SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 29, 2001
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 0-19621

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No ___

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

As of March 8, 2002, the aggregate market value of the voting stock held by nonaffiliates of the registrant, computed by reference to the average of the high and low prices on such date as reported by the OTC Bulletin Board, was $5,096,812.

As of March 8, 2002, there were outstanding 2,316,971 shares of the registrant's Common Stock, without par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement dated March 22, 2002, are incorporated by reference into Part III hereof.

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PART I

ITEM 1. BUSINESS

GENERAL

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

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

INDUSTRY BACKGROUND

There are more than 500 million major household appliances, such as refrigerators, freezers, ranges, dishwashers, microwaves, washers, dryers, room air conditioners, water heaters and dehumidifiers, currently in use in the United States. It is estimated by the Steel Recycling Institute that in 1997, 46 million major household appliances were taken out of use in the United States. The disposal of these appliances is a serious problem as a result of a number of factors including: (i) decreasing landfill capacity in many parts of the country; (ii) the inability of incinerators, composting facilities and other landfill alternatives to process appliances; and (iii) the presence in appliances of certain hazardous and other environmentally harmful materials that require special processing.

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

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

In addition to these solid waste management and environmental issues, utility companies, motivated by economic and environmental factors to control energy consumption, sponsor various programs to encourage and assist residential consumers to conserve energy, including programs for turning in surplus, energy-inefficient appliances. Many residential consumers own and operate room air conditioners, freezers or more than one refrigerator, contributing significantly to residential energy use and peak energy demand. In addition, many of the refrigerators manufactured in the 1960s and early 1970s consume up to 1,750 kilowatt-hours of electricity each year. The 1987 National Appliance Energy Conservation Act requires that new refrigerators use less than half of the energy as refrigerators built as recently as ten years ago. As more

efficient appliances become available, utility companies have begun to encourage the use of newer models and the disposal of older, less efficient models.

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

COMPANY BACKGROUND

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

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

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

During fiscal year 2001, a major electric utility customer, Southern California Edison Company ("Edison"), accounted for approximately 29% or $12.7 million of the Company's total revenues. Plans for a 2002 statewide recycling program that will be administered by Edison are currently being reviewed by California regulatory authorities.

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

The Company also is aggressively pursuing new and potentially significant appliance recycling programs in other states, reflecting growing national interest in residential energy conservation programs. Nevertheless, the Company's ability to project recycling revenue for 2002 continues to be limited.

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

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

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

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

In the latter part of 1998, the Company scaled back its agreement with Whirlpool to a level consistent with its financial resources and now buys inventory mainly from Whirlpool's Ohio distribution center. The Whirlpool agreement does not provide for any required or minimum number of units to be offered for sale to the Company. However, subject to certain exceptions, the Company has the ability but is not required to purchase from Whirlpool up to $3,000,000 of appliances in any three-month period. The Whirlpool agreement may be terminated by either party upon six-month's notice, or earlier for certain items. In addition, the Company has agreed to indemnify Whirlpool for certain claims, allegations or losses with respect to Whirlpool appliances sold by the Company.

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

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

The Company believes purchases from these three manufacturers will provide an adequate supply of high-quality appliances for its retail outlets. There are no set number of units to be sold to the Company from any of the three manufacturers.

In 1999, the Company closed one store in the Minneapolis/Saint Paul market and one store in the California market. In 2000, the Company closed a smaller store in the Minneapolis/Saint Paul market and opened a 30,000 square foot store in the Dayton, Ohio market. In January 2001, the Company opened a 24,000 square foot store in the Minneapolis/Saint Paul market. The Company opened another 42,000 square foot store in the Dayton, Ohio market in March

2001. In addition, the Company closed a smaller store and opened a 32,000 square foot store in the Columbus, Ohio market in May 2001. The Company opened a 49,000 square foot store in the Minneapolis/Saint Paul market in October 2001. In March 2002, the Company opened another 30,000 square foot store in Columbus, Ohio. The Company currently has three recycling centers, located in Columbus, Ohio; Minneapolis, Minnesota; and Los Angeles, California. Also, the Company currently has ten retail stores: four in Minneapolis/Saint Paul, one in Los Angeles, three in Columbus and two in Dayton.

CUSTOMERS AND SOURCE OF SUPPLY

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

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

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

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

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

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

UTILITY COMPANIES. The Company contracts with utility companies to provide comprehensive appliance recycling services tailored to the needs of the particular utility. The contracts historically have had terms of one to four years, with provisions for renewal at the option of the utility company. Under some contracts the utility retains the Company to manage all aspects of its appliance recycling program, while under other contracts the Company provides only specified services. Pricing for the Company's services is on a per-appliance basis and depends upon several factors, including the total number of appliances processed, the length of the contract term and the specific services selected by the utility. Contracts with electric utility customers require that the Company does not recondition for resale appliances received from utility company energy conservation programs. Currently, the Company has one contract with a major electric utility customer for 2002. Plans for a 2002 statewide recycling program that will be administered by another major electric utility customer are currently being reviewed by California regulatory authorities.

COMPANY OPERATIONS

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

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

Appliances that do not meet quality standards for the Company's retail operations and appliances collected through utility customers' energy conservation programs are processed and recycled in an environmentally sound manner. Appliances are inspected and categorized according to the types of hazardous materials they may contain, and processed according to all applicable federal, state and local regulations by company-trained technicians. When processing at the Company's recycling center is complete and the appliances are free of all environmentally hazardous substances, the appliances are delivered to a local metal processing facility for shredding. The shredded materials are then sold to steel mini-mills or other metal recovery facilities for reuse.

Management believes that the uncertainties in the electric utility industry regarding deregulation will persist at least through 2002. The reaction to deregulation among states and utilities has been varied. The Company believes, however, that energy conservation and efficiency programs will remain a long-term component of the nation's electric utility industry.

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

In 2001, the Company focused on a carefully managed growth plan of opening showroom outlet stores, located in heavily trafficked, conveniently located retail malls. The Company believes that the growth of its retail business in the near future will likely occur primarily through the expansion of revenues from the Company's current and proposed retail stores.

PRINCIPAL PRODUCTS AND SERVICES

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

Revenues:	2001	2000	1999
Retail	50.3%	57.6%	51.1%
Recycling	46.8%	37.9%	44.6%
Byproduct	2.9%	4.5%	4.3%
	100.0%	100.0%	100.0%

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

SALES AND MARKETING

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

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

SEASONALITY

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

COMPETITION

Competition for the Company's retail stores comes from new appliance manufacturers and retailers and other reconditioned and used appliance retailers. Each retail location will compete not only with local and national

chains of new appliance retailers, many of whom have been in business longer than the Company and may have significantly greater assets than the Company, but will also compete with numerous independently owned retailers of new and reconditioned appliances.

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

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

GOVERNMENT REGULATION

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

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

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

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

Company management believes that further government regulation of the appliance recycling industry could have a positive effect on the Company's business; however, there can be no assurance what course future regulation may have. Under some circumstances, further regulation could materially increase the costs of the Company's operations and have an adverse effect on the Company's business. In addition, as is the case with all companies handling hazardous materials, under some circumstances the Company may be subject to contingent liabilities.

EMPLOYEES

At March 1, 2002, the Company had 242 full-time employees, approximately 48% of who were involved in the collection, transportation and processing of appliances at the Company's centers and approximately 52% of whom were in sales, administration and management. The Company has not experienced any work stoppages and believes its employee relations are good.

ITEM 2. PROPERTIES

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

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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

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

PART II

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

MARKET FOR COMMON STOCK

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

	High	Low
2000		
First Quarter..................	$ 2 1/2	$ 19/25
Second Quarter.................	3 1/8	1 9/16
Third Quarter..................	3	1 5/8
Fourth Quarter.................	2 1/2	1 3/16
2001		
First Quarter..................	$ 2 3/8	$ 1
Second Quarter.................	2 20/25	1 1/8
Third Quarter..................	3 35/64	2 10/25
Fourth Quarter.................	5 45/64	2 3/4

On March 8, 2002, the last reported sale price of the Common Stock on the OTC Bulletin Board was $4.00 per share. As of March 8, 2002, there were approximately 1,022 beneficial holders of the Company's Common Stock.

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

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

In February 1999, the Company sold in a private placement 1,030,000

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

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

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

In August 1999, the Company settled a lawsuit with a former employee. The settlement included a cash payment of $105,000 and the issuance of 20,000 shares of the Company's common stock valued at $12,500.

ITEM 6. SELECTED FINANCIAL DATA

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

<TABLE>
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Fiscal Years Ended	2001	2000	1999	1998	1997
(In thousands, except per share data)					
STATEMENTS OF OPERATIONS					
<S>	<C>	<C>	<C>	<C>	<C>
Total revenues	$ 43,810	$ 21,479	$ 15,582	$ 13,612	$ 11,979
Gross profit	$ 17,329	$ 8,921	$ 6,666	$ 3,981	$ 4,990
Operating income (loss)	$ 4,749	$ 1,963	$ 1,139	$ (2,744)	$ (489)
Net income (loss)	$ 2,646	$ 927	$ 505	$ (3,056)	$ (748)
Basic earnings (loss) per common share	$ 1.15	$ 0.41	$ 0.24	$ (2.55)	$ (0.66)
Diluted earnings (loss) per common share	$ 0.86	$ 0.32	$ 0.22	$ (2.55)	$ (0.66)
Basic weighted average number of common shares outstanding	2,291	2,287	2,142	1,200	1,137
Diluted weighted average number of common shares outstanding	3,068	2,889	2,274	1,200	1,137
BALANCE SHEETS					
Working capital (deficit)	$ 3,188	$ 1,183	$ 545	$ (471)	$ (1,959)
Total assets	$ 18,936	$ 12,651	$ 9,517	$ 8,843	$ 8,569
Long-term liabilities	$ 4,348	$ 4,431	$ 4,831	$ 4,965	$ 1,633
Shareholders' equity	$ 5,397	$ 2,751	$ 1,809	$ 816	$ 3,365

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</TABLE>

QUARTERLY FINANCIAL DATA

The following table sets forth certain unaudited quarterly financial data for the eight quarters ended December 29, 2001. In our opinion, the unaudited information set forth below has been prepared on the same basis as the audited information and includes all adjustments necessary to present fairly the information set forth herein. The operating results for any quarter are not indicative of results for any future period. All data is in thousands except per common share data.

<TABLE>
<CAPTION>

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

	Fiscal 2000			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total revenues	$ 4,174	$ 5,819	$ 6,188	$ 5,298
Net income	$ 290	$ 341	$ 257	$ 39
Basic income per common share	$ 0.13	$ 0.15	$ 0.11	$ 0.02
Diluted income per common share	$ 0.10	$ 0.12	$ 0.09	$ 0.01
Basic weighted average number of common shares outstanding	2,287	2,287	2,287	2,287
Diluted weighted average number of common shares outstanding	2,812	2,920	2,948	2,889

</TABLE>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE FISCAL YEARS 2001, 2000 AND 1999

OVERVIEW

The Company's 2001 fiscal year (2001) ended December 29, 2001, its 2000 fiscal year (2000) ended December 30, 2000 and its 1999 fiscal year (1999) ended January 1, 2000.

The Company generates revenues from three sources: retail, recycling and byproduct. Retail revenues are sales of appliances, warranty and service revenue and delivery fees. Recycling revenues are fees charged for the disposal of appliances. Byproduct revenues are sales of scrap metal and reclaimed chlorofluorocarbons ("CFCs") generated from processed appliances. The Company experiences seasonal fluctuations in operating results, with revenues generally higher during the second and third calendar quarters than in the first and fourth quarters. The lower levels in the first and fourth quarters reflect consumer purchasing cycles, which result in lower demand for appliances and recycling services.

In 2001, the Company focused on a carefully managed growth plan of opening large showroom outlet stores, located in heavily trafficked, conveniently located retail malls. During 2001, the Company opened three retail stores, two in the Minneapolis/Saint Paul market and one in the Dayton, Ohio market. The Company also closed a smaller retail store in Columbus and opened another outlet in this market in 2001. Retail revenues accounted for 50.3% of total revenues in 2001.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are summarized in the footnotes to our financial statements. Some of the most critical policies are also discussed below.

As a matter of policy, we review our major assets for impairment. Our major operating assets are accounts receivable, inventories, and property and equipment. Our reserve for doubtful accounts of $100,000 should be adequate for any exposure to loss in our December 29, 2001 accounts receivable. We have also established reserves for slow moving and obsolete inventories and believe the reserve of $464,000 is adequate. We depreciate our property and equipment over their estimated useful lives and we have not identified any items that are impaired as of December 29, 2001. We evaluated the realizability of our deferred tax assets and tax attributes and have provided a valuation allowance primarily for net operating loss and tax credit carryovers for which the use is subject to limitation. We have significant options and warrants outstanding and utilize relevant market and other valuation information relative to accounting for and reporting equity transactions.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In July 2001, FAS No. 141, BUSINESS COMBINATIONS, and FAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, were issued. These pronouncements provide that all business combinations initiated after June 30, 2001, be accounted for using the purchase method and that goodwill be reviewed for impairment rather than amortized, beginning in January 2002. Any business combination transactions and acquisitions of intangibles in the future would be accounted for under this new guidance. The Company will cease amortization of its goodwill beginning in January 2002. The Company does not believe that the adoption of these pronouncements will have a material effect on its consolidated financial statements. Any business combination transactions in the future would be accounted for under this new guidance.

In September 2001, the FASB issued Statement No. 143, ASSET RETIREMENT OBLIGATIONS. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The statement will be effective for the Company's fiscal year ending December 2003. The Company does not believe that the adoption of this pronouncement will have a material effect on its consolidated financial statements.

In August 2001, the FASB issued Statement No. 144, ACCOUNTING FOR IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The statement will be effective for the Company's fiscal year ending December 2003. The Company does not believe that the adoption of this pronouncement will have a material effect on its consolidated financial statements.

REVENUES

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

Retail revenues increased to $22,037,000 in 2001 from $12,379,000 in 2000, an increase of 78.0%. Same-store sales for 2001 (a sales comparison of four stores open the full year in both 2001 and 2000) increased 25%. The increase in retail revenues was primarily due to an increase in special buy appliance sales offset by a slight decrease in reconditioned appliance sales. Special buy appliances include manufacturer closeouts, factory over-runs, floor samples, returned or exchanged items and scratch and dent appliances. The increase in special buy appliance sales was primarily due to three additional

stores operating during 2001. The Company continues to purchase appliances from Whirlpool Corporation. The Whirlpool agreement does not provide for any required or minimum number of units to be sold to the Company.

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

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

The Company believes purchases from these three manufacturers will provide an adequate supply of high-quality appliances for its retail outlets; however there is a risk that one or more of these sources could be lost.

The Company operated nine retail stores at the end of the current fiscal year compared to six retail stores at the end of the previous fiscal year. During the first quarter of 2001, the Company opened a 24,000 square foot store in the Minneapolis/Saint Paul market and a 36,000 square foot store in the Dayton, Ohio market. In the second quarter of 2001, the Company closed a smaller store and opened a 31,000 square foot store in the Columbus, Ohio market. In the fourth quarter of 2001, the Company opened a 49,000 square foot store in the Minneapolis/Saint Paul market. In March 2002, the Company opened a 30,000 square foot store in the Columbus, Ohio market.

Recycling revenues increased to $20,506,000 in 2001 from $8,140,000 in 2000. The increase was primarily due to increases in refrigerator recycling volumes principally related to both of the contracts with Southern California Edison Company ("Edison"). Edison accounted for approximately 29% of the Company's total revenues for 2001 and 30% for 2000. In June 2000, the Company signed a two-year contract with Edison to continue its refrigerator recycling program through December 30, 2001. The two-year contract did not provide for a minimum number of refrigerators to be recycled in either 2000 or 2001. The Company recycled approximately 36,000 units in 2000 and approximately 50,000 units in 2001. The timing and amount of revenues was dependent on advertising by Edison. Plans for a 2002 statewide recycling program that will be administered by Edison are currently being reviewed by California regulatory authorities. The Company is also aggressively pursuing new and potentially significant appliance recycling programs in other states. Nevertheless, the Company's ability to project recycling revenue for 2002 continues to be limited.

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

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

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

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

The Company's total revenues for 2000 were $21,479,000 compared to $15,582,000 in 1999.

Retail revenues increased to $12,379,000 in 2000 from $7,956,000 in 1999, an increase of 55.6%. The increase in retail revenues was primarily due to an increase in special buy appliance sales offset by a decrease in reconditioned appliance sales. Same-store retail sales for 2000 increased 53% (a sales comparison of five stores open for full years in both 2000 and 1999). The increase in special buy appliance sales was primarily due to increased advertising and a 30,000 square foot store being opened, offset by a smaller store being closed in the second quarter of 2000. The Company purchased a majority of the special buy appliances sold from Whirlpool Corporation. The Company operated six retail stores at both the end of 2000 and 1999. However, during the second quarter of 2000, the Company closed a smaller store in the Minneapolis/Saint Paul market and opened a 30,000 square foot store in the Dayton, Ohio market.

Recycling revenues increased to $8,140,000 in 2000 from $6,956,000 in 1999. The increase was primarily due to an increase in refrigerator recycling volumes related to the contract with Edison. Edison accounted for approximately 30% of the Company's total revenues for 2000 and 33% for 1999. In June 2000, the Company signed a two-year contract with Edison to continue its refrigerator recycling program through December 30, 2001. The two-year contract did not provide for a minimum number of refrigerators to be recycled in either 2000 or 2001. The Company recycled approximately 36,000 units in 2000. The timing and amount of revenues was dependent on advertising by Edison.

In October 2000, the Company signed a contract with Edison to implement a recycling program ("Summer Initiative") in the service areas of Pacific Gas & Electric (the San Francisco Bay area) and San Diego Gas & Electric. This contract was in accordance with a ruling issued by the California Public Utilities Commission ("CPUC"). Under the Summer Initiative, the Company expected to recycle approximately 30,000 to 40,000 units through the end of 2001 in addition to the approximately 36,000 units from the original Edison contract. As with its initial Edison program, there were no guaranteed minimum number of units that must be recycled under the Summer Initiative. The Company began the Summer Initiative in September of 2000 and was fully operational in the first quarter of 2001. The Company was responsible for advertising the Summer Initiative.

Byproduct revenues increased to $960,000 in 2000 from $670,000 in 1999. The increase was primarily due to higher sales of CFCs offset slightly by lower scrap revenue due to a decrease in scrap prices.

GROSS PROFIT

The Company's overall gross profit decreased slightly to 39.6% in 2001 from 41.5% in 2000. The decrease was primarily due to higher sales of special buy appliances that have a lower margin than reconditioned appliances, offset by higher recycling revenues from the initial Edison contract and the Summer Initiative contract without a corresponding increase in expenses. Gross profit as a percentage of total revenues for future periods can be affected favorably or unfavorably by numerous factors included the mix of retail products sold, the volume of appliances recycled from the expected Edison contract and the current CPUC contract and the price and volume of byproduct revenues. The Company expects gross profit percentages to decrease slightly as retail revenues continue to become a higher percentage of total revenues.

The Company's overall gross profit decreased slightly to 41.5% in 2000 from 42.8% in 1999. The decrease was primarily due to higher sales of special buy appliances that have a lower margin than reconditioned appliances, offset by higher recycling revenues from the initial Edison contract without a corresponding increase in expenses, improved purchase price and mix of inventory for retail sales and discontinuing unprofitable programs.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were 28.7% of total revenues in 2001 compared to 32.4% in 2000. Selling, general and administrative expenses increased to $12,580,000 in 2001 from $6,958,000 in 2000, an 80.8% increase. Selling expenses increased to $5,959,000 in 2001 from $2,858,000 in 2000. The increase was primarily due to opening three additional retail stores during 2001 which increased advertising by $598,000 and commissions by $271,000. General and administrative expenses increased to $6,621,000 in 2001 from $4,100,000 in 2000. The increase was primarily due to an increase in personnel costs as a result of Company growth and an increase in bad debt expense.

Selling, general and administrative expenses were 32.4% of total revenues in 2000 compared to 35.5% in 1999. Selling, general and administrative expenses increased to $6,958,000 in 2000 from $5,527,000 in 1999, a 25.9% increase. Selling expenses increased to $2,858,000 in 2000 from $1,900,000 in 1999. The increase was primarily due to opening a new retail store in 2000 and a corresponding increase in advertising and commissions. General and

administrative expenses increased to $4,100,000 in 2000 from $3,627,000 in 1999. The increase was primarily due to an increase in personnel costs and non-capitalized consultant fees for the Company's computer systems.

INTEREST EXPENSE

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

Interest expense increased to $841,000 in 2000 from $780,000 in 1999. The increase was primarily due to a higher average borrowed amount in 2000 compared to 1999 offset by a decrease in the effective interest rate on the line of credit.

INCOME TAXES AND NET OPERATING LOSSES

The Company recorded a provision for income taxes of $1,117,000 for 2001 compared to $580,000 in 2000. The increase was due to greater pre-tax income offset by a lower effective tax rate for 2001 compared to 2000. The lower effective tax rate in 2001 resulted from a reduction of $370,000 in the deferred tax valuation allowance, net of effect of a net operating loss (NOL) attribute reduction during 2001 resulting from the determination that certain deferred tax assets were more likely than not to be realized.

The Company has NOL carryovers of approximately $7 million at December 29, 2001, which may be available to reduce taxable income and in turn income taxes payable in future years. However, future utilization of these loss and credit carryforwards is subject to certain significant limitations under provisions of the Internal Revenue Code including limitations subject to Section 382, which relate to a 50 percent change in control over a three-year period, and are further dependent upon the Company maintaining profitable operations. The Company believes that the issuance of Common Stock during 1999 resulted in an "ownership change" under Section 382. Accordingly, the Company's ability to use net operating loss carryforwards generated prior to February 1999 may be limited to approximately $56,000 per year, or less than $1 million through 2018.

As of its 2001 and 2000 year-ends, the Company had recorded cumulative valuation allowances of $2,998,000 and $4,022,000, respectively, against its net deferred tax assets due to the uncertainty of their

realization. The reduction in the valuation allowance during 2001 was due to the aforementioned determination that certain deferred tax assets are more likely than not to be realized and to the effect of an NOL attribute reduction. The realization of deferred tax assets is dependent upon sufficient future taxable income during the periods when deductible temporary differences and carryforwards are expected to be available to reduce taxable income. At December 29, 2001, the remaining valuation allowance is principally due to the Section 382 limitation of its NOL's and tax credits.

LIQUIDITY AND CAPITAL RESOURCES

At December 29, 2001, the Company had working capital of $3,188,000 compared to $1,183,000 at December 30, 2000. Cash and cash equivalents increased to $506,000 at December 29, 2001 from $302,000 at January 30, 2000. Net cash used in operating activities was $1,124,000 in 2001 compared to $1,190,000 in 2000. The cash used in operating activities was primarily due to increases in inventories and receivables offset by net income and an increase in payables and accrued expenses. During 2001, inventories increased by $2,515,000 principally due to more and larger stores and receivables increased $2,644,000 principally due to the California recycling contracts.

Net cash used in investing activities was $910,000 in 2001 compared to net cash provided by investing activities of $58,000 in 2000. The cash used in investing activities in 2001 was primarily due to the continued upgrade of computer systems and the purchase of equipment related to the refrigerator recycling program. The 2000 capital expenditures of $609,000 were primarily related to the purchase of computer equipment and such purchases were offset by the proceeds from disposal of certain property and equipment. The Company did not have any material purchase commitments for assets as of December 29, 2001.

Net cash provided by financing activities was $2,238,000 in 2001 compared to $1,214,000 in 2000. The increase in cash provided by financing activities was primarily due to increased borrowings from the line of credit in 2001 net of payments on long-term liabilities.

As of December 29, 2001, the Company had a $10,000,000 line of credit with a lender. The interest rate as of December 29, 2001 was 5.75%. The amount of borrowings available under the line of credit is based on a formula using receivables and inventories. The line of credit has a stated maturity date of

August 30, 2004 and provides that the lender may demand payment in full of the entire outstanding balance of the loan at any time. The line of credit is secured by substantially all the Company's assets and requires minimum monthly interest payments of $37,500 regardless of the outstanding principal balance. The lender also has an inventory repurchase agreement with Whirlpool Corporation that secures the line of credit. The line requires that the Company meet certain financial covenants, provides payment penalties for noncompliance and prepayment limits the amount of other debt the Company can incur, limits the amount of spending on fixed assets and limits payments of dividends. The Company's unused borrowing capacity was $1,079,000 at December 29, 2001 and $802,000 at March 1, 2002.

A summary of our contractual cash obligations at December 29, 2001 is as follows:

	PAYMENTS DUE BY PERIOD					
CONTRACTUAL OBLIGATIONS	TOTAL	2002	2003	2004	2005	2006
Long-term debt, including interest	$ 6,568,000	$ 1,071,000	$ 1,460,000	$ 1,250,000	$ 2,784,000	$ 3,000
Operating leases	$ 5,873,000	$ 1,865,000	$ 1,331,000	$ 1,131,000	$ 1,139,000	$ 407,000
Total contractual cash obligations	$12,441,000	$ 2,936,000	$ 2,791,000	$ 2,381,000	$ 3,923,000	$ 410,000

We also have a commercial commitment as described below:

OTHER COMMERCIAL COMMITMENT	TOTAL AMOUNT COMMITTED	OUTSTANDING AT 12/29/01	DATE OF EXPIRATION
Line of credit	$ 10,000,000	$ 4,708,000	August 30, 2004

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

During 2000, the Company recognized a gain of $275,000 from the sale of the ApplianceSmart outlet property in Saint Paul, Minnesota and recognized the remaining deferred gain of $60,000 in 2001. The Company is still operating this outlet under an operating lease until September 30, 2002.

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

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

The Company believes, based on the anticipated revenues from the expected Edison contract and the current CPUC contract, the anticipated sales per retail store and anticipated gross profit, that its cash balance, anticipated funds generated from operations and its current line of credit will be sufficient to finance its operations and capital expenditures through December 2002. The Company's total capital requirements for 2002 will depend upon, among other things as discussed below, the recycling volumes generated from the expected Edison program and CPUC program in 2002 and the number and size of retail stores operating during the fiscal year. Currently, the Company has three centers and ten stores in operation. If revenues are lower than anticipated or expenses are higher than anticipated, the Company may require additional capital to finance operations. Sources of additional financing, if needed in the future, may include further debt financing or the sale of equity (common or preferred stock) or other securities. There can be no assurance that such additional sources of financing will be available on terms satisfactory to the Company or permitted by the Company's current lender.

FORWARD-LOOKING STATEMENTS

Statements contained in this annual report regarding the Company's future operations, performance and results, and anticipated liquidity discussed herein are forward-looking and therefore are subject to certain risks and uncertainties, including, but not limited to, those discussed herein. Any forward-looking information regarding the operations of the Company will be affected primarily by the Company's continued ability to purchase product from Whirlpool, Maytag and Frigidaire at acceptable prices and the ability and timing of Edison to deliver units under its expected contract, currently being reviewed by California regulatory authorities, with the Company and the ability and timing of the CPUC to deliver units under its contract with the Company. In addition, any forward-looking information will also be affected by the ability of individual retail stores to meet planned revenue levels, the rate of sustainable growth in the number of retail stores, the speed at which individual retail stores reach profitability, costs and expenses

being realized at higher than expected levels, the Company's ability to secure an adequate supply of used appliances for resale and the continued availability of the Company's current line of credit.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

MARKET RISK AND IMPACT OF INFLATION

The Company does not believe there is any significant risk related to interest rate fluctuations on its long-term debt since it all has fixed rates. However, there is interest rate risk on the line of credit since its interest rate is based on the prime rate. Also, the Company believes that inflation has not had a material impact on the results of operations for each of the fiscal years in the three-year period ended December 29, 2001. However, there can be no assurances that future inflation will not have an adverse impact on the Company's operating results and financial conditions.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheets of Appliance Recycling Centers of America, Inc. and Subsidiaries as of December 29, 2001 and December 30, 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three year period ended December 29, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Appliance Recycling Centers of America, Inc. and Subsidiaries as of December 29, 2001 and December 30, 2000, and the results of their operations and their cash flows for each of the years in the three year period ended December 29, 2001, in conformity with accounting principles generally accepted in the United States of America.

McGLADREY & PULLEN, LLP

Minneapolis, Minnesota
February 15, 2002

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

<TABLE>
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	DECEMBER 29, 2001	December 30, 2000
ASSETS (NOTE 3)		
<S>	<C>	<C>
CURRENT ASSETS		
Cash and cash equivalents	$ 506,000	$ 302,000
Accounts receivable, net of allowance of $100,000 and $20,000, respectively (Note 9)	4,375,000	1,731,000
Inventories, net of reserves of $464,000 and $375,000, respectively	6,748,000	4,233,000
Deferred tax assets (Note 7)	576,000	108,000
Other current assets	174,000	278,000
Total current assets	12,379,000	6,652,000
PROPERTY AND EQUIPMENT, at cost (Notes 2 and 4)		
Land	2,050,000	2,050,000
Buildings and improvements	3,779,000	3,550,000
Equipment	4,689,000	4,046,000
	10,518,000	9,646,000
Less accumulated depreciation	4,291,000	3,930,000
Net property and equipment	6,227,000	5,716,000
OTHER ASSETS	292,000	207,000
GOODWILL, net of amortization of $152,000 and $114,000, respectively	38,000	76,000
Total assets	$ 18,936,000	$ 12,651,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Line of credit (Note 3)	$ 4,708,000	$ 2,402,000

Current maturities of long-term obligations	401,000	275,000
Accounts payable	1,960,000	1,279,000
Accrued expenses (Note 5)	1,365,000	936,000
Deferred gain on building sale	--	60,000
Income taxes payable	757,000	517,000
Total current liabilities	9,191,000	5,469,000
LONG-TERM OBLIGATIONS, less current maturities (Note 4)	4,280,000	4,431,000
DEFERRED INCOME TAX LIABILITIES (Note 7)	68,000	--
Total liabilities	13,539,000	9,900,000
COMMITMENTS (Note 6)		
SHAREHOLDERS' EQUITY (Notes 3 and 8)		
Common Stock, no par value; authorized 10,000,000 shares; issued and outstanding 2,297,000 and 2,287,000 shares in 2001 and 2000, respectively	11,360,000	11,360,000
Accumulated deficit	(5,963,000)	(8,609,000)
Total shareholders' equity	5,397,000	2,751,000
Total liabilities and shareholders' equity	$ 18,936,000	$ 12,651,000

</TABLE>

See Notes to Consolidated Financial Statements.

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

<TABLE>
<CAPTION>

	For the fiscal year ended		
	DECEMBER 29, 2001	December 30, 2000	January 1, 2000
<S>	<C>	<C>	<C>
REVENUES (Note 9)			
Retail	$ 22,037,000	$ 12,379,000	$ 7,956,000
Recycling	20,506,000	8,140,000	6,956,000
Byproduct	1,267,000	960,000	670,000
Total revenues	43,810,000	21,479,000	15,582,000
COST OF REVENUES (Note 9)	26,481,000	12,558,000	8,916,000
Gross profit	17,329,000	8,921,000	6,666,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 2)	12,580,000	6,958,000	5,527,000
Operating income	4,749,000	1,963,000	1,139,000
OTHER INCOME (EXPENSE)			
Other income	88,000	385,000	146,000
Interest expense	(1,074,000)	(841,000)	(780,000)
Income before provision for income taxes	3,763,000	1,507,000	505,000
PROVISION FOR INCOME TAXES (Note 7)	1,117,000	580,000	--
Net income	$ 2,646,000	$ 927,000	$ 505,000
BASIC EARNINGS PER COMMON SHARE	$ 1.15	$ 0.41	$ 0.24
DILUTED EARNINGS PER COMMON SHARE	$ 0.86	$ 0.32	$ 0.22
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:			
Basic	2,291,000	2,287,000	2,142,000
Diluted	3,068,000	2,889,000	2,274,000

</TABLE>

See Notes to Consolidated Financial Statements.

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

	Common Stock	Accumulated Deficit	Total
BALANCE, JANUARY 2, 1999	$ 10,857,000	$(10,041,000)	$ 816,000
Sales of Common Stock, net of fees and expenses of $40,000 (Note 8)	475,000	--	475,000
Issuance of Common Stock in settlement (Note 8)	13,000	--	13,000
Net income	--	505,000	505,000
BALANCE, JANUARY 1, 2000	11,345,000	(9,536,000)	1,809,000
Warrants issued to vendor (Note 8)	15,000	--	15,000
Net income	--	927,000	927,000
BALANCE, DECEMBER 30, 2000	11,360,000	(8,609,000)	2,751,000
Net income	--	2,646,000	2,646,000
BALANCE, DECEMBER 29, 2001	$ 11,360,000	$ (5,963,000)	$ 5,397,000

See Notes to Consolidated Financial Statements.

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

	For the fiscal year ended		
	DECEMBER 29, 2001	December 30, 2000	January 1, 2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 2,646,000	$ 927,000	$ 505,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	483,000	385,000	395,000
Gain on sale of property and equipment	(60,000)	(271,000)	(74,000)
Accretion of long-term debt discount	43,000	39,000	35,000
Common stock issued for settlement	--	--	13,000
Deferred income taxes	(400,000)	(33,000)	(75,000)
Change in current assets and liabilities:			
Receivables	(2,644,000)	(279,000)	(954,000)
Inventories	(2,515,000)	(2,647,000)	393,000
Other assets	(27,000)	(189,000)	11,000
Accounts payable and accrued expenses	1,110,000	436,000	(123,000)
Income taxes payable	240,000	442,000	

			75,000
Net cash provided by (used in) operating activities	(1,124,000)	(1,190,000)	201,000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property and equipment	(910,000)	(609,000)	(252,000)
Proceeds from disposals of property and equipment	--	667,000	88,000
Net cash provided by (used in) investing activities	(910,000)	58,000	(164,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net borrowings (payments) under line of credit	2,306,000	1,514,000	(193,000)
Payments on long-term obligations	(350,000)	(377,000)	(113,000)
Proceeds from long-term obligations	282,000	77,000	--
Proceeds from issuance of common stock	--	--	475,000
Net cash provided by financing activities	2,238,000	1,214,000	169,000
Increase in cash and cash equivalents	204,000	82,000	206,000
CASH AND CASH EQUIVALENTS			
Beginning	302,000	220,000	14,000
Ending	$ 506,000	$ 302,000	$ 220,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash payments for:			
Interest	$ 1,031,000	$ 802,000	$ 668,000
Income taxes, net	1,279,000	177,000	--

</TABLE>

See Notes to Consolidated Financial Statements.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

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

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

PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of Appliance Recycling Centers of America, Inc. and its subsidiaries.

All significant intercompany accounts and transactions have been eliminated in consolidation.

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

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

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

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

FISCAL YEAR: The Company uses a 52-53 week fiscal year. The Company's 2001 fiscal year (2001) ended December 29, 2001, its 2000 fiscal year (2000) ended December 30, 2000 and its 1999 fiscal year (1999) ended January 1, 2000. All such fiscal years include 52 weeks.

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

The Company provides allowances for uncollectable receivables based on management's assessment of the need for such allowances.

The Company defers revenue under appliance extended warranty arrangements and recognizes it over the related terms of the warranty contracts. The Company accrues the estimated cost of initial warranty arrangements at the time of the appliance sale.

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

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

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

	2001	2000
Finished goods	$ 6,957,000	$ 4,472,000
Work-in-process- unrefurbished units	255,000	136,000
Less reserves	(464,000)	(375,000)
	$ 6,748,000	$ 4,233,000

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

DEFERRED GAIN: In the third quarter of 2000, the Company sold its ApplianceSmart(R) outlet property in Saint Paul, Minnesota. The Company is still operating this outlet and has an operating lease on this outlet until September 30, 2002. The Company recognized $275,000 of the gain on this transaction in 2000 and the remaining $60,000 gain in 2001.

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

	Years
Buildings and improvements	18 - 30
Equipment	3 - 8

SOFTWARE DEVELOPMENT COSTS: The Company capitalizes software developed for internal use in accordance with Statement of Position 98-1 and is amortizing such costs over their estimated useful life of five years. Costs capitalized were $225,000, $215,000, and $40,000 for the fiscal years ended December 29, 2001, December 30, 2000 and January 1, 2000, respectively.

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

ADVERTISING EXPENSE: Advertising is expensed as incurred, and was $1,487,000, $884,000 and $532,000 for the fiscal years ended December 29, 2001, December 30, 2000 and January 1, 2000, respectively.

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

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

In arriving at diluted weighted-average shares and per share amounts, options and warrants (see Note 8) with exercise prices below average market prices for the respective fiscal quarters in which they were dilutive were included using the treasury stock method. The number of additional shares is calculated by assuming the outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the year. The dilutive effect of these additional shares for the years ended December 29, 2001 and December 30, 2000 was to increase the weighted average shares outstanding by 777,000 and 602,000, respectively.

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

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

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

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

In July 2001, FAS No. 141, BUSINESS COMBINATIONS, and FAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, were issued. These pronouncements provide that all business combinations initiated after June 30, 2001, be accounted for using the purchase method and that goodwill be reviewed for impairment rather than amortized, beginning in January 2002. Any business combination transactions and acquisitions of intangibles in the future would be accounted for under this new guidance. The Company will cease amortization of its goodwill beginning in January 2002.

In September 2001, the FASB issued Statement No. 143, ASSET RETIREMENT OBLIGATIONS. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The statement will be

effective for the Company's fiscal year ending December 2003.

In August 2001, the FASB issued Statement No. 144, ACCOUNTING FOR IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS. This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The statement will be effective for the Company's fiscal year ending December 2003.

Management does not believe that the adoption of these pronouncements will have a material effect on its consolidated financial statements.

NOTE 2. MARKET CLOSINGS AND LOSS ON IMPAIRED ASSETS

During the year ended January 1, 2000, the Company closed a retail store in the Minneapolis market and incurred expenses of $22,000 for the remaining lease payments and write off of leasehold improvements. The Company also closed a retail store in the California market in June 1999, which resulted in no closing costs.

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

NOTE 3. LINE OF CREDIT

At December 29, 2001, the Company had a $10 million line of credit with a lender. The interest rate as of December 29, 2001 was 5.75%. The amount of borrowings available under the line of credit is based on a formula using receivables and inventories. The line of credit has a stated maturity date of August 30, 2004, if not renewed, and provides that the lender may demand payment in full of the entire outstanding balance of the loan at any time. The line of credit is secured by substantially all the Company's assets, and requires minimum monthly interest payments of $37,500 regardless of the outstanding principal balance. The lender is also secured by an inventory repurchase agreement with Whirlpool Corporation. The loan requires that the Company meet certain covenants, provides payment penalties for noncompliance, limits the amount of other debt the Company can incur, limits the amount of spending on fixed assets and limits payments of dividends. At December 29, 2001 the Company's unused borrowing capacity under this line was $1,079,000.

NOTE 4. LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following:

	2001	2000
9.00% mortgage, due in monthly installments of $14,211, including interest, balance due February 2004, secured by land and building	$ 723,000	$ 791,000
8.72% mortgage, due in monthly installments of $7,027, including interest, balance due January 2003, secured by land and building	596,000	625,000
13.00% note payable, due in monthly principal and interest payments of $52,259 with balance due September 2005, secured by equipment, land and building	3,072,000	3,219,000
Other	290,000	71,000
	4,681,000	4,706,000
Less current maturities	401,000	275,000
	$ 4,280,000	$ 4,431,000

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

Fiscal year	
2002	$ 401,000
2003	935,000

2004	845,000
2005	2,498,000
2006	2,000
	$ 4,681,000

NOTE 5. ACCRUED EXPENSES

Accrued expenses were as follows:

	2001	2000
Compensation	$ 493,000	$ 330,000
Warranty	225,000	188,000
Other	647,000	418,000
	$ 1,365,000	$ 936,000

NOTE 6. COMMITMENTS

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

Minimum future rental commitments under noncancelable operating leases as of December 29, 2001 were as follows:

Fiscal Year	
2002	$ 1,865,000
2003	1,331,000
2004	1,131,000
2005	1,139,000
2006	407,000
	$ 5,873,000

Rent expense for the fiscal years ended December 29, 2001, December 30, 2000 and January 1, 2000 was $1,519,000, $420,000 and $370,000, respectively.

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

NOTE 7. INCOME TAXES

The provision for income taxes consisted of the following:

	2001	2000	1999
Current:			
Federal	$ 1,289,000	$ 496,000	$ 75,000
State	228,000	117,000	--
Deferred	(400,000)	(33,000)	(75,000)
	$ 1,117,000	$ 580,000	$ --

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

	2001	2000	1999
Income tax expense at statutory rate	$ 1,278,000	$ 511,000	$ 172,000
State taxes net of federal tax effect	189,000	99,000	18,000
Permanent differences and other	20,000	33,000	(85,000)
Change in valuation allowance, net			

of effect of NOL attribute reduction	(370,000)	(63,000)	(105,000)
	$ 1,117,000	$ 580,000	$ --

The components of net deferred tax assets are as follows:

	2001	2000
Deferred tax assets:		
Net operating loss carryforwards	$ 2,834,000	$ 3,405,000
Federal and state tax credits	199,000	199,000
Inventory	409,000	150,000
Property and equipment	--	130,000
Accrued expenses	132,000	246,000
Gross deferred tax assets	$ 3,574,000	$ 4,130,000
Valuation allowance	(2,998,000)	(4,022,000)
	$ 576,000	$ 108,000
Deferred tax liabilities:		
Property and equipment	$ 68,000	$ --

At December 29, 2001, the Company had a valuation allowance against deferred tax assets to reduce the total to an amount management believes is appropriate. Realization of deferred tax assets is dependent upon sufficient future taxable income during the periods when deductible temporary differences and carryforwards are expected to be available to reduce taxable income. The reduction in the valuation allowance during 2001 was due to the determination that certain deferred tax assets are more likely than not to be realized and to the effect of an NOL attribute reduction.

At December 29, 2001, the Company had net operating loss ("NOL") carryforwards expiring as follows:

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

Future utilization of NOL and tax credit carryforwards is subject to certain limitations under provisions of Section 382 of the Internal Revenue Code. This Section relates to a 50 percent change in control over a three-year period. The Company believes that the issuance of common stock during 1999 resulted in an "ownership change" under Section 382. Accordingly, the Company's ability to use NOL and tax credit carryforwards generated prior to February 1999 may be significantly limited to approximately $56,000 per year.

NOTE 8. SHAREHOLDERS' EQUITY

STOCK OPTIONS: The Company has two Stock Option Plans (the "Plans") that permit the granting of "incentive stock options" meeting the requirements of Section 422 of the Internal Revenue Code of 1986, as amended, and nonqualified options that do not meet the requirements of Section 422. The Plans have 150,000 and 400,000 shares, respectively, available for grant. The options that have been granted under the Plans are exercisable for a period of five

to ten years from the date of grant and vest over a period of six months to five years from the date of grant.

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation for Stock Options." Accordingly, no compensation cost has been recognized for the Plans. Had compensation cost for the Plans been determined based on the fair value at the grant date consistent with the provisions of SFAS No. 123, the Company's net earnings and basic and diluted earnings per share amounts would have been changed to the pro forma amounts indicated below:

	2001	2000	1999
Net income:			
As reported	$ 2,646,000	$ 927,000	$ 505,000
Pro forma	$ 2,588,000	$ 859,000	$ 460,000

	2001	2000	1999
Basic earnings per share:			
As reported	$ 1.15	$ 0.41	$ 0.24
Pro forma	$ 1.13	$ 0.38	$ 0.21
Diluted earnings per share:			
As reported	$ 0.86	$ 0.32	$ 0.22
Pro forma	$ 0.84	$ 0.30	$ 0.20

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:

	2001	2000	1999
Expected dividend yield	--	--	--
Expected stock price volatility	82.3%	79.7%	81.3%
Risk-free interest rate	6.2%	6.0%	5.5%
Expected life of options (years)	3	3	3

Additional information relating to all outstanding options is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at January 2, 1999	144,000	$ 5.37
Granted	97,000	$ 0.61
Cancelled	(4,000)	$ 8.95
Outstanding at January 1, 2000	237,000	$ 3.36
Granted	180,000	$ 2.22
Cancelled	(44,000)	$ 5.20
Outstanding at December 30, 2000	373,000	$ 2.59
Granted	56,000	$ 1.82
Cancelled	(21,000)	$ 17.52
Outstanding at December 29, 2001	408,000	$ 1.98

The weighted average fair value per option of options granted during fiscal 2001, 2000 and 1999 was $0.86, $0.90 and $0.28, respectively.

The following tables summarize information about stock options outstanding as of December 29, 2001:

OPTIONS OUTSTANDING

Range of Exercise Prices	Number Options Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price
$10.52	8,000	1.5	$ 10.52
$2.38 to $3.50	58,000	5.4	$ 2.71
$0.75 to $2.20	253,000	4.5	$ 1.93
$0.59 to $0.65	89,000	4.4	$ 0.62
	408,000		$ 1.98

OPTIONS EXERCISABLE

Range of Exercise Prices	Number Options Exercisable	Weighted Average Exercise Price
$10.52	8,000	$ 10.52
$2.38 to $3.50	53,000	$ 2.64
$0.75 to $2.20	125,000	$ 1.70
$0.59 to $0.65	89,000	$ 0.62
	275,000	$ 1.77

The following table summarizes options exercisable for stock options outstanding as of December 30, 2000 and January 1, 2000:

	December 30, 2000	January 1, 2000
Number of options exercisable	188,000	141,000
Weighted average exercise price	$ 3.34	$ 5.11

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

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

In February 1999, in connection with a private placement, the Company issued warrants to purchase 83,000 shares of Common stock at $0.50 per share, subject to adjustment.

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

In April 1999, the Company issued to a vendor 50,000 warrants to purchase common stock at $0.625 per share.

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

All issued warrants are exercisable and expire as follows: 125,000 in 2003; 133,000 in 2004; 700,000 in 2007 and 5,000 in 2009.

COMMON STOCK ISSUED IN SETTLEMENT: In August 1999, the Company settled a lawsuit with a former employee. The settlement included a cash payment of $105,000 and the issuance of 20,000 shares of the Company's Common Stock valued at $12,500. The previously unaccrued portion of this settlement, $74,000, is included in selling, general and administrative expenses for the year ended January 1, 2000.

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

PRIVATE PLACEMENT: In February 1999, the Company sold, in a private placement, 1,030,000 shares of Common Stock at a price of $0.50 per share. The Company paid $31,500 of the proceeds and issued warrants to an investment banker as a placement fee.

NOTE 9. MAJOR CUSTOMER AND SUPPLIER

MAJOR CUSTOMER: Revenues from one major recycling customer as a percentage of total revenues are as follows:

	2001	2000	1999
Revenue percentage:	29.0%	29.9%	33.1%

As of December 29, 2001, the Company had a receivable from this customer of $1,185,000.

During the three year period ended December 29, 2001, the Company purchased a significant amount of appliances for resale from one supplier. The Company has and is continuing to secure other vendors from which to purchase appliances. However, the loss of this supplier or any appliance supplier could adversely affect Company's operations.

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

No changes in or disagreements with accountants have occurred within the two-year period ended December 29, 2001 that required reporting on Form 8-K.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

Information regarding directors and executive officers of the Company is set forth under the headings "Nominees and Information Concerning Officers and Key Employees who are not Directors" and "Section 16 (a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement for its 2002 Annual Meeting of Shareholders to be held April 25, 2002, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding Executive Compensation is set forth under the heading "Executive Compensation and Stock Options Granted and Exercised in Last Fiscal Year" in the Company's definitive Proxy Statement for its 2002 Annual Meeting of Shareholders to be held April 25, 2002, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding security ownership of certain beneficial owners and management is set forth under the heading "Common Stock Ownership" in the Company's definitive Proxy Statement for its 2002 Annual Meeting of Shareholders to be held April 25, 2002, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information regarding certain relationships and related transactions is set forth under the heading "Nominees and Information Concerning Officers and Key Employees who are not Directors" in the Company's definitive Proxy Statement for its 2001 Annual Meeting of Shareholders to be held April 25, 2002, and is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES AND EXHIBITS

1. FINANCIAL STATEMENTS

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

2. FINANCIAL STATEMENT SCHEDULE

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

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

McGLADREY & PULLEN, LLP

Minneapolis, Minnesota
February 15, 2002

Schedule II - Valuation and Qualifying Accounts

	Accounts Receivable Allowance	Inventory Allowance
Balance, January 2, 1999	$ 18,000	$ 40,000
Additional allowance	23,000	235,000
Write-offs	(16,000)	--
Balance, January 1, 2000	$ 25,000	$ 275,000
Additional allowance/adjustments	(5,000)	205,000
Write-offs	--	(105,000)
Balance, December 30, 2000	$ 20,000	$ 375,000
Additional allowance/adjustments	578,000	359,000
Write-offs	(498,000)	(270,000)
BALANCE, DECEMBER 29, 2001	$ 100,000	$ 464,000

3. EXHIBITS

See Index to Exhibits on page 37 of this report.

(b) REPORTS ON FORM 8-K

The Company filed Form 8-K on October 30, 2001 announcing the contract to become a provider of reverse logistics services for Maytag Corporation.

The Company filed Form 8-K on October 30, 2001 announcing its third quarter 2001 results.

The Company filed Form 8-K on November 13, 2001 announcing that it had incorrectly calculated the same-store sales increase percent of its ApplianceSmart outlets in the Company's third quarter earnings release dated October 29, 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 19, 2002

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.
(Registrant)

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

By /s/ Linda A. Koenig
Linda A. Koenig
Controller

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
/s/ Edward R. Cameron Edward R. Cameron	Chairman of the Board, President and Chief Executive Officer	March 19, 2002
/s/ Linda A. Koenig Linda A. Koenig	Controller	March 19, 2002

/s/ George B. Bonniwell - ----------------------- George B. Bonniwell	Director	March 19, 2002
/s/ Duane S. Carlson - ----------------------- Duane S. Carlson	Director	March 19, 2002
/s/ Marvin Goldstein - ----------------------- Marvin Goldstein	Director	March 19, 2002
/s/ Harry W. Spell - ----------------------- Harry W. Spell	Director	March 19, 2002

INDEX TO EXHIBITS

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

10.8 Agreement dated February 13, 1998 between Western Bank and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10.11 to the Company's Form 10-K for the year ended January 3, 1998 (File No 0-19621) and incorporated herein by reference].

*10.9 Amendment, effective April 24, 1997, to 1989 Stock Option Plan [filed as Exhibit 28.2 to the Company's Post-Effective Amendment No. 1 (June 5, 1997) to Registration Statement on Form S-8 (Registration No. 33-68890) and incorporated herein by reference].

10.10 Reverse Logistics Master Service Agreement between Whirlpool Corporation and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10 to the Company's Form 10-Q for the quarter ended July 4, 1998 (File No. 0-19621) and incorporated herein by reference].

10.11 Loan Agreement between Medallion Capital, Inc. and Appliance Recycling Centers of America, Inc. dated September 10, 1998 [filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended October 3, 1998 (File No. 0-19621) and incorporated herein by reference].

10.12 Promissory note of the Company to Medallion Capital, Inc. in the principal amount of $3,500,000 due September 30, 2005 [filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended October 3, 1998 (File No. 0-19621) and incorporated herein by reference].

10.13 Security Agreement of the Company [filed as Exhibit 10.3 to the Company's Form 10-Q for the quarter ended October 3, 1998 (File No. 0-19621) and incorporated herein by reference].

10.14 Warrant of the Company in favor of Medallion Capital, Inc. for 700,000 shares of the Company's Stock [corrected copy]. [filed as Exhibit 10.14 to the Company's Form 10-K for the year ended January 2, 1999 (File No. 0-19621) and incorporated herein by reference].

10.15 Amendment to the line of credit dated September 10, 1998 between Appliance Recycling Centers of America, Inc. and Spectrum Commercial Services, a division of Lyons Financial Services, Inc., Amendment to General Credit and Security Agreement and Amended Guarantor Acknowledgement. [filed as Exhibit 10.15 to the Company's Form 10-K for the year ended January 2, 1999 (File No. 0-19621) and incorporated herein by reference].

10.16 Amendment to the line of credit dated September 17, 1998 between Appliance Recycling Centers of America, Inc. and Spectrum Commercial Services, a division of Lyons Financial Services, Inc., Amendment to General Credit and Security Agreement, Amended Guarantor Acknowledgement and Amended and Restated Revolving Note. [filed as Exhibit 10.16 to the Company's Form 10-K for the year ended January 2, 1999 (File No. 0-19621) and incorporated herein by reference].

10.17 Agreement dated March 19, 1999 between Southern California Edison Company and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10.17 to the Company's Form 10-Q for the quarter ended April 3, 1999 (File No. 0-19621) and incorporated herein by reference].

*10.18 Amendment effective April 29, 1999 to 1997 Stock Option Plan [filed as Exhibit 10 to the Company's Form 10-Q for the quarter ended July 3, 1999 (File No. 0-19621) and incorporated herein by reference].

10.19 Agreement dated June 12, 2000 between Southern California Edison Company and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10 to the Company's Form 10-Q for the quarter ended July 1, 2000 (File No. 0-19621) and incorporated herein by reference].

10.20 Agreement dated August 21, 2000 between Southern California Edison Company and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended September 30, 2000 (File No. 0-19621) and incorporated herein by reference].

10.21 Amendment to the line of credit dated August 30, 2000 between Appliance Recycling Centers of America, Inc. and Spectrum Commercial Services, a division of Lyons Financial Services, Inc., Amendment to General Credit and Security Agreement and Amended and Restated Revolving Note. [filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 30, 2000 (File No. 0-19621) and incorporated herein by reference].

10.22 Updated contract dated January 1, 2001 between Southern California Edison Company and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 31, 2001 (File No. 0-19621) and incorporated herein by reference].

*10.23 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].

10.24 Agreement dated June 12, 2001 between the California Public Utilities Commission and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10.1 to the Company Form 10-Q for the quarter ended June 30, 2001 (File No. 0-19621) and incorporated herein by reference].

10.25 Agreement dated June 18, 2001 between Spectrum Commercial Services Company and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended June 30, 2001 (File No. 0-19621) and incorporated herein by reference].

10.26 Agreement dated July 26, 2001 between Spectrum Commercial Services Company and Appliance Recycling Centers of America, Inc. [filed as Exhibit 10.3 to the Company's Form 10-Q for the quarter ended June 30, 2001 (File No. 0-19621) and incorporated herein by reference].

10.27 Amendment to the line of credit dated August 24, 2001 between Appliance Recycling Centers of America, Inc. and Spectrum Commercial Services, Amendment to General Credit and Security Agreement and Amended and Restated Revolving Note [files as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 29, 2001 (File No. 0-19621) and incorporated herein by reference].

10.28 Retail Dealer Sales Agreement dated October 12, 2001 between Appliance Recycling Centers of America, Inc. and Maytag Corporation [filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended September 29, 2001 (File No. 0-19621) and incorporated herein by reference].

+10.29 Amendment dated March 7, 2002 to the Agreement between the California Public Utilities Commission and Appliance Recycling Centers of America, Inc.

+21.1 Subsidiaries of Appliance Recycling Centers of America, Inc.

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

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

\+ Filed herewith.

EXHIBIT 10.29

FIRST AMENDMENT TO APPLIANCE EARLY
RETIREMENT AND RECYCLING AGREEMENT

THIS FIRST AMENDMENT TO APPLIANCE EARLY RETIREMENT AND RECYCLING AGREEMENT (hereinafter the "First Amendment") is made and entered into as of the 1st day of March, 2002, by and between THE CALIFORNIA PUBLIC UTILITIES COMMISSION, an agency of the State of California ("CPUC") and APPLIANCE RECYCLING CENTERS OF AMERICA, INC., a Minnesota corporation ("Contractor"). The CPUC and Contractor are also each individually referred to herein as "Party" and collectively as "Parties". The Effective Date of this First Amendment shall be March 1, 2002.

RECITALS

WHEREAS, the Parties, on June 1, 2001, entered into the APPLIANCE EARLY RETIREMENT AND RECYCLING AGREEMENT for Refrigerators, Freezers, and Room Air Conditioners (hereinafter the "Agreement").

WHEREAS, the Parties wish to amend said Agreement, in certain respects, to temporarily extend the territory covered by the Agreement under the terms and conditions set forth below and to otherwise extend the term of said Agreement.

NOW, THEREFORE, in consideration of the foregoing Recitals, the mutual covenants contained herein, the payments and agreement to be made and performed by the CPUC as set forth below, the Parties agree as follows:

1. EXTENDED TERRITORY

For the limited period of time from March 1, 2002, through April 1, 2002 (hereinafter the "Applicable Period"), the eligible jurisdictional residential electric service customers of Investor Owned Utility companies eligible to participate in the Program shall be extended to include the Southern California Edison Company Service Territory (hereinafter the "Edison Territory").

2. APPLICABLE CUSTOMER INCENTIVE CHARGE

For all units picked up by Contractor in the Edison Territory during the Applicable Period, the Customer Incentive shall be reduced to $35.00 per unit collected and the Customer Incentive Charge to the CPUC shall be reduced to a corresponding charge of $35.00 per unit.

3. APPLICABLE MARKETING ADVERTISING CHARGE

For all units collected by Contractor during the Applicable Period in the Edison Territory, the Marketing/Advertising Charge shall be reduced to "0".

4. EXTENDED TERM

The Term of the APPLIANCE EARLY RETIREMENT AND RECYCLING AGREEMENT referenced above shall be extended from May 31, 2002 to August 31, 2002.

5. ACKNOWLEDGMENT

The parties acknowledge that the remaining terms as set forth in the Agreement are and continue to be valid and enforceable as set forth therein.

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.	CALIFORNIA PUBLIC UTILITIES COMMISSION
By: /s/Linda Koenig	By: /s/Wesley M. Franklin
Its: Controller	Its: Executive Director
Date: March 7, 2002	Dated: March 7, 2002

EXHIBIT 21.1

APPLIANCE RECYCLING CENTERS OF AMERICA, INC.

SUBSIDIARIES AS OF DECEMBER 29, 2001

NAME OF SUBSIDIARY	JURISDICTION OF INCORPORATION	PERCENT VOTING SECURITIES OWNED
Appliance Recycling Centers of America-California, Inc.	California	100%
ARCA of St. Louis, Inc.	Missouri	100%

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (commission file No. 33-51584), on Form S-8 (commission file No. 33-68890), and on Form S-8 (commission file No. 333-28571) of our reports dated February 15, 2002 with respect to the consolidated financial statements and financial statement schedule of Appliance Recycling Centers of America, Inc., and Subsidiaries appearing in this Annual Report on Form 10-K for the year ended December 29, 2001.

McGLADREY & PULLEN, LLP

Minneapolis, Minnesota
March 22, 2002