, minerals, and other hydrocarbon substances lying below the surface of said land, but with no right of surface entry as provided in deeds of record.

General Electric Capital Business  
Asset Funding Corporation  
Loan No.: 001-0010771-001

SCHEDULE 1

-----

(1920 Acacia Avenue, Compton, Los Angeles County, California)

Permitted Exceptions:

- -----

1. An easement for the purpose show below and right incidental thereto as set forth in a document:

Purpose: pipe lines

Recorded: December 8, 1953 as Instrument No. 394 in Book 43333, Page 81 Official Records

Affects: Portion of Parcel 1

2. Covenants, conditions and restrictions as set forth in the document:

Recorded: August 23, 1968 as Instrument No. 3626 in Book M2963, Page 52 Official Records

Modification of said covenants, conditions and restrictions

Recorded: January 14, 1970 as Instrument No. 3300 in Book M3389, Page 928 Official Records

Affects: Parcels 1 and 2

3. An easement for the purpose shown below and rights incidental thereto as set forth in a document

Purpose: storm drains and appurtenances

Recorded: September 13, 1971 as Instrument No. 3040 in Book D5189 Page 338, Official Records

Affects: Parcel 1

4. An easement for the purpose shown below and rights incidental thereto as set forth in a document

Purpose: overhead and underground electrical supply systems and communications systems, consisting of poles, guys and anchors, crossarms, wires, underground conduits, cables, vaults, manholes,

handholes, and including above ground enclosures, markers and concrete pads and other appurtenant fixtures.

Recorded: September 14, 1971 as Instrument No. 3026 in Book D5192 Page 228 Official Records

Affects: portions of Parcels 1 and 2

5. An easements for the purpose shown below and rights incidental thereto as set forth in a document

Purpose: public utilities and appurtenances

Recorded: June 9, 1972 as Instrument No. 3586 in Book D5489 Page 63, Official Records

Affects: portion of Parcel 1

6. An easement for the purpose shown below and rights incidental thereto as set forth in a document

Purpose: wires, underground conduits, cables, vaults, manholes and handholes

Recorded: February 6, 1978 as Instrument No. 78-139103 Official Records

Affects: portions of Parcels 1 and 2

7. A covenant and agreement

Executed by: not shown

In favor of: not shown

Recorded: September 27, 1993 as Instrument/File No. 93-1881160, Official Records

Reference is made to said document for full particulars.

8. An easement for the purpose shown below and rights incidental thereto as set forth in a document

Purpose: surface drainage

Recorded: October 29, 1993 as Instrument No. 93-2117784 Official Records

Affects: 10.00 foot wide strip

9. The effect of Acceptance Form

Dated: not shown

Executed by: not shown

In favor of: not shown

Recorded: November 15, 1993 as Instrument/File No. 93-2242434 Official Records

THIRTEENTH AMENDMENT TO  
GENERAL CREDIT AND SECURITY AGREEMENT

THIS AGREEMENT, dated and effective as of January 23, 2003, between SPECTRUM Commercial Services Company, a Minnesota Corporation, having its mailing address and principal place of business at Two Appletree Square, Suite 415, Bloomington, Minnesota 55425 (herein called "Lender" or "SCS"), and Appliance Recycling Centers of America, Inc., a Minnesota corporation, having the mailing address and principal place of business at 7400 Excelsior Boulevard, Minneapolis, MN 55426, (herein called "Borrower"), amends that certain General Credit and Security Agreement dated August 30, 1996, ("Credit Agreement") as amended. Where the provisions of this Agreement conflict with the Credit Agreement, the intent of this Agreement shall control.

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

"Borrowing Base" shall mean the sum of (i) Eighty percent (80%) of the net amount of Eligible Receivables or such greater or lesser percentage as Lender, in its sole discretion, shall deem appropriate, plus (ii) the lesser of (x) Two Hundred Fifty Thousand and No/100ths Dollars (\$250,000) or (y) Twenty Five percent (25%) of the net amount of Eligible Inventory (excluding Eligible Whirlpool Inventory and Eligible Scratch and Dent Inventory), or such greater or lesser dollars and/or percentage as Lender, in its sole discretion, shall deem appropriate, plus (iii) the lesser of (x) Three Million and No/100ths Dollars (\$3,000,000) or (y) Fifty percent (50%) of the net amount of Eligible Scratch and Dent Inventory, or such greater or lesser dollars and/or percentage as Lender, in its sole discretion, shall deem appropriate, plus (iv) the lesser of (x) Four Million and No/100ths Dollars (\$4,000,000) or (y) Eighty percent (80%) of the net amount of Eligible Whirlpool Inventory, or such greater or lesser dollars and/or percentage as Lender, in its sole discretion, shall deem appropriate, provided however, that notwithstanding the dollar limits contained in subsections (ii) - (iv) above, that the total aggregate amount available under subsections (ii) - (iv) shall in no event exceed Six Million and No/100ths Dollars (\$6,000,000), or such greater or lesser dollars as Lender, in its sole discretion, shall deem appropriate.

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

SPECTRUM COMMERCIAL SERVICES  
COMPANY

By /s/Steven I. Lowenthal  
-----  
Steven I. Lowenthal, Principal

APPLIANCE RECYCLING CENTERS  
OF AMERICA, INC.

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

## APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

SUBSIDIARIES AS OF DECEMBER 28, 2002

NAME OF SUBSIDIARY -----	JURISDICTION OF INCORPORATION -----	PERCENT VOTING SECURITIES OWNED -----
Appliance Recycling Centers of America-California, Inc.	California	100%
ARCA of St. Louis, Inc.	Missouri	100%

INDEPENDENT AUDITOR'S CONSENT

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (commission file No. 33-51584), on Form S-8 (commission file No. 33-68890), and on Form S-8 (commission file No. 333-28571) of our reports dated February 17, 2003 with respect to the consolidated financial statements and financial statement schedule of Appliance Recycling Centers of America, Inc., and Subsidiaries appearing in this Annual Report on Form 10-K for the year ended December 28, 2002.

McGLADREY & PULLEN, LLP

Minneapolis, Minnesota  
March 21, 2003