

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended January 2, 2010

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File No. 000-19621

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:

Common Stock, without par value

Title of each class

NASDAQ Capital Market

Name of each exchange on which registered

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 whether the registrant has submitted electronically and posted on its Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such file). 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price of \$1.67 per share, as of July 4, 2009 (the last business day of the registrant's most recently completed second fiscal quarter) was \$7,644,888.

As of March 1, 2010, there were outstanding 4,577,777 shares of the registrant's Common Stock, without par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2010 Annual Meeting of Shareholders to be held on May 13, 2010 are incorporated by reference into Part III hereof.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A for the fiscal year ended January 2, 2010 is being filed to conform the certifications to the form set forth in Item 601(b)(31)(i) of Regulation S-K, include Exhibits for amendments 18 through 26 of our General Credit and Security Agreement dated August 30, 1996, as amended, and a list of our subsidiaries as required by Item 401(c)(1) of Regulation S-K.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Appliance Recycling Centers of America, Inc. and Subsidiaries (the Company) as of January 2, 2010 and January 3, 2009, and the related consolidated statements of operations, shareholders' equity and comprehensive loss and cash flows for the fiscal years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated 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 January 2, 2010 and January 3, 2009 and the results of their operations and cash flows for the fiscal years then ended, in conformity with U.S. generally accepted accounting principles.

Baker Tilly Virchow Krause, LLP

Minneapolis, MN
March 17, 2010

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**APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands)**

| | January 2, 2010 | January 3, 2009 |
|---|--------------------|--------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,799 | \$ 3,498 |
| Accounts receivable, net of allowance of \$41 and \$292, respectively | 4,252 | 6,056 |
| Inventories, net of reserves of \$519 and \$115, respectively | 16,785 | 18,834 |
| Deferred income taxes | 677 | 448 |
| Other current assets | 532 | 950 |

| | | |
|--|------------------|------------------|
| Total current assets | 25,045 | 29,786 |
| Property and equipment, net | 4,139 | 6,967 |
| Restricted cash | 700 | — |
| Deferred income taxes | — | 177 |
| Other assets | 1,566 | 485 |
| Total assets | <u>\$ 31,450</u> | <u>\$ 37,415</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,364 | \$ 4,473 |
| Checks issued in excess of bank balance | 410 | — |
| Accrued expenses | 4,401 | 4,073 |
| Line of credit | 12,419 | 14,527 |
| Current maturities of long-term obligations | 544 | 579 |
| Income taxes payable | 188 | 362 |
| Total current liabilities | <u>21,326</u> | <u>24,014</u> |
| Long-term obligations, less current maturities | 1,963 | 4,892 |
| Deferred gain, net of current portion | 1,827 | — |
| Deferred income tax liabilities | 691 | 520 |
| Total liabilities | <u>25,807</u> | <u>29,426</u> |
| Commitments and contingencies | — | — |
| Shareholders' equity: | | |
| Common Stock, no par value; 10,000 shares authorized; issued and outstanding: 4,578 shares | 17,278 | 16,221 |
| Accumulated deficit | (11,267) | (7,929) |
| Accumulated other comprehensive loss | (368) | (303) |
| Total shareholders' equity | <u>5,643</u> | <u>7,989</u> |
| Total liabilities and shareholders' equity | <u>\$ 31,450</u> | <u>\$ 37,415</u> |

See Notes to Consolidated Financial Statements.

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APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Amounts)

| | For the fiscal year ended | |
|--|---------------------------|--------------------|
| | January 2, 2010 | January 3, 2009 |
| Revenues: | | |
| Retail | \$ 75,022 | \$ 76,179 |
| Recycling | 22,799 | 29,628 |
| Byproduct | 3,448 | 5,164 |
| Total revenues | <u>101,269</u> | <u>110,971</u> |
| Cost of revenues | <u>72,892</u> | <u>75,361</u> |
| Gross profit | <u>28,377</u> | <u>35,610</u> |
| Selling, general and administrative expenses | <u>30,538</u> | <u>31,575</u> |
| Operating income (loss) | (2,161) | 4,035 |
| Other expense: | | |
| Interest expense, net | (1,158) | (1,377) |
| Other expense | (14) | (55) |
| Income (loss) from continuing operations before provision for income taxes | <u>(3,333)</u> | <u>2,603</u> |
| Provision for income taxes | 5 | 739 |
| Income (loss) from continuing operations | <u>(3,338)</u> | <u>1,864</u> |
| Loss from discontinued operations, net of tax | — | (812) |
| Loss on disposal of discontinued operations, net of tax | — | (692) |
| Net income (loss) | <u>\$ (3,338)</u> | <u>\$ 360</u> |
| Basic income (loss) per common share: | | |
| Continuing operations | \$ (0.73) | \$ 0.41 |
| Discontinued operations | — | (0.33) |
| Net income (loss) | <u>\$ (0.73)</u> | <u>\$ 0.08</u> |
| Diluted income (loss) per common share: | | |
| Continuing operations | \$ (0.73) | \$ 0.41 |
| Discontinued operations | — | (0.33) |
| Net income (loss) | <u>\$ (0.73)</u> | <u>\$ 0.08</u> |
| Weighted average common shares outstanding: | | |
| Basic | 4,578 | 4,571 |
| Diluted | 4,578 | 4,612 |

See Notes to Consolidated Financial Statements.

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APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
AND COMPREHENSIVE LOSS
(In Thousands)

| | Common Stock | | Accumulated Other Comprehensive Income (loss) | Accumulated Deficit | Total |
|--------------------------------------|--------------|-----------|--|------------------------|----------|
| | Shares | Amount | | | |
| Balance at December 29, 2007 | 4,509 | \$ 15,475 | \$ 76 | \$ (8,289) | \$ 7,262 |
| Net income | — | — | — | 360 | 360 |
| Other comprehensive loss, net of tax | — | — | (379) | — | (379) |
| Exercise of stock options | 69 | 217 | — | — | 217 |
| Share-based compensation | — | 529 | — | — | 529 |
| Balance at January 3, 2009 | 4,578 | 16,221 | (303) | (7,929) | 7,989 |
| Net loss | — | — | — | (3,338) | (3,338) |
| Other comprehensive loss, net of tax | — | — | (65) | — | (65) |
| Issuance of warrant | — | 479 | — | — | 479 |
| Share-based compensation | — | 578 | — | — | 578 |
| Balance at January 2, 2010 | 4,578 | \$ 17,278 | \$ (368) | \$ (11,267) | \$ 5,643 |

Comprehensive loss is as follows:

| | For the fiscal year ended | |
|--|---------------------------|--------------------|
| | January 2, 2010 | January 3, 2009 |
| Net income (loss) | \$ (3,338) | \$ 360 |
| Foreign currency translation adjustments, net of tax | (65) | (452) |
| Reclassification of foreign currency translation adjustments related to discontinued operations recognized in net income | — | 73 |
| Comprehensive loss | \$ (3,403) | \$ (19) |

See Notes to Consolidated Financial Statements.

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APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

| | For the fiscal year ended | |
|---|---------------------------|--------------------|
| | January 2, 2010 | January 3, 2009 |
| Operating activities | | |
| Net income (loss) | \$ (3,338) | \$ 360 |
| Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by operating activities: | | |
| Loss on disposal of discontinued operations | — | 692 |
| Depreciation and amortization | 1,287 | 1,123 |
| Amortization of deferred gain | (122) | — |
| Provision for bad debts | 69 | 264 |
| Share-based compensation | 578 | 529 |
| Deferred income taxes | (58) | 72 |
| Other | 88 | — |
| Changes in assets and liabilities: | | |
| Accounts receivable | 1,735 | 3,570 |
| Inventories | 2,094 | (5,041) |
| Other current assets | 418 | 45 |
| Other assets | 12 | (4) |
| Accounts payable and accrued expenses | (1,268) | (164) |
| Income taxes payable | (159) | 203 |
| Net cash flows provided by operating activities | 1,336 | 1,649 |
| Investing activities | | |
| Purchase of property and equipment | (509) | (812) |
| Increase in restricted cash | (700) | — |
| Proceeds from sale of building and equipment | 4,635 | — |
| Investment in DALI | (263) | — |
| Loan to 4301 Operations | (375) | — |
| Net cash flows provided by (used in) investing activities | 2,788 | (812) |
| Financing activities | | |
| Checks issued in excess of cash in bank | 410 | (310) |
| Net borrowings (payments) under line of credit | (2,108) | 942 |
| Payments on long-term obligations | (3,214) | (482) |
| Proceeds from stock option exercises | — | 217 |

| | | |
|---|-----------------|-----------------|
| Net cash flows provided by (used in) financing activities | (4,912) | 367 |
| Effect of changes in exchange rate on cash and cash equivalents | 89 | (483) |
| Increase in cash and cash equivalents | (699) | 721 |
| Cash and cash equivalents at beginning of period | 3,498 | 2,777 |
| Cash and cash equivalents at end of period | <u>\$ 2,799</u> | <u>\$ 3,498</u> |
| Supplemental disclosures of cash flow information | | |
| Cash payments for interest | <u>\$ 1,161</u> | <u>\$ 1,385</u> |
| Cash payments for income taxes, net | <u>\$ 220</u> | <u>\$ 397</u> |
| Non-cash investing and financing activities | | |
| Equipment acquired under capital lease | <u>\$ 259</u> | <u>\$ 518</u> |
| Deferred gain on sale-leaseback of building | <u>\$ 2,436</u> | <u>\$ —</u> |
| Issuance of warrant in connection with recycling contract | <u>\$ 479</u> | <u>\$ —</u> |

See Notes to Consolidated Financial Statements.

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APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In Thousands, Except Per Share Amounts)

1. Nature of Business and Basis of Presentation

Nature of business: Appliance Recycling Centers of America, Inc. and Subsidiaries (“we,” the “Company” or “ARCA”) are in the business of selling new major household appliances through a chain of Company-owned factory outlet stores under the name ApplianceSmart®. We also provide turnkey appliance recycling and replacement services for electric utilities and other sponsors of energy efficiency programs.

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

ARCA Canada Inc., a Canadian corporation, is a wholly-owned subsidiary. ARCA Canada was formed in September 2006 to provide turnkey recycling services for electric utility energy efficiency programs. The operating results of ARCA Canada have been consolidated in our financial statements.

We were a sixty percent owner in North America Appliance Company, LLC (“NAACO”). NAACO was formed and commenced operations in June 2003 and was a retailer of special-buy appliances in Texas. The operating results of NAACO have been consolidated in our financial statements.

We were a sixty percent owner in Productos Duraderos de Norte America (“PDN”), a Mexican corporation. PDN was acquired in September 2006 and refurbished room air conditioners for sale through our NAACO operation in McAllen, Texas, and through our ApplianceSmart Factory Outlet stores. The operating results of PDN have been consolidated in our financial statements.

Discontinued operations: During the fourth quarter of 2008, we planned and executed the shutdown of our NAACO and PDN businesses. NAACO and PDN were not operating as planned and were no longer economically viable.

Reclassifications: Certain prior year items have been reclassified to conform to current year presentation. We reclassified the results of our discontinued operations below income (loss) from continuing operations in the consolidated statements of operations. In Note 15, we reclassified certain assets, revenue and operating income items between our retail, recycling and unallocated corporate segments.

Fair value of financial instruments: The following methods and assumptions are used to estimate the fair value of each class of financial instrument:

Cash and 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 approximates carrying value and 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 our Company.

Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires our 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

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amounts of revenues and expenses during the reporting period. Significant items subject to estimates and assumptions include the valuation allowances for accounts receivable, inventories and deferred tax assets, accrued expenses, and the assumptions we use to value share-based compensation. Actual results could differ from those estimates.

Fiscal year: We report on a 52- or 53-week fiscal year. Our 2009 fiscal year (“2009”) ended on January 2, 2010 and included 52 weeks. Our 2008 fiscal year (“2008”) ended on January 3, 2009 and included 53 weeks.

2. Recent Accounting Pronouncements

Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles

On October 3, 2009, we adopted new accounting guidance related to accounting standards codification and the hierarchy of generally accepted accounting principles (“GAAP”). The new guidance will become the source of authoritative non-SEC authoritative GAAP. The guidance establishes a two-level GAAP hierarchy for nongovernmental entities: authoritative guidance and nonauthoritative guidance. Authoritative guidance consists of the Codification and, for SEC registrants, rules and interpretative releases of the Commission. Nonauthoritative guidance consists of non-SEC accounting literature that is not included in the Codification and has not been grandfathered. The new guidance, including the Codification, is effective for financial statements of interim and annual periods ending after September 15, 2009. As the Codification was not intended to change or alter existing GAAP, it did not have any impact on our consolidated financial statements.

Consolidation of Variable Interest Entities

On January 3, 2010, we plan to adopt new accounting guidance related to consolidation of variable interest entities. The new guidance addresses the effects of eliminating the qualified special purpose entity concept and responds to concerns about the application of accounting guidance related to the consolidation of variable interest entities, including concerns over the transparency of enterprises’ involvement with variable interest entities. The new guidance is effective for fiscal years beginning after November 15, 2009. We do not expect the new guidance to have a material impact on the preparation of our consolidated financial statements.

Accounting for Transfers of Financial Assets

On January 3, 2010, we plan to adopt new accounting guidance related to accounting for transfers of financial assets. The new guidance eliminates the concept of a “qualified special-purpose entity,” changes the requirements for derecognizing financial assets and requires additional disclosures in order to enhance information reported to users of financial statements by providing greater transparency about transfers of financial assets, including securitization transactions, and an entity’s continuing involvement in and exposure to the risks related to transferred financial assets. The new guidance is effective for fiscal years beginning after November 15, 2009. We do not expect the new guidance to have a material impact on the preparation of our consolidated financial statements.

Subsequent Events

On July 4, 2009, we adopted new guidance related to subsequent events. The new guidance requires all public entities to evaluate subsequent events through the date that the financial statements are available to be issued and disclose in the notes the date through which the Company has evaluated subsequent events and whether the financial statements were issued or were available to be issued on the disclosed date. The new guidance defines two types of subsequent events, as follows: the first type consists of events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, and the second type consists of events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. The new guidance is effective for interim and annual periods ending after June 15, 2009 and must be applied prospectively. In February 2010, the new guidance related to subsequent events was amended for SEC filers to delete the requirement to disclose the date through which the Company has to evaluate subsequent events. The adoption of the new guidance and related amendment thereto did not have a material effect on our results of operations or financial position.

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Disclosures about Derivative Instruments and Hedging Activities

On January 4, 2009, we adopted new accounting guidance related to disclosures about derivative instruments and hedging activities. The new guidance is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, financial performance and cash flows. The new guidance also improves transparency about the location and amounts of derivative instruments in an entity’s financial statements; how derivative instruments and related hedged items are accounted for; and how derivative instruments and related hedged items affect its financial position, financial performance and cash flows. The new guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of the new guidance did not have a material effect on our results of operations or financial position.

Noncontrolling Interests in Consolidated Financial Statements

On January 4, 2009, we adopted new accounting guidance related to noncontrolling interests on consolidated financial statements. The new guidance establishes accounting and reporting standards for noncontrolling interests in subsidiaries and for the deconsolidation of subsidiaries and clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The new guidance also requires expanded disclosures that clearly identify and distinguish between the interests of the parent owners and the interests of the noncontrolling owners of a subsidiary. The new guidance is effective for fiscal years beginning on or after December 15, 2008. The adoption of the new guidance did not have a material effect on our results of operations or financial position.

Business Combinations

On January 4, 2009, we adopted new accounting guidance related to business combinations. The new accounting guidance establishes the principles and requirements for how an acquirer in a business combination: recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interests in the acquiree; recognizes and measures the goodwill acquired in the business combination or the gain from a bargain purchase; and determines what information should be disclosed in the financial statements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The new guidance is effective for fiscal years beginning on or after December 15, 2008. The adoption of the new guidance did not have a material effect on our results of operations or financial position.

3. Significant Accounting Policies

Cash and cash equivalents: We consider all highly liquid investments purchased with original maturity dates of three months or less to be cash equivalents. We maintain our cash in bank deposit and money-market accounts which, at times, exceed federally insured limits. We have determined that the fair value of the money-market accounts fall within level 1 of the fair value hierarchy. We have not experienced any losses in such accounts.

Trade receivables: We carry unsecured trade receivables at the original invoice amount less an estimate made for doubtful accounts based on a monthly review of all outstanding amounts. 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. We write off trade receivables when we deem them uncollectible. We record recoveries of trade receivables previously written off when we receive them. We consider a trade receivable to be past due if any portion of the receivable balance is outstanding for more than ninety days. We do not charge interest on past due receivables. In 2009, we wrote off \$320 of uncollectible receivables primarily reserved for in 2008. Our management considers the allowance for doubtful accounts of \$41 and \$292 to be adequate to cover any exposure to loss as of January 2, 2010 and January 3, 2009, respectively.

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Inventories: Inventories, consisting principally of appliances, are stated at the lower of cost, determined on a specific identification basis, or market and consist of:

| | January 2, 2010 | January 3, 2009 |
|---|--------------------|--------------------|
| Finished goods | \$ 17,304 | \$ 18,949 |
| Less provision for inventory obsolescence | (519) | (115) |
| | <u>\$ 16,785</u> | <u>\$ 18,834</u> |

We provide estimated provisions for the obsolescence of our appliance inventories, including adjustments to market, based on various factors, including the age of such inventory and our management's assessment of the need for such provisions. We look at historical inventory agings and margin analysis in determining our provision estimate.

Property and equipment: Property and equipment are stated at cost. We compute depreciation using straight-line and accelerated methods over the following estimated useful lives:

| | Years |
|---|-------|
| Buildings and improvements | 18-30 |
| Equipment (including computer software) | 3-8 |

We amortize leasehold improvements on a straight-line basis over the shorter of their estimated useful lives or the underlying lease term. Repair and maintenance costs are charged to operations as incurred.

Property and equipment consists of the following:

| | January 2, 2010 | January 3, 2009 |
|--|--------------------|--------------------|
| Land | \$ 1,140 | \$ 2,050 |
| Buildings and improvements | 2,990 | 5,249 |
| Equipment (including computer software) | 9,082 | 9,161 |
| | 13,212 | 16,460 |
| Less accumulated depreciation and amortization | (9,073) | (9,493) |
| | <u>\$ 4,139</u> | <u>\$ 6,967</u> |

In 2009, we wrote off \$597 of fully depreciated assets that were no longer in use, which did not have an impact on our operating results. In 2009, we also reduced land, building and improvements and accumulated depreciation by \$910, \$2,317 and \$1,036, respectively, as a result of the sale-leaseback transaction described in Note 4.

Depreciation and amortization expense: Depreciation and amortization expense related to buildings and equipment from our recycling centers is presented in cost of revenues and depreciation and amortization expense related to buildings and equipment from our ApplianceSmart Factory Outlet stores and corporate assets, such as furniture and computers, is presented in selling, general and administrative expenses in the consolidated statements of operations. Depreciation and amortization expense was \$1,287 and \$1,123 for the fiscal years ended January 2, 2010 and January 3, 2009, respectively.

Software development costs: We capitalize software developed for internal use and are amortizing such costs over their estimated useful lives of three to five years. Costs capitalized were \$207 and \$262 for the fiscal years ended January 2, 2010 and January 3, 2009, respectively. Amortization expense on software development costs was \$314 and \$256 for the fiscal years 2009 and 2008, respectively. Estimated amortization expenses are \$249, \$141, \$30 and \$2 for the fiscal years 2010, 2011, 2012 and 2013, respectively.

Impairment of long-lived assets: We evaluate long-lived assets such as property and equipment for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. We assess impairment

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based on 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, we recognize an impairment loss at that time. We measure an impairment loss 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. We recognized no impairment charges during the fiscal years ended January 2, 2010 and January 3, 2009.

Restricted cash: Restricted cash consists of a reserve account required by our bankcard processor to cover chargebacks, adjustments, fees and other charges that may be due from us.

Accounting for leases: We conduct the majority of our retail and recycling operations from leased facilities. The majority of our leases require payment of real estate taxes, insurance and common area maintenance in addition to rent. The terms of our lease agreements typically range from five to ten years. Most of the leases contain renewal and escalation clauses, and certain store leases require contingent rents based on factors such as revenue. For leases that contain predetermined fixed escalations of the minimum rent, we recognize the related rent expense on a straight-line basis from the date we take possession of the property to the end of the initial lease term. We record any difference between straight-line rent amounts and amounts payable under the leases as part of deferred rent in accrued expenses. Cash or lease incentives (tenant allowances) received upon entering into certain store leases are recognized on a straight-line basis as a reduction to rent from the date we take possession of the property through the end of the initial lease term.

Product warranty: We provide a warranty for the replacement or repair of certain defective units. Our standard warranty policy requires us to repair or replace certain defective units at no cost to our customers. We estimate the costs that may be incurred under our warranty and record an accrual in the amount of such costs at the time we recognize product revenue. Factors that affect our warranty accrual for covered units include the number of units sold, historical and anticipated rates of warranty claims on these units, and the cost of such claims. We periodically assess the adequacy of our recorded warranty accrual and adjust the amounts as necessary.

Changes in our warranty accrual for the fiscal years ended January 2, 2010 and January 3, 2009 are as follows:

| | For the fiscal year ended | |
|--------------------------------------|---------------------------|--------------------|
| | January 2, 2010 | January 3, 2009 |
| Beginning Balance | \$ 91 | \$ 80 |
| Standard accrual based on units sold | 79 | 87 |
| Actual costs incurred | (16) | (4) |

| | | | |
|------------------------------|----|------|-------|
| Periodic accrual adjustments | | (87) | (72) |
| Ending Balance | \$ | 67 | \$ 91 |

Income taxes: We account for income taxes under the liability method. Deferred tax liabilities are recognized for temporary differences that will result in taxable amounts in future years. Deferred tax assets are recognized for deductible temporary differences and tax operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and record a valuation allowance to reduce our deferred tax assets to the amounts we believe to be realizable. We concluded that a full valuation allowance against our U.S. deferred tax assets was appropriate as of January 2, 2010.

Share-based compensation: We recognize compensation expense on a straight-line basis over the vesting period for all share-based awards granted. We use the Black-Scholes option pricing model to determine the fair value of awards at the grant date. We calculate the expected volatility for stock options and awards using historical volatility. We estimate a 0%-5% forfeiture rate for stock options issued to all employees and Board of Directors members, but will continue to review these estimates in future periods. The risk-free rates for the expected terms of the stock options are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life represents the period that the stock option awards are expected to be outstanding. The expected dividend yield is zero as we have not paid or declared any cash dividends on

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our Common Stock. Based on these valuations, we recognized share-based compensation expense of \$578 and \$529 for the fiscal years ending January 2, 2010 and January 3, 2009, respectively. We estimate that the expense for fiscal 2010 will be approximately \$177 and immaterial thereafter, based on the value of options outstanding as of January 2, 2010. This estimate does not include any expense for additional options that may be granted and vest during 2010.

Comprehensive income (loss): Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income (loss) but are excluded from net income (loss) as these amounts are recorded directly as an adjustment to shareholders' equity. Our other comprehensive income (loss) is comprised of foreign currency translation adjustments. The effect of the foreign currency translation adjustments, net of tax, was a loss of \$65 and \$452 for the fiscal years ending January 2, 2010 and January 3, 2009, respectively.

Revenue recognition: We recognize revenue from appliance sales in the period the consumer purchases and pays for the appliance, net of an allowance for estimated returns. We recognize revenue from appliance recycling when we collect and process a unit. We recognize byproduct revenue upon shipment. We recognize revenue on extended warranties with retained service obligations on a straight-line basis over the period of the warranty. On extended warranty arrangements that we sell but others service for a fixed portion of the warranty sales price, we recognize revenue for the net amount retained at the time of sale of the extended warranty to the consumer. We include shipping and handling charges to customers in revenue, which are recognized in the period the consumer purchases and pays for delivery. Shipping and handling costs that we incur are included in cost of revenues.

Taxes collected from customers: We account for taxes collected from customers on a net basis.

Advertising expense: Our policy is to expense advertising costs as incurred. Advertising expense was \$3,746 and \$4,258 for the fiscal years ended January 2, 2010 and January 3, 2009, respectively.

Basic and diluted net income (loss) per common share: Basic income (loss) per common share is computed based on the weighted average number of common shares outstanding. Diluted income (loss) per common share is computed based on the weighted average number of common shares outstanding adjusted by the number of additional shares that would have been outstanding had the potentially dilutive common shares been issued. Potentially dilutive shares of Common Stock include unexercised stock options and warrants. Basic per share amounts are computed, generally, by dividing net income (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 anti-dilutive, thereby reducing the loss or increasing the income per common share. In calculating diluted weighted average shares and per share amounts, we included stock options with exercise prices below average market prices, for the respective fiscal years in which they were dilutive, using the treasury stock method. We calculated the number of additional shares by assuming the outstanding stock options were exercised and that the proceeds from such exercises were used to acquire Common Stock at the average market price during the year. We excluded 303 options in fiscal 2008 from the diluted weighted average share outstanding calculation as the effect of these options is anti-dilutive. The effect of all options and warrants outstanding in fiscal year 2009 was anti-dilutive due to the net loss incurred.

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A reconciliation of the denominator in the basic and diluted income or loss per share is as follows:

| | For the fiscal year ended | |
|---|---------------------------|--------------------|
| | January 2, 2010 | January 3, 2009 |
| Numerator: | | |
| Income (loss) from continuing operations | \$ (3,338) | \$ 1,864 |
| Loss from discontinued operations, net of tax | — | (812) |
| Loss on disposal of discontinued operations, net of tax | — | (692) |
| Net income (loss) | \$ (3,338) | \$ 360 |
| Denominator: | | |
| Weighted average common shares outstanding - basic | 4,578 | 4,571 |
| Stock options | — | 41 |
| Weighted average common shares outstanding - diluted | 4,578 | 4,612 |
| Basic income (loss) per common share: | | |
| Continuing operations | \$ (0.73) | \$ 0.41 |
| Discontinued operations | — | (0.33) |
| Net income (loss) | \$ (0.73) | \$ 0.08 |
| Diluted income (loss) per common share: | | |
| Continuing operations | \$ (0.73) | \$ 0.41 |
| Discontinued operations | — | (0.33) |
| Net income (loss) | \$ (0.73) | \$ 0.08 |

4. Sale-Leaseback Transaction

On September 25, 2009, we completed the sale-leaseback of our St. Louis Park building. The building is a 126,458-square-foot facility that includes our corporate office, a processing and recycling center, and an ApplianceSmart Factory Outlet store. Pursuant to the agreement entered into on August 11, 2009, we sold the St. Louis Park building for \$4,627, net of fees, and leased the building back over an initial lease term of five years. The sale of the building provided the Company with \$2,032 in cash after repayment of the \$2,595 mortgage. The sale-leaseback transaction resulted in an adjustment of \$2,191 to the net book value related to the land and building, and we recorded a deferred gain of \$2,436. Under the terms of the lease agreement, we are classifying the lease as an operating lease and amortizing the gain on a straight-line basis over five years.

5. Discontinued Operations

During the fourth quarter of 2008, we planned and executed the shutdown of our NAACO and PDN operations. NAACO and PDN were not operating as planned and were no longer economically viable. In 2008, our supply of room air conditioners from a major manufacturer was depleted, no longer providing refurbishment opportunities for PDN and revenues for NAACO, which was the basis for our investment in these businesses. We have not had any continuing involvement or significant continuing cash flows in these businesses. The results of operations for NAACO and PDN were included in our retail segment. During the fiscal year ended January 3, 2009, NAACO and PDN had revenues of \$792 and a loss before taxes of \$882. All results of operations for periods presented prior to the abandonment date have been reclassified as discontinued operations. We recorded a loss on the disposal of NAACO and PDN of \$692, net of tax, for the year ended January 3, 2009, which consisted of termination costs and the write-off of certain assets to fair value upon the abandonment of the operations in December 2008.

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6. Investments

On June 1, 2009, we completed a \$263 investment in Diagnostico y Administracion de Logistica Inversa, S.A. de C.V. (“DALI”), a Mexican company. DALI is a joint venture that operates a refrigerator recycling program sponsored by the Mexican government. Our investment represents a 46.3% ownership in the joint venture. The DALI joint venture is accounted for under the equity method and is presented in the consolidated balance sheets as a component of other assets. The results of the joint venture were immaterial for the fiscal year ended January 2, 2010.

On October 21, 2009, we entered into an Appliance Sales and Recycling Agreement (the “Agreement”). Under the Agreement, our client will sell all of its recyclable appliances generated in the northeastern United States to us, and we will collect, process and recycle such recyclable appliances. The Agreement requires that we will only recycle, and will not sell for re-use or resale, the recyclable appliances purchased from our client. We plan to establish a regional processing center (“RPC”) located in the northeastern United States at which the recyclable appliances will be processed. The term of the Agreement is for a period of six years from the first date of collection of recyclable appliances, which we expect will be early in the second quarter of 2010. We issued a warrant in conjunction with the Agreement as described in Note 13. The fair market value of the warrant was recorded as an intangible asset and will be amortized over the initial term of the Agreement. The recycling contract intangible asset is presented in the consolidated balance sheets as a component of other assets.

In connection with the Agreement described above, we entered into a Joint Venture Agreement with 4301 Operations, LLC, to establish and operate the northeastern RPC. 4301 Operations has substantial experience in the recycling of major household appliances and will contribute their existing business to the joint venture. Under the Joint Venture Agreement, the parties will form a new entity to be known as ARCA Advanced Processing, LLC (“AAP”) and each party will be a 50% owner of AAP. If additional RPCs are established, AAP will establish the next two RPCs and will have a right of first refusal to establish subsequent RPCs. We plan to raise debt and/or equity financing to fund our share of the capital required to form the joint venture. We plan to contribute approximately \$2,000, including the Appliance Sales and Recycling Agreement, to the joint venture, and 4301 Operations plans to contribute their equipment and existing business to the joint venture. The joint venture plans to commence operations early in the second quarter of 2010; however, there is no assurance that operations will commence or that financing will be available on terms satisfactory to us or permitted by our current debt agreement. As of January 2, 2010, we loaned 4301 Operations \$375 that will be considered as a portion of our capital contribution when the joint venture commences operations. The loan to 4301 Operations is presented in the consolidated balance sheets as a component of other assets.

The Agreement is contingent on the ability of the joint venture to raise additional financing to purchase and install UNTHA Recycling Technology (“URT”) equipment, which will enhance the capabilities of the RPC. We are the exclusive distributor of URT equipment for North America. The joint venture plans to raise additional debt financing to purchase the URT equipment, but there is no assurance that the financing will be available or on terms acceptable to the joint venture.

7. Other Assets

Other assets as of January 2, 2010 and January 3, 2009 consist of the following:

| | January 2, 2010 | January 3, 2009 |
|------------------------------|--------------------|--------------------|
| Deposits | \$ 407 | \$ 408 |
| Investment in DALI | 263 | — |
| Loan to 4301 Operations, LLC | 375 | — |
| Recycling contract, net | 479 | — |
| Other | 42 | 77 |
| | <u>\$ 1,566</u> | <u>\$ 485</u> |

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8. Accrued Expenses

Accrued expenses as of January 2, 2010 and January 3, 2009 consist of the following:

| | January 2, 2010 | January 3, 2009 |
|------------------------------------|--------------------|--------------------|
| Compensation and benefits | \$ 868 | \$ 1,565 |
| Accrued recycling incentive checks | 1,232 | 1,110 |
| Accrued rent | 1,176 | 461 |
| Warranty expense | 67 | 91 |
| Accrued payables | 350 | 509 |

| | | |
|--|-----------------|-----------------|
| Current portion of deferred gain on sale-leaseback of building | 488 | — |
| Other | 220 | 337 |
| | <u>\$ 4,401</u> | <u>\$ 4,073</u> |

9. Line of Credit

We have an \$18,000 line of credit with a lender. The line was increased from \$16,000 to \$18,000 on February 5, 2008. The interest rate on the line was 6.25% (the greater of prime plus 3.00 percentage points or 6.25%) as of January 2, 2010 and January 3, 2009. The weighted average interest rate for fiscal years 2010 and 2009 was 6.25% and 6.83%, respectively. The amount of borrowings available under the line of credit is based on a formula using receivables and inventories. Our unused borrowing capacity under this line was \$56 as of January 2, 2010. We may not have access to the full \$18.0 million line of credit due to the formula using our receivables and inventories. The line of credit has a stated maturity date of December 31, 2010, 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 collateralized by substantially all our assets and requires minimum monthly interest payments of \$58, 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 we meet certain financial covenants, provides payment penalties for noncompliance and prepayment, limits the amount of other debt we can incur, limits the amount of spending on fixed assets and prohibits payments of dividends. As of January 2, 2010, we were not in compliance with certain financial covenants of the loan agreement and received a waiver from the lender. On March 10, 2010, the interest rate on the line increased to 6.75% (the greater of prime plus 3.50 percentage points or 6.75%).

10. Long-Term Debt Obligations

Long-term debt and capital lease obligations as of January 2, 2010 and January 3, 2009 consist of the following:

| | January 2, 2010 | January 3, 2009 |
|--|--------------------|--------------------|
| 6.85 % mortgage, due in monthly installments of \$15, including interest, due January 2013, collateralized by land and building | \$ 1,586 | \$ 1,659 |
| Adjustable rate mortgage, due in monthly installments, adjusted weekly based on 30-day LIBOR plus 2.70 percentage points (3.38% as of January 3, 2009) on a 20-year amortization due October 2012, collateralized by land and building | — | 2,747 |
| Capital leases and other financing obligations | 921 | 1,065 |
| | 2,507 | 5,471 |
| Less current maturities | 544 | 579 |
| | <u>\$ 1,963</u> | <u>\$ 4,892</u> |

In September 2009, we paid off our adjustable rate mortgage as a result of the sale-leaseback transaction described in Note 4.

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

| | |
|------|-----------------|
| 2010 | \$ 544 |
| 2011 | 412 |
| 2012 | 197 |
| 2013 | 1,350 |
| 2014 | 4 |
| | <u>\$ 2,507</u> |

Capital leases and other financing obligations: We acquire certain equipment under capital leases and other financing obligations. The cost of equipment was approximately \$1,615 and \$1,396 at January 2, 2010 and January 3, 2009, respectively. Accumulated amortization at January 2, 2010 and January 3, 2009 was approximately \$802 and \$387, respectively. Depreciation and amortization expense for equipment under capital leases and other financing obligations is included in cost of revenue and selling, general and administrative expenses.

In 2008, we entered into a master equipment lease with a lender providing up to \$250 in available funds. As of January 3, 2009, we had utilized the entire lease line to fund equipment for factory outlet stores. In 2009, we entered into a master equipment lease with a lender providing up to \$188 in available funds. As of January 2, 2010, we had utilized the entire lease line to fund equipment and displays for factory outlet stores.

The following schedule by fiscal year is the approximate remaining minimum payments required under the leases and other financing obligations, together with the present value at January 2, 2010:

| | |
|---|---------------|
| 2010 | \$ 537 |
| 2011 | 358 |
| 2012 | 114 |
| 2013 | 13 |
| 2014 | 4 |
| Total minimum lease and other financing obligation payments | 1,026 |
| Less amount representing interest | 105 |
| Present value of minimum payments | 921 |
| Less current portion | 466 |
| Capital lease and other financing obligations, net of current portion | <u>\$ 455</u> |

11. Commitments and Contingencies

Operating leases: We lease the majority of our retail stores and recycling centers under noncancelable operating leases. The leases typically require the payment of taxes, maintenance, utilities and insurance.

Minimum future rental commitments under noncancelable operating leases as of January 2, 2010 are as follows:

| | |
|------|----------|
| 2010 | \$ 4,534 |
| 2011 | 4,541 |
| 2012 | 4,349 |

| | |
|---------------------|------------------|
| 2013 | 3,966 |
| 2014 | 3,130 |
| 2015 and thereafter | 5,734 |
| | <u>\$ 26,254</u> |

Rent expense for the fiscal years ended January 2, 2010 and January 3, 2009 was \$4,960 and \$4,710, respectively.

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Contracts: We have entered into material contracts with three appliance manufacturers. Under the agreements there are no minimum purchase commitments; however, we have agreed to indemnify the manufacturers for certain claims, allegations or losses with respect to appliances we sell.

Litigation: In December 2004, we filed suit in the U.S. District Court for the Central District of California alleging that JACO Environmental, Inc. (JACO) and one of our former consultants fraudulently obtained U.S. Patent No. 6,732,416 in May 2004 covering appliance recycling methods and systems which were originally developed by us beginning in 1987 and used in serving more than forty-five electric utility appliance recycling programs up to the time the suit was filed. We sought an injunction to prevent JACO from claiming that it obtained a valid patent on appliance recycling processes that we believe is based on methods and processes we invented. In addition, we asked the Court to find that the patent obtained by JACO is unenforceable due to inequitable conduct before the United States Patent Office. We also asked the court for unspecified damages related to charges that JACO, in using the patent to promote its services, engaged in unfair competition and false and misleading advertising under federal and California statutes.

In September 2005, we received a legally binding document in which JACO stated it would not sue us or any of our customers for violating the JACO patent. Further, the defendants in the case did not assert any counterclaims against ARCA.

In January 2009, the Court granted JACO a summary judgment in ARCA's lawsuit against the parties. The ruling was made by the same judge who had earlier denied summary judgment to the defendants. Even though the Court's ruling will have no impact on our method of recycling or ability to conduct existing or future business, we filed an appeal with the Ninth Circuit Court of Appeals in California in February 2009 seeking to have the court set aside the summary judgment. We believe the decision by the trial judge was in error and contrary to the law relating to unfair competition and false advertising. We believe we are entitled to our day in court against JACO for damages caused by their actions, and our case is scheduled to be argued before the Ninth Circuit Court of Appeals on April 9, 2010.

On October 24, 2006, JACO and SEG Umwelt-Service/Basis of Mettlach, Germany (SEG) filed a patent infringement lawsuit in Federal Court in San Francisco against us. The suit claimed that we had been using refrigerator recycling systems and processes covered by two U.S. patents issued to SEG and exclusively licensed to JACO. JACO and SEG sought an undisclosed amount in damages, in addition to an injunction barring us from continuing to use and market the systems and processes upon which we allegedly infringed. This suit was subsequently dismissed following a transfer of the case to Los Angeles upon the motion of ARCA.

In December 2009, a lawsuit in the Fourth Judicial District Court of Hennepin County, Minnesota has been commenced by RKL Landholdings, LLC and Emad Y. Abed relating to the potential sale of our St. Louis Park, Minnesota property. This property has been sold to a third party and all proceeds from the sale have been received by us. The claims made by the Plaintiffs in this matter have been alleged against both Appliance Recycling Centers of America, Inc. and Edward Cameron, individually. The claims relate to an originally executed Purchase Agreement and extensions thereto executed between the parties, which Purchase Agreement and extensions all expired by their own terms. The Plaintiffs have alleged various facts and claims, including promissory estoppel, unjust enrichment, conversion, fraud, tortious interference with prospective advantage, and breach of contract. We plan to vigorously defend these claims and believe that any outcome will not have a material impact on our results of operations or financial position.

We are party from time to time to other ordinary course disputes that we do not believe to be material.

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12. Income Taxes

The provision for income taxes for the fiscal years ended January 2, 2010 and January 3, 2009 consisted of the following:

| | For the fiscal year ended | |
|----------------------------|---------------------------|--------------------|
| | January 2, 2010 | January 3, 2009 |
| Current tax expense: | | |
| Federal | \$ — | \$ 128 |
| State | 39 | 44 |
| Foreign | 24 | 495 |
| Current tax expense | \$ 63 | \$ 667 |
| Deferred tax expense | (58) | 72 |
| Provision for income taxes | <u>\$ 5</u> | <u>\$ 739</u> |

A reconciliation of our provision for income taxes with the federal statutory tax rate for the fiscal years ended January 2, 2010 and January 3, 2009 is shown below:

| | For the fiscal year ended | |
|--|---------------------------|--------------------|
| | January 2, 2010 | January 3, 2009 |
| Income tax expense (benefit) at statutory rate | \$ (1,133) | \$ 885 |
| State tax expense (benefit), net of federal tax effect | (110) | 71 |
| Permanent differences | 242 | 275 |
| Changes in valuation allowance | 192 | (657) |
| Reversal of deferred tax asset for change in tax law | 962 | — |
| Foreign income tax payable true-up | (206) | — |
| Foreign rate differential | (3) | 54 |
| Other | 61 | 111 |
| | <u>\$ 5</u> | <u>\$ 739</u> |

We recorded a discrete item in the second quarter of 2009 related to additional Canadian tax deductions determined by completing a detailed transfer pricing study. We recognized a tax benefit of approximately \$206 related solely to our Canadian operations compared to the original tax provision estimate for fiscal 2008.

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The components of net deferred tax assets as of January 2, 2010 and January 3, 2009 are as follows:

| | January 2, 2010 | January 3, 2009 |
|----------------------------------|--------------------|--------------------|
| Deferred tax assets: | | |
| Net operating loss carryforwards | \$ 868 | \$ 1,734 |
| Federal and state tax credits | 323 | 312 |
| Reserves | 367 | 322 |
| Accrued expenses | 229 | 278 |
| Share-based compensation | 107 | 82 |
| Deferred gain | 913 | — |
| Foreign currency translation | — | 177 |
| | <u>2,807</u> | <u>2,905</u> |
| Valuation allowance | (2,379) | (2,187) |
| Deferred tax assets | <u>428</u> | <u>718</u> |
| Deferred tax liabilities: | | |
| Prepaid expenses | (112) | (152) |
| Property and equipment | (330) | (452) |
| Other | — | (9) |
| Deferred tax liabilities | <u>(442)</u> | <u>(613)</u> |
| Net deferred tax assets | <u>\$ (14)</u> | <u>\$ 105</u> |

The deferred tax amounts mentioned above have been classified in the accompanying consolidated balance sheets as follows:

| | January 2, 2010 | January 3, 2009 |
|-------------------------|--------------------|--------------------|
| Current assets | \$ 677 | \$ 448 |
| Non-current assets | — | 177 |
| Non-current liabilities | (691) | (520) |
| | <u>\$ (14)</u> | <u>\$ 105</u> |

At January 2, 2010, we had a full valuation allowance against our U.S. deferred tax assets to reduce the total to an amount our 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 valuation allowance increased in the current year primarily as a result of taxable losses generated during the year from U.S. sources and was partially offset by the reversal of deferred tax assets as a result of a change in state tax law. In the future, when we believe we can reasonably estimate future operating results and those estimated results reflect taxable income, the amount of deferred tax assets considered reasonable could be adjusted by a reduction of the valuation allowance.

We have not recognized a deferred tax liability relating to cumulative undistributed earnings of controlled foreign subsidiaries that are essentially permanent in duration. If some or all of the undistributed earnings of the controlled foreign subsidiaries are remitted to us in the future, income taxes, if any, after the application of foreign tax credits will be provided at that time.

Future utilization of net operating loss (“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. We believe that the issuance of Common Stock during 1999 resulted in an “ownership change” under Section 382. Accordingly, our ability to use NOL and tax credit carryforwards generated prior to February 1999 is limited to approximately \$56 per year.

At January 2, 2010, we had federal NOL carryforwards of approximately \$8,707 (\$6,639 of which is subject to IRC section 382 limitations) and credits for general business credits of \$13. In addition to general business credits we also had alternative

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minimum tax credits carried forward of approximately \$310. We also had state NOL carryforwards of \$8,862 (\$2,642 of which is subject to IRC section 382 limitations). The NOL carryforwards are available to offset future taxable income or reduce taxes payable through 2027. These loss carryforwards will begin expiring in 2016. The general business credits will expire in 2013. We previously wrote off NOLs related to IRC section 382 limits against the valuation allowance.

A portion of our net operating loss carryforwards (approximately \$930 of tax deductions) resulted from the exercise of stock options. When these loss carryforwards are realized, the corresponding change in valuation allowance will be recorded as additional paid-in capital. We have adopted the “with and without” approach to determine tax benefits. Under this approach, windfall tax benefits are used last to offset taxable income and a benefit is recorded in additional paid-in capital only if an incremental benefit is provided after considering all other tax attributes (including NOLs) presently available to us. This treatment results in a re-characterization of the NOL carryforward and a difference in the NOL asset between the financial statements and tax returns. The difference in the federal NOL deferred tax asset is \$316.

At January 2, 2010, we had NOL carryforwards not subject to IRC section 382 limitations, expiring as follows:

| | |
|------|-------|
| 2026 | 1,357 |
| 2029 | 711 |

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. As of January 2, 2010, we did not have any material uncertain tax positions.

It is our practice to recognize interest related to income tax matters as a component of interest expense and penalties as a component of selling, general and administrative

expense. As of January 2, 2010, we had an immaterial amount of accrued interest and penalties.

We are subject to income taxes in the U.S. federal jurisdiction, foreign jurisdictions and various state jurisdictions. Tax regulations from each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, we are no longer subject to U.S. federal, foreign, state or local income tax examinations by tax authorities for the years before 2006. We are not currently under examination by any taxing jurisdiction.

We had no significant unrecognized tax benefits as of January 2, 2010 that would reasonably be expected to affect our effective tax rate during the next twelve months.

13. Shareholders' Equity

Stock options: Our 2006 Stock Option Plan (the "2006 Plan") permits 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 2006 Plan has 600 shares available for grant. As of January 2, 2010, 380 options were outstanding to employees and non-employee directors and 15 options have been exercised under the 2006 Plan. Our Restated 1997 Stock Option Plan (the "1997 Plan") has expired, but the options outstanding under the expired 1997 Plan continue to be exercisable in accordance with their terms. As of January 2, 2010, options to purchase an aggregate of 33 shares were outstanding under the 1997 Plan. Options granted to employees typically vest over two years while grants to non-employee directors vest in six months.

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The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for the fiscal years ended January 2, 2010 and January 3, 2009:

| | For the fiscal year ended | |
|----------------------------------|---------------------------|--------------------|
| | January 2, 2010 | January 3, 2009 |
| Expected dividend yield | — | — |
| Expected stock price volatility | 105.39% | 104.72% |
| Risk-free interest rate | 2.77% | 3.39% |
| Expected life of options (years) | 7.00 | 6.88 |

Additional information relating to all outstanding options is as follows (in thousands, except per share data):

| | Options Outstanding | Weighted Average Exercise Price |
|------------------------------|------------------------|--|
| Balance at December 29, 2007 | 144 | \$ 3.34 |
| Granted | 282 | 5.02 |
| Exercised | (69) | 3.21 |
| Cancelled/expired | (2) | 2.53 |
| Forfeited | (16) | 5.86 |
| Balance at January 3, 2009 | 339 | 4.65 |
| Granted | 102 | 2.04 |
| Cancelled/expired | (9) | 4.68 |
| Forfeited | (19) | 2.55 |
| Balance at January 2, 2010 | 413 | 4.10 |

The weighted average fair value per option of options granted during fiscal years 2009 and 2008 was \$1.74 and \$4.26, respectively.

The following table summarizes information about stock options outstanding as of January 2, 2010 (in thousands, except per share data):

| Range of Exercise Prices | Options Outstanding | Weighted Average Remaining Contractual Life In Years | Weighted Average Exercise Price | Aggregate Intrinsic Value |
|--------------------------|------------------------|---|------------------------------------|------------------------------|
| \$5.05 to \$6.41 | 219 | 5.46 | \$ 5.48 | |
| \$3.81 to \$4.32 | 30 | 4.58 | 4.06 | |
| \$2.38 to \$2.80 | 127 | 5.61 | 2.39 | |
| \$1.50 to \$2.00 | 37 | 8.77 | 1.87 | |
| | 413 | 5.74 | 4.10 | \$ 20 |

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The following table summarizes information about stock options exercisable as of January 2, 2010 (in thousands, except per share data):

| Range of Exercise Prices | Options Exercisable | Weighted Average Exercise Price | Aggregate Intrinsic Value |
|--------------------------|------------------------|------------------------------------|------------------------------|
| \$5.05 to \$6.41 | 122 | \$ 5.51 | |
| \$3.81 to \$4.32 | 30 | 4.06 | |
| \$2.38 to \$2.80 | 57 | 2.51 | |
| \$1.50 to \$2.00 | 30 | 1.87 | |
| | 239 | 4.16 | \$ 13 |

The aggregate intrinsic value in the preceding tables represents the total pre-tax intrinsic value, based on our closing stock price of \$2.30 on January 2, 2010, which theoretically could have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable as of January 2, 2010 was 30. No stock options were exercised during the fiscal year ended January 2, 2010. The intrinsic value of stock options exercised during the fiscal year ended January 3, 2009 was \$291.

Warrant: In conjunction with the Agreement entered into on October 21, 2009 as described in Note 6, we issued a warrant to purchase 248 shares of Common Stock at a price of \$0.75 per share. The fair market value of the warrant issued was \$479 and is exercisable in full at any time during a term of ten years. The exercise price may be reduced and the number of shares of Common Stock that may be purchased under the warrant may be increased if the Company issues or sells additional shares of Common Stock at a price lower than the then-current warrant exercise price or the then-current market price of the Common Stock. The shares underlying the warrant include legal restrictions regarding the transfer or sale of the shares.

The following table summarizes the assumptions used to estimate the fair value of the warrant issued on October 21, 2009 using the Black-Scholes Model:

| | |
|----------------------------------|---------|
| Expected dividend yield | 0.0% |
| Expected stock price volatility | 128.27% |
| Risk-free interest rate | 3.42% |
| Expected life of options (years) | 10.00 |

The fair value per share of Common Stock underlying the warrant issued was \$1.93 based on our closing stock price of \$1.97.

Preferred Stock: Our amended Articles of Incorporation authorize two million shares of Preferred Stock that 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.

14. Major Customers and Suppliers

For the fiscal year ended January 2, 2010, no single customer represented 10% or more of our total revenues. As of January 2, 2010, two customers each represented more than 10% of our total trade receivables. For the fiscal year ended January 3, 2009, one customer represented 10% of our total revenues. As of January 3, 2009, three customers each represented more than 10% of our total trade receivables.

During the two fiscal years ended January 2, 2010 and January 3, 2009, we purchased a vast majority of appliances for resale from three suppliers. We have and are continuing to secure other vendors from which to purchase appliances. However, the curtailment or loss of one of these suppliers or any appliance supplier could adversely affect our operations.

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15. Segment Information

We operate within targeted markets through two reportable segments: retail and recycling. The retail operation is comprised of income generated through our ApplianceSmart Factory Outlet stores, which includes appliance sales and byproduct revenues from collected appliances. The recycling operation includes all fees charged and costs incurred for collecting, recycling and installing appliances for utilities and other customers and includes byproduct revenue, which is primarily generated through the recycling of appliances. The nature of products, services and customers for both segments varies significantly. As such, the segments are managed separately. Our Chief Executive Officer has been identified as the Chief Operating Decision Maker ("CODM"). The CODM evaluates performance and allocates resources based on sales and income from operations of each segment. Income from operations represents revenues less cost of revenues and operating expenses, including certain allocated selling, general and administrative costs. There are no inter-segment sales or transfers. During 2009, we modified the way we report byproduct revenues, recycling revenues and recycling costs in order to more accurately report the activity within our two reportable segments. Although not material, comparable period revenue and operating income items have been reclassified between our retail and recycling segments to conform to our current year presentation.

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The following tables present our segment information for fiscal years 2009 and 2008:

| | 2009 | 2008 |
|---|-------------------|-------------------|
| Revenues: | | |
| Retail | \$ 75,517 | \$ 77,886 |
| Recycling | 25,752 | 33,085 |
| Total revenues | <u>\$ 101,269</u> | <u>\$ 110,971</u> |
| Operating income (loss): | | |
| Retail | \$ (4,184) | \$ 815 |
| Recycling | 1,777 | 5,356 |
| Unallocated corporate costs | 246 | (2,136) |
| Total operating income (loss) | <u>\$ (2,161)</u> | <u>\$ 4,035</u> |
| Assets: | | |
| Retail | \$ 18,300 | \$ 20,453 |
| Recycling | 6,380 | 9,213 |
| Corporate assets not allocable | 6,770 | 7,749 |
| Total assets | <u>\$ 31,450</u> | <u>\$ 37,415</u> |
| Cash capital expenditures: | | |
| Retail | \$ 189 | \$ 362 |
| Recycling | 40 | 135 |
| Corporate | 280 | 315 |
| Total cash capital expenditures | <u>\$ 509</u> | <u>\$ 812</u> |
| Depreciation and amortization expense: | | |
| Retail | \$ 425 | \$ 290 |
| Recycling | 314 | 291 |
| Corporate | 548 | 542 |
| Total depreciation and amortization expense | <u>\$ 1,287</u> | <u>\$ 1,123</u> |

| | | |
|------------------------|-----------------|-----------------|
| Interest expense: | | |
| Retail | \$ 782 | \$ 850 |
| Recycling | 220 | 275 |
| Corporate | 159 | 260 |
| Total interest expense | <u>\$ 1,161</u> | <u>\$ 1,385</u> |

16. Benefit Contribution Plan

We have a defined contribution salary deferral plan covering substantially all employees under Section 401(k) of the Internal Revenue Code. We contribute an amount equal to 10 cents for each dollar contributed by each employee up to a maximum of 5% of each employee's compensation. We recognized expense for contributions to the plan of \$27 and \$30 for the fiscal years ended January 2, 2010 and January 3, 2009, respectively.

17. Subsequent Events

The Company has evaluated subsequent events and has appropriately included all matters requiring disclosure herein. There were no subsequent events requiring recognition in these consolidated financial statements.

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ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), to allow timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act), at October 2, 2010. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, at October 2, 2010, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Controls Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management concluded that our internal control over financial reporting was effective as of January 2, 2010.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the fourth quarter of the fiscal year ended January 2, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. Financial Statements

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

2. Financial Statement Schedule

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON SUPPLEMENTARY INFORMATION

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

Our audits were conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and 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 as of January 2, 2010 and January 3, 2009 and for the fiscal years then ended 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.

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
March 17, 2010

Schedule II - Valuation and Qualifying Accounts
(In Thousands)

| | Allowance for Doubtful Accounts Receivable | Valuation Allowance for Inventory Obsolescence | Valuation Allowance for Deferred Income Tax Assets |
|--------------------------------|---|---|--|
| Balance at December 29, 2007 | \$ 152 | \$ 84 | \$ 2,324 |
| Additional allowance | 264 | 31 | — |
| Write-offs and adjustments (1) | (124) | — | (137) |
| Balance at January 3, 2009 | 292 | 115 | 2,187 |
| Additional allowance | 69 | 404 | — |
| Write-offs and adjustments (2) | (320) | — | 192 |
| Balance at January 2, 2010 | <u>\$ 41</u> | <u>\$ 519</u> | <u>\$ 2,379</u> |

- (1) The change in valuation allowance for deferred income tax assets related to continuing operations is \$657 offset by \$520 related to discontinued operations.
- (2) The change in the valuation allowance was reduced by the loss of state deferred tax assets related to a change in tax law.

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3. Exhibits

See Index to Exhibits on page 31 of this report.

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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 our behalf by the undersigned, thereunto duly authorized.

Dated: January 28, 2011

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
(Registrant)

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

By /s/ Peter P. Hausback
Peter P. Hausback
Executive Vice President, Chief Financial Officer
and Principal Accounting Officer

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.

| Signature | Title | Date |
|---|---|------------------|
| <u>/s/ Edward R. Cameron</u> Edward R. Cameron | Chairman of the Board, President and Chief Executive Officer | January 28, 2011 |
| <u>/s/ Peter P. Hausback</u> Peter P. Hausback | Executive Vice President, Chief Financial Officer and Principal Accounting Officer | January 28, 2011 |
| <u>/s/ Duane S. Carlson</u> Duane S. Carlson | Director | January 28, 2011 |
| <u>/s/ Glynnis A. Jones</u> Glynnis A. Jones | Director | January 28, 2011 |
| <u>/s/ Dean R. Pickerell</u> Dean R. Pickerell | Director | January 28, 2011 |

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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 fiscal year ended January 2, 1999 (File No. 0-19621) and incorporated herein by reference]. |
| 3.2 | Bylaws of Appliance Recycling Centers of America, Inc. as amended December 26, 2007 [filed as Exhibit 3.2 to the Company's Form 8-K filed on January 2, 2008 (File No. 0-19621) and incorporated herein by reference]. |
| *10.1 | 2006 Stock Option Plan [filed as Appendix B to the Company's Schedule 14A filed on March 31, 2006 and incorporated herein by reference]. |
| *10.2 | 2006 Stock Option Plan [filed as Appendix B to the Company's Schedule 14A filed on March 31, 2006 and incorporated herein by reference]. |
| *10.3 | 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]. |
| *10.4 | 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]. |
| 10.5 | 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]. |
| 10.6 | First Amendment to General Credit and Security Agreement and Waiver dated November 8, 1996, between Spectrum Commercial Services, a division of Lyons Financial Services, Inc., and the Company, and related agreement [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]. |
| 10.7 | Second Amendment to General Credit and Security Agreement and Waiver dated February 12, 1998 between Spectrum Commercial Services, a division of Lyons Financial Services, Inc., and the Company, and related agreements [filed as Exhibit 10.10 to the Company's Form 10-K for fiscal year ended January 3, 1998 (File No. 0-19621) and incorporated herein by reference]. |
| 10.8 | Fourth Amendment to General Credit and Security Agreement dated September 10, 1998 between Spectrum Commercial Services, a division of Lyons Financial Services, Inc., and the Company, and related agreement [filed as Exhibit 10.15 to the Company's Form 10-K for the fiscal year ended January 2, 1999 (File No. 0-19621) and incorporated herein by reference]. |
| 10.9 | Fifth Amendment to General Credit and Security Agreement dated September 17, 1998 between Spectrum Commercial Services, a division of Lyons Financial Services, Inc., and the Company, and related agreements [filed as Exhibit 10.16 to the Company's Form 10-K for the fiscal year ended January 2, 1999 (File No. 0-19621) and incorporated herein by reference]. |

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| | |
|-------|--|
| 10.10 | Eighth Amendment to General Credit and Security Agreement dated August 30, 2000 between Spectrum Commercial Services, a division of Lyons Financial Services, Inc., and the Company, and related agreements [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]. |
| 10.11 | Ninth Amendment to General Credit and Security Agreement dated June 18, 2001 between Spectrum Commercial Services Company and the Company, and related agreements [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]. |
| 10.12 | Tenth Amendment to General Credit and Security Agreement dated July 26, 2001 between Spectrum Commercial Services Company and the Company, and related agreements [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]. |
| 10.13 | Eleventh Amendment to General Credit and Security Agreement dated August 24, 2001 between Spectrum Commercial Services and the Company, and related agreements [filed 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]. |
| 10.14 | Twelfth Amendment to General Credit and Security Agreement dated April 11, 2002 between Spectrum Commercial Services Company and the Company, and related agreements [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]. |
| 10.15 | Thirteenth Amendment to General Credit and Security Agreement dated January 23, 2003 between Spectrum Commercial Services Company and the Company, and related agreements [filed as Exhibit 10.34 to the Company's Form 10-K for the fiscal year ended December 28, 2002 (File No. 0-19621) and incorporated herein by reference]. |
| 10.16 | Fourteenth Amendment to General Credit and Security Agreement dated July 1, 2004 between Spectrum Commercial Services Company and the Company [filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended July 3, 2004 (File No. 0-19621) and incorporated herein by reference]. |

- 10.17 Sixteenth Amendment to General Credit and Security Agreement dated December 23, 2004 between Spectrum Commercial Services Company and the Company, and related Guarantor Acknowledgment [filed as Exhibit 10.18 to the Company's Registration Statement on Form S-2 and incorporated herein by reference].
- 10.18 Tenth Amended and Restated Revolving Note of the Company dated December 23, 2004 in favor of Spectrum Commercial Services Company [filed as Exhibit 10.19 to the Company's Registration Statement on Form S-2 and incorporated herein by reference].
- 10.19 Seventeenth Amendment to General Credit and Security Agreement dated January 12, 2005 between Spectrum Commercial Services Company and the Company [filed as Exhibit 10.20 to the Company's Registration Statement on Form S-2 and incorporated herein by reference].
- 10.22 Security Agreement dated September 10, 1998 between Medallion Capital, Inc. and 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].
- 10.23 Stock Purchase Warrant of the Company for the Purchase of 700,000 shares of Common Stock in favor of Medallion Capital, Inc. [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].

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- 10.24 Amendment No. 1 to Loan Agreement and Security Agreement dated December 23, 2004 between Medallion Capital, Inc. and the Company, and related Consent and Amendment and Promissory Note [filed as Exhibit 10.25 to the Company's Registration Statement on Form S-2 and incorporated herein by reference].
- 10.25 Balloon Promissory Note of the Company dated September 19, 2002 in favor of General Electric Capital Business Asset Funding Corp. and related agreement [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].
- 10.26 Balloon Promissory Note of the Company dated December 27, 2002 in favor of General Electric Capital Business Asset Funding Corp. and related agreement [filed as Exhibit 10.33 to the Company's Form 10-K for the year ended December 28, 2002 (File No. 0-19621) and incorporated herein by reference].
- 10.27 Reverse Logistics Master Service Agreement between Whirlpool Corporation and the Company [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].
- 10.28 Retail Dealer Sales Agreement dated October 12, 2001 between Maytag Corporation and the Company [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].
- 10.29 2003 Statewide Residential Appliance Recycling Program Agreement dated September 2, 2003 between Southern California Edison Company and ARCA California, Inc., a wholly-owned subsidiary of the Company [filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 27, 2003 (File No. 0-19621) and incorporated herein by reference].
- 10.30 2004-05 Statewide Residential Appliance Recycling Program Agreement dated January 21, 2004 between Southern California Edison Company and ARCA California, Inc., a wholly-owned subsidiary of the Company [filed as Exhibit 10.34 to the Company's Form 10-K for the year ended January 3, 2004 (File No. 0-19621) and incorporated herein by reference].
- 10.31 Agreements dated September 24, 2002 between the Company and the Department of Water and Power of the City of Los Angeles [filed as Exhibit 10.32 to the Company's Form 10-K for the year ended December 28, 2002 (File No. 0-19621) and incorporated herein by reference].
- 10.32 Agreement dated March 1, 2004 between San Diego Gas & Electric and the Company [filed as Exhibit 10.35 to the Company's Form 10-K for the year ended January 3, 2004 (File No. 0-19621) and incorporated herein by reference].
- 10.33 Agreement dated May 24, 2006 between San Diego Gas & Electric and the Company [filed as Exhibit No. 10.1 to the Company's Form 8-K dated July 5, 2006 (File No. 0-19621) and incorporated herein by reference].
- 10.34 Agreement dated June 14, 2006 between Southern California Edison Company and the Company [filed as Exhibit No. 10.1 to the Company's Form 8-K dated July 6, 2006 (File No. 0-19621) and incorporated herein by reference].

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- 10.35 Form of Securities Purchase Agreement dated as of December 31, 2004, between the Company and certain investors [filed as Exhibit No. 99.2 to the Company's Form 8-K dated December 31, 2004 (File No. 0-19621) and incorporated herein by reference].
- 10.36 Purchase Agreement for Sale of St. Louis Park Building [filed as Exhibit No. 10.36 to the Company's Form 10-Q for the quarter ended October 3, 2009 (File No. 0-19621) and incorporated herein by reference].
- 10.37 Lease Agreement for Leaseback of St. Louis Park Building [filed as Exhibit No. 10.37 to the Company's Form 10-Q for the quarter ended October 3, 2009 (File No. 0-19621) and incorporated herein by reference].
- 10.38‡ Appliance Sales and Recycling Agreement dated October 21, 2009 between General Electric Company and the Company [filed as Exhibit No. 10.38 to the Company's Form 10-K for the year ended January 2, 2010 (File No. 0-19621) and incorporated herein by reference].
- 10.39 Warrant to Purchase Common Stock of the Company for the Purchase of 248,189 shares of Common Stock in favor of General Electric Company, dated October 21, 2009 [filed as Exhibit No. 10.39 to the Company's Form 10-K for the year ended January 2, 2010 (File No. 0-19621) and incorporated herein by reference].
- +10.40 Eighteenth Amendment to General Credit and Security Agreement dated March 22, 2005 between Spectrum Commercial Services Company and the Company.

- +10.41 Nineteenth Amendment to General Credit and Security Agreement dated June 21, 2007 between Spectrum Commercial Services Company and the Company.
- +10.42 Twentieth Amendment to General Credit and Security Agreement dated September 21, 2007 between Spectrum Commercial Services Company and the Company.
- +10.43 Twenty first Amendment to General Credit and Security Agreement dated November 28, 2007 between Spectrum Commercial Services Company and the Company.
- +10.44 Twenty second Amendment to General Credit and Security Agreement dated February 5, 2008 between Spectrum Commercial Services Company and the Company.
- +10.45 Twenty third Amendment to General Credit and Security Agreement dated May 1, 2008 between Spectrum Commercial Services Company and the Company.
- +10.46 Twenty fourth Amendment to General Credit and Security Agreement dated December 1, 2008 between Spectrum Commercial Services Company and the Company.
- +10.47 Twenty fifth Amendment to General Credit and Security Agreement dated August 11, 2009 between Spectrum Commercial Services Company and the Company.
- +10.48 Twenty sixth Amendment to General Credit and Security Agreement dated March 10, 2010 between Spectrum Commercial Services Company and the Company.
- +21.1 Subsidiaries of Appliance Recycling Centers, Inc.
- +23.1 Consent of Baker Tilly Virchow Krause, LLP, Independent Registered Public Accounting Firm [filed as Exhibit No. 23.1 to the Company's Form 10-K for the year ended January 2, 2010 (File No. 0-19621) and incorporated herein by reference].

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- +31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- +31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- +32.1 Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- +32.2 Certification by Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* 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.

‡ Confidential treatment has been requested for portions of this agreement, which portions have been filed separately with the SEC.

EIGHTEENTH AMENDMENT TO
 GENERAL CREDIT AND SECURITY AGREEMENT
 (Note: A Fifteenth Amendment does not exist)

THIS AGREEMENT, dated and effective as of March 22, 2005, 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. Paragraph 17(m) is hereby deleted and replaced with the following:

17(m). Borrower's Periodic Financial Report shall reflect a Net Profit of at least (or Net Loss not to exceed, as the case may be):

| Fiscal quarter ending | Net Profit (Net Loss) |
|-------------------------|-----------------------|
| March 31, 2007 | \$ (500,000) |
| June 30, 2007 | \$ 100,000 |
| September 30, 2007 | \$ 225,000 |
| December 31, 2007 | \$ 175,000 |
| All subsequent quarters | \$ 1 |

At the end of the fiscal year ending on December 31, 2007, and as of the end of each subsequent fiscal year, Borrower's Periodic Financial Report for the fiscal year shall reflect a Net Profit of at least One Dollar.

2. Paragraph 23 is hereby deleted and replaced with the following:

23. **Termination.** Subject to automatic termination of Borrower's ability to obtain additional Advances under this Agreement upon the occurrence of any Event of Default specified in Paragraphs 20(d), (e), (f) or (g) and to Lender's right to terminate Borrower's ability to obtain additional Advances under this Agreement upon the occurrence of any other Event of Default or upon demand, this Agreement shall have a term ending on the Termination Date provided, however, that Borrower may terminate this Agreement at any earlier time upon sixty days prior written notice and will incur no prepayment fee or charge thereafter; provided further, however, that if Borrower terminates this Agreement at any time prior to the then current Maturity Date, then Borrower shall pay to Lender a prepayment charge equal to the following:

- If termination occurs on or prior to December 31, 2005 — 3.0% of the Maximum Principal Amount.
- If termination occurs after December 31, 2005 but on or before December 31, 2006 — 2.0% of the Maximum Principal Amount.
- If termination occurs after December 31, 2006 but before the then current Maturity Date — 1.0% of the Maximum Principal Amount.

On the Termination Date, all obligations arising under this Agreement shall become immediately due and payable without further notice or demand. Lender's rights with respect

to outstanding Obligations owing on or prior to the Termination Date will not be affected by termination and all of said rights including (without limitation) Lender's Security Interest in the Collateral existing on such Termination Date or acquired by Borrower thereafter, and the requirements of this Agreement that Borrower furnish schedules and confirmatory assignments of Receivables and Inventory and turn over to Lender all full and partial payments thereof shall continue to be operative until all such Obligations have been duly satisfied.

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

"Maturity Date" shall mean December 31, 2008, provided, however, that the then current Maturity Date shall be extended by succeeding periods of 12 calendar months without notice to or action by either Borrower or Lender, provided further however, that such extension shall not occur if: (i) Lender has notified Borrower of an Event of Default that has occurred and is continuing, or (ii) this Agreement has previously terminated as provided in the paragraph entitled "Termination", or (iii) Lender has, in its sole and absolute discretion, demanded payment of amounts owed hereunder, or (iv) Borrower or Lender have notified the other of the intention not to renew at least sixty days prior to the then current Maturity Date and thereafter no extension shall occur.

4. The following Paragraph 17(p) shall be added as follows:

17(p) Before July 1, 2007, Borrower shall hire a Chief Financial Officer with the skill and experience customary and appropriate for a business of Borrower's size, type and complexity and, further, such Chief Financial Officer shall be satisfactory to Lender.

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

SPECTRUM COMMERCIAL SERVICES COMPANY

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

By _____
 Steven I. Lowenthal, Co-CEO

By _____
 Edward R. Cameron, CEO

REAFFIRMATION
 Of Edward R. Cameron

The undersigned, Edward R. "Jack" Cameron, hereby reaffirms all of the terms of the Support Agreement issued by him in favor of SPECTRUM Commercial Services Company (including its participants and assigns) and dated as of December 29, 2004, and acknowledges that such agreement is in full force and effect according to its terms. The undersigned understands and acknowledges that this Reaffirmation is required by SPECTRUM Commercial Services Company as a condition to the execution of the Seventeenth Amendment to the General Credit and Security Agreement between Appliance Recycling Centers of America, Inc. and SPECTRUM Commercial Services Company.

Dated as of: January , 2007

Edward R. Cameron

NINETEENTH AMENDMENT TO
GENERAL CREDIT AND SECURITY AGREEMENT
(A Fifteenth Amendment does not exist)

THIS AGREEMENT, dated and effective as of June 21, 2007, 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 "Maximum Principal Amount" under paragraph 2 of the Credit Agreement is hereby deleted and replaced with the following:

Maximum Principal Amount shall mean, at any date, Twelve Million and No/100ths Dollars (\$12,000,000).

2. Paragraph 5 entitled "Interest" is hereby deleted and replaced with the following:

5. Interest. Borrower agrees to pay interest on the outstanding principal amount of the Note, at the close of each day at a fluctuating rate per annum (computed on the basis of actual number of days elapsed and a year of 360 days) which is at all times equal to Two Percent (2.00%) in excess of the Prime Rate; each change in such fluctuating rate caused by a change in the Prime Rate to occur simultaneously with the change in the Prime Rate (the "Initial Rate"); provided, however, that (i) in no event shall the Initial Rate, the Adjusted Rate or the Re-adjusted rate in effect hereunder at any time be less than 7.5% per annum; (ii) interest payable hereunder with respect to each calendar month shall not be less than \$58,000.00 regardless of the amount of loans, Advances or other credit extensions that actually may have been outstanding during the month, and (iii) interest shall continue to accrue hereunder until all Obligations have been paid in full. Interest accrued through the last day of each month will be due and payable to Lender on the next Monthly Payment Date. Interest shall also be payable on the Maturity Date or on any earlier Termination Date. Interest accrued after the Maturity Date or earlier Termination Date shall be payable on Demand. Interest may be charged to Borrower's loan account as an Advance at Lender's option, whether or not Borrower then has the right to obtain an Advance pursuant to the terms of this Agreement.

In the event Borrower earns Net Profit in any fiscal year of at least One Million Dollars (\$1,000,000.00) and evidences such profit by delivering to Lender the Periodic Financial Report for that period that reflects the required Net Profit, and provided no Event of Default exists or has occurred, then upon Borrower's written request, the Initial Rate shall be reduced to One and 50/100ths percent (1.50%) in excess of the Prime Rate (the "Adjusted Rate") commencing with the next scheduled Monthly Payment Date following Lender's receipt of both Borrower's written request and the Periodic Financial Report.

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Notwithstanding the foregoing, after an Event of Default, the Note shall bear interest until paid at 5% per annum in excess of the rate otherwise then in effect, which rate shall continue to vary based on further changes in the Prime Rate; provided, however, that after an Event of Default, (i) in no event shall the interest rate in effect under the Note at any time be less than 12.5% per annum; (ii) interest payable under the Note with respect to each calendar month shall not be less than \$86,000.00 regardless of the amount of loans, Advances or other credit extensions that actually may have been outstanding during the month, and (iii) interest shall continue to accrue hereunder until all Obligations have been paid in full. (The Initial Rate, the Adjusted Rate and the Re-adjusted Rate in effect either before or after an Event of Default is referred to herein collectively as the "Interest Rate"). The undersigned shall also pay a late fee equal to 10% of any payment under the Note that is more than 10 days past due.

3. The definition of "Borrowing Base" appearing in Paragraph 2 is amended in its entirety to read as follows:

(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) Twenty Five percent (25%) of the net amount of Eligible Inventory (excluding Eligible Whirlpool Inventory and Eligible Scratch and Dent Inventory), plus Fifty percent (50%) of the net amount of Eligible Scratch and Dent Inventory, plus Eighty percent (80%) of the net amount of Eligible Whirlpool Inventory; or (y) Ten Million and No/100ths Dollars (\$10,000,000), minus

(iii) Twenty percent (20%) of the amount of issued but unpaid financing authorizations issued by Lender in favor of Whirlpool Corporation minus

(iv) Fifty percent (50%) of the amount of issued but unpaid financing authorizations issued by Lender in favor of General Electric Company, GE Appliances or any other company.

(v) Notwithstanding the above, any of the percentages and/or dollar amounts described in this definition of Borrowing Base may be increased or decreased, in any amount, which Lender, in its sole and absolute discretion, deems appropriate. In addition, it should be noted that Lender reserves the right, in its sole discretion, to establish additional availability reserves for any reason, including but not limited to providing for liabilities for personal property and other taxes.

4. Paragraph 23 is hereby deleted and replaced with the following:

23. Termination. Subject to the automatic termination of Borrower's ability to obtain additional Advances or credit extensions under this Agreement upon the occurrence of certain Events of Default, and further subject to Lender's right to terminate Borrower's ability to obtain additional credit extensions and Advances under this Agreement upon the occurrence of other Events of Default or upon demand, the term of this Agreement shall end on the Termination Date provided, however, that

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Borrower may terminate this Agreement at any earlier time upon sixty days prior written notice.

In the event of the termination of this Agreement and repayment of all of the Obligations at any time prior to the then current Maturity Date, for any reason, including but not limited to (a) termination by Lender after the occurrence of an Event of Default, (b) sale of Collateral by Lender, Borrower or any third party, (c) sale of Collateral in any Insolvency Proceeding, (iv) restructure, reorganization, compromise, or repayment of the Obligations by the confirmation of a plan of reorganization or any other plan of compromise, restructure, arrangement, or repayment in any Insolvency Proceeding, (d) the use of new or replacement financing or capital to repay the Obligations, or (e) the contraction, winddown or cessation of business by Borrower, then, in view of the impracticability and extreme difficulty of ascertaining the actual amount of damages to Lender or profits lost by Lender as a result of such early termination,

and by mutual agreement of the parties as to a reasonable estimation and calculation of the lost profits or damages of Lender, Borrower shall pay a "Prepayment Fee" to Lender equal to one percent of the Maximum Principal Amount. On the Termination Date, all obligations arising under this Agreement shall become immediately due and payable without further notice or demand. Lender's rights with respect to outstanding Obligations owing on or prior to the Termination Date will not be affected by termination and all of said rights including (without limitation) Lender's Security Interest in the Collateral existing on such Termination Date or acquired by Borrower thereafter, and the requirements of this Agreement that Borrower furnish schedules and confirmatory assignments of Receivables and Inventory and turn over to Lender all full and partial payments thereof shall continue to be operative until all such Obligations have been duly satisfied.

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

"Maturity Date" shall mean December 31, 2010, provided, however, that the then current Maturity Date shall be extended by succeeding periods of 12 calendar months without notice to or action by either Borrower or Lender, provided further however, that such extension shall not occur if: (i) Lender has notified Borrower of an Event of Default that has occurred and is continuing, or (ii) this Agreement has previously terminated as provided in the paragraph entitled "Termination", or (iii) Lender has, in its sole and absolute discretion, demanded payment of amounts owed hereunder, or (iv) Borrower or Lender have notified the other of the intention not to renew at least sixty days prior to the then current Maturity Date and thereafter no extension shall occur.

6. Paragraph 17(o) is hereby deleted. [regarding pledge of the \$300,000 account]
7. Paragraph 17(p) is hereby deleted. [regarding the requirement of hiring a Chief Financial Officer]
8. Subparagraph 18(a) is hereby deleted and replaced with the following:

Without Lender's consent, expend or contract to expend an aggregate in excess of \$250,000 for fixed assets in any fiscal year, whether by way of purchase, lease, or otherwise, and whether payable currently or in the future. For purposes of this

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paragraph, "fixed assets" include property and assets deemed "fixed assets" according to GAAP, whether tangible or intangible (including but not limited to software development and acquisition costs) but fixed assets shall expressly not include leasehold improvements.

9. Paragraph 4(b) is hereby deleted and replaced with the following:

(b) In order to obtain an Advance, Borrower shall give written notice to Lender, by no later than 11:00 a.m. (Minneapolis time) on the business day the requested Advance is to be made. Lender, shall make such Advance by transferring the amount thereof in immediately available funds for credit to Borrower's account at Associated Bank Minnesota, NA (other than a payroll account) or other bank approved by Lender, as specified in such notice. Lender's customary fees for making such advance will apply. It is also noted that "next day wires"/ACH transfers will be posted as a loan Advance on the day released to the ACH transfer system by Lender with the understanding that funds may not be received in Borrower's account until the next business day or later. At the request of Lender, Borrower shall confirm in writing any telephonic notice.

10. The Lender will now require that all cash receipts are directed to Lender for application to the Obligations. Retail proceeds, deposited into local banks, will then be directed from the local bank to Lender's account. Credit card proceeds will likewise be directed to Lender's account. Toward this end, Paragraph 7(c) is hereby deleted and replaced with the following:

All full and partial customer payments and any other cash collections from whatever source whatsoever, whether or not arising from the sale, collection or other disposition of Collateral (whether or not in the ordinary course of business), including but not limited to the collection of accounts receivable in the ordinary course of business and the sale of inventory or services for cash, shall immediately be delivered by Borrower to Lender in their original form (except for endorsement where necessary) and uncashed (in the case of checks or other documents). Borrower shall direct all customers, credit card processors and other remitters of payments to mail payments to Lender's post office box or other lockbox or to direct electronic funds to Lender's bank account directly (eg: ACH transfers, wire transfers etc.) In the case of retail sales, cash proceeds will be deposited in a local bank account and subsequently transferred to Lender. (All such local bank accounts will be subject to an account control agreement in favor of Lender.) Within 90 days of the date hereof, at least ninety percent (95%) of the aggregate dollars paid to or on behalf of Borrower shall be received in Lender's post office box, lockbox, or bank account directly from the payors and the local bank accounts. Until such payments are so delivered to Lender (or Lender's account or lockbox), such payments which nonetheless come into possession of Borrower shall be held in trust by Borrower for and as Lender's property and shall not be commingled with any funds of Borrower or otherwise negotiated. All cash collections received by Lender will be credited to Borrower's loan account (subject to final collection thereof) after three Business Days, or longer as required by Lender's bank to fully and finally collect the funds represented by checks or other instruments. Collections received by Lender after 11:00 am Central Time in Minneapolis will be deemed received on the next Business Day.

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11. Paragraph 17(q) is hereby added as follows:

Borrower shall use its diligent and best efforts to obtain the written agreement of each of its lessors of any leased real property on a landlord's agreement in form and substances satisfactory to Lender.

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

SPECTRUM COMMERCIAL SERVICES COMPANY

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

By _____
Steven I. Lowenthal, Co-CEO

By _____
Edward R. Cameron, CEO

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REAFFIRMATION
Of Edward R. Cameron

The undersigned, Edward R. "Jack" Cameron, hereby reaffirms all of the terms of the Support Agreement issued by him in favor of SPECTRUM Commercial Services

Company (including its participants and assigns) and dated as of December 29, 2004, and acknowledges that such agreement is in full force and effect according to its terms. The undersigned understands and acknowledges that this Reaffirmation is required by SPECTRUM Commercial Services Company as a condition to the execution of the Seventeenth Amendment to the General Credit and Security Agreement between Appliance Recycling Centers of America, Inc. and SPECTRUM Commercial Services Company.

Dated as of: June , 2007

Edward R. Cameron

TWENTIETH AMENDMENT TO
GENERAL CREDIT AND SECURITY AGREEMENT
(A Fifteenth Amendment does not exist)

THIS AGREEMENT, dated and effective as of September 21, 2007, 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 "Maximum Principal Amount" under paragraph 2 of the Credit Agreement is hereby deleted and replaced with the following:

Maximum Principal Amount shall mean, at any date, Fourteen Million and No/100ths Dollars (\$14,000,000), less Eighty percent (80%) of the amount of issued but unpaid financing authorizations issued by Lender in favor of Whirlpool Corporation, less Fifty percent (50%) of the amount of issued but unpaid financing authorizations issued by Lender in favor of General Electric Company, GE Appliances or any other company.

2. As an origination fee for this amendment, Borrower will pay to SPECTRUM the sum of \$5,000.

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

SPECTRUM COMMERCIAL SERVICES COMPANY

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

By _____
Steven I. Lowenthal, Co-CEO

By _____
Edward R. Cameron, CEO

REAFFIRMATION
Of Edward R. Cameron

The undersigned, Edward R. "Jack" Cameron, hereby reaffirms all of the terms of the Support Agreement issued by him in favor of SPECTRUM Commercial Services Company (including its participants and assigns) and dated as of December 29, 2004, and acknowledges that such agreement is in full force and effect according to its terms. The undersigned understands and acknowledges that this Reaffirmation is required by SPECTRUM Commercial Services Company as a condition to the execution of the Twentieth Amendment to the General Credit and Security Agreement between Appliance Recycling Centers of America, Inc. and SPECTRUM Commercial Services Company.

Dated as of: September _____, 2007

Edward R. Cameron

TWENTY FIRST AMENDMENT TO
GENERAL CREDIT AND SECURITY AGREEMENT
(A Fifteenth Amendment does not exist)

THIS AGREEMENT, dated and effective as of November 28, 2007, 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 "Maximum Principal Amount" under paragraph 2 of the Credit Agreement is hereby deleted and replaced with the following:

Maximum Principal Amount shall mean:

As of the date hereof, Sixteen Million and No/100ths Dollars (\$16,000,000), less Eighty percent (80%) of the amount of issued but unpaid financing authorizations issued by Lender in favor of Whirlpool Corporation, less Fifty percent (50%) of the amount of issued but unpaid financing authorizations issued by Lender in favor of General Electric Company, GE Appliances or any other company; and

Effective on January 27, 2008, Fourteen Million and No/100ths Dollars (\$14,000,000), less Eighty percent (80%) of the amount of issued but unpaid financing authorizations issued by Lender in favor of Whirlpool Corporation, less Fifty percent (50%) of the amount of issued but unpaid financing authorizations issued by Lender in favor of General Electric Company, GE Appliances or any other company.

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

SPECTRUM COMMERCIAL SERVICES COMPANY

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

By _____
Steven I. Lowenthal, Co-CEO

By _____
Edward R. Cameron, CEO

REAFFIRMATION
Of Edward R. Cameron

The undersigned, Edward R. "Jack" Cameron, hereby reaffirms all of the terms of the Support Agreement issued by him in favor of SPECTRUM Commercial Services Company (including its participants and assigns) and dated as of December 29, 2004, and acknowledges that such agreement is in full force and effect according to its terms. The undersigned understands and acknowledges that this Reaffirmation is required by SPECTRUM Commercial Services Company as a condition to the execution of the Twentieth Amendment to the General Credit and Security Agreement between Appliance Recycling Centers of America, Inc. and SPECTRUM Commercial Services Company.

Dated as of: _____, 2007

Edward R. Cameron

TWENTY SECOND AMENDMENT TO
GENERAL CREDIT AND SECURITY AGREEMENT
(A Fifteenth Amendment does not exist)

THIS AGREEMENT, dated and effective as of February 5, 2008, 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 "Maximum Principal Amount" under paragraph 2 of the Credit Agreement is hereby deleted and replaced with the following:

"Maximum Principal Amount" shall mean:

As of the date hereof, Eighteen Million and No/100ths Dollars (\$18,000,000), less the aggregate amount of unpaid financing authorizations issued by Lender in favor of Whirlpool Corporation, General Electric Company, GE Appliances or any other company.

2. 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;

(ii) Plus, the lesser of: (x) Fifty percent (50%) of the net amount of Eligible Scratch and Dent Inventory, plus Eighty percent (80%) of the net amount of Eligible Whirlpool Inventory; or (y) Ten Million and No/100ths Dollars (\$10,000,000);

(iii) Minus, twenty percent (20%) of the amount of issued but unpaid financing authorizations issued by Lender in favor of Whirlpool Corporation;

(iv) Minus, fifty percent (50%) of the amount of issued but unpaid financing authorizations issued by Lender in favor of General Electric Company, GE Appliances or any other company;

(v) Minus, commencing April 1, 2008, \$50,000 times the number of Borrower's retail locations (excluding Compton, California and St. Louis Park, Minnesota) where the landlord of such location has not executed a landlord acknowledgement agreement in form and substance satisfactory to Lender. This special availability reserve will be waived if at least ten such agreements are signed by April 1, 2008.

(iv) Notwithstanding the above, any of the percentages and/or dollar amounts described in this definition of Borrowing Base may be increased or decreased, in any amount, which Lender, in its sole and absolute discretion, deems appropriate. In addition, it should be noted that Lender reserves the right, in its sole discretion, to establish additional availability reserves for any reason, including but not limited to providing for liabilities for personal property and other taxes.

3. Paragraph 17(n) is amended in its entirety to read as follows:

(n). No later than December 31, 2008 and throughout the term of this Agreement, Borrower shall open and maintain its main operating and payroll accounts at Wells Fargo Bank, N.A., or one of its affiliates.

4. The definition of "Prime Rate" appearing in Paragraph 2 is amended in its entirety to read as follows:

"Prime Rate" shall mean the publicly announced base rate (or other publicly announced reference rate) charged by Wells Fargo Bank, National Association; Borrower acknowledges that the Prime Rate may not be the lowest rate made available by Lender or Wells Fargo Bank, NA to their customers and that Lender may lend to its customers at rates that are at, above or below the Prime Rate.

5. Paragraph 4(B) is amended in its entirety to read as follows :

4B. Collateral Agent for Bank. All liens and security interests granted by Borrower to Lender in the Collateral are granted to Lender for itself for the benefit of itself and the Participants and as agent for Wells Fargo Bank, N.A. and its affiliate banks (the "Bank"). Lender shall hold the security interests and rights granted hereunder as agent for the Bank as security for all amounts owing by Borrower to the Bank, now existing or hereafter arising (the "Bank Obligations"), including but not limited to amounts owing by reason of credit cards, letters of credit issued by the Bank and treasury management services (including but not limited to ACH transactions, returned items and overdrafts). Without limitation of the foregoing, Borrower hereby grants to Lender, as agent for the Bank, a security interest in the Collateral to secure the Bank Obligations. This Agreement shall continue in effect until the Bank Obligations are paid in full and the credit cards, letters of credit, treasury management services and other arrangements that may give rise to Bank Obligations are terminated. The interests of Lender as agent for the Bank in the Collateral shall be junior and subordinate to the interests of Lender (including its Participants), provided that (a) the foregoing statement of priorities shall not be construed to limit or impair any right of setoff the Bank may have, and (b) the foregoing statement of priorities pertain to lien priority only, and Bank may receive and retain any payments or other amounts credited against the Bank Obligations which are not in conflict with Borrower's obligations with Lender. In case Lender ceases making advances to Borrower and forecloses or otherwise realizes on the security interests granted hereunder to Lender in any Collateral, Lender shall not be obligated to pay any proceeds of such Collateral to the Bank on account of the Bank Obligations until the Obligations are paid in full.

6. Paragraph 7(a) is amended in its entirety to read as follows:

(a) Borrower agrees to furnish to Lender, at least weekly (but more frequently if requested by Lender in writing), schedules describing Receivables created or acquired by Borrower (including confirmatory written assignments thereof), identifying those Receivables which are Eligible Receivables from those which are not, and including, if Lender so requests, a borrowing base certificate (in form and substance as required by Lender), copies or originals of some or all invoices to account debtors and other obligors (all herein referred to as "Customers"), and original shipping or delivery receipts for goods sold, but if Borrower fails to deliver any of the above, the rights of Lender as a secured party will not be impaired. At any time after the occurrence of an Event of Default, Lender may notify Customers at any time that Receivables have been assigned to Lender and collect them directly in Lender's own name but unless and until Lender does so or gives Borrower other instructions, Borrower shall make collection for Lender at Borrower's sole cost and expense. Borrower shall advise Lender promptly of any goods which are returned by Customers or otherwise recovered

involving an amount in excess of \$5,000.00 and, unless instructed to deliver such goods to Lender, Borrower shall resell them for Lender and assign or deliver to Lender the resulting Receivables or other proceeds. Borrower shall also advise Lender promptly of all disputes and claims by Customers involving an amount in excess of \$5,000.00 and settle or adjust them at no expense to Lender. At any time after the occurrence and during the continuance of an Event of Default, Lender may at all times settle or adjust such disputes and claims directly with the Customers for amounts and upon terms which Lender considers advisable. If Lender so directs at any time after an Event of Default, no discount, credit or allowance shall be granted by Borrower to any Customer and no return of goods shall be accepted by Borrower without Lender's written consent.

7. Paragraph 8(a) is amended in its entirety to read as follows:

(a) all Receivables listed in or reported on Borrower's schedules will, when Borrower delivers the schedules to Lender, be bona fide existing obligations created by the sale and actual delivery of goods or the rendition of services to Customers in the ordinary course of business, which Borrower then owns free of any Security Interest except for the Security Interest in favor of Lender created by this Agreement or Security Interests permitted under Paragraph 18(d), and which are then unconditionally owing to Borrower without defense, offset or counterclaim; and that all shipping or delivery receipts, invoice copies and other documents furnished to Lender in connection therewith will be genuine; and

8. A new Paragraph 25(j) is hereby added to the Agreement as follows:

(j) Borrower is hereby notified that, pursuant to the USA Patriot Act (Title 111 of Pub. L. 107-56) (the "Act"), Lender (including any participants hereof) may be required to obtain, verify and record information that identifies Borrower. Such information may include Borrower's name and address as well as other information that will allow Lender to identify Borrower in accordance with the Act.

9. As an origination fee for this amendment, Borrower will pay to SPECTRUM the sum of \$20,000.

(continued on next page)

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

SPECTRUM COMMERCIAL SERVICES COMPANY

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

By _____
Steven I. Lowenthal, Co-CEO

By _____
Edward R. Cameron, CEO

REAFFIRMATION
Of Edward R. Cameron

The undersigned, Edward R. "Jack" Cameron, hereby reaffirms all of the terms of the Support Agreement issued by him in favor of SPECTRUM Commercial Services Company (including its participants and assigns) and dated as of December 29, 2004, and acknowledges that such agreement is in full force and effect according to its terms. The undersigned understands and acknowledges that this Reaffirmation is required by SPECTRUM Commercial Services Company as a condition to the execution of the Twentieth Amendment to the General Credit and Security Agreement between Appliance Recycling Centers of America, Inc. and SPECTRUM Commercial Services Company.

Dated as of: _____, 2008

Edward R. Cameron

TWENTY THIRD AMENDMENT TO
GENERAL CREDIT AND SECURITY AGREEMENT
(A Fifteenth Amendment does not exist)

THIS AGREEMENT, dated and effective as of May 1, 2008, 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. Paragraph 5 entitled "Interest" is hereby deleted and replaced with the following:

5. Interest. Borrower agrees to pay interest on the outstanding principal amount of the Note, at the close of each day at a fluctuating rate per annum (computed on the basis of actual number of days elapsed and a year of 360 days) which is at all times equal to One and One Half Percent (1.50%) in excess of the Prime Rate; each change in such fluctuating rate caused by a change in the Prime Rate to occur simultaneously with the change in the Prime Rate (the "Initial Rate"); provided, however, that (i) in no event shall the Initial Rate, the Adjusted Rate or the Re-adjusted rate in effect hereunder at any time be less than 6.25% per annum; (ii) interest payable hereunder with respect to each calendar month shall not be less than \$58,000.00 regardless of the amount of loans, Advances or other credit extensions that actually may have been outstanding during the month, and (iii) interest shall continue to accrue hereunder until all Obligations have been paid in full.. Interest accrued through the last day of each month will be due and payable to Lender on the next Monthly Payment Date. Interest shall also be payable on the Maturity Date or on any earlier Termination Date. Interest accrued after the Maturity Date or earlier Termination Date shall be payable on Demand. Interest may be charged to Borrower's loan account as an Advance at Lender's option, whether or not Borrower then has the right to obtain an Advance pursuant to the terms of this Agreement.

Notwithstanding the foregoing, after an Event of Default, the Note shall bear interest until paid at 5% per annum in excess of the rate otherwise then in effect, which rate shall continue to vary based on further changes in the Prime Rate; provided, however, that after an Event of Default, (i) in no event shall the interest rate in effect under the Note at any time be less than 11.0% per annum; (ii) interest payable under the Note with respect to each calendar month shall not be less than \$86,000.00 regardless of the amount of loans, Advances or other credit extensions that actually may have been outstanding during the month, and (iii) interest shall continue to accrue hereunder until all Obligations have been paid in full.. (The Initial Rate, the Adjusted Rate and the Re-adjusted Rate in effect either before or after an Event of Default is referred to herein collectively as the "Interest Rate"). The undersigned shall also pay a late fee equal to 10% of any payment under the Note that is more than 10 days past due.

2. Paragraph 23 is hereby deleted and replaced with the following:

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23. Termination. Subject to the automatic termination of Borrower's ability to obtain additional Advances or credit extensions under this Agreement upon the occurrence of certain Events of Default, and further subject to Lender's right to terminate Borrower's ability to obtain additional credit extensions and Advances under this Agreement upon the occurrence of other Events of Default or upon demand, the term of this Agreement shall end on the Termination Date provided, however, that Borrower may terminate this Agreement at any earlier time upon sixty days prior written notice.

In the event of the termination of this Agreement and repayment of all of the Obligations at any time prior to the then current Maturity Date, for any reason, including but not limited to (a) termination by Lender after the occurrence of an Event of Default, (b) sale of Collateral by Lender, Borrower or any third party, (c) sale of Collateral in any Insolvency Proceeding, (iv) restructure, reorganization, compromise, or repayment of the Obligations by the confirmation of a plan of reorganization or any other plan of compromise, restructure, arrangement, or repayment in any Insolvency Proceeding, (d) the use of new or replacement financing or capital to repay the Obligations, or (e) the contraction, winddown or cessation of business by Borrower, then, in view of the impracticability and extreme difficulty of ascertaining the actual amount of damages to Lender or profits lost by Lender as a result of such early termination, and by mutual agreement of the parties as to a reasonable estimation and calculation of the lost profits or damages of Lender, Borrower shall pay a "Prepayment Fee" to Lender equal to the following:

If termination and full repayment occurs on or prior to December 31, 2008 — Three percent of the Maximum Principal Amount.

If termination and full repayment occurs on or prior to December 31, 2009 — Two percent of the Maximum Principal Amount.

If termination and full repayment occurs after December 31, 2009 but before the then current Maturity Date — One percent of the Maximum Principal Amount.

On the Termination Date, all obligations arising under this Agreement shall become immediately due and payable without further notice or demand. Lender's rights with respect to outstanding Obligations owing on or prior to the Termination Date will not be affected by termination and all of said rights including (without limitation) Lender's Security Interest in the Collateral existing on such Termination Date or acquired by Borrower thereafter, and the requirements of this Agreement that Borrower furnish schedules and confirmatory assignments of Receivables and Inventory and turn over to Lender all full and partial payments thereof shall continue to be operative until all such Obligations have been duly satisfied.

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

SPECTRUM COMMERCIAL SERVICES COMPANY

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

By _____
Steven I. Lowenthal, Co-CEO

By _____
Edward R. Cameron, CEO

REAFFIRMATION
Of Edward R. Cameron

The undersigned, Edward R. "Jack" Cameron, hereby reaffirms all of the terms of the Support Agreement issued by him in favor of SPECTRUM Commercial Services Company (including its participants and assigns) and dated as of December 29, 2004, and acknowledges that such agreement is in full force and effect according to its terms. The undersigned understands and acknowledges that this Reaffirmation is required by SPECTRUM Commercial Services Company as a condition to the execution of the

Dated as of: _____, 2008

Edward R. Cameron

TWENTY FOURTH AMENDMENT TO
 GENERAL CREDIT AND SECURITY AGREEMENT
 (A Fifteenth Amendment does not exist)

THIS AGREEMENT, dated and effective as of December 1, 2008, 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;
- (ii) Plus, the lesser of: (x) Fifty percent (50%) of the net amount of Eligible Scratch and Dent Inventory, plus Eighty percent (80%) of the net amount of Eligible Whirlpool Inventory; or (y) Twelve Million and No/100ths Dollars (\$12,000,000);
- (iii) Minus, twenty percent (20%) of the amount of issued but unpaid financing authorizations issued by Lender in favor of Whirlpool Corporation;
- (iv) Minus, fifty percent (50%) of the amount of issued but unpaid financing authorizations issued by Lender in favor of General Electric Company, GE Appliances or any other company;
- (v) Minus, commencing April 1, 2008, \$50,000 times the number of Borrower's retail locations (excluding Compton, California and St. Louis Park, Minnesota) where the landlord of such location has not executed a landlord acknowledgement agreement in form and substances satisfactory to Lender. This special availability reserve will be waived if at least ten such agreements are signed by April 1, 2008.
- (iv) Notwithstanding the above, any of the percentages and/or dollar amounts described in this definition of Borrowing Base may be increased or decreased, in any amount, which Lender, in its sole and absolute discretion, deems appropriate. In addition, it should be noted that Lender reserves the right, in its sole discretion, to establish additional availability reserves for any reason, including but not limited to providing for liabilities for personal property and other taxes.

(continued on next page)

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

SPECTRUM COMMERCIAL SERVICES COMPANY

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

By _____
 Steven I. Lowenthal, Co-CEO

By _____
 Edward R. Cameron, CEO

REAFFIRMATION
 Of Edward R. Cameron

The undersigned, Edward R. "Jack" Cameron, hereby reaffirms all of the terms of the Support Agreement issued by him in favor of SPECTRUM Commercial Services Company (including its participants and assigns) and dated as of December 29, 2004, and acknowledges that such agreement is in full force and effect according to its terms. The undersigned understands and acknowledges that this Reaffirmation is required by SPECTRUM Commercial Services Company as a condition to the execution of the Twenty Third Amendment to the General Credit and Security Agreement between Appliance Recycling Centers of America, Inc. and SPECTRUM Commercial Services Company.

Dated as of: _____, 2008

 Edward R. Cameron

TWENTY FIFTH AMENDMENT TO
GENERAL CREDIT AND SECURITY AGREEMENT
AND WAIVER
(A Fifteenth Amendment does not exist)

THIS AGREEMENT, dated and effective as of August 11, 2009, 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. Paragraph 5 entitled "Interest" is hereby deleted and replaced with the following:

Interest. Borrower agrees to pay interest on the outstanding principal amount of the Note, at the close of each day at a fluctuating rate per annum (computed on the basis of actual number of days elapsed and a year of 360 days) which is at all times equal to Three Percent (3.0%) in excess of the Prime Rate; each change in such fluctuating rate caused by a change in the Prime Rate to occur simultaneously with the change in the Prime Rate (the "Initial Rate"); provided, however, that (i) in no event shall the Initial Rate, the Adjusted Rate or the Re-adjusted rate in effect hereunder at any time be less than 6.25% per annum; (ii) interest payable hereunder with respect to each calendar month shall not be less than \$58,000.00 regardless of the amount of loans, Advances or other credit extensions that actually may have been outstanding during the month, and (iii) interest shall continue to accrue hereunder until all Obligations have been paid in full. Interest accrued through the last day of each month will be due and payable to Lender on the next Monthly Payment Date. Interest shall also be payable on the Maturity Date or on any earlier Termination Date. Interest accrued after the Maturity Date or earlier Termination Date shall be payable on Demand. Interest may be charged to Borrower's loan account as an Advance at Lender's option, whether or not Borrower then has the right to obtain an Advance pursuant to the terms of this Agreement.

Notwithstanding the foregoing, after an Event of Default, the Note shall bear interest until paid at 5% per annum in excess of the rate otherwise then in effect, which rate shall continue to vary based on further changes in the Prime Rate; provided, however, that after an Event of Default, (i) in no event shall the interest rate in effect under the Note at any time be less than 11.0% per annum; (ii) interest payable under the Note with respect to each calendar month shall not be less than \$86,000.00 regardless of the amount of loans, Advances or other credit extensions that actually may have been outstanding during the month, and (iii) interest shall continue to accrue hereunder until all Obligations have been paid in full. (The Initial Rate, the Adjusted Rate and the Re-adjusted Rate in effect either before or after an Event of Default is referred to herein collectively as the "Interest Rate"). The undersigned shall also pay a late fee equal to 10% of any payment under the Note that is more than 10 days past due.

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2. Paragraph 17(a) is hereby deleted and replaced with the following:

(a) Furnish to Lender in form satisfactory to Lender:

(i) Within 90 days after the end of each fiscal year of Borrower, a complete audited financial report prepared and certified without qualification or explanatory language by Independent Public Accountants on a Consolidated and consolidating basis for Borrower and any Consolidated Subsidiaries of Borrower; together with a copy of the management letter or memorandum, if any, delivered by such independent certified public accountant to Borrower and Borrower's response thereto. If Borrower shall fail to supply the report within such time limit, Lender shall have the right (but not the duty) to employ certified public accountants acceptable to Lender to prepare such report at Borrower's expense;

(ii) Within 30 days after the end of each fiscal month, a balance sheet with operating figures as to that month, including detailed operating figures for each geographic region and division, and monthly projections for the next twelve months, certified as correct by the chief financial officer or treasurer of Borrower but subject to adjustments as to inventories or other items to which an officer of Borrower directs attention in writing, together with a reconciliation of any variances between the information provided on such balance sheet and the information for that day previously delivered to Lender pursuant to Paragraph 17(a)(iv) and 17(a)(v);

(iii) With the financial statements described in Paragraph 17(a)(i) and (ii), a compliance certificate in the form attached as Exhibit A certified as true and accurate by the chief financial officer or treasurer of Borrower;

(iv) At the end of each calendar week, an aging of accounts receivable together with a reconciliation in a form satisfactory to Lender and an aging of accounts payable in form acceptable to Lender and certified as true and accurate by an officer of Borrower;

(v) At the end of each calendar week, or more frequently as requested, an inventory certification report for all Inventory locations in form acceptable to Lender and certified as true and accurate by an officer of Borrower;

(vi) If and when filed by Borrower:

- Form 10-Q quarterly reports,
- Form 10-K annual reports, and Form 8-K current reports,
- Any other filings made by Borrower with the SEC,
- Copies of Borrower's federal income tax returns, and any amendments thereto, filed with the Internal Revenue Service,
- Copies of Borrower's applicable state tax returns, and any amendments thereto, filed with the respective state tax authorities, and
- Any information that is provided by Borrower to its shareholders generally; and;

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(vii) From time to time, at Lender's request, any and all other material, reports, information, or figures reasonably required by Lender.

3. As of the date hereof, Borrower will pay to SPECTRUM the sum of \$10,000.00.

4. **Representations and Warranties.** The person signing below on behalf of Borrower represents that he or she is authorized to make the agreements set forth herein and to legally bind Borrower to this Agreement. Borrower hereby represents and warrants to SPECTRUM as follows:

The Credit Agreement, this Amendment, and each Loan Document (as amended or modified hereby) is the legal, valid and binding obligation of Borrower, enforceable against it in accordance with its terms, and is in full force and effect. No event has occurred and is continuing that constitutes an Event of Default under the Loan Documents. The representations and warranties contained in each Loan Document (other than any such representations or warranties that, by their terms, are

specifically made as of a date other than the date hereof) are correct on and as of the date hereof as though made on and as of the date hereof and are hereby reaffirmed.

5. Counterparts; Telefacsimile Execution. This Amendment may be executed in any number of counterparts and by different parties and separate counterparts, each of which when so executed and delivered, shall be deemed an original, and all of which, when taken together, shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by telefacsimile shall be effective as delivery of a manually executed counterpart of this Amendment.

6. Effect on Loan Documents.

- a. The Credit Agreement shall be amended as set forth herein effective as of the date hereof. The Credit Agreement, as amended hereby, and the other Loan Documents shall be and remain in full force and effect in accordance with its respective terms and each are hereby ratified and confirmed in all respects. The execution, delivery, and performance of this Amendment shall not operate as a waiver or an amendment of any right, power, or remedy of SPECTRUM under the Credit Agreement, as in effect prior to the date hereof unless expressly stated herein. The waivers, consents and modifications herein are limited to the specifics hereof, shall not apply with respect to any facts or occurrences other than those on which the same are based, shall not excuse future non-compliance with the Credit Agreement, and shall not operate as a consent to any further or other matter under the Loan Documents.
- b. To the extent that any terms and conditions in any of the Loan Documents shall contradict or be in conflict with any terms or conditions of the Credit Agreement, after giving effect to this Amendment, such terms and conditions are hereby deemed modified or amended accordingly to reflect the terms and conditions of the Credit Agreement as modified or amended hereby. To the extent that any terms or conditions of the Credit Agreement conflict with the terms or conditions of this Amendment, the terms and conditions of this Amendment, as well as the intent of this Amendment, shall control.

7. Entire Agreement. This Amendment, together with all other instruments, agreements, and certificates executed by the parties in connection herewith, embody the entire

understanding and agreement between the parties hereto with respect to the subject matter hereof and supersede all prior agreements, understandings and inducements, whether express or implied, oral or written.

8. Estoppel. To induce SPECTRUM to enter into this Amendment, Borrower hereby acknowledges and agrees that, after giving effect to this Amendment, as of the date hereof, there exists no default or Event of Default and no right of offset, defense, counterclaim or objection in favor of Borrower as against SPECTRUM with respect to the Credit Agreement, any of the Loan Documents, or any of the Obligations.

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

SPECTRUM COMMERCIAL SERVICES COMPANY

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

By _____
Steven I. Lowenthal, Co-CEO

By _____
Edward R. Cameron, CEO

REAFFIRMATION
Of Edward R. Cameron

The undersigned, Edward R. "Jack" Cameron, hereby reaffirms all of the terms of the Support Agreement issued by him in favor of SPECTRUM Commercial Services Company (including its participants and assigns) and dated as of December 29, 2004, and acknowledges that such agreement is in full force and effect according to its terms. The undersigned understands and acknowledges that this Reaffirmation is required by SPECTRUM Commercial Services Company as a condition to the execution of the Twenty Third Amendment to the General Credit and Security Agreement between Appliance Recycling Centers of America, Inc. and SPECTRUM Commercial Services Company.

Dated as of: August 11, 2009

Edward R. Cameron

TWENTY SIXTH AMENDMENT TO
GENERAL CREDIT AND SECURITY AGREEMENT
AND WAIVER

(A Fifteenth Amendment does not exist)

THIS AGREEMENT, dated and effective as of March 10, 2010, 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. Paragraph 5 entitled "Interest" is hereby deleted and replaced with the following:

Interest. Borrower agrees to pay interest on the outstanding principal amount of the Note, at the close of each day at a fluctuating rate per annum (computed on the basis of actual number of days elapsed and a year of 360 days) which is at all times equal to Three and One Half Percent (3.5%) in excess of the Prime Rate; each change in such fluctuating rate caused by a change in the Prime Rate to occur simultaneously with the change in the Prime Rate (the "Initial Rate"); provided, however, that (i) in no event shall the Initial Rate, the Adjusted Rate or the Re-adjusted rate in effect hereunder at any time be less than 6.75% per annum; (ii) interest payable hereunder with respect to each calendar month shall not be less than \$58,000.00 regardless of the amount of loans, Advances or other credit extensions that actually may have been outstanding during the month, and (iii) interest shall continue to accrue hereunder until all Obligations have been paid in full. Interest accrued through the last day of each month will be due and payable to Lender on the next Monthly Payment Date. Interest shall also be payable on the Maturity Date or on any earlier Termination Date. Interest accrued after the Maturity Date or earlier Termination Date shall be payable on Demand. Interest may be charged to Borrower's loan account as an Advance at Lender's option, whether or not Borrower then has the right to obtain an Advance pursuant to the terms of this Agreement.

Notwithstanding the foregoing, after an Event of Default, the Note shall bear interest until paid at 5% per annum in excess of the rate otherwise then in effect, which rate shall continue to vary based on further changes in the Prime Rate; provided, however, that after an Event of Default, (i) in no event shall the interest rate in effect under the Note at any time be less than 11.75% per annum; (ii) interest payable under the Note with respect to each calendar month shall not be less than \$86,000.00 regardless of the amount of loans, Advances or other credit extensions that actually may have been outstanding during the month, and (iii) interest shall continue to accrue hereunder until all Obligations have been paid in full. (The Initial Rate, the Adjusted Rate and the Re-adjusted Rate in effect either before or after an Event of Default is referred to herein collectively as the "Interest Rate"). The undersigned shall also pay a late fee equal to 10% of any payment under the Note that is more than 10 days past due.

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2. Paragraph 17(l) is hereby deleted and replaced with the following:

17(l). As of the end of each fiscal year hereafter, beginning with the year ending December 31, 2010, Borrower's Periodic Financial Report for the 2010 fiscal year and for each subsequent fiscal year ending, shall reflect a Tangible Net Worth of at least Three Million Dollars (\$3.0 million).

3. As of the date hereof, Borrower will pay to SPECTRUM the sum of \$25,000.00.

4. **Waiver** As of December 31, 2009, the Borrower is in default of Paragraph 17 (l) and 17(m). SPECTRUM hereby waives the default of 17 (l) and 17 (m) as of December 31, 2009. By providing this waiver, SPECTRUM does not in any way waive or alter the profitability or Tangible Net Worth covenant for other time periods other than fiscal quarter and fiscal year ending December 31, 2009, unless altered in writing.

5. **Representations and Warranties.** The person signing below on behalf of Borrower represents that he or she is authorized to make the agreements set forth herein and to legally bind Borrower to this Agreement. Borrower hereby represents and warrants to SPECTRUM as follows:

The Credit Agreement, this Amendment, and each Loan Document (as amended or modified hereby) is the legal, valid and binding obligation of Borrower, enforceable against it in accordance with its terms, and is in full force and effect. No event has occurred and is continuing that constitutes an Event of Default under the Loan Documents. The representations and warranties contained in each Loan Document (other than any such representations or warranties that, by their terms, are specifically made as of a date other than the date hereof) are correct on and as of the date hereof as though made on and as of the date hereof and are hereby reaffirmed.

6. **Counterparts: Telefacsimile Execution.** This Amendment may be executed in any number of counterparts and by different parties and separate counterparts, each of which when so executed and delivered, shall be deemed an original, and all of which, when taken together, shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by telefacsimile shall be effective as delivery of a manually executed counterpart of this Amendment.

7. **Effect on Loan Documents.**

a. The Credit Agreement shall be amended as set forth herein effective as of the date hereof. The Credit Agreement, as amended hereby, and the other Loan Documents shall be and remain in full force and effect in accordance with its respective terms and each are hereby ratified and confirmed in all respects. The execution, delivery, and performance of this Amendment shall not operate as a waiver or an amendment of any right, power, or remedy of SPECTRUM under the Credit Agreement, as in effect prior to the date hereof unless expressly stated herein. The waivers, consents and modifications herein are limited to the specifics hereof, shall not apply with respect to any facts or occurrences other than those on which the same are based, shall not excuse future non-compliance with the Credit Agreement, and shall not operate as a consent to any further or other matter under the Loan Documents.

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b. To the extent that any terms and conditions in any of the Loan Documents shall contradict or be in conflict with any terms or conditions of the Credit Agreement, after giving effect to this Amendment, such terms and conditions are hereby deemed modified or amended accordingly to reflect the terms and conditions of the Credit Agreement as modified or amended hereby. To the extent that any terms or conditions of the Credit Agreement conflict with the terms or conditions of this Amendment, the terms and conditions of this Amendment, as well as the intent of this Amendment, shall control.

8. **Entire Agreement.** This Amendment, together with all other instruments, agreements, and certificates executed by the parties in connection herewith, embody the entire understanding and agreement between the parties hereto with respect to the subject matter hereof and supersede all prior agreements, understandings and inducements, whether express or implied, oral or written.

9. **Estoppel.** To induce SPECTRUM to enter into this Amendment, Borrower hereby acknowledges and agrees that, after giving effect to this Amendment, as

of the date hereof, there exists no default or Event of Default and no right of offset, defense, counterclaim or objection in favor of Borrower as against SPECTRUM with respect to the Credit Agreement, any of the Loan Documents, or any of the Obligations.

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

SPECTRUM COMMERCIAL SERVICES COMPANY

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

By _____
Steven I. Lowenthal, Co-CEO

By _____
Edward R. Cameron, CEO

REAFFIRMATION
Of Edward R. Cameron

The undersigned, Edward R. "Jack" Cameron, hereby reaffirms all of the terms of the Support Agreement issued by him in favor of SPECTRUM Commercial Services Company (including its participants and assigns) and dated as of December 29, 2004, and acknowledges that such agreement is in full force and effect according to its terms. The undersigned understands and acknowledges that this Reaffirmation is required by SPECTRUM Commercial Services Company as a condition to the execution of the Twenty Third Amendment to the General Credit and Security Agreement between Appliance Recycling Centers of America, Inc. and SPECTRUM Commercial Services Company.

Dated as of: March 10, 2010

Edward R. Cameron

Subsidiaries of Appliance Recycling Centers of America, Inc.

| Name | Jurisdiction of Incorporation |
|------------------------------|--------------------------------------|
| ARCA California, Inc. | California |
| ARCA Canada Inc | Ontario, Canada |
| ARCA Advanced Processing LLC | Minnesota |

ARCA Advanced Processing LLC is a joint venture between the Company and 4301 Operations LLC. The Company owns a 50% interest in the entity.

All other subsidiaries are 100% owned by the Company.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File No. 333-33374, 333-126236, 333-163804) and Form S-3 (File No. 333-166604) of Appliance Recycling Centers of America, Inc. of our report's dated March 17, 2010, relating to the consolidated financial statements and financial statement schedule of Appliance Recycling Centers of America, Inc. and Subsidiaries, which appear on pages 4 and 28, respectively, of this annual report on Form 10-K/A (Amendment No. 1) for the year ended January 2, 2010.

/s/ BAKER TILLY VIRCHOW KRAUSE, LLP

Minneapolis, Minnesota
January 28, 2011

CERTIFICATIONS:

I, Edward R. Cameron, certify that:

1. I have reviewed this Annual Report on Form 10-K/A of Appliance Recycling Centers of America, Inc.;
2. Based on my knowledge, this 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 were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 28, 2011

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

CERTIFICATIONS:

I, Peter P. Hausback, certify that:

1. I have reviewed this Annual Report on Form 10-K/A of Appliance Recycling Centers of America, Inc.;
2. Based on my knowledge, this 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 were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 28, 2011

/s/Peter P. Hausback
Peter P. Hausback
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), the undersigned Chief Executive Officer of Appliance Recycling Centers of America, Inc. (the "Company") hereby certifies that the Annual Report on Form 10-K/A of the Company for the year ended January 2, 2010 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: January 28, 2011

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

* A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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

Pursuant to 18 U.S.C. §1350 (as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002), the undersigned Chief Financial Officer of Appliance Recycling Centers of America, Inc. (the "Company") hereby certifies that the Annual Report on Form 10-K/A of the Company for the year ended January 2, 2010 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: January 28, 2011

/s/Peter P. Hausback
Peter P. Hausback
Executive Vice President and Chief Financial Officer
Principal Financial and Accounting Officer

* A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
